

Third Session - Fortieth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Reg Helwer
Constituency of Brandon West

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MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

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

Wednesday, September 3, 2014

TIME – 2 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Reg Helwer (Brandon West)

VICE-CHAIRPERSON – Mr. Matt Wiebe (Concordia)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Messrs. Gerrard, Struthers

Ms. Allan, Messrs. Dewar, Helwer, Marcelino, Pedersen, Schuler, Mrs. Stefanson, Mr. Wiebe, Ms. Wight

Substitutions:

Hon. Mr. Struthers for Hon. Ms. Howard

Ms. Allan for Mr. Jha

Mrs. Stefanson for Mr. Friesen

APPEARING:

Mr. Norm Ricard, Acting Auditor General

Mr. Tyson Shtykalo, Assistant Auditor General, Financial Statements

WITNESSES

Hon. Stan Struthers, Acting Minister of Finance

Mr. Jim Hrichishen, Deputy Minister of Finance

MATTERS UNDER CONSIDERATION:

Auditor General's Report–Annual Report to the Legislature, dated January 2013

Chapter 1–Accounts and Financial Statements: Section 10 Annual Report

Auditor General's Report–Annual Report to the Legislature, dated March 2014

Chapter 1–Accounts and Financial Statements: Section 10 Annual Report

Chapter 3–Government Deficits and Debt

Public Accounts for the fiscal years ending March 31, 2011, 2012 and 2013 (Volumes 1, 2, 3 and 4)

* * *

Mr. Chairperson: Good afternoon. Will the Standing Committee on Public Accounts please come to order.

This meeting has been called to consider the following reports: Auditor General's Report–Annual Report to the Legislature, dated January 2013, Chapter 1–Accounts and Financial Statements: Section 10 Annual Report; Auditor General's Report–Annual Report to the Legislature, dated March 2014, Chapter 1–Accounts and Financial Statements: Section 10 Annual Report; Chapter 3–Government Deficits and Debt; Public Accounts for the fiscal years ending March 31st, 2011, March 31st, 2012, March 31st, 2013 (Volumes 1, 2, 3 and 4).

Committee Substitutions

Mr. Chairperson: Pursuant to our rule 85(2), I would like to inform the committee of the following substitutions for today's meeting: Honourable Mr. Struthers for Honourable Ms. Howard; Ms. Allan for Mr. Jha; Mrs. Stefanson for Mr. Friesen.

* * *

Mr. Chairperson: Are there any suggestions from the committee as to how long we should sit this afternoon?

Mr. Blaine Pedersen (Midland): Mr. Chairman, I would suggest we sit 'til 4 p.m. and then re-evaluate then.

Mr. Chairperson: Is that the will of committee, 4 p.m. and re-evaluate? *[Agreed]* Thank you.

Now, there are–there have been suggestions in the pre-meeting the order in which to consider the reports. It was made a suggestion that we visit–revisit them globally. Is that agreed by the committee? *[Agreed]* Thank you

At this time I'd like to invite the minister and deputy minister to the table–acting minister, I guess. Sorry, sir–*[interjection]* All right, thank you.

So does the acting Auditor General wish to make an opening statement and could you introduce any staff that you have with you, please.

Mr. Norm Ricard (Acting Auditor General): Yes, I do have opening comments for chapters 1 and 3 of the March 2014 report.

With me today is Tyson Shtykalo and Bradley Keefe. Tyson is the assistant auditor general responsible for financial statement audits, and Bradley is the principal responsible for our Public Accounts audit.

The chapter 1 is our annual report to the Assembly about the Public Accounts for the year ending March 31st, 2013. We once again issued an unqualified audit opinion on the summary financial statements. This means that the summary statements are presented fairly in accordance with Canadian public sector accounting principles. It is important to understand how Manitoba's financial information is presented in order to be able to evaluate the government's financial affairs. In this chapter we describe what summary financial reporting means and why it is important to focus on the summary statements rather than the core financial statements when assessing government's financial affairs.

We also describe aspects of the Province's debt including borrowings, net debt, accumulated deficit and debt-servicing costs. In addition, we provide information on the types of pension plans in the province, how the liability is estimated and how the various pension plans are accounted for. This chapter includes seven recommendations that deal with matters resulting from our work on financial statement audits.

Of note is that the government only agrees with two of the recommendations, being recommendations 5 and 7. The government states that it disagrees with recommendation No. 4 which deals with the timelines of quarterly reports, and that it will consider recommendations 1, 2, 3 and 6. These recommendations deal with the compensation disclosure policy, the \$5,000 threshold for the disclosure of vendor payments, the disclosure of vendor payments by all entities in the government reporting entity and the types of expenses to include in the report of amounts paid or payable to members of the Legislative Assembly.

I would like to advise the Public Accounts Committee that we continue to support the value of all seven recommendations included in chapter 1.

Our follow-up of 14 previously issued recommendations from financial statement audits dating back to March 31st, 2010, year-end reveal that

12 remain in progress and that one will not be implemented.

So that concludes my opening comments for chapter 1.

* (14:10)

With respect to chapter 3, our goal in undertaking the deficit and debt research project was to provide stakeholders and decision makers with research perspectives and fact-based information and materials regarding the issues and impacts of government debt and budgetary deficits. Our act prohibits us from commenting on the merits of government policy decisions, and this would include decisions relating to deficit and debt levels. As such, we draw no conclusions nor present our perspectives on the information gathered.

This chapter summarizes research from Manitoba's deficit and debt levels—about Manitoba's deficit and debt levels. The data and information about Manitoba's deficit and debt levels is compared to other provinces and to the Government of Canada. The report also includes a summary of research on deficits and debt from international and national sources.

We put forward seven considerations for the government to strengthen the management of government deficits and debt and to better communicate its performance in the related context. While we believe all seven are important, the following three are key: establishing a framework for fiscal sustainability; setting fiscal targets and communicating results against targets; and disclosing in its budget documents more details on the deficit and debt reduction plans.

That, Mr. Chairman, concludes my opening comments.

Mr. Chairperson: Thank you, Mr. Ricard.

Now, the—welcome to the acting minister and the deputy minister, Mr. Hrichishen.

Mr. Hrichishen, do you wish to make an opening statement? And could you introduce any staff that you have with you, please.

Mr. Jim Hrichishen (Deputy Minister of Finance): I have with me today Betty-Anne Pratt, our Comptroller, and Helen Hasiuk, our manager of Public Accounts, today, and thank you very much, Mr. Chair.

I'd like to thank the committee for their opportunity to provide some comments, if I could, in respect of today's proceedings.

We're proud of the fact that we've received unqualified audit opinions on the summary financial statements for the last three fiscal years, and for all three years, the statements present fairly in all material respects the financial position and the results of operations of the Province in accordance with the public sector accounting standards.

In 2011 and 2012 Public Accounts, they have been under consideration on previous dates. I'll narrow my scope of comments in respect of Public Accounts to the ones for the fiscal year ended March 31, 2013.

The Province's Public Accounts for the year ended March 31, 2013, volumes 1, 2 and 3, which include the summary financial statements, were—was released on September 30th, 2013. Volume 1 includes the economic report, the financial statement discussion and analysis, and the audited summary financial statements of the government.

The Province experienced a summary loss of \$580 million, which was an improvement of \$3 million relative to the third-quarter forecast loss of \$583 million. Summary net debt as at March 31, 2013, was \$15.9 billion, a 'thirt'—a \$1.343-million increase from the previous year. The increase in net debt was the result of a summary loss of \$580 million, the net increase in tangible capital assets of \$745 million, changes in other nonfinancial assets of \$6 million, and an unrealized loss on investments or foreign exchange of government business enterprises of \$12 million as a result of mark-to-market accounting.

Volume 2 includes the audited schedule of public sector compensation payments of \$50,000 or more and the unaudited schedule of government departments' and special operating agencies' payments in excess of \$5,000.

Volume 3 includes supplementary schedules related to the core government and other information required for statutory reporting requirements.

Volume 4 was released on March 5th, 2014—is a compendium of audited and unaudited statements of the special funds, Crown organizations, government business enterprises and other public sector organizations that make up the government reporting entity. It is prepared on an annual basis as a supplement to the annual Public Accounts. Due to

the independence of those organizations, the Department of Finance does not have information readily available to respond to questions on the financial statements for entities within the government reporting entity—that is, volume 4. These statements are prepared by the entities, audited by their external auditors and submitted to central Finance for inclusion into the summary financial statements. Specific questions related to these entities will have to be forwarded to the entity officials for a response.

I want to acknowledge the office of the Auditor General—the very professional and collaborative relationship that we have established over the years with the Department of Finance and with Treasury Board Secretariat. I think I can speak on behalf of all my colleagues in that respect. It's a good and strong relationship and over the long term will provide a strong control environment and ensure that the summary financial statements continue to be reported in an accurate and timely manner, including information that is presented fairly and is useful to users.

In respect of the chapter 3, Government Deficits and Debt, I'd like to thank the members of the Public Accounts Committee for their presence to discuss this report. The research and round-table discussions included in the report are helpful in improving the understanding of information on government deficits and debt by members of the Legislative Assembly and the public in general. The report brings together a considerable amount of information related to the issue of debt and deficits and helps clarify a number of terms and concepts relevant to consideration of these. For example, there is often confusion as to what constitutes debt. While gross borrowings do represent amounts owed to repay those borrowings—pardon me—do represent amounts owed to outside third parties, it does not include financial assets that are available to repay those borrowings. Net debt, therefore, which includes all liabilities, including gross borrowings less the financial assets available to repay those assets, provides a better measure of the future revenue required to pay for past transactions.

Again, in closing, I want to acknowledge the office of the Auditor General, their continued professional and collaborative relationship with the Finance Department, my colleagues. Thank you.

Mr. Chairperson: Thank you, Mr. Hrichishen.

Now, before we get into questions, I would like to inform those who are new to this committee of the

process that is undertaken with regards to outstanding questions. At the end of every meeting, the research officer reviews the Hansard for any outstanding questions that the witness commits to provide an answer and will draft a questions-pending response document to send to the deputy minister. Upon receipt of the answers to those questions, the research officer then forwards the responses to every PAC member and to every other member recorded as attending that meeting. At the next PAC meeting, the Chair tables the responses for the record.

Therefore, I am pleased to table the responses provided by the Deputy Minister of Health to all the questions-pending responses from the July 9th meeting. These responses were previously forwarded to all the members of this committee by the research officer.

Now, one last item: I would like to remind members that questions of an administrative nature are placed to the deputy minister and that policy questions will not be entertained and are better left for another forum. However, if there is a question that borders on policy and the acting minister would like to answer that question or the deputy minister wants to defer it to the acting minister to respond to, that is something that we would consider.

The floor is now open for questions.

Mr. Pedersen: Mr. Chairman, under chapter 3, Government Deficits and Debt, I'm just wondering if the department can provide an update as to the status of a deficit reduction plan. There is—under the projections, there is a steadily declining deficit. I'm just wondering if the deputy minister could outline some of those plans and how to achieve a—less deficit and ultimately a—no deficit.

Floor Comment: So—

Mr. Chairperson: Mr. Hrichishen.

* (14:20)

Mr. Hrichishen: Excuse me.

As part of Budget 2014, the financial management strategy provides an update on the deficit reduction plan, and this was contained in our—the Province's most recent 2014 budget. The strategy involves achieving a balanced budget in the '16-17 fiscal year.

An Honourable Member: I couldn't hear the last part.

Mr. Chairperson: Mr. Hrichishen, you may have to speak up a little bit for the members.

Mr. Hrichishen: Sorry.

Mr. Chairperson: Just review the last little bit you said there.

Mr. Hrichishen: So the last budget indicates that the Province will achieve a balanced budget in the '16-17 fiscal year.

Mr. Pedersen: Well, that's a grand statement to make, but what exactly does the department have in mind to achieve that?

Mr. Hrichishen: I think it's reflected in some of the budget statements, and within the budget itself there's a number of initiatives being undertaken, including holding expenditure growth to 2.2 per cent, using the balance of the Fiscal Stabilization Account to fund the deficit, reducing the civil service by 600 over three years, containing administration costs including continued rationalization of government offices and co-locating departmental staff where appropriate while ensuring that service levels are maintained and continuing the 20 per cent rollback on salaries of government ministers.

To this point, the government has cut administration in health care by merging RHAs, it has merged the MLC and MLCC, selling government assets and adopting innovative service improvements such as establishing Entrepreneurship Manitoba to provide an integrated suite of services.

Mr. Pedersen: So does the department have a way of measuring? You've set out these objectives, and rather than wait for the—or do you wait for the end of the fiscal year to see whether you've been successful in these or is there an ongoing measure and the ability to track the accuracy of these projections? *[interjection]*

Mr. Chairperson: Just a moment, Mr. Hrichishen.

Just for the committee's information, we are dealing, I think, at this point, with chapter 3 from March 2014 report, Government Deficits and Debt, in case you weren't able to follow where we are.

Mr. Hrichishen: Yes, we, in preparing quarterly reports—Treasury Board prepares these reports, evaluates the current status of revenues and expenditures for the core government and other reporting entities relative to the targets set out in the budget.

Mr. Pedersen: Just for clarification, these are the quarterly reports that are released to the public?

Mr. Hrichishen: Correct.

Mr. Pedersen: I'll ask the acting Auditor General then. I think one of your comments was that there was a concern about the timeliness or lack of timeliness about the release of these quarterly reports.

Mr. Ricard: Yes, it's item 4.3 in the—it's a different report now though, we're into the chapter 1. It's section 4.3 where we talk about the extent of time required for—that the Province takes to release its quarterly reports.

In two thousand—for the current year ending—let's see here. For the most recent fiscal year—right. For fiscal 2013, for instance, the June—you know, it took 93 days to issue the June 2012 report—quarterly report, 81 days to release the September 30th quarterly report and 106 days to release the December 31st, 2012.

And our point is that is a greater time than is typically taken from other jurisdictions. When we did our jurisdictional review, in—that's figure 28, where we compare Manitoba's average days to release a quarterly report to those in other jurisdictions, Manitoba's at the top in terms of the amount of time, the average time.

And so, because it's quarterly information, the longer it takes to prepare, the risk you run is that the information becomes less useful.

So we are recommending—*[interjection]* Yes, chapter 1. Yes, the March 2014 report. So—*[interjection]* Page 66.

So our recommendation on that item was that the Province set fixed dates to release its quarterly reports. I'm sure the deputy can speak to it. The officials don't agree with that particular recommendation. I'll leave them to describe.

Mr. Pedersen: So that's the opinion from the Auditor General's office.

How does the deputy minister feel? And, of course, we're only dealing in this report, then, of 2013, never mind 2014 quarterlies, which we're still hoping to see someday.

But where are you in terms of perhaps having a fixed date and, obviously, becoming more in line with other jurisdictions in terms of releasing these quarterly reports?

Mr. Hrichishen: Manitoba reports on a summary basis, and this includes core government departments as well as other reporting entities which make up the government reporting entity.

The government agrees that the reports provide useful financial information for the Province's stakeholders and will continue to take the time to ensure quarterly reports contain complete and accurate information. And this is the key, is the time required to put together these reports.

Dates for the release of the quarterly reports must consider a balance between timely information versus more accurate information. Quarterly reports should not be released at the expense of reliability, and that is our concern.

I will give you some examples of issues that are relevant to this discussion. Manitoba's reports are comprehensive relative to other jurisdictions. They consolidate the GRE as well as other consolidation impacts such as pensions and interest. Manitoba's reports are compliant with the PSAB standards, which add to the complexity of the documents. But in particular, compared to other provinces, we provide actual year-to-date and forecast information, we would argue, in a timely way given the amount of information that must be compiled.

For example, Saskatchewan, Nova Scotia and Quebec show all consolidations on one line. Alberta's quarterly reporting is consistent with their budget but not their annual report, and therefore, arguably, it's a shortcut, if you will, in producing these quarterly reports. So—and Ontario and New Brunswick provide forecast information only; they do not provide year-to-date actual information.

So, again, the issue for the Finance Department is weighing the question of reliability and comprehensiveness versus timeliness and, in particular, gathering information, reliable information, from other reporting entities, producing a report that we consider very solid, which is our objective.

* (14:30)

Mr. Pedersen: So are you suggesting that it's the inability of other departments, entities, to get the information to you? Is that the reason that you're saying you're taking longer and longer to do these, or is it a lack of capabilities within your department to—you're getting this information but you're not able to disseminate it? What is it?

Mr. Hrichishen: I think the issue is being able to assemble this information, verify this information. Again, I would argue that the information is provided in a timely way given the amount of information that must be put together.

Mr. Pedersen: So is there a target? You've gone from—I believe the assistant Auditor General said 93 days to 106 days. Is there a goal within your department in terms of the number of days when you want to get it out, or are you just simply saying that there's so much information we're going to take as long as we need to release this?

Mr. Hrichishen: I think we will endeavour to provide the information in a timely way, as timely as possible, not giving up any aspects of the reliability of the report. We're always trying to provide information in a timely, meaningful way to ensure that decisions can be made in a timely manner.

Mrs. Heather Stefanson (Tuxedo): I do have a number of questions with some of the other reports, but seeing as though we're on this report we may as well remain on this report for now.

There are a number of considerations that the Auditor General has come up with with respect to chapter 3 of this report, and I'm wondering if you could comment. My colleague has been discussing the consideration No. 1 where the Auditor General has asked for the framework for fiscal sustainability in addressing long-term debt and deficits. And, as well, that sort of segued into chapter 1 where we're talking about the timely fashion of getting the information out.

But I'd like to go back to chapter 3 with respect to the considerations and get back to consideration No. 1 and what the plan is for providing—like, do you agree and does your department agree with the setting up of a framework for fiscal sustainability and addressing long-term debt and deficits or do you disagree with that and are you planning to go in a different direction?

Mr. Hrichishen: So, to manage fiscal and economic stability on the longer term basis, Manitoba has taken a balanced approach to reduce its deficit and managing long-term debt obligations.

The debt management strategy includes addressing previously unfunded pension liabilities, ensuring capital investments are amortized and making debt repayments to mitigate core government operating deficits. In terms of a framework for, I guess, fiscal forecasting, fiscal planning, the

government does produce in its budget a financial strategy, a multi-year financial strategy, that does incorporate revenue projections as well as expenditures for the medium term.

Mrs. Stefanson: Is there a specific framework that is being considered, I mean, similar to—I know the Auditor General has used a recent global study by KPMG within the report as a potential framework that could be looked at within the department, and I'm wondering if the deputy minister could indicate whether or not that type of a framework would be—is being considered. It's much more detailed, that kind of a framework, than what you're suggesting is in the budget with various, you know, targets, potential targets and potential objectives that we know the government hasn't necessarily kept all in the past. But this type of a framework, I think, is a very positive thing for the Province, and I'm wondering, are you considering implementing something similar to what is outlined in the Auditor General's report?

Mr. Hrichishen: From time to time over my tenure in the department, the question of how to adopt fiscal planning has been raised fairly regularly, and the question is what value the resources brought into the effort can bring versus the current practices where I know that individual departments, for example, taking into account demographic factors or cost factors, have their own expectations for where expenditures will go.

Certainly, in the Finance Department we work very hard to provide multi-year projections of revenue for transfers and own-source revenues which are, in fact, included in the multi-year strategic plan presented in the budget. And we continue to update those regularly throughout the year and, again, focusing on the multi-year basis.

We know that no other province produces for public consumption a multi-year, I guess, strategic fiscal framework beyond what is typically presented in the budgets for a multi-year plan as does Manitoba. So I don't reject out of hand the value of such an exercise, but at this moment, I guess, we have to think seriously about that and it has—it is an issue that's come up from time to time over two decades, in fact, so.

Mrs. Stefanson: Just to this, I'd like to ask the Auditor General, this KPMG report that came out, is this something that other provinces have adopted? Is this—how does—how do we compare to other provinces with respect to looking at this kind of a

framework for looking at or for addressing long-term debt and deficits?

Mr. Ricard: Unfortunately, we—this was more of an information or research project, wasn't an audit. So we do not have—we didn't do a cross jurisdiction of review to see whether or what frameworks were in place. So I mean it—to us it just seems, given the magnitude of deficits and debts, it's important to have a management framework to ensure that the fiscal situation is sustainable. And so it's good to have initiatives, but all the initiatives that I heard the deputy talk about should be within the context of a broader framework in our perspective. So that's why we put it forward as a consideration.

Mrs. Stefanson: Thank you very much for that.

I think, specifically, within this recommendation I want to draw your attention to the last line where it says the government may consider a long-term fiscal sustainability framework suitable to Manitoba's situation. So really the recommendation is more to do with long term, a long-term fiscal sustainability framework. The deputy minister has indicated that this is addressed in the budget, but, as I recall, each year for the last several years the government has come out with a new five-year plan. That to me is not considered a long-term plan or a long-term strategy towards fiscal sustainability, and so to me that doesn't address what we're talking about here. And I think this is a really good thing; regardless if it is not happening in other provinces, it's a great thing for consideration here.

And I'm wondering if the deputy minister could indicate, is it something that he's willing to draw the attention to the minister on, that he'd like to move in this kind of a direction, which I think clearly would be in the best interest of Manitoba?

* (14:40)

Mr. Hrichishen: I think at the present time we do incorporate elements of—mind you, looking at history, looking at trends within the financial management strategy of the Province, for example, again, and this is not the—it is, in part, or implies a forward-looking stance, looking at the financial management strategy in the '14-15 budget and the focus on some key fiscal indicators that we do monitor quite extensively in a very robust way.

In other words, we are careful to not only collect but interpret the meaning of these indicators, present them fairly in the budget and use that history, that performance, to guide our decisions going forward.

Mrs. Stefanson: Okay, thank you for that.

And I just want to jump down to consideration No. 4 within this report, and this has to do with providing more details and budget reporting on deficit and debt reduction plans. And specifically, in here, it talks about what the government may consider in terms of providing further detail in the government budget books as well.

And so I'm wondering if the deputy minister could indicate whether or not this is a consideration that his department is looking at moving towards. Or is this something that the department has—it will be rejecting?

Mr. Hrichishen: I think it's fair to say—and I—without being specific—we found all of these recommendations very meaningful and worthy of consideration. In—the—it—these—and I've erred. They're not recommendations; they're observations, as the auditor has pointed out.

Yes, so on that basis and in the spirit of continuous improvement, we'll evaluate these recommendations and continue to do so as we move ahead.

Mrs. Stefanson: Yes, and the deputy minister's quite right. I do agree; these are presented as considerations of the government, not as full-out recommendations. But these seven considerations are, I think, they're—most—all of them are to help push Manitoba in a direction that is more fiscally responsible and sustainable long-term financial management of the province.

And I guess I'd like you to just comment on these, because I noted in your opening statements you didn't necessarily comment on whether or not these considerations are in for consideration within the department or not. And I think, you know, we've already discussed No. 1 and 4, but could you comment on perhaps 2, 3, 5, 6 and 7 as well—those considerations as well, because I think these are very important considerations moving forward for our province.

Mr. Hrichishen: So you have to bear with me as I attempt to address all of these.

Manitoba Finance currently generates a medium-term fiscal outlook for every budget cycle. For Budget 2014, revenue projections are provided from '14-15 to '17-18. Projections of core revenue underlying a medium-term plan are based on many inputs, including the economic forecasts and

demographic forecasts of the Conference Board of Canada, estimates from Finance Canada and incorporating known policy measures.

Medium-term economic and demographic analyses and projections are embedded in the forecast that you see produced in the budget.

Okay, so—[interjection]—in respect of No. 3, in the annual budget the financial management strategy provides the government's priorities in terms of fiscal targets and communicating targets for financial management. It includes four main priority areas with one or more measurable outcomes. Each measurable outcome includes objectives for the current year and for future years.

The priority areas and the corresponding measurable outcomes are as follows: first, transparency, accountability and fiscal discipline, including the summary budget outlook, maintaining accountability for core government programs and expenditure and revenue. Second, stable and affordable government: the issues here are credit ratings, expenditures as a percentage of GDP and sustainable management of public resources. Third, managing debt: a debt-management plan and a net debt-to-GDP consideration is part of the FMS that is produced in the budget. The FMS provides a medium-term target—up to '17-18 in this case, in this year's case—for government revenue and expenditure for both core government and other reporting entities. A summary net income outlook is also provided. The annual public accounts provide a variance explanation for revenue and expenditure elements. These are many—these—there are many elements that generate variances, and fiscal management measures are supported by comprehensive and transparent financial reporting.

There is the observation, No. 5, explaining the relationship and the impacts of Manitoba Hydro debt. The provincial borrowings for Manitoba Hydro are presented and disclosed in accordance with Canadian public sector accounting standards. Hydro's debt is not included in the net borrowings of the Province. Instead, Hydro's borrowings are netted against its assets and included through the equity in government business enterprises line in the summary financial statements.

I thought the explanation in respect of Hydro debt presented by the auditor was a very worthwhile narrative, and I think there's great value in trying to present in a more transparent way this type of information. And in—as we go forward in the near

term we'll see what kinds of improvements can be made as we consider the best presentation of existing data, existing public data which is available, but perhaps presenting it in a more transparent or concise way.

In terms of monitoring developments in comparable jurisdictions, I just want to say that due to differences in accounting and reporting differences the comparison between provinces may not always be strictly accurate. Prior to 2007-08, Statistics Canada produced an apples-to-apples comparison of Public Accounts data called the FMS, the financial management statistics. At the end of 2008 Statistics Canada terminated that series in favour of adopting an international standard called the government financial statistics. Statistics Canada targeted the production release of this information for mid-2014.

Recently, they advised us, the Finance Department, that they were not able to meet that commitment—all Finance departments—they were not able to meet that commitment and it would be 2015 before this apples-to-apples comparison would be made available—this government—GFS series that StatsCan has been working on in earnest for several years now.

* (14:50)

Again, the last apples-to-apples comparison, a standard definition of what constitutes the government reporting entity from Stats Canada, has not been produced for a number of years. Consequently, we must use Public Accounts data or data presented in budgets or Public Accounts which are not always comparable between jurisdictions. Here in Manitoba, for example, our government reporting entity is considered to be very broad. We have, in my opinion, one of the broadest government reporting entities amongst all provincial, territorial jurisdictions in Canada.

Now, I'll give you an example. Workers compensation boards: Only Manitoba and Saskatchewan includes workers compensation boards in their definition of the government reporting entity. Universities: Prince Edward Island does not include universities in its government reporting entity, as does not Nova Scotia or Ontario or Saskatchewan. I mentioned before the workers compensation boards. Only two provinces, Manitoba and Saskatchewan, include the workers compensation boards in that definition. Colleges, for example: In Prince Edward Island, colleges are not

included in the government reporting entity. In other provinces, only public colleges but not private colleges that may be publicly funded are included.

So what does this mean? This means that when you undertake these comparisons, and the auditor correctly noted it several times in the report in footnotes and whatnot, that it is very difficult to create apples-to-apples comparisons for key fiscal statistics between jurisdictions. Having said that, we generally look past that and use the published Public Accounts information to do these interprovincial comparisons. These are done regularly. Many of these are published in the provincial budget. The department itself monitors fairly carefully our relative position versus other provinces in terms of, say, debt-to-GDP or deficit-to-GDP or per capita whatever key financial statistic. So that is done and it's done in earnest within the Finance Department.

So in terms of the observation No. 7, the Auditor General's role in independent review of projections and assumptions, I would only observe here that the role of the Auditor General is, in respect of this type of work, is—there's only a couple of jurisdictions where the auditor plays, I guess, a potentially substantive role in this type of activity. I'm not saying that that's good or bad, but I am saying that it—that the current status, and the auditor can—I'm not sure whether I'm at liberty to ask him to comment on this but it could fill in the blanks in respect of the activity that's currently undertaken by auditors in other jurisdictions.

I am aware that Ontario passed the Financial Accountability Officer Act in September 2013. A provincial election was called before anyone was appointed but the Lieutenant Governor-in-Council appoints a financial accountability officer on the—but only if that person is to be appointed, has been selected by a panel composed of one member of the Assembly from each recognized party, chaired by the Speaker of the Assembly who is a non-voting member.

I'm also aware that within the federal government, and, certainly, it's a very high profile position, the only independent budget officer, to my understanding or to my knowledge, in Canada is the Parliamentary Budget Officer in Ottawa. The officer is an independent officer of the Library of Parliament who reports to the Speakers of both Chambers. The Parliamentary Budget Officer is organized into two divisions; economic and fiscal analysis and expenditure and review analysis. Each division is led

by an assistant Parliamentary Budget Officer, and both divisions support the PBO's role to inform parliamentarians and improve budget transparency.

So, based on my knowledge, those are the only types of organizations—institutions that exist.

Mr. Chairperson: Would the Auditor General care to comment on the deputy's comments?

Mr. Ricard: Only to agree. To my knowledge, only at the federal level, through the Parliamentary Budget Officer, and, I believe, also in Ontario, the Auditor General's office reviews the provincial Estimates and budgets and presents an opinion on it.

We—just by way of background, we presented consideration No. 7 because it was—at the round tables of industry leaders that we held in Winnipeg and Brandon. It was a significant topic that was raised, the need to have the provincial budget assumptions and whatnot reviewed and—for reasonableness and consistency. And so it's a topic, I think, that, certainly, the public views as an important area.

It's not—if I might say, it's not a role that we're particularly looking for, our office. It requires a certain resourcing level to do. But it could be our office. We're also suggesting a role similar to the parliamentary budget office in Manitoba might be a way to go.

Mr. Chairperson: Thank you.

Mr. Hrichishen, do you have another comment?

Mr. Hrichishen: If I could add just a footnote to my last observation is that there are third parties, independent third parties, that do provide sometimes very meaningful and insightful analysis in respect of the Province's fiscal performance and fiscal outcomes and fiscal projections, and those would include here the major banks perform budget analyses, do analyses of public accounts.

We would include here credit rating agencies; the three major credit rating agencies perform evaluations of Manitoba's fiscal situation and outlook. There's institutes like C.D. Howe, Conference Board of Canada, who undertake these types of analyses that do provide independent third-party information that I guess is available both to decision makers within government who drive policy and to outside, to the media and the general public. They're not sponsored by the Province or the Finance Department or anyone in that vein.

Mr. Ron Schuler (St. Paul): My question is to the acting Auditor General and page 66 of the March 2014 report. He states very clearly that the usefulness of the quarterly reports diminishes as time passes. We see that the average for other provinces is 34 days, which is basically a month after the quarter has expired, you then get some kind of an indication where the financial situation of a province is. In the case of Manitoba, 106 days is just about three and a half months, depending on which months it is, which would put you in—well within the next quarter. And I think that really does define what the acting Auditor General says in the report, that then makes the report basically less useful than if it was 34 days.

My question to the acting Auditor General is: Is this a problem that has been getting worse over the years? Because he states in his report that Manitoba has generally released its reports around the same time over the past several years. Is that something that has plateaued? Is it now every 90 days? Like, where has it plateaued? And would it be possible to get a three-, four-year report of, like, where the report comes out? Because, again, to go back to the quote on page 66, the usefulness of the quarterly reports diminishes as time passes.

And, you know, depending on his answer, I have a few other questions.

* (15:00)

Mr. Ricard: Yes. Just to clarify, figure 27 on page 65 shows, really, the only information that I can speak to today, and that's the days to release for the quarterly reports that we show here, so from June 2011 to June 2013. So from June 2011 to June 2013—so we do see it goes from 49 creeping up towards 92 days.

I am told that the latest quarterly report was done in a more—on a quicker basis. I don't know—that'd be a question for the deputy in terms of the number of days to release the first quarter report for 2015. But I believe it's—it was done in a more timely manner than 92 days.

Just to clarify your point on the 34 days, and that's really speaking to the way we described this thing here. When we talk about the 34 days, the other provinces averaged 34 days. That's in the range from—help me out, Tyson, here—that's in the range from quickest to longest. It's not the 34 days from end of the quarter to release.

If you look at figure 28, for example, you know, we're showing Manitoba from, you know, the 49 to

106 days—trying to remember the—see, if—that compares to the 57, right. The 34 days for the other jurisdiction compares to the 57, which is the difference between the 49, which we show for June 2011 to December '12, which was 106 days. So the 34 days is the range—is that range within—the average range within other jurisdictions. It's not the timing—yes, it's not the actual time frame.

Because you'd have to look for—like, Ontario shows average days to release. Its average day is about 35. But you go to Nova Scotia, its average days is more like 75 days. And New Brunswick more like 60. Alberta more like 50.

So, just to be fair to the province, it's not like all the other jurisdictions are coming in at 34 days. That's not what we're saying. It's—we don't say it clearly, I must admit.

But look at the table—figure 28. And that's where you'll see the information, I think, that you're trying to understand. It's the average times—time frame by jurisdiction is way more than 34 days, is what I'm trying to say.

Mr. Schuler: Well, I mean, we can only go on what's in the report. And the report says the other provinces average 34 days and, evidently, the 34-day average is not a 34-day average.

However, they do report in a lot less time frame. And I take it the quote is still accurate: the usefulness of the quarter reports diminish as time passes. I take it that still stands.

If you go back to page 65, where, you know, we're at 92 days, is there a value, even if it does take 92 days, is there still a value in that quarterly report after 92 days? Because I take it there's a certain amount of time and effort that must go into producing these.

Is there still value, that after basically three months the report comes out, is there still value in that?

Mr. Chairperson: Is that directed to the acting Auditor General?

Mr. Schuler: Acting Auditor General.

Mr. Chairperson: Okay. Mr. Ricard.

Mr. Ricard: Well, I would argue, yes, it still continues to be valuable information.

We're only concerned that, as time passes, and as other quarters, as you start to inch into the other

quarter, or quarter removed, the timeliness of the information—quarterly information, I think, by its nature, is meant to be fairly timely. It's meant to be presented so that you don't have to wait for the annual statements to come in.

So, if the quarterly information takes more than another quarter to present, or it takes a quarter and a half to present, then it does start to, in our view, diminish in its value. But I wouldn't say it takes away all the value. It's still useful.

Mr. Schuler: Well, I'm sure there's some usefulness of it somewhere. But after—and I believe the acting Auditor General said, inching into the next quarter, I would suggest 106 days is far from inching. That would be substantially into the next quarter, even at 92 days. Of course, it's a benchmark. However, it does allow the government to know what the next quarter is before they release the last quarter.

And these documents are supposed to be there, by and large, I take it, for the public to know where the government is with their finances. And, in that respect, is there much value for public discussion—for the public to know what's happening with the budgeting process of its government?

And I will concede that in this building every report seems to have some value and I concede that. However, when you get out into the general public, like after 92 days, is there really that value?

Mr. Ricard: You know, the best way I can, I think, reply to that would be to say, we agree that the more timely the better, but late information is better than no information. So, even if it, you know, takes 90 days, we would certainly—I would certainly not want to be interpreted as saying that if they can't do it more timely they shouldn't do it at all, so—which is, I'm afraid, is where you're going.

So, you know, the—just to go back to our recommendation which was—we recognize the complexity of doing quarterly statements, particularly when it's on a summary basis, and we're not suggesting what an appropriate time frame would be. We're just saying, set a fixed date so that there's some ability for stakeholders to know when the quarterly statements will be available, decide what's a reasonable fixed date, if that's 70 days or 80 days, and then work towards that particular time frame is what we're suggesting for predictability of availability of that information.

Mr. Schuler: I take it the acting Auditor General also looked at the information that was being

compiled. And in the now quote that is, actually, not quite a quote, is the other provinces average 34 days, all with smaller ranges. Should the Province of Manitoba perhaps look at a different range to get the information out in a timely fashion? Did the acting Auditor General look at that?

Mr. Ricard: The thought that had occurred to me as the deputy was describing the quarterly reports was whether or not there was something to be learned from other jurisdictions in terms of the nature of the information that they're reporting quarterly.

You know, we certainly agree with the department's comments, you know, in their response that the quarterly reports should not be released at the expense of their reliability, but—for sure. Except what we're talking about here is, well, what's the nature of the information that should be included in quarterly reports, and if their goal of doing summarized statements is causing them to have exceedingly long release dates, that's where I would say, well, let's take a look at what other jurisdictions are doing. How are they managing to release within 60 days? I'm sure the information in other jurisdictions, I would argue, would be reliable, if not as detailed, but I can't speak—I don't know offhand what the other jurisdictions are reporting quarterly. But there may be something to be learned there in terms of useful quarterly information that is perhaps not as detailed as the annual report ones, but useful nonetheless.

Mr. Schuler: Can I ask the acting Auditor General: Is that another recommendation?

Mr. Ricard: Well, it would be certainly a consideration for the department to think about, in rethinking their disagreement with recommendation 4, if they could broaden their perspective on what quarterly information could be or should be and time frames for release of that.

* (15:10)

Mr. Schuler: My next question is to the deputy minister, and, again, these are serious issues and serious matters that we're dealing with and not something that we just want to put out there. And we all live now in the Twitter age where we actually get the information often before something even happens. So we're not asking for that kind of trite response. Like, we get it. This is serious and it deals with huge amounts of money and you got to get it right. You can't be putting out documents, and we've seen that with other jurisdictions who got something

wrong, and, you know, we're not recommending that kind of a thing.

However, to basically outright dismiss it, I would ask the deputy minister, does he feel that 106 days is an appropriate response time, which puts it clearly into the next quarter? Is there a way to look at the reports and perhaps make them a little bit more streamlined or look at other jurisdictions, perhaps? As the acting Auditor General said, maybe we can learn from other jurisdictions. Is there room to learn from others and perhaps reduce it?

I don't see anywhere in the response from the department that there is a willingness, perhaps, to look at tightening up that timeline. And we understand the department's not prepared to set down fixed dates, but I don't even see in here an openness or a willingness to look at perhaps providing them in a more timely fashion.

And I'm still not clear on the 34 days which isn't 34 days, but perhaps the acting Auditor General could send me an email explaining how 34 isn't actually 34, but perhaps bringing the 106 or 92 down to a better range, because that would definitely be helpful.

Mr. Chairperson: Before you answer, Mr. Hrichishen, I believe the acting Auditor General has an explanation for the 34 days. So, Mr. Ricard?

Mr. Ricard: Well, I'm going to try very quickly to explain that.

The 34 days here, you have to read it in context of that first sentence. It's the average range that we saw that other jurisdictions took to release the report, but not the range from the end of the term, but their quickest to longest. So if it's usually—if you—say in first quarter of a year, you released it in 30 days. In the second quarter, you released it in 50 days. In the fourth—third quarter, you released it in 50 days again. We're talking about the difference between the 30 and the 50. That's the range that we're talking about. That's the 34 days. We're not talking about the initial 30 days.

It's the average range from quickest to longest, probably not the best—and it compares to the 57. So you look—we talk about Manitoba. We examined—it's 57 days. That 57 days is from the 49 days, which was the quickest release, to the 106, which was the longest release.

The 57 and the 34 are the same measure is all we're getting at. I hope that helps.

Mr. Chairperson: Mr. Hrichishen, can we go back to the question?

Mr. Hrichishen: Sure. So, again, the reports are prepared with a key balance needed for timeliness versus accuracy and reliability. This is the question. For us, we endeavour to produce the reports in a timely way, and I think the auditor's comments are—they're not taken lightly by us.

We tend to lean towards accuracy. We do not use estimates. We are aware that other jurisdictions use estimates rather than actual data, which we believe jeopardizes the reliability of the quarterly reports. We have made a policy decision that that's not the route to take.

Again, we're mindful of the timeliness of these reports. It's—and the auditor's comments are not lost on us.

Mr. Pedersen: The deputy minister today mentioned credit rating in one of his comments, and in previous PAC meetings—and I believe it was even the previous Finance minister told this committee that the bond rating assessments, relative to deficits and debts, have been stable and were not of concern. Now, I hope I didn't misquote him, but that's what I believe he did say, and I guess we'll have to go back in Hansard to [*inaudible*] that. So, and we have talked today about monitoring the budget of 2014-15 and outcomes, projections. So, given the recent bond rating agency downgrade, how does this affect your department in their projections for this coming fiscal year?

Mr. Hrichishen: Okay, I'll answer that in a very narrow way. The consequences—the direct consequences in respect of debt-servicing costs are based on the market's reaction to the particular announcement. I cannot tell you, and no one can tell you, what precisely that reaction will be until there's actual market transactions that underlie that sentiment.

At this stage, we have only had one market transaction subsequent to the August 18th announcement by Moody's relative to the outlook for Manitoba. We measure our relative borrowing costs versus Ontario and most provinces do. Ontario's the standard. They're very active in the market; they're the benchmark. Through July at a \$300-million transaction we undertook recently, through the middle of July, we were trading eight through—eight better than Ontario. That was our debt cost. We're doing eight better—eight basis points, pardon me,

better than Ontario. In a recent transaction, we continued to do eight better than Ontario. That suggests the market's reaction in respect of those borrowing costs to—in the one particular transaction has been fairly modest.

Only time will tell on the relative value or cost to our debt costs and further transactions as we go forward in the marketplace. And, again, we're borrowing two-year money, five-year money, 10-year money, 30-year money, and the relative impact of Moody's change in our outlook will only be known as we move forward in this way.

Now, what's a basis point worth? It's probably useful to put it in context. A basis point is 0.0001—one-hundredth of 1 per cent, if you will—of a fixed amount. For example, if the Province is going out and borrowing—I'm going to pull a number out of the air—\$5 billion a year, one basis point—if that is your additional cost—one basis point would be worth \$500,000 in additional debt costs. That's the math behind it. I don't know and we don't know whether the value of the announcement relative to those debt costs are going to be one basis point, three, five, 10.

We can look back to the last time that Manitoba incurred a change in outlook, and I believe that was in 1993; that's quite a long time ago. So what we have done is we've looked back to what happened to Ontario back on July 2nd when Moody's changed Ontario's outlook to negative. What did it mean to Ontario? Depending on the length of the term, we thought or think that the cost was in the neighbourhood of, let's say, three to eight basis points.

* (15:20)

I don't know if that's going to be the situation in Manitoba. It's up to the investors, hundreds of anonymous investors out there. We have to wait for the market reaction.

So, excuse me, but that's a very long-winded explanation of the implications of that to borrowing costs.

Mr. Chairperson: Before you go, Mr. Pedersen, I just—Mr. Hrichishen, I just wanted to go back to your comparison to Ontario.

As you said, Ontario was down—was changed to a negative outlook as well. So, when you're talking eight basis points difference between Manitoba and Ontario, you're comparing moving targets here. We went negative, they went negative. We're still at

eight. But they experienced, as you said, a up-to-three-basis-point reduction in the market in recent occurrence.

Mr. Hrichishen: Excuse me, it depends on the term. But our thought was that it would be reasonable, and, again, we are not entirely comfortable, but a prediction must be made if one's asked for it, that a three-to-five-basis-point cost might be reasonable.

Again, because there is no immediate reaction with this recent transaction versus the current Ontario, it's difficult to interpret whether that's the case. And we'll continue to monitor that in the department very closely as we move ahead with our borrowing program.

Mr. Chairperson: So what did that change mean to Ontario in a dollar cost? And if you were to apply that to our borrowing, what would it mean to Manitoba?

Mr. Hrichishen: I don't know. In the case of Manitoba, if we have a \$5-billion borrowing program, the—roughly, again, in the current year I believe we have about \$2 billion remaining in terms of the borrowing program. But in a full year, say if it was \$5 billion, one basis point would be \$500,000, five basis points would be \$2.5 million, three basis points would be 1 and a half million.

Mr. Pedersen: Well, to follow up a little bit from the Chair's questions, and I understand basis. I—once upon a time I was in the cattle business and dealing on the Chicago Mercantile Exchange. So I understand basis.

And I'm a little—having said I understand basis, I'm still a little confused, because you're basing—or you're using a basis on Ontario, but Ontario's basis has eroded. Does that not multiply the erosion in Manitoba's position, then?

Mr. Hrichishen: Yes, I guess that the benchmark was after Ontario was downgraded on July 2nd, to my knowledge. That's my understanding. So it is a firm benchmark versus, you know, everything just shifted up.

Mr. Chairperson: Mr. Pedersen, we're probably venturing a long ways away from the topic. So, I mean, we've given the deputy some latitude here and you some latitude as well, and me as well. So, but we'll see if we're still focused here.

Mr. Pedersen: Well, I appreciate the latitude. I guess what I—and I understand these terms. These—all these borrowings come in at various terms. Are they

available in the Public Accounts books somewhere where we can see when these terms come due both currently and in the future of all borrowings of Manitoba government?

Mr. Hrichishen: Yes, on schedule 4, of—and I'll refer to the—

Mr. Chairperson: Can you give us the year of the report first?

Mr. Hrichishen: Mr. Chairperson, 2013 year-end, March 31, 2013, Public Accounts schedule 4.

Mr. Chairperson: And volume?

Mr. Hrichishen: Volume 1. There is a consolidated statement of borrowings and—excuse me—it's page 104. Sorry.

Mr. Chairperson: Given that we have a number of reports out there, if we start with the year and then go to the volume and then go to the page, that will allow members to find what you're referring to. Thank you.

So continue, Mr. Hrichishen.

Mr. Hrichishen: So there is a description of the current amounts for the—both the 2013 year and the 2012 year as well, and that information is by type and year of maturity.

Mr. Schuler: And thank the committee for some latitude. This is important because it obviously has an impact on the finances of the Province.

And the question that I have, and then I'll leave it at that, we understand that the Province hasn't yet, other than one occurrence, gone to the market and sought a loan. Has Manitoba Hydro—and did the downgrading affected Manitoba Hydro's attempt to raise money in the market?

Mr. Hrichishen: I do believe that the 300 we borrow—the Province borrows on behalf of Manitoba Hydro. So we're relatively transparent as to whether it is for Hydro or for Manitoba general purpose that—*[interjection]*

Yes, so the \$300 million was for Manitoba Hydro and it—we're—it's—the market is relatively indifferent to the use of the funds between Hydro and general purpose government.

Mrs. Stefanson: Mr. Chair, I think that this relates in several ways to all of the reports that are in front of us and I think we could probably point—and I know I could certainly point to the Auditor General's report on government deficits and debt, chapter 3 of

the March 2014—the—or the considerations there. Specifically, when it comes to—and we talked about this earlier—preparing for the long term, and this is something that has come out. It is a downgrade on the outlook from stable to negative. This is—they have said that the reason for this has to do with the assessment of execution risk, and to me what that means is that Moody's is—they're concerned that the government may not stick to their plan, because what's happened in the past is that every year there seems to be a new five-year plan that differs from the year before and in their budget books. And I think what Moody's is saying now is that this execution risk is a—you know, it—this is a serious problem and that's why they have come up with this downgrade of the outlook from stable to negative and I think this does have a serious impact.

And I know that we look at the minister—the deputy minister did refer to the annual report ended March 31st—was it 2013? I've got 2012 here, but 2013 on page 101 or 103, whatever it was, where all the—you've got the maturity dates of various instruments that are coming due at any specific time.

And I know that during the last Public Accounts meeting, looking back at some of the questions that were asked by my colleague, this question did come up: What is the—what would be the impact of a 1-percentage increase in borrowings to the Province of Manitoba, and I believe it is somewhere in these books.

Again, we refer back to these books that it talks about \$24 million. I'm wondering if the minister could just indicate is that the case and if it is the \$24 million. And would it—would potentially this downgrading of the outlook have potentially that kind of an impact of a 1 per cent hike in borrowings? Or perhaps it could be even beyond that. Maybe we're looking at 2 or 3 per cent, and as the deputy minister or the minister is looking at more of an—a long-term effect to this kind of a downgrading to the Province of Manitoba, how is his department looking at the long-term impact of this Moody's downgrade in the outlook in Manitoba?

* (15:30)

Mr. Hrichishen: Excuse me, are—is the question in respect of an increase in short-term interest rates?

So, if the Bank of Canada, for example, increased the short-term interest rates by 1 per cent, their target rate, and the full 1 per cent was passed through to our borrowing costs, say from 1 and a half

to 2 and a half per cent—to be clear—that would increase the core general purpose debt-servicing cost by approximately \$15.5 million in a full year.

Mrs. Stefanson: Sorry, that was sort of the first part of the question.

The second part is, what kind of an impact does this kind of a—downgrade in the outlook have on the borrowing potential for the Province of Manitoba, and how are you and your department factoring that in to your long-term projections with respect to the budget here in Manitoba?

Mr. Hrichishen: So I believe that the cost, the additional cost—well, again, are we talking about the interest rates, potential for interest rates?

Mrs. Stefanson: When your department is considering—I mean, when you get this kind of a downgrade, how do you prepare for that in your long-term planning?

I mean, we've already sort have seen from the recommendations from the Auditor General's department that maybe that's not taking place right now. But what kind of an impact will this have on the borrowing potential in the province of Manitoba should this outlook come to fruition where there is a downgrade, a further downgrade down the road?

Mr. Hrichishen: Okay, so I will observe that Manitoba has exceptionally good access to credit markets right now. We've worked hard to establish and maintain relationships here in Canada and the United States and globally in terms of our debt issues. I would also note that this was a remark made by Moody's when they evaluated Manitoba and talked about Manitoba's credit strengths, saying that we have manageable refinancing needs and, to quote them, exceptional access to capital markets. So, again, we do currently have access to capital markets that are amongst provinces, certainly, and amongst sovereigns, very strong.

To answer the question directly, as we approach the next budget, when it comes to determining our debt-servicing costs and evaluating our debt-servicing costs we will base those projections on the actual performance of our credit market activity and our capital markets cost for the remainder of the year or until such time as—you know, *ceteris paribus*, unless something else changes—we'll evaluate that and reflect those in the '15-16 debt-servicing costs.

At this time, we believe that the parameters—and, again, I caution that you don't know what you don't know, and we—it's been a long time since we've had this situation before. We believe that the cost window parameter is in the neighbourhood of perhaps a couple million dollars on a full-year basis.

So those are the values that we're talking about at this time. Time will tell, though, and I caution that.

Mrs. Stefanson: And just one more quick follow-up question before I hand the floor over to my colleague from River Heights.

What does this—I mean, we know that the Province issues Manitoba Builder Bonds, Manitoba HydroBonds. What kind of—how will this affect and how will this change potentially your—like, what kind of an impact will it have on the interest rates that you're able to have on those vehicles if this were to take place down the road? And we know that this is a potential. This is a downgrade in the outlook from stable to negative which is not a positive thing.

Do you believe that this will have a positive impact on the interest rates or the rates that you're able to charge on those, on the Builder Bonds and HydroBonds, or do you think it will have a potential negative impact?

Mr. Hrichishen: We believe at this time that the impact will be negligible, if any, at this time.

Mrs. Stefanson: And what is the basis for that? What criteria are you using to ensure that that really is negligible?

Mr. Hrichishen: Based on, I believe, our borrowing costs or our—and the uptake, whether there is a concern regarding the creditworthiness of the province, we don't think that the negative outlook will have such a material impact that we would have to raise interest rates on Builder Bonds.

Now, again, always footnote this by saying that time will tell, and at the moment, again, with the change occurring on August 18th, going forward we'll evaluate this, and in fact we do that weekly. We evaluate borrowing costs and credit conditions weekly, if not daily.

Hon. Jon Gerrard (River Heights): Yes. One of the things that's discussed in the first report is the public sector disclosure requirements and there's inconsistencies, and one of the things that we have found is that, for example, within the Department of Health that an individual may be getting income that is fee for service but also getting income that is

direct payment from the WRHA, and so that you don't, in the current disclosure, get a single point which gives you the total government income for each individual, right, because you've got these reported separately even, in this case, though they're both in Health.

What are you going to do about making sure that there's a consolidation for each individual to make sure their income is totally reported?

*(15:40)

Mr. Hrichishen: So the aggregation of the type of information that you referred to would require a legislative and policy change requiring a disclosure to the public of this information.

Mr. Gerrard: Okay, well, I guess that's something we'll have to take up at the political level at some point.

I have a question for Mr. Ricard, the acting Auditor General. Just to clarify, in the chapter 1, page 38, the discussion of the capital investment cost is amortized into net income. Now, is this true across all capital investment costs or tangible capital assets including not just roads and bridges, but hospitals, schools, IT systems, whether they're under a government department—WHRAs, school boards, Crown corporations, including Hydro—is there consistency here?

Mr. Ricard: Unfortunately, neither myself or my co-worker, Tyson, got your exact question. Could you—what are looking for exactly?

Mr. Chairperson: Could you give us the report first, Dr. Gerrard, and then the page number?

Mr. Gerrard: The March 2014 Annual Report to the Legislature, chapter 1, Accounts and financial statements, page 38, the cost of capital investment is amortized into net income. So, I mean, in the financial statements you have an amortization of a cost of capital investments. All I'm asking here is just clarification of whether such amortization occurs, you know, independent of the type of capital assets—that is, for hospitals, schools, IT systems as well as roads and bridges—and whether it occurs independent of the authority which is making the expenditure, that is, whether it's a government department, a regional health authority, a school board, a Crown corporation including, for instance, Hydro.

Mr. Ricard: Certainly, capital assets are amortized, and the amortization rate would be determined by

every public sector organization, be it a hospital, be it a department.

So, again, I'm not too certain, when you say independent of, what you're referring to, I might ask.

Mr. Gerrard: Well, if you have a departmental capital asset and the department purchases it, it's amortized. It then appears in the financial reports as an addition to net debt, right, which you've explained very clearly in your report.

What I'm saying is, do you get that transference to net debt for departmental expense, for a regional hospital authority expense on building a capital asset like a hospital, for a school board expense related to a building like a school, to Manitoba Hydro building a dam, right—is it all the same in terms of how it appears?

Mr. Ricard: This is a question, I think, it might be simpler if I defer to my assistant auditor general, Tyson Shtykalo.

Mr. Chairperson: Okay, Mr. Shtykalo.

Mr. Tyson Shtykalo (Assistant Auditor General, Financial Statements): So, if we're talking about capital assets that are in the summary financial statements—so they may be an asset of an RHA or a school division or of the core government—they're all subject to be, you know, recorded at their cost and then the cost being amortized into income over a period of time.

The only exception would be the capital assets of Crown corporations, like the government business enterprises like Manitoba Hydro and MPI, where that would be reflected in the net income line coming directly into income on the income statement. So it would only come in on the one line.

But, otherwise, yes, irrelevant and independent of which entity the capital assets belong to or reside in the summary financial statements, yes.

Mr. Gerrard: So, except for Crown corporations, school boards, hospitals, roads, bridges would be treated the same, except the amortization may be different.

And the amortization schedules that the government is using are where?

Mr. Shtykalo: The amortization schedule, if you look—if, okay, if we turn to 2013, volume 1, schedule 8–7, schedule 7, page 108, the top portion lists the costs of the capital assets and the various

categories; below lists the amortization accumulated on those assets to date.

If you want further information, like on the particular rates of amortization, there's a note to the financial statement on page 84, which, you know, given that, you know, different circumstances, different entities have different timelines, estimated useful lives, those are the periods that they are amortized over.

Mr. Gerrard: There's actually quite a variability for, you know, for aircraft, for buildings from 10 to 60 years and so on. So, you know, there may—if you're actually calculating this, you've clearly got to go into some depth in terms of the longevity, or proposed longevity, of a building, et cetera, okay.

The interest that is paid is not treated like a capital asset; it is treated as a current-year expense. Is that correct?

* (15:50)

Mr. Ricard: It's just our view that, if the questions are getting at accounting policies, that they should be directed to the department rather than to the audit office.

Mr. Chairperson: Shall we redirect, Dr. Gerrard?

Mr. Gerrard: To the department: When you are paying interest on a capital asset which is amortized, does that interest expense get put in current-year expense as opposed to a capital asset which—it would be spread over the period of amortization.

Mr. Hrichishen: The interest costs on borrowings are capitalized during the construction of the asset but only during construction. Once the asset reaches completion, the interest is amortized over the useful life of the asset and that there's a more fulsome description of this in Public Accounts '12-13, volume 1, page 83, note (4)—pardon me, section (vi), note (4), Tangible capital assets, where there's again a more—fuller description. And I note here it says: Any carrying costs associated with the development and construction of tangible capital assets is included for projects whose costs exceed \$20 million. And, if they're under \$20 million, I believe they're expensed. *[interjection]* They're expensed.

Mr. Gerrard: Yes, on the—chapter 1, Accounts and Financial Statements, page 52, there is a graph there which talks about Manitoba's debt-servicing costs and the prime rate, and it shows the interest rate paid in 2013 was 4 per cent on the debt-servicing costs. Is that an average interest rate? And can the deputy

minister provide an indication of where we are running in 2014?

Mr. Hrichishen: Okay, as I understand it, figure 18, subject to confirmation by the acting auditor, is simply the ratio of our debt-servicing costs versus net borrowings. I do not have at this time the current comparable figure for this year, but I will endeavour to provide it for the committee.

Mr. Gerrard: Okay, can the deputy minister give us an average interest cost that the government would be paying this year? And can the deputy minister also tell us whether the deficit which is projected is on track? Have there been extra expenses related to the flood or other matters which would eventually create complications?

Mr. Hrichishen: I'm advised that the current all-in borrowing cost from the government at this time is about 3.25 per cent. The recent transaction of the \$300-million 2024s that we issued, the 10-year bond, was an all-in interest cost of 2.83 per cent.

In respect of the costs associated with the flood, I can tell you that the recent estimate in this evolving number was in the neighbourhood of \$200 million, and a special warrant was issued for flood costs of \$100 million.

Mr. Gerrard: Yes, and based on the extra cost estimate of \$200 million in relationship to the flood, is it anticipated that the government will have a larger deficit this year than anticipated?

Mr. Hrichishen: I cannot say at this time.

Mr. Gerrard: What sort of measures is the government taking to address this, you know, the extra \$200-million expense to balance it off in terms of either extra revenue or reduced expenditures?

Mr. Hrichishen: The costs associated with the flood and the recoveries associated from the federal government are still evolving at this time, and as information related to '14-15, the current fiscal year, is updated, that information will become more, more timely and more available in the months ahead. And, so in respect of the '12-13 year, I'm not sure what, where, how I can be of greater assistance.

Mr. Chairperson: Given that we're at 4 o'clock and that was the time committee decided they would sit until and then revisit, what is will of committee?

An Honourable Member: Committee rise.

* (16:00)

Mr. Chairperson: All right. Given the committee rise, please leave any documents that you do not wish to take with you.

So we have some questions then for the committee we do have to go through first.

Does the committee agree that we have completed consideration of Chapter 1—Accounts and Financial Statements: Section 10 Annual Report of the Auditor General's Report—Annual Report to the Legislature, dated January 2013?

Some Honourable Members: Agreed.

An Honourable Member: No.

Mr. Chairperson: I hear a no.

Does the committee agree that we have completed consideration of Chapter 1—Accounts and Financial Statements: Section 10 Annual Report of the Auditor General's Report—Annual Report to the Legislature, dated March 2014?

Some Honourable Members: Agreed.

An Honourable Member: No.

Mr. Chairperson: I hear a no.

Does the committee agree that we have completed consideration of Chapter 3—Government Deficits and Debt of the Auditor General's Report—Annual Report to the Legislature—sorry?

An Honourable Member: Dispense.

Some Honourable Members: Agreed.

An Honourable Member: No.

Mr. Chairperson: I hear a no.

We're dispensing.

Shall volumes 1, 2, 3 and 4 of the Public Accounts for the fiscal year ending March 31st, 2011 pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: I hear a no.

Shall volumes 1, 2, 3 and 4 of the Public Accounts for the fiscal year ending March 31st, 2012 pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: I hear a no.

Shall volumes 1, 2, 3 and 4 of the Public Accounts for the fiscal year ending March 31st, 2013 pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: I hear a no.

The volumes are accordingly not passed.

This concludes the business before us. The hour being 4:01, what is the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Before we rise we'd—be appreciated if members would leave behind any unused copies of reports so they may be collected and reused at the next meeting.

Thank you to the clerk and researcher, our Hansard staff, to the committee members. Thank you to the minister and deputy minister and the Auditor General and staff and thank you to our page.

Committee rise.

COMMITTEE ROSE AT: 4:02 p.m.

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