



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

Chairperson
Mr. Conrad Santos
Constituency of Broadway



Vol. XLVII No. 2 - 10 a.m., Thursday, May 15, 1997

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Sixth Legislature

Member	Constituency	Political Affiliation
ASHTON, Steve	Thompson	N.D.P.
BARRETT, Becky	Wellington	N.D.P.
CERILLI, Marianne	Radisson	N.D.P.
CHOMIAK, Dave	Kildonan	N.D.P.
CUMMINGS, Glen, Hon.	Ste. Rose	P.C.
DACQUAY, Louise, Hon.	Seine River	P.C.
DERKACH, Leonard, Hon.	Roblin-Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary	Concordia	N.D.P.
DOWNEY, James, Hon.	Arthur-Virden	P.C.
DRIEDGER, Albert	Steinbach	P.C.
DYCK, Peter	Pembina	P.C.
ENNS, Harry, Hon.	Lakeside	P.C.
ERNST, Jim	Charleswood	P.C.
EVANS, Clif	Interlake	N.D.P.
EVANS, Leonard S.	Brandon East	N.D.P.
FILMON, Gary, Hon.	Tuxedo	P.C.
FINDLAY, Glen, Hon.	Springfield	P.C.
FRIESEN, Jean	Wolseley	N.D.P.
GAUDRY, Neil	St. Boniface	Lib.
GILLESHAMMER, Harold, Hon.	Minnedosa	P.C.
HELWER, Edward	Gimli	P.C.
HICKES, George	Point Douglas	N.D.P.
JENNISSEN, Gerard	Flin Flon	N.D.P.
KOWALSKI, Gary	The Maples	Lib.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar	The Pas	N.D.P.
LAURENDEAU, Marcel	St. Norbert	P.C.
MACKINTOSH, Gord	St. Johns	N.D.P.
MALOWAY, Jim	Elmwood	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McALPINE, Gerry	Sturgeon Creek	P.C.
McCRAE, James, Hon.	Brandon West	P.C.
McGIFFORD, Diane	Osborne	N.D.P.
McINTOSH, Linda, Hon.	Assiniboia	P.C.
MIHYCHUK, MaryAnn	St. James	N.D.P.
MITCHELSON, Bonnie, Hon.	River East	P.C.
NEWMAN, David, Hon.	Riel	P.C.
PENNER, Jack	Emerson	P.C.
PITURA, Frank, Hon.	Morris	P.C.
PRAZNIK, Darren, Hon.	Lac du Bonnet	P.C.
RADCLIFFE, Mike, Hon.	River Heights	P.C.
REID, Daryl	Transcona	N.D.P.
REIMER, Jack, Hon.	Niakwa	P.C.
RENDER, Shirley	St. Vital	P.C.
ROBINSON, Eric	Rupertsland	N.D.P.
ROCAN, Denis	Gladstone	P.C.
SALE, Tim	Crescentwood	N.D.P.
SANTOS, Conrad	Broadway	N.D.P.
STEFANSON, Eric, Hon.	Kirkfield Park	P.C.
STRUTHERS, Stan	Dauphin	N.D.P.
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WOWCHUK, Rosann	Swan River	N.D.P.
Vacant	Portage la Prairie	

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, May 15, 1997

TIME – 10 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Conrad Santos (Broadway)

ATTENDANCE - 11 – QUORUM - 6

Members of the Committee present:

Hon. Mr. Stefanson

Ms. Cerilli, Messrs. Dyck, Helwer, Lamoureux,
McAlpine, Mrs. Render, Messrs. Rocan, Sale,
Santos, Tweed

APPEARING:

Mr. Jon Singleton, Provincial Auditor

MATTERS UNDER DISCUSSION:

Volumes 1, 2, 3 and 4 of the March 31, 1996, Public
Accounts

Volume 1 of the March 31, 1996, Report of the
Provincial Auditor

The Provincial Auditor's Report on Public Accounts
and the Operations of the Office of the Provincial
Auditor for the Year Ended March 31, 1996

Mr. Chairperson: Good morning. Will the Standing Committee on Public Accounts please come to order. This morning the committee will be considering the following: Public Accounts Volumes 1, 2, 3 and 4 for the year ended March 31, 1996; the Report of the Provincial Auditor Volume 1 for the year ended March 31, 1996; and the report of Public Accounts and the Operations of the Office of the Provincial Auditor for the year ended March 31, 1996.

As Chairperson, I have circulated a letter to committee members requesting that members submit to

me items or questions requiring detailed answers at the committee meeting. I have received a letter and a proposed list of agenda items from Mr. Sale. It is my understanding that this letter and proposed agenda have been provided to all members of the committee, as well as to the Provincial Auditor, Mr. Singleton. For any committee members who do not have a copy of the proposed agenda items and covering letter, there are extra copies available. Please indicate by raising your hand, and the page will provide them to you.

An Honourable Member: Mr. Chairperson, were there other items added by others or by the minister?

Mr. Chairperson: I do not know of any. I have not received any.

Therefore, prior to the opening statement, perhaps the committee at this time should consider the proposed agenda before it. Does the committee wish to adopt this proposed agenda submitted by Mr. Sale? [agreed]

We will now proceed to the opening remarks. Does the honourable Minister of Finance have any opening statement, and does he wish to introduce the officials in attendance from the Office of the Provincial Auditor?

Hon. Eric Stefanson (Minister of Finance): Mr. Chairman, I think we did all the introductions at our last meeting. I think everybody is known to each other around the committee this morning.

I do wish to comment that, in my view, the adoption of a working agenda did prove its value at the April 17 meeting of this committee, and I observed a willingness by members to stay on the agenda, and as a result the group, I believe, worked together quite effectively. The member for Crescentwood has once again been diligent in submitting an agenda, questions in advance for today's meeting, and this allows staff the time to research the areas being questioned so that more specific information can be provided at this meeting. This, too, in my view, is an important factor in the effectiveness of this committee.

As you mentioned, Mr. Chairman, we are here to consider the Provincial Auditor's reports and the Public Accounts for the fiscal year ending March 31, 1996. I would hope that we will be able to discuss the items on the agenda and pass the reports at today's meeting. We have provided an extra half hour today, and if we work hard, we can pass these reports and be right up to date with the reports that have been issued. This then puts the committee in a good position for the 1996-97 reports which are due this fall.

Those are my very brief opening comments, Mr. Chairman.

Mr. Chairperson: Thank you, Mr. Minister. Does the representative from the official opposition wish to make an opening statement?

Mr. Tim Sale (Crescentwood): Mr. Chairperson, I appreciate the minister's comments. I do not have any substantive opening statement. I think in terms of process, we should do our best to move through the agenda. I am not, at this time, able to make a commitment about passage today. We do have, I think, probably at least another month, and maybe longer, in this session, and it may be appropriate to schedule another meeting if we do not finish today. I have no—at least on our side, we have no intention of delaying, but we, on the other hand, want to canvass the items that have been raised here, so that is what I think we should begin to do.

Mr. Chairperson: Do the officials in attendance from the Provincial Auditor's office wish to make a statement to the committee?

Mr. Kevin Lamoureux (Inkster): Mr. Chairperson, I did want to just make a very brief comment, if I may. I appreciate very much the Public Accounts committee in the sense that it does provide all members of the opposition, in essence, to ask questions directly to the Auditor and have some concerns in terms of just to what degree the Public Accounts has moved towards the formality of requesting from opposition members lists of questions that they might have to pose.

I can appreciate the fact that whether it is the minister's or the Auditor's office, and I am not too sure exactly what happens with the list, but it does cause

some concern on my part in the sense that I do believe that there needs to be some spontaneous potential for different issues being raised on the days on which the committee actually sits. I think there is a lot of merit to that, and I just want to put that on the record before we continue on. Even though I do not personally have any questions per se today, I think that it should be left as open as possible, as it has been in the past, and for members that have very specific questions that have more detail, they can always let the Auditor's or the minister's office know in advance. I am just not convinced that the procedure in which you have taken as the Chair is necessarily the best way to go. With those comments, I will just leave it at that.

Mr. Chairperson: We thought that without the chart the voyage probably will not be guided in its destination. It is just a guideline and it does not, I hope, preclude questions that are related to the items in the agenda. But the agenda is the tourist guide. Mr. Sale, I am about to call on the Auditors to make an opening statement. Would the member mind?

Mr. Sale: Mr. Chairperson, for clarification, I was just going to make a brief comment in terms of the history of asking for an agenda. I defer to the Auditor if that is the Chair's wish.

Mr. Chairperson: Well, we are flexible.

Mr. Sale: Mr. Chairperson, I understand the concern of the member for Inkster (Mr. Lamoureux), but I believe it was at least two years ago, and it might be longer than that—I am not sure—when there was an agreement at this committee that we would attempt to provide a framework of agenda. I do not think the intention was ever to constrain debate around issues but to provide time for people to provide real substance and response. I do not believe there is any rule that would prevent any member from raising any question that they want to raise. The minister could decide not to respond in that way or could simply say, look, I was not prepared for that. That is fine.

So I do not think people are constrained from raising questions. I do not believe we have a rule that would prevent that, but I think the intent here is to move towards the kind of meetings that we have had in the last couple of years where there is a chance to do the

homework, a chance to ask in more depth and hopefully, as we move forward, a movement towards the Public Account process that takes place in a number of other provinces where it is more of a—I do not know what you would say—an accountability process rather than a political process; maybe that is a fair contrast.

Mr. Stefanson: Without spending a lot of time on this, because I think we would like to get to the specifics of questions about the Public Accounts, I think, as the member for Inkster (Mr. Lamoureux) knows, we are always dealing with reports after the fact. Today we are dealing with reports for the year March 31, 1996, that we have all had copies of for quite some time. I think most committees, to attempt to function effectively, establish an agenda. That has been agreed to, that we should be establishing agendas so we have a framework when we start these meetings. Within the agenda item, again, we have come to agreement that as much as possible to provide specific questions where there is information that is being requested and so on. Again, I think that adds to the effectiveness.

Within the agenda items, certainly any questions can be asked, and as the member for Crescentwood indicated, I do not think there is anything precluding any committee member from asking any other question. Having said that, we have agreed to attempt to adopt agendas and follow agendas, and that should take priority by and large over other areas. But there is nothing stopping any member from asking a question on anything that is relative to the reports that are before us. So I think we have all recognized that this committee can function much more effectively and efficiently with agendas, with specific questions, for us to be able to provide, and the Provincial Auditor to provide, the appropriate information that members want as part of this committee process.

*(1010)

Mr. Lamoureux: Mr. Chairperson, I guess—and I too do not want to waste time on this particular issue. But seeing the biggest difference between this committee and all other committees is that this a Public Accounts where we have the apolitical office of the Provincial Auditor, and it is even recognized through the appointment of the Chair where we actually have a member of the opposition that sits as the Chair, which

in my opinion symbolizes the importance of this particular committee and its ability to be able to pose whatever type of questions one might have to an apolitical office in terms of attempting to keep the government accountable. I do not even believe, for example, that one should have a critic per se, that we all come here as MLAs. The biggest criticism that I would offer to the committee as a whole is that this committee meets nowhere as often as it should be meeting to facilitate MLAs to be able to enter into more dialogue on very specific issues, whether it is given advance notices or not.

The problem when you set an agenda is that there is a tendency to follow that particular agenda, and that agenda might not necessarily be what other MLAs that might want to be able to participate or have specific questions, because it becomes too party structured. You are talking between House leaders. You are talking between the formalities. I am not convinced—and I was present before we had the so-called agenda—this committee more so than any other committee should be facilitating opposition members as opposition members, not as party people. That is the reason why I raise the concern, and it is not because I have some specific questions per se this morning. I do not have any problem with what is on the agenda items. It is just a concern for me in terms of the future. I would like to see this committee meet more often, and I would like it to be more wide open so that it is not associated with any sort of party or party discipline or anything of that nature. With that, you know, I will just leave it at that, and maybe we can go on with the “agenda.”

Mr. Stefanson: I do not want to belabour this either, Mr. Chairman, but the member for Inkster has as much opportunity as any other member of the committee, up to four days in advance of the meeting, to submit any agenda item, any questions whatsoever, as little as four days in advance of the meeting. So there is all kinds of opportunity for him to do exactly what he is outlining here today.

Mr. Chairperson: Does that settle the issue, that although we have an agenda there is some element of spontaneity as long as it is relevant to the agenda items?

Mr. Jon Singleton (Provincial Auditor): Mr. Chairman, I will just make a very brief comment. I

think we have had an interesting discussion here on the usefulness of agendas and a potential way in which the committee could function, and I think it is something that is worth pursuing at greater length at another time. There are many other aspects in terms of best practices and the operation of the committee besides setting an agenda which are an important part of making sure that the—or giving the committee an opportunity to work as effectively as it might.

Having said that, I would like to salute the opposition and Mr. Sale in particular for taking the time to prepare questions. My sense was that the last Public Accounts committee meeting that we had was one of the more effective ones that we have had in some time, and I would attribute that largely to having a planned structure for the meeting. With that, I will conclude my remarks.

Mr. Chairperson: Thank you, Mr. Singleton. We will now proceed to consideration of the reports as agreed, the agenda items. How does the committee wish to proceed this morning? Shall the reports be considered separately or together? What is the wish and agreement of the committee?

Mr. Sale: Mr. Chairperson, I suggest we consider them all as a piece. There are so many things that go back and forth between the various volumes, that makes more sense I think.

Some Honourable Members: Agreed.

Mr. Chairperson: Agreed. How late does the committee wish to sit this morning, may I inquire?

Mr. Stefanson: I think when we last met, we agreed to meet until 12:30 today, if required, up to as late as 12:30.

Mr. Chairperson: Is that agreed? [agreed]

I would like to remind all members, the business before this committee is the Public Accounts for 1996, the Provincial Auditor's Report for 1996, the Report on Public Accounts and the Operations of the Office of the Provincial Auditor for the year ended March 31, 1996. I urge all members to keep their questions relevant to the business contained in these reports.

Mr. Sale: Mr. Chairperson, I do not have a problem with changing the order of questions if there is a need to do so; I would be happy to do that, but in the absence of that, I would suggest that we just start at the top and go, if that is in agreement with the committee.

Mr. Stefanson: Mr. Chairman, agreed.

Mr. Chairperson: Agreed.

Mr. Sale: Mr. Chairperson, the first area that is a—I guess it is a long-term issue, and we began to address it last year when we provided a reconciliation statement that reconciles the operating to consolidated surplus and deficit. In Volume 1 and Volume 3 there are different ways of presenting numbers, different headings, different ordering, and of course it is also different from the quarterly statements, and it is different from the budget presentation. So, when you are going back and forth among these various reports, it is not transparent. I went through, and as the minister probably would understand, I looked at the various numbers. A number of them are simply the same in one and three; others are aggregates. Others include things that are not in Volume 1. The headings are different. So the question is: What are the differences, and is there some willingness to look at making the presentation more transparent from one to the other?

Mr. Stefanson: For the most part, the differences result from the consolidation process whereby certain organizations have reports separately from Volume 1 or incorporated into the revenue and expenditure report, and in Volume 3 there was some reference, I think, to provincial-municipal tax sharing. It is not a factor since it is treated in Volume 3 on the same basis as Volume 1, but we have prepared a statement showing a comparison of the two revenue and expenditure statements that we will circulate. The statement highlights where the differences occur. There are notes attached to explain the significant differences in revenue and expenditure items, and many of the differences between various items in the expenditure category result from the reclassification of capital expenditures. These are shown separately in Volume 1 but are allocated to various other lines on the statement in Volume 3, and the federal recoveries of \$6 million related to capital expenditure are included in revenue in the consolidated results.

The explanations tend to become fairly complicated. The consolidation process must take into account the transactions that have occurred between the operating fund and the fund or organization that is being consolidated with it. Therefore the amounts cannot always be related directly back to the separate financial statements of the funds or organizations. As well, some differences in accounting policies would require some adjustments of the organizations' results, an example being capital assets. So that is a brief overview.

We have attached this summary document now. It is certainly something that we can undertake to provide as we move forward with subsequent years. If members have any questions relating to those statements today or at any subsequent date, we would be more than pleased to attempt to provide any additional information.

Mr. Sale: I really appreciate that. Maybe it is just the layperson in me, but I always find it difficult to keep in my head the number of things that are different from one statement to another, and I acknowledge my error in relation to the PMTS payments. Would it be the minister's intent to include the notes as well as the actual page, the reconciliation page, which I see is in the same format as the other reports? The notes would be quite a substantial addition and maybe he could clarify that.

Mr. Stefanson: Mr. Chairman, we are certainly prepared to look at whether or not we include basically both of these pages in subsequent reports, sort of how it fits with the format and so on. At a minimum, I think it is something that we are prepared to provide on an annual basis, whether it is as an addendum or in some other form, but we will certainly look at whether or not we actually incorporate it in the reports.

* (1020)

Mr. Sale: Mr. Chairperson, does the Auditor have any comments in regard to this question? I appreciate that the minister provided the details rather than the Auditor, and that is fine, but I wonder if the Auditor has any comment?

Mr. Singleton: Mr. Chairman, yes, in looking over the questions, there are a number of questions that were directed to me for this meeting which I asked the

Department of Finance to respond to. Essentially it is a distinction that I think is important to keep in mind that the Public Accounts are in fact a product of the government, and it is appropriate for them to respond to questions and explanations with respect to the content of those reports.

On the broader question of the differences and the type of reporting that is taking place, I understand that there is some confusion on the part of people in understanding the differences between the operating fund financial statements and the summary financial statements, and I think it is incumbent on all of us that work with these to try to find ways to make it easier to move back and forth between those. Certainly my staff have identified a number of opportunities that we think will help clarify things, and we are meeting with officials of the Department of Finance, even as we speak here, to try to sort out some of those and see what we can do that will make it easier for members of the Legislature to use these in the future. I am optimistic that we will be able to find some significant improvements both for this year and for future years.

Mr. Sale: Mr. Chairperson, I would like to ask just a couple of questions about some of this detail. Not having had it beforehand, I have not had a chance to look at it. In the case of the net receipts from the Manitoba Lotteries Fund after transfers to cover the cost of lottery funded programs, I believe that the agreement or at least the policy change for the treatment of lottery revenues as being transferred in total to general revenue began with the fiscal year '96-97, which is the one that we just finished.

Would this amount of \$92 million in subsequent years flow into general revenue as opposed to specifically Lotteries funded programs?

Mr. Stefanson: The member for Crescentwood is correct; '96-97 is the first year that lottery revenue will come across just as revenue to the government as opposed to revenue earmarked for lottery funded programs, which was the case prior to that.

Mr. Sale: Mr. Chairperson, if it is not anticipating too much, how would the money then flow to those programs, which are not going to lose their funding entirely, obviously, they are going to continue to be

supported? Will the money be added to departmental appropriations and then flow out through departmental grants, or is there going to be a consolidated lottery granting process in future?

Mr. Stefanson: In many aspects things have not changed when it comes to the expenditure side of the allocation, because even when the money was earmarked for lottery funded program it still came into our general revenue and then went out specifically for those programs. So what has changed now is the expenditures are not directly related to lottery funds. I had some discussion during the Estimates with the member for St. James (Ms. Mihychuk) that the only allocation now of gaming revenue in Manitoba are the allocations of the VLT revenue where 10 percent of the VLT revenue goes on an unconditional basis to municipalities, 25 percent goes into these economic development pools, and beyond that there are no lottery funded agreements.

Having said that, most of the areas that were funded under agreements continue to be funded. But I guess the simplest way to put it now is that they just stand the test of all other expenditures of government as to whether or not they are a priority or not. So all of the old lottery funded agreements have actually carried on whether it has been with the United Way or been with other tourism, arts organizations, the Festival du Voyageur and so on and so forth, but they are no longer tied directly to lottery funds. They are just an expenditure of government, and every budget process, they are assessed against all expenditures of government and judged on their overall priority.

Mr. Sale: Mr. Chairperson, does that mean that, just to take the example of the United Way, would that expenditure then flow through Culture, Heritage and Tourism or through Family Services, or would it flow through a departmental appropriation, or is there some consolidated appropriation it would flow through?

Mr. Stefanson: Mr. Chairman, well, again the member is basically right that they will all fall under the departments that are responsible for dealing with the funding, dealing with the various organizations. It happens in the case of the United Way that they fall under the Community Support Programs which represent the United Way, the Folk Arts Council,

Festival du Voyageur and a few other organizations within the budget. But basically, by and large the departments that have the responsibilities, the expenditures will show up in those individual departments.

Mr. Sale: The items where there is revenue consolidated, I am not sure I know the source of all of them by any means. The Public Schools Finance Board is presumably the Education support levy. I do not know whether health insurance is recoveries from other jurisdictions for services provided to other provinces or other states, but I think it would also help people to understand if there were little notes that said what the bulk of those were. Community colleges is probably federal purchases or private purchases of training support. So I am not asking specific questions, but I am just commenting on the presentation, that it might help to be a little clearer as to where that bulk of the monies come from in each case.

Mr. Stefanson: Mr. Chairman, it seems like a reasonable suggestion. We can certainly provide the member with information on these. I believe in the case of community colleges it is the tuitions, and we can see that, in most cases, if you look at the revenue items and the expenditure items, there is in many cases a direct offset or almost a direct offset. But we can certainly undertake to provide additional information for this year and, again, as part of looking at how we continue to present this, whether or not some additional information should be provided.

Mr. Sale: Mr. Chairperson, the issue of PMTS, I have asked for a briefing at some point that is convenient to staff. I have made the point that it is not an urgent, but I would like to just understand that better, and I know the minister has responded to that already. The minister has pointed out that the PMTS is not noted, and I remember now that I find only one little footnote about PMTS in the whole Public Accounts and that the tax revenues are netted of PMTS before they are taken into provincial accounts.

Is there a rationale for this? It seems to me again that municipalities are the creatures of the province. PMTS is a provincial statute with regulation. Would it not make sense to have the gross tax revenue and a PMTS

account audited and shown in Public Accounts as many other funds are?

* (1030)

Mr. Stefanson: Mr. Chairman, I am certainly prepared to deal with it now. It happens to be question 15 on today's agenda, but if you want to deal with it now, maybe it is an opportune time to do it. The member for Crescentwood did write me on this issue, and I did just sign a letter to him a couple of days ago that if he has not received, will be receiving any day now. It is a fairly lengthy letter, going into a great deal of description of the whole issue of PMTS, but subsequent to that, if he requires any additional information, I am prepared to provide it.

Just very briefly, under The Provincial-Municipal Tax Sharing Act and The Manitoba Income Act, 1 percent of the taxable income of corporations, and 2.2 percent of basic federal tax are allocated to municipalities. From inception, the province has considered the municipal share of income taxes as a revenue belonging to the municipalities and not a provincial revenue. For this reason it is excluded from the revenue and expenditure of the operating fund. This treatment is clearly disclosed in the Public Accounts, as the member mentioned, on pages 1 to 7, or 1-7, Accounting Policies on page 5-11, Statement of Revenue.

The payments to municipalities are generally made on the basis of the estimated tax revenues remitted to the province by the Government of Canada. Because they are estimates, the payments are subsequently adjusted in accordance with any adjustments to the estimate made by the Government of Canada. For example, in 1997 a remittance to the municipalities included an adjustment for the 1995 tax year, presumably based on the 1995 tax returns.

It is interesting to note that the present basis of accounting for PMTS was adopted when the legislation was passed in 1976. The Minister of Finance at that time was the Honourable Ed Schreyer.

Mr. Sale: Far be it for me to criticize my forebearers. Nevertheless, when we were asking questions about PMTS, it was very difficult to find information about it

from Public Accounts, because as far as I know it is just a footnote—these are the payments that were made this year; these are the payments that were made last year—but there is no way of making sense out of them. Frankly the difficulty I had was that I went back and listed them for about 15 or so years, and the changes year over year were so large often that they simply did not make any sense on the basis of the changes in the revenue, partly I knew because I was looking at taxation years rather than fiscal years, so there was that adjustment, and partly I assumed there were adjustments back and forth as the federal government changed things, but still the ratios varied by as much as two to one on the corporate side from the actual revenue to the province versus the PMTS payment from the corporate tax point or 2.2 tax—is it 2.2 corporate?—2.2 PI and 1.0 corporate.

Now there I know also that the problem is that corporate is now broken out between the two tax rates, the small business and the general rate, so it is very hard to come to what that one point represents in percentage terms. I accept all those difficulties, but it just seems to me that it would help if it were made a more transparent account and reported so that municipal officials would also understand the basis of the calculation, and the variations would make some sense. So I am not critical of how it started, but I think Public Accounts in all provinces have evolved and changed, and transparency has become a bigger and bigger issue over the years. I raise it in this regard as well. I also appreciate the minister writing, and probably if I can find my way through the letter I will not need any more help, but I may phone and say please explain. I would ask the minister though, is it not 2.2 points rather than percent, or is it equivalent to percent?

Mr. Stefanson: Mr. Chairman, the member for Crescentwood is correct that there are always timing differences and adjustments because of the final allocations of tax revenues, but as the member knows, the basic Manitoba income tax is 52 percent of the basic federal tax, and this includes 2.2 percent for municipal, so out of the 52 percent, 2.2 percent of it is allocated to municipalities.

Mr. Sale: Could we move on to the second question, Mr. Chairperson?

Mr. Chairperson: The item—for the purpose of Hansard, I do not know if it is clear there. Maybe you should ask the question.

Mr. Sale: I beg your pardon, Mr. Chairperson. For the purpose of Hansard—could the Auditor or the Minister of Finance walk the committee through the differences between the statements of accumulated deficits, Volume 1 (15) and Volume 3 (9)? It would be helpful if a single sheet such as the one used to reconcile operating the consolidated surplus and deficit in Schedule 8 of Volume 3 could be prepared for this purpose as well.

Mr. Stefanson: Mr. Chairman, once again we have prepared a reconciliation statement for 1995-96 similar to the one we prepared for 1994-95 and distributed at the April 17, 1997, meeting. We have copies of this statement for distribution, and I am certainly prepared to answer any questions this morning, or if as a result of the statement members have some questions at a subsequent date, we certainly would undertake to provide that information as well.

Mr. Sale: Mr. Chairperson, I will not attempt to ask questions on this at this point. There is too much detail, and I do not think I can probably make sense out of it. Are there any areas in which either the Auditor or the minister would comment for clarification or explanation that are particularly complex or not transparent? I do not think I can ask any detailed question on that at this point.

Mr. Singleton: No, I do not think there is anything that is unusually complex in there, but I would certainly make a personal offer to you as well. If, after this meeting, you would like to talk to us for some clarification on some points, we would be glad to provide that clarification as well.

Mr. Stefanson: Mr. Chairman, there is nothing here that is, from my perspective, out of the ordinary or significantly different from the previous years. I think it is just worth noting that government enterprises, the lower half of the sheet, do make a significant contribution for the '95-96 operations. There was a contribution of some \$72 million. But the various breakdowns are provided, and as I have indicated, I know this report has just been circulated this morning,

and we are certainly prepared to provide any additional information requested.

Mr. Sale: Mr. Chairperson, is it the department's intention to also include this in future reports?

Mr. Stefanson: Yes, Mr. Chairman.

Mr. Sale: I think, Mr. Chairperson, this is very helpful, and I appreciate it. I hope it is helpful to others, but it certainly, I think, will be helpful to members who are not skilled in public accounts to understand the relationships and make the linkages.

The other area that we were asking questions about is the accounting structure itself. The reconciliation certainly is helpful, but there are different ways, different orderings of presenting quarterly statements, for example, versus the consolidated statements of revenue-expenditure. When you are trying to understand what is happening in a current year it is difficult to make the connection with previous years, because some things are grouped differently. For example, the Estimates for revenue are broken into three groupings, own source and federal, for example, and other revenue, whereas the revenues in the consolidated statement of expenditure are grouped differently. The fees and other revenue, for example, are not grouped in the same way that they are in the quarterly statements. Is there any consideration given, or possibly given, to using the same accounting structure for those two documents, or three documents?

* (1040)

Mr. Stefanson: Mr. Chairman, I am assuming that the member for Crescentwood really outlined question three, I believe, and each of the publications that he refers to uses information derived from the account structure but does present the information in a way that suits the purpose of the publication. In respect of the expenditures, just to quickly run through each of them, the Estimates present the amount required for each appropriation and breaks this amount down by subappropriations. Subappropriations generally distinguish responsibility or organizational components which are then further broken down by salaries and other expenditures. The quarterly reports referred to present expenditure information at the departmental

level, because a summarized overview is considered appropriate for this report.

The Public Accounts present expenditure information at both the main appropriation level and the departmental level. Information at the main appropriation level is required in order to show the compliance of expenditures with the amounts that have been authorized by the Legislature. The Public Accounts also provides a breakdown of the actual expenditures by category or expenditure type. For example, in the 1995-96 Public Accounts, this report starts on page 5-17. The questions seem to overlook the information presented in the annual reports prepared by departments. Departmental annual reports complete the accountability cycle by presenting the expenditures in the same format as they are shown in the expenditures. This report also includes explanations of significant variances between the main Estimates and the actual expenditure.

In respect to revenues, the quarterly reports are more summarized in the revenue Estimates. Revenue information in the Public Accounts does follow the format of the revenue Estimates. Departmental annual reports also follow the format of the revenue Estimates. So in that case you have the revenue Estimates, the Public Accounts and the annual reports all following the same format. So there is a high degree of, obviously, interrelation and consistency amongst many of the documents, and certainly from my perspective we do provide quite extensive and comprehensive accounting information of all of the expenditure and revenue transactions. I hope that is helpful.

Mr. Sale: The minister is correct. I had sort of slid into question 3, because all of these first three are related, and I appreciate his answer. The most difficult part is reconciling the quarterly statements with the Estimates of Revenue because the structure is different there, and it is possible, but it is difficult to do. I understand his response and will come to this one if we feel that there are some other ways that we could make that more transparent.

If we could move on to Volume 4, the Manitoba Trading Corporation statements, 543 to 550 I believe, the Trading Corporation has been given an expanded mandate last year with a change in the act. It is

functioning to essentially, I think, administer the old Manitoba Development Corporation to a great extent. It is administering on behalf of that corporation some of its projects. It has a very small amount in dollar terms of activities around participation fees and program expenditures, on page 549, but it has this one large function of administering the Faneuil agreements on behalf of the government and holding the subordinated debenture and receiving various notes from MTS, receiving revenues from Faneuil

Essentially we wonder, now that the government has acted, we think wrongly, but nevertheless that decision has been made to privatize MTS and to do so on the basis argued in the House that the telecommunications business was risky and the Manitoba taxpayers ought not to be exposed to that level of a potential future risk, my understanding of the rationale initially for moving MTC into this triangular relationship with Faneuil and MTS was precisely to shield the ratepayers of MTS from potential adverse effects if the Faneuil arrangements did not go as planned or as hoped. So it just would seem to me that it would have made sense at the time of the privatization to include in that act some sections which would change the relationship of MTC in regard to Faneuil and MTS, because it would seem now that the taxpayers of Manitoba in effect are still bearing the risk of the Faneuil agreement, whereas the shareholders at MTS are looking forward to both the risk and the opportunity of whatever happens in that now private corporation.

So is the government prepared to examine changing the structure of the Faneuil deal so that it really now falls between the two private parties that are involved in it, which are MTS and the Faneuil corporation?

Mr. Stefanson: Mr. Chairman, in terms of that question and the specific question put forward as part of the agenda, I think it important we all, and I sure we do all, understand that all agreements entered into between Faneuil ISG, MTC, the Manitoba Trading Corporation, and MTS have survived the sale of MTS. The responsibilities and benefits which accrued to the three parties under the agreements referenced in the notes to these financial statements that we are looking at remain unaffected by the sale. Each party will continue to perform their own due diligence in relation to the agreements. At this particular point in time, all

requirements under the agreements are all current. In fact the job creation targets have been met and exceeded by Faneuil.

So not unlike, you know, other agreements that the provincial government has through the MIOP programs or any other initiatives that we are involved with, our responsibility is to continue to monitor and assess and do due diligence on this agreement. We do that, and at this particular point in time everything is current and there are no indications of any causes for concern. So that original transaction to date has accomplished everything that all of the parties to the transaction intended it to, and we certainly as a government at this particular point in time have no cause for concern with the agreement and are certainly satisfied with the performance of all parties. So it really carried on with the new MTS entity, and there was really no need to look to make any changes to that agreement.

Mr. Sale: I am led to understand that in the first year of the agreement there was significant concern on the part of the Auditor as to how to recognize or place a value on the subordinated debenture, the preferred shares. I think they are now preferred shares, but I think they were converted. Well, they are converted from one to the other—I am not sure which they are now. I am sure I will get told that. They placed a value of around \$5 million in the first year on these shares. Is the Auditor satisfied that there is value sufficient to recognize the full cost, I guess—I am not sure what the right term is—the full cost of the \$16-million debenture, that that debenture is really fully secured by the assets of this corporation, that we are not going to be looking at a loss here? I know the Auditor had some concern in the first year. We are now in the second year.

Mr. Singleton: One of the things that you will note from the presentation of the Manitoba Trading Corporation this year from previous years is there has been a very significant change in which this transaction has been disclosed in the financial statements. We wrestled quite some time with the Department of Finance in trying to work out an appropriate way to disclose an agreement which is very complex, but our position was that in fact the \$16 million in value had been exchanged. That is why the full \$16 million now shows up as a long-term investment in the assets of

Manitoba Trading Corporation, and the prior-year figures have been restated to reflect that.

* (1050)

The offsetting value, to indicate that the total value is being earned over the period of the agreement, is reflected down in the liabilities where we have term notes payable for preferred shares of \$9,750,000 and the provision for unrealized equity in the preferred shares, which is \$6.2 million. This is further explained in note 2.

So our conclusion after working through those agreements and officials of the Department of Finance was that this disclosure was probably the clearest and fairest way to set out the terms of the agreement and their effect on this particular corporation.

Mr. Sale: Is the liability of \$9.75 million related in any way to the facility fee payment level that has been advanced by the province through MTS? In effect, MTS has done the paying, but I think we all understand that it is a triangle. Is that level related to the facility fee payment structure, or is it simply one-fifth, two-fifths, three-fifths of the agreement?

Mr. Stefanson: Mr. Chairman, I think we are going back to some information that I provided very recently in a letter to the member for Crescentwood (Mr. Sale) that does outline the relationship between those fees and the liabilities and that there is the direct correlation that, effectively, the flow from MTS to Faneuil is the equivalent of ultimately the flow back to the Manitoba Trading Corporation, so I did go into some length in the letter I sent the member for Crescentwood last year on July 15, 1996.

I am certainly prepared to take the time to read all of it into the record again, but I think it does address really the issue that he has raised here again today. If he is just asking the Auditor to confirm the accuracy of that, I certainly, if we have not already, can provide the Auditor a copy of the letter that I sent the member for Crescentwood. I am confident it is accurate, reflects both the intent and how the agreements are functioning, and I am assuming that if the Auditor had had any problems with this letter or any other aspects, they would have raised them with us.

Mr. Sale: Mr. Chairperson, I am familiar with the letter. My question was really to the Auditor whether the presentation here is reflecting the Auditor's assessment of the real asset we have in relation to Faneuil, that is, the realizable asset that we have which, I believe, was the subject of the first year's concern, which was to say, how do we put a value on this? If things for whatever reason went wrong, what could we realize given the asset that was there? And that is a different approach to simply recognizing the facility fee payments as in effect just doing a declining balance and doing it arithmetically.

So I was really wanting to get to the Auditor to ask the question: Is this in his view a fair reflection of the realizable asset? Should we, for whatever reason, have a problem with this undertaking, or is this just arithmetic prorating?

Mr. Singleton: I guess maybe one way of approaching an answer to this question is to think that the statements have been prepared on what is known as a going concern basis. As a result of our review of the transactions and arrangements, we had no reason to think that anything untoward would happen with respect to these numbers, so that the transaction is essentially reflected in accordance with the agreement that is in place. The valuation of the shares is essentially shown by the provision for unrealized equity in the preferred shares to indicate that the full \$16 million has not been realized at this point in time. So the answer is basically yes; we think that these statements fairly reflect the position at that point in time.

Mr. Sale: Did the Auditor in reviewing MTC's statements do a substantial review of Faneuil's audited statements or of their overall financial structure, health, et cetera, or was this done simply on a basis of looking at MTC's statements alone?

Mr. Singleton: In conducting our audit of these numbers, we had access to the audited financial statements of Faneuil, and we reviewed those in forming our opinion.

Mr. Sale: Mr. Chairperson, could we, unless the minister has any comment on this area further—

Mr. Stefanson: I think the only other point worth pointing out was that the member for Crescentwood, I think, in his first question, talked about the issue of preferred shares or subordinated debenture. You will notice, on page 548, note 2 indicates: "Subsequent to the year end, Faneuil exercised its option to convert the 16,000 cumulative preferred shares held by the corporation into a \$16 million subordinated debenture. The debenture accrues interest at 6.5 % per annum and is due September 18, 1999." So that did take place subsequent to March 31, 1996.

Mr. Sale: Mr. Chairperson, could we move on to questions five and six, which are related? The Fiscal Stabilization Fund has been accounted for as a separate fund for the past two years in Volume 4 of Public Accounts. Prior to that, it was in Volume 1 more closely related to the reporting entity it most directly affects. Why was this change made?

Mr. Stefanson: Mr. Chairman, the format of the Public Accounts was significantly re-engineered in 1994-95, and many presentation changes were made at that time. A new Volume 4 of the Public Accounts was developed in order to have a publication that provides separate financial statements for those funds and organizations that comprise the government's reporting entity in Volume 3 of the Public Accounts.

Since the Fiscal Stabilization Fund is one of these, its annual statement was moved into Volume 4 from Volume 1. A separate annual report is also issued for the Fiscal Stabilization Fund and is available at the same time as Volume 1 of the Public Accounts. So I hope that clarifies that issue.

Mr. Sale: I did not realize that that particular history had changed the old beige-coloured books that much. I did not realize the beige-coloured ones were that different from this one, so I appreciate that explanation.

Could we move then to question six, reconciliation from the date of establishment of the Fiscal Stabilization Fund to the current year, showing source and application, year-end balances, deficits, et cetera?

Mr. Stefanson: Mr. Chairman, we have prepared a statement showing the source of funds and the

application of these funds since 1988-89. We have copies of the statement for distribution.

Mr. Chairman, similar to other issues dealt with this morning, I realize this statement is just being handed out. If there are any specific questions now, we are certainly prepared to attempt to answer them; or, if it leads to other questions, we will attempt to provide the information at a subsequent date.

Mr. Sale: Mr. Chairperson, I guess what one might say about the Fiscal Stabilization Fund that over the period it is stable: \$200 million and \$200 million.

One question for the Auditor in terms of the treatment: Are there any suggestions or comments the Auditor might have in regard to how the Fiscal Stabilization Fund is treated, referenced, in either Volume 1 or Volume 3, as to how it affects the annual results?

Mr. Singleton: Yes, but I am not prepared at this point in time to share some of those. We have developed some ideas in terms of presenting the Fiscal Stabilization Fund in an alternate way within the Public Accounts that we think might make it easier once again, more user friendly in terms of following the transactions back and forth between the operating fund and the Fiscal Stabilization Fund. That is another area that we are working with Finance officials to see if we can move on some of those ideas. As is indicated in the Public Accounts for 1996, we were quite happy with the way the transfers were shown between the funds and hope that we can carry forward on that basis.

* (1100)

Mr. Stefanson: Mr. Chairman, I do not really have anything to add. The Provincial Auditor has indicated we are in discussion on that issue, along with some other issues. The last Public Accounts we talked about the whole issue of the unfunded liability. I know there is, on pensions, a question later in the agenda. We can discuss that again. So we are in discussion with the Provincial Auditor on a few fronts in terms of the whole issue of continuing to look at improvements to our overall reporting.

Mr. Sale: I am sure all the committee understands the concern here that with a balanced budget act and The

Fiscal Stabilization Fund Act and the debt repayment issues, we are now into a situation where the operating Volume 1 accounts are required to do certain things that they were not required to do prior to the passage of that act, and so the interactions of those accounts now become really a Volume 1 issue as far as I think most people would think. It has to be part of the Estimates of the province, the \$75 million a year payment. We saw this year the use, at least the tentative use, of \$100 million in order to offset certain losses in the minister's view and, in our view, simply in order to balance a budget that would not otherwise have been more than marginally balanced.

We can have that discussion politically as we need to do, but clearly we are no longer in a situation where this is a segregated fund that might or might not be called upon. It now begins to take on the nature of an ongoing resource that the province uses for whatever reasons it uses it. I appreciate the fact the Auditor is in discussion, but could the minister indicate whether the direction he is moving in is to move the presentation and the accounting more transparently into Volume 1 rather than as it currently exists?

Mr. Stefanson: Maybe, Mr. Chairman, just before the Provincial Auditor responds, this whole issue of the Fiscal Stabilization Fund, I think, as members know, was very specifically dealt with in our balanced budget legislation, as the member for Crescentwood does refer to. There was some concern, once you introduce balanced budget legislation, about flexibility, if there are downturns in your economy, if there are unforeseen expenditure requirements. We built the flexibility into our balanced budget legislation; it was the utilization of the Fiscal Stabilization Fund. So I think through that legislation we made it very clear what the intention is. We set a target of a minimum of 5 percent of our expenditures, which would be about \$270 million. Fortunately we are well beyond that today. So, in terms of the utilization, the purpose, that was very clearly spelled out in the balanced budget legislation.

In fact, we have access to Fiscal Stabilization Fund—I know we are getting off the '96 Public Accounts—but we have accessed it in our '97 budget to provide a bridge to next year and to help us offset the significant reductions in funding from the federal government. So, in terms of policy, in terms of accountability, in terms of openness

and transparency, all of those are being met as it relates to the handling and dealing of the Fiscal Stabilization Fund.

Mr. Sale: In the discussion, is it being considered that draws on the fund would be seen and disclosed as explicitly as draws on the fund which is a trust fund or an ongoing fund of the province, and is not general revenue for the purposes of the current year, but is a specific withdrawal? The minister will know that obviously my concern is that up until this year that is how it was shown and then this year the \$100 million was shown up in the draw as though it were current revenue. I think everybody knows, the minister knows—and I do not think he would suggest otherwise—that this was anything except a reduction of a fund that has been established and has a balance in it and certainly is not current year's revenue. So presentation and disclosure, I think, are an issue. Is that under discussion as well?

Mr. Stefanson: In a general sense, yes. I mean, the whole issue of presentation and disclosure and accounting is all part of the discussion. The member does refer to our reporting in this particular year, and I think it is important to recognize, as I have said on many occasions, the main purpose for drawing the money across was to offset the additional \$120 million reduction in funding from the federal government. So it was shown under Other Revenue on our presentation. It was clearly footnoted, is transparent, is understandable by everybody. Certainly the member for Crescentwood has raised the issue on occasion. The investment community is well aware of it, any users of our statements, so in terms of accountability and transparency people are well aware of the transfer of the \$100 million.

I believe most people fully understand why we utilize the \$100 million, and we adopted a policy position early on to continue to support health and education in a very significant way and not to flow through the significant reductions from the federal Liberal government.

Mr. Sale: In the absence of any representatives, surrogate or otherwise—

Mr. Chairperson: They will read it in the record.

Mr. Sale: I am sure they will.

I appreciate what the minister is saying. The politics of budgets are not unknown to all of us, and I do not think this is the appropriate place to get into them. My concern is that we have some agreement that in the long run says: this is how this fund will be disclosed; this is how it will be shown when we put money into it; this is how it will be shown when we take money out of it. It will be a consistent presentation from year to year with the same type of notes and the same type of headings.

I would remind the minister that the way in which it has been shown in the budget documents changes from year to year, it makes comparisons difficult and it suggests things which may not, in fact, be the case sometimes, when the changes are made. So this is not the place to argue that, but if there is a discussion going on about how to make that more transparent, consistent, user friendly and related to the several acts that are now involved with the Fiscal Stabilization Fund, the debt repayment fund, et cetera, then I think we will look forward to seeing some results of that perhaps in future meetings, and that will be good.

Can we move on then? The member from Radisson had some concerns about housing, which are the subject of the next four questions, and I ask her if she would like to put those questions.

Ms. Marianne Cerilli (Radisson): I am just realizing the order is different from what I anticipated, so I want to start off with the whole issue of change in the policy related to rent geared to income for the subsidized units in public and social housing, and there were two issues where now income for foster children is calculated as part of the income to determine the rent geared to income as well as the property tax credit. So I would like to deal with these sort of one at a time, starting off at the foster child payments.

* (1110)

I know that there was some confusion about correspondence that I had had with the Auditor regarding this matter; and, searching through the masses of paper, I do have with me now a draft of a letter that I sent to Carol Bellringer, or I wrote Carol Bellringer, on November 21, 1995. I am not going to

make any claims that this was sent or not, but I do believe I also sent a follow-up letter after a conversation with Mr. Petrie on this issue. So I am not sure if this issue has been looked into in detail by the Auditor's department as I requested in that letter, but I am wondering if you could give me some explanation of the legitimacy of having foster child allowance, which is there to go to the benefit of the child, now added as the income for calculating rent geared to income in Manitoba Housing Authority properties.

Mr. Singleton: I guess my comments would be along the lines of trying to clarify a little bit of what our role is in relation to those kinds of policies and payments. The determination of the policy in how income is calculated in a situation like this is clearly a matter of government policy, and, as such, we would not normally comment on the appropriateness of that or not. We tend to leave that kind of thing as something for the political people to debate and sort out as part of our democratic process.

However, when we are doing an audit of such things, it is a normal part of our audit process to make sure that the calculations are being made correctly in accordance with the policy that has been adopted for them. In fact, we do do that kind of work routinely within our audit of the Manitoba Housing Renewal Corporation.

Ms. Cerilli: Can the Auditor confirm if this issue was reviewed by the Auditor's in the audit for the Department of Housing, and by that I mean, if you did look at the accounting of the foster child allowance into the rent geared to income, and if there was a change in that in the last couple of years?

Mr. Singleton: No, I cannot confirm that. I will have to take that question as notice and perhaps meet with you and Mr. Petrie later to talk about that.

Ms. Cerilli: Just to clarify then, this is an issue that will be reviewed when the Department of Housing is up for audit, but you will look only at the accounting mechanisms and procedures, not necessarily at the policy of should they or should they not be able to now include foster child allowance as part of the income of a family that is living in a rent-geared-to-income property.

Mr. Singleton: That is correct.

Ms. Cerilli: I want to ask some similar questions about the property tax credit. I would think in some ways the property tax credit is different from the foster child allowance because, as many families have said to me, they are already receiving money based on taxes they have paid. It sets up sort of a cyclical effect in terms of the way that they are then charged more money based on money that they are getting back from the government in terms of the property tax credit.

The other problem with this whole area is that because of the urging of the opposition and the public there was an appeal mechanism set up where residents in social housing could appeal the fact that their property tax credit was added on to their income. From the research that I have done, it seems that this has created a huge bureaucratic problem where there was probably a lot more effort expended through the appeal than was ever received into Manitoba Housing from this new practice of including the property tax credit.

I understand it was approximately \$300,000 that was going to be generated. I found it problematic that the appeal was going to be based on "hardship cases," when in fact the whole reason we have public and social housing is because all those families are to be deemed in core need housing, so I am wondering if this area has been reviewed by the Auditor, and if I can have any kind of report on specifically the issue of the property tax credit being included as income in determining rent geared to income.

Mr. Singleton: Although I appreciate there are some distinctions between the property tax credit and the foster parent payments, I still think those fall primarily into the area of policy. However, you do raise an interesting concern that might be worth our taking a look at and considering whether we would like to do a Value-for-Money project audit. If in fact there are difficulties with the bureaucratic process or administrative processes of collecting or administering or calculating that such that the program is not running as efficiently as it might, that kind of issue would be something that we could undertake to look at.

Ms. Cerilli: I know I asked these questions in Estimates as well trying to determine the cost to the

Department of Housing of the appeal process, and I would think that any net benefit to the department was cancelled out by that whole system. I would also suggest that it was not effective, that it was not fair. I am not sure if your role in dealing with accounting procedures is to look at fairness questions or if those are also going to be deemed questions of policy. It seems to me in this whole area of calculating rent geared to income that, in the government's drive to look for where they could save money, they are actually creating not only more problems in terms of administration and accounting, but they are also creating huge unfairness to families that rely on public and social housing.

Mr. Stefanson: I think the member for Radisson (Ms. Cerilli) is having a great deal of difficulty distinguishing the role of the Provincial Auditor, the role of government and the role of policy making. As she herself has indicated, she has asked questions related to policy at Estimates. That is the appropriate place to be asking policies related to Estimates. She has made certain suggestions or assumptions about how this whole issue is being dealt with within Housing. I think the Auditor has indicated a willingness to at least look at it from the perspective of is it being handled efficiently from a value-for-money perspective. That is obviously a function and responsibility of the Provincial Auditor, but I think the member should understand the distinction and probably address her questions where they should most appropriately be asked.

Ms. Cerilli: I appreciate the minister's sensitivity on issues such as this, but when I ask the question in Estimates and I do not receive any response—indeed, I raised these issues last year in Estimates with respect to any kind of cost analysis with regard to the whole issue of rent geared to income and the appeal that was set up on the property tax credit issue.

It is interesting also to note that, when this appeal mechanism was set up, it was also at a time when there had just been an increase in the percentage on the rent geared to income by this government from 26 to 27 percent of individual's or household's income. Many residents in these homes believe that the appeal was on the entire increase. At the same time, as the rent geared to income went up, they also then had to add in their

property tax credit, so they got a double increase in a way. Perhaps issues around the accounting of that also need to be looked at, but I am satisfied that the Auditor has agreed that there is merit in looking at the number of appeals that were processed and the amount of money that was returned and the cost that had on the department and the government.

* (1120)

Mr. Singleton: I think I should just clarify my comments a bit in that what I intended to say before was that a review of that nature would be one that would be appropriate for us to do; however, it is a review that would be similar to several hundred other kinds of reviews we could do within the government-reporting entity. So one of the processes that we are setting in place is a process of our own to prioritize the various projects and Value-for-Money audits that we can do, one against the other, to ensure that you and the taxpayer are getting the best value for your money out of the Provincial Auditor's office. So, before committing to actually doing the review that you have requested, I would like to meet with you and get a better understanding of the nature of the concern, so that we can consider it and balance it against the many other projects that we are also considering.

Ms. Cerilli: That is fair enough. I will move on to the next question then. That has to do with the sale of Manitoba Housing properties. First of all, I know that there has been an increase in activity in this area, and now the government is anticipating looking at increasing the number of properties that they just declare surplus. So it is a large concern of knowing where those revenues end up, if indeed there are any net revenues to Manitoba Housing and Renewal Corporation when properties are sold, so I will start off with that question.

Mr. Stefanson: Mr. Chairman, when Manitoba Housing property is sold, revenue or proceeds are first used to retire any associated debt; following that, proceeds are used to offset losses on other corporation projects and finally to reduce the draw on the current fiscal year appropriation.

All proceeds are net of any sales and/or mortgage costs, and for the fiscal year that is before us today,

1995-96, there was a net loss of \$18,890 on sale of property.

Ms. Cerilli: This raises all sorts of other questions, but I just want to make sure that I am understanding this correctly. What the minister is saying is that in the most recent year there has been no net revenue, that there has been a loss related to the sale of any of the Manitoba Housing properties. One of the interesting things to look at, then, in terms of the government's role, would be the loss in terms of the availability of housing for low-income seniors and families, but I am just wanting to clarify if that is indeed what has happened in the most recent year, that there was actually a loss of almost \$19,000.

Mr. Stefanson: Once again the member is blending policy and Public Accounts, but that is fine. I would encourage her to look at the 1995-96 budget, which shows on page 95 transfers to the Manitoba Housing and Renewal Corporation of \$35,738,900, which are net of any gains and/or losses. As I have already indicated, for the fiscal year 1995-96, there was a net loss of \$18,890 on the sale of property.

Ms. Cerilli: I just ask for the minister to repeat that. I do not have the budget with me, unfortunately. What page is he on and the quote for the previous year, from '95-96?

Mr. Stefanson: Mr. Chairman, for '95-96 and the March 31, '96 Estimates of Expenditures, it is page 95. Now that, of course, shows the budgeted amount of transfer payments to Manitoba Housing of \$35,738,000, and those budgeted amounts are done on an estimate based on net, either net of any gains or net of any losses. It ended up for '95-96 that there was a net loss of \$18,890.

Ms. Cerilli: In determining how the finances are going to be utilized to deal with any outstanding debt when there is a sale of a property, is the entire portfolio of Manitoba Housing dealt with in its entirety? I am assuming that is how it works, rather than, for example, with the sale of the most recent Behnke Road property, where there was what seemed to be a very good price. I am wondering if on some properties there is a profit, but in totality, in the whole portfolio, you deal with the entire portfolio, so that it would show a net loss, but

then on some properties there is a profit that is made or a gain. I am wondering if there is any way of showing, through the accounting that is done, and when the Auditor does the review, to look at property by property, what the losses and the gains are.

Mr. Stefanson: Mr. Chairman, on an annual basis, Housing does an assessment of their housing portfolio. On any projects they are looking to dispose of, they assess them during the budget process; they make allowances against any potential losses on the sale of housing projects.

The member for Radisson (Ms. Cerilli) is correct that at the end of the day it is on a net basis that they provide for losses and/or any gains. Unfortunately, on an overall basis, most years do result in a total loss, a combined loss. There might be the odd project that there is a gain on. I do not have detailed information on a project-by-project basis. I will certainly undertake to determine whether or not that information is available to be provided, if that is what she is looking for, saying that some projects might have had a gain, some might have had a loss. From an accounting perspective, it is the net figure that is reported, and literally each and every year on an overall basis, unfortunately, the Housing Corporation has been having to provide for losses. But I will certainly undertake to determine whether or not we can provide a detailed breakdown on project by project to the member.

Ms. Cerilli: I would appreciate that, for the minister to look into providing that information for me. The other part of the question I had asked, though, was where the money goes, and I just want to clarify from the minister's previous answer that any net revenue from sale of properties goes to general government revenue. Is that correct? Was I understanding you correctly?

Mr. Stefanson: Mr. Chairman, as I said earlier, after paying off mortgage costs and other costs, whatever is left, whatever net is left comes to the government, but unfortunately in most years it has been a loss, not a gain. As I indicated in '95-96, there was a loss of \$18,890 on the sale of property, so it has not been a revenue source for government. If anything, it has been an additional cost to government in terms of disposing of some of these properties.

* (1130)

Ms. Cerilli: As I was indicating earlier though, and I know from my discussions with the minister in Estimates that there is a planned increase in sale in this area of properties currently held by the Manitoba Housing and Renewal Corporation. So I am wanting to ask the Auditor if they accept that any revenue from the sale would go into general revenue for the government and not into maintenance and improvement of the existing housing stock that is owned by the government, if that is something that falls within the acceptable accounting practices of dealing with this type of program.

Mr. Singleton: Let me answer the question in two ways. Yes, that would be an acceptable accounting practice. It is certainly up to the owners of any corporation to determine what to do with the proceeds or costs of that corporation, but you imply within your question a broader question in terms of how properties that are owned should be managed. Of course, they should be managed in a prudent way, and most organizations that have a portfolio of rental properties have a process of establishing reserves for repairs and maintenance and maintaining the property in an appropriate condition so that it continues to generate either the most positive return to the owner, or if it is in the case of a subsidized arrangement, minimizing the level of subsidy that is required. So essentially that aspect of the operations would be another potential area for a Value-for-Money audit in terms of the effectiveness with which the properties are being managed. I say that without making any comment at all or having no knowledge specifically as to how in fact they are managed in this particular corporation.

Mr. Stefanson: Mr. Chairman, I think it is important to again remember that the budgeted amount that I pointed out to the member for Radisson earlier is on a net basis. The transfers to Manitoba Housing in '95-96 of over \$35 million, that is after taking into account an assessment of the maintenance and improvement needs of the housing stock, but the expectation is in terms of any gain or loss on the sale of the housing stock and so on. So after assessing all of that, the department comes forward with an estimate requirement based on that complete assessment.

Ms. Cerilli: For the Auditor, just generally what you are saying then is if the government plans to stay in the housing business, so to speak, of housing low income Manitobans and seniors, that they have to protect their long-term investment into that housing stock, and they need to develop reserves and reserves for large capital maintenance improvement. I am wanting to confirm that that is what you have said. I am wondering if the Auditor has ever looked at this issue in the past, if you have ever looked at if Manitoba Housing Authority and Manitoba Housing and Renewal Corporation are developing large enough reserves and large enough budgets to protect the long-term investment that the public of Manitoba has made into this housing stock.

Mr. Singleton: To my knowledge we have not done a Value-for-Money audit of the Housing and Renewal Corporation or the Department of Housing from that perspective.

Ms. Cerilli: As you said though, it warrants looking at, especially based on the large investment into public and social housing in this province and looking at the anticipated 17,500 units that the government is in negotiation with the federal government to accept as part of the portfolio and take over the management of. I would think that this is an area that warrants—unlike perhaps my other question which was much smaller, this is a huge amount of money we are talking about. There are billions of dollars that have been invested, and we would want to ensure that the public is getting good value for its money and is going to have its long-term investment protected.

One of the other things that I am wondering if we would look at is how the reserves are developed for properties that have investment through the Manitoba Housing and Renewal Corporation and the Province of Manitoba.

Mr. Singleton: The member is quite correct in that we would certainly expect that the properties would be prudently managed by the corporation and by the government on behalf of taxpayers. That is why I indicated before that an assessment of that could form the basis of a Value-for-Money audit project. With respect to reserve accounts, that is one particular technique that can be used to effectively manage corporations that are in the housing business. I would

think a review of the use and utility of reserve accounts would certainly form a part of any Value-for-Money audit on the effectiveness of the management of those properties took place.

Mr. Stefanson: I would not want the member for Radisson to be leaving the impression that there is a problem with the housing stock in Manitoba or that adequate resources are not being attached to do the modernization and improvement that is required on an ongoing basis, because certainly millions of dollars are provided in every budget year to do modernization and improvement to various housing stock. I think as the Auditor himself has indicated, Value-for-Money audits are a role and responsibility of auditors.

Certainly in terms of which departments, which divisions within departments take priority, I am sure that is something that the auditor will be assessing and coming to his own determination. He has indicated a willingness to look at this as one area within that total framework. It certainly meets those kinds of criteria to continue to assess from a Value-for-Money audit perspective whether or not an adequate job is being done in terms of preserving the housing stock but also getting out of housing stock when a government does not need to be directly owning the housing stock. Those are policy decisions that are made by government, and I am sure the member for Radisson will be asking those questions, if she has not already, as part of the Estimates process.

Ms. Cerilli: I would just encourage the minister to read the Estimates, Hansard, from Housing, and he will know more clearly I guess my opinion of the maintenance of some of the properties and the opinion of many of the tenants that live there, though I am wanting to continue in terms of asking the Auditor about their involvement with the Manitoba Housing and Renewal Corporation and the Housing Authority in terms of the current assessments that are going on related to this area of determining value related to the amount of money that is going to be transferring from CMHC to maintain and protect the investment in the housing that we have now. I am wondering if they have been involved at all with Manitoba Housing Authority in doing that kind of assessment on the more than 17,000 properties that are anticipated to be passed to Manitoba in this portfolio of social housing.

Mr. Singleton: No, we have not.

Ms. Cerilli: Why not?

Mr. Singleton: Well, I guess I would just say that the negotiations I understand are still ongoing with respect to what is going to be happening in there, and I do not really believe that it is appropriate for the Auditor to inject themselves into the middle of negotiations between the federal government and the provincial government. Those officials on both sides are being paid to protect the taxpayers' interests, so I do not think we really have a role to play in those negotiations.

* (1140)

Ms. Cerilli: The reason I am concerned is I know that the minister and deputy minister have said that they are having a lot of difficulty in acquiring information from the federal government and CMHC to make accurate assessments of the value and accurate assessments of the potential for Manitoba to take over this property, so one of the things that is holding up the negotiations is the fact that they are not able to make accurate assessments on the value and the needs of this very large portfolio of social housing.

Mr. Stefanson: It is not surprising that we have all kinds of issues. We deal with the federal government on an ongoing basis. We make better progress on some and not as good progress on others, and that certainly is something that is left to the minister and the deputy minister and others within government to resolve if there is a problem getting accurate information.

Mr. Chairperson: I am the Chair. I give preference to the other opposition. [interjection] She has few questions.

An Honourable Member: If it not related to Housing, then no.

Mr. Chairperson: Is it relating to Housing?

Ms. Cerilli: We have got an agenda. We are dealing with Housing.

Mr. Lamoureux: No, Mr. Chairperson, it is not related to Housing, but again as I stipulated at the

beginning of the Public Accounts meeting, I do have a couple of questions that might not necessarily fit onto the agenda and would hope that would not be held against me in terms of not being able to pose those questions.

Ms. Cerilli: Well, you will be able to, but in—

Mr. Chairperson: In the public in any kind of meeting there is an agenda to be followed and there is a last item that is called other business.

Point of Order

Mr. Sale: On a point of order, Mr. Chairperson, the honourable member and myself had a brief discussion, and I agreed that at an appropriate point in the agenda before adjournment I would give way to him to ask questions which he wanted to ask, and then of course the committee would have to decide how to deal with that, but we are right in the middle of an item, and I do not believe we should depart from that until there is a logical break which is after question 10, because the member for Radisson is in the process of asking some questions in a specific area.

Mr. Chairperson: So we are still on the topic of Housing.

* * *

Mr. Sale: I have one other question in regard to reserves and the importance of that issue before we leave question 9, or question 8, Mr. Chairperson.

For many years I sat as treasurer and chair and vice-chair of a company called SAM Management which manages about 1,100 units of public and non-profit housing, and I am aware of the fact that under MHRC and CMHC requirements, reserve accounts are only funded as they are able to be funded from the revenues of a specific project. There is no cross-subsidization of, say, Lord Selkirk Park with—what is another one?—Behnke Road, the one that has been sold.

Projects are all quite discretely managed from an accounting point of view and very tightly managed, so there are a large, large number of unfunded reserves. In each project there are approximately four different

kinds of reserves, and there are unfortunately significant numbers of MHRC projects which have no reserves at all and in fact will have deficits in overall terms because they have operated for many years either not fully occupied or whatever. So I think the member for Radisson is expressing a very serious concern to the Auditor about the potential liability of unfunded reserves and therefore the inability to do the prudent maintenance which might be done were those reserves in place. As a volunteer in the community I was really aware many times of maintenance that needed to be done from maintaining the asset perspective, but it was not done. The only maintenance that was done was maintenance required to maintain safety and code compliance, because the reserves simply were not there to do it.

I think the member for Radisson is expressing a really important concern on behalf of all Manitobans about another potential federal offload of something which was always seen by the federal and provincial governments to be a partnership. Now the federal government for whatever reasons has decided to exit a field that is important to us and may wind up loading on to us the same kind of liabilities that have happened in other fields, so I think from this point of view the Auditor might well want to have a concern as well.

I just wanted to make that comment from my own experience, that reserve funds are absolutely no guarantee that the money is there, because it only comes if there is a surplus in the annual operation of a particular unit to generate that reserve, and many of them are unfunded.

Mr. Singleton: I appreciate the input from two members, and we will take that into account when we are considering doing a project on housing.

Ms. Cerilli: Before we leave this area, I just want to ask one question from the Statement of Public Accounts on page 449, some explanation of these two different budget lines. First under Operating activities, it says that on the loss on sale of housing projects there was a loss of \$18,890 but then down the page under Investing activities, Proceeds from sale of land and housing, there was just \$8,200,000 listed there. I am wanting some explanation of the relationship between those two lines and the difference there.

Mr. Stefanson: Mr. Chairman, I think what is important to recognize is this is a statement of changes in financial position. When you sell a property you do receive proceeds, but as I indicated earlier, the first draw on the proceeds are costs and mortgages. If you go up under Financing activities you will see a repayment of borrowing of \$12,610,000, so I see what the member is trying to do, but it is comparing apples and oranges.

This is purely a statement of what is called change in financial position which used to be called source and application of funds, so if she is trying to get at if there is some discrepancy in terms of the information I provided earlier, there is not. The actual loss on the sale of housing projects was \$18,890.

Ms. Cerilli: The minister is impugning motives, but I was simply asking a question for clarification on the statement, but I am willing to move on quickly to the next question.

This is another issue that has been brought to my attention, particularly in the case of some of the properties that have had their mortgages paid, the effect that that has on the subsidy that is flowed to the building and the net effect that has on the operating costs of the building. So I am wondering if the Auditor has looked at this issue. Question 9 on page 2.

Mr. Chairperson: For the purpose of record, could you read the question?

Ms. Cerilli: I will read the question. When the mortgage of existing units has been fully paid, as in the case of Lord Selkirk Park, for example, does the level of market rent and resulting subsidy change, reflecting the change in the operating costs of the building?

Mr. Stefanson: I will make a brief comment first because it really is a finance accounting treatment. When mortgages on existing units are fully paid, market rent and resulting subsidies are not changed or affected. This is because rents are determined based on an income scale applied to the tenants.

Mr. Singleton: We have not looked at that particular question. Once again I would say the establishment of

what the level of rent is that someone should pay is a matter of policy rather than administrative practice.

Ms. Cerilli: The issue that has been raised with me in the case of developments or apartment complexes that have their mortgages paid, and in the case of some like Lord Selkirk Park that are approximately 50 percent boarded up, that there may actually be an advantage to having those units not used because then there is not a requirement to have to pay the subsidy. So that is what I am trying to determine. Is there a financial advantage at all, in terms of the bottom line accounting of the Department of Housing, to have units such as that vacant?

* (1150)

Mr. Stefanson: I am not sure where the member is heading with this because from an operating cost perspective there would not be any changes. There are still our operating costs. They are still there with the building. I am curious where she is heading with this.

Ms. Cerilli: I think it is clear from my question; I just simply want an answer to the question. In terms of the operating costs of the property, maybe there still are some operating costs involved. I am wondering if they are as large as if those units were filled with families who then had to have their rent portion paid through the programs with the Housing.

Mr. Stefanson: Mr. Chairman, I have to admit I continue to be somewhat confused. There still would be costs. There would be some fixed costs related to taxes and other costs. There would be some operating costs. You still have to heat buildings and so on. Obviously any generation of rent would help to offset those costs. The member is suggesting there is an incentive to keep the buildings from not being occupied. I am not sure what that incentive would be. I am still not clear what she is getting at.

Ms. Cerilli: I will explain it to the minister. It is because the amount on the rent would be paid also by the public purse but from a different line in a different budget, so what ends up happening is the cost to keep the taxes paid and the grounds maintained and whatever else is involved is still going to be offset enough by having the other units occupied, and again I am asking

this question, simply because this has been something that is raised with me by a number of people, I must say. I think that this is a good place to have this issue dealt with because it would have large implications in terms of accounting and—

Mr. Stefanson: It still does not make any sense to me, because if those people are entitled to support from a government for their rental costs, they will be living somewhere, so that support from government will still be provided, whether it is provided at Lord Selkirk Park or whether it is provided elsewhere in Winnipeg. That support has to be provided. So again I do not see the correlation to an incentive to keep a building boarded up. If there are people who need access to it, whether it is being provided by government or not, that support is being provided. So, if it can be provided against a project, helped to offset some of the operating costs, the fixed costs from a financial or economic perspective, that would seem to make sense, so I am somewhat confused by what the member is trying to portray with these questions.

Ms. Cerilli: Okay, I am willing to move on to the next question, and I will read the question as it is stated here first. What is the role of the Auditor in relating to the operation of the many individual sponsored housing projects of Manitoba Housing, each of which has their own auditor usually appointed by the sponsoring agency? What overview reviews are undertaken to ensure that the boards of these projects are using appropriate financial procedures in relationship to contracting, tendering and so forth?

Mr. Singleton: Mr. Chairman, when we are conducting an audit of the Manitoba Housing and Renewal Corporation, we obtain copies of audited financial statements for each of the individual sponsored housing projects that are incorporated in those financial statements and assure ourselves that there is nothing untoward in the audit opinions that are being expressed on them. With respect to doing Value-for-Money work, such as is suggested here in terms of looking at contracting, tendering or the management practices within those housing projects, we have not done any such work to this point in time.

Ms. Cerilli: Because there is public money and responsibility through Manitoba Housing related to

these nonprofits and sponsored housing projects, does the Provincial Auditor have some responsibility then to look at the practices in terms of tendering and contracts, in view of problems with conflict of interest, for example, or issues such as that?

Mr. Singleton: Mr. Chairman, I would believe that we would have the authority to do that kind of work within those sponsoring agencies, so that would be another potential Value-for-Money audit that we could conduct.

Ms. Cerilli: Could the Auditor clarify for me then the procedure that would be used to determine where and when that type of review would take place?

Mr. Singleton: One of the processes that I have put in place since taking on this position last July and working with our executive director, Value-for-Money audit division, is to set up a process by which we can identify potential Value-for-Money projects and prioritize and select those on an annual basis. At this point in time we have identified a number of criteria which we are using to assess those. We are looking at the magnitude of public dollars that are being spent in particular programs, looking at things such as the risks associated with those projects, what kinds of assets are being managed, is there a lot of cash involved, for example—cash transactions can sometimes have higher risks associated with them than other kinds of transactions—and we have also set up a category for concerns brought to us by members of the Legislature. We want to make it a point each year that at least some of our projects will relate to requests and issues brought to us by members of the Legislature, because, after all, we are an officer of the whole Legislature and we want to respond as much as we can to those kinds of concerns. But in the scheme of things we probably will not be able to do everything that we asked to do, and we have to assess the resources that are available to us and where we think the public would be best served in having our audits conducted.

I guess one of the things that we sometimes wrestle with and is another criterion we are looking at, there may be programs that we think are probably being pretty well run, but there might be some questions in people's minds about that. In those cases it might be useful for us to do an audit just to provide some comfort to the members of the Legislature that in fact

an important program is being well managed. In other cases, we may have concerns that a program is not being well managed and there is a significant exposure to the taxpayer. In that case we would want to go in and take a close look at the program and see what kinds of recommendations we could develop to better manage the risks and achieve value for money.

So there are a host of considerations that we are just at the present time going through. I think in our database we have several hundred potential Value-for-Money projects identified and probably cannot do more than 10 or 15 projects per year. So it is a difficult process in terms of selecting which projects to do, but I certainly appreciate opportunities like this to hear concerns that members of the Legislature have. They do not only have to be at this meeting, of course, they can be at any time, to contact us and let us know what that concern might be.

* (1200)

Ms. Cerilli: I appreciate the Auditor's answer, and I am pleased to hear that there is a new criterion. I am wondering if the Auditor would share that with the committee and all members of the Legislature and clarify for me then a little bit more about the process for setting the priorities. I understand that it is based on this criterion; but, when you have, as you said, this huge database and you can only do 10 to 15 a year, I think you said, then that process for setting the priorities must be very difficult.

Mr. Singleton: I would be glad to discuss that at some length with the committee. I have to confess, though, that I am not prepared to go into it to that extent today; but, at a future meeting, if that was a planned part of the agenda, I would certainly be happy to make a presentation to the committee on the process we go through, and I would be interested in your feedback on the appropriateness of our process. We are always looking for ways to do our job better, too.

Ms. Cerilli: The first part of my question was if we could have a list, a copy of the criteria that are used.

Mr. Singleton: Yes, I would be prepared to provide that to you.

Ms. Cerilli: Okay. The final thing I just wanted to ask, in terms of this whole area of how the Provincial Auditor is involved in dealing with the social housing nonprofit groups and their audits, is it up to Manitoba Housing to sort of do the first review, and do they then refer areas of concern to the Provincial Auditor? How does that work? Is it automatic that all of the annual reports and budget statements from all the social housing projects would be transferred over to the Auditor each year, or how does that process work?

Mr. Singleton: Well, I would say in response to the first part of your question that it is clearly the responsibility of the managers of that program to effectively oversee the operations of those subsidized or sponsored housing projects. They could on occasion, if they so chose, ask us to take a look at a particular project that they had concerns with, but they could also decide to contact the external auditor for that organization or just go out and visit the place themselves. That would be a matter of their own choice as to what was the most appropriate approach to a particular situation.

I am sorry I have forgotten the second part of your question.

Mr. Chairperson: Ms. Cerilli, do you want to remind—

Mr. Singleton: Sorry, I remember now. Because there are so many of them, we do not necessarily look at every one of the audited financial statements; we would do it on a sample basis.

Mr. Stefanson: Just picking up on the Auditor's comments, he is right that the first responsibility is management. Management can certainly call in the Provincial Auditor, as he indicated, or the external auditor, or if they deem appropriate, even utilize the internal auditor services available within the government of Manitoba. So there are several avenues available to the department if they have any cause for concern or just want to do a more detailed review or analysis of any particular project.

Ms. Cerilli: But now with this new system, members of the Legislature could also make a request, and I am wondering if that would be confidential.

Mr. Singleton: I am prepared to keep any such requests confidential if the person so desires, and that goes not only for members of the Legislature but members of the public as well.

Mr. Lamoureux: I did have a few questions on a couple of different issues. To somewhat pick up from where the member for Radisson had left off, the Provincial Auditor's office, from what I understand, audits several—whether it is operating agencies or, for example, I believe they used to do Manitoba Lotteries—do they currently have a list of the government agencies that we audit on an ongoing basis?

Mr. Singleton: Yes, we have provided a list of those in our Annual Report on Public Accounts and the Operations of the Provincial Auditor for the year ended March 31, 1996. Exhibit 1 on page 10 shows the financial statement audits within the government reporting entity which are conducted by our office, and exhibit 2 on page 12 shows other financial statement audits conducted by the office of the Provincial Auditor.

Mr. Lamoureux: I believe I have the same document. From what I understand, over the years we have seen a decrease in the number of government departments or agencies that have been requesting the services of the Provincial Auditor, that there has been some contracting out. Will the Provincial Auditor comment on that, if in fact that is the case.

Mr. Stefanson: Mr. Chairman, this is certainly an issue that we have discussed at previous Public Accounts meetings. The member for Crescentwood (Mr. Sale) for one has brought this issue up at previous meetings. There has been a great deal of discussion about the use of private sector auditors to perform audits that some would argue could be done by the Provincial Auditor. We have always responded that the Provincial Auditor still has the right to do an overview of the organization and report to the Legislature if there are any concerns. So that opportunity is always there for the Auditor. But we always look at the opportunity where we should utilize the Provincial Auditor but where we should give opportunities to the private sector to perform auditing functions, particularly when it comes to attest functions for several of the entities

where they are not necessarily doing a Value-for-Money audit but they are doing the attest function in terms of the financial reporting and financial information. So we feel that we have struck an appropriate blend.

If you look at even our special operating agencies, the Provincial Auditor does a few of them, the private sector certainly does several of them, and I believe even the Provincial Auditor's department themselves on occasion contract out some audit engagements to the private sector in the area of attest function. So mixing and matching in those areas is common to government and serves us well in terms of the balance that we obtain between utilizing the private sector and the offices of the Provincial Auditor.

Mr. Singleton: Yes, I guess I would respond in a couple of ways. Certainly in terms of the comment I was making earlier on our identification of Value-for-Money audit projects, we include all the entities within the government reporting entity in the database of potential projects that we could do whether or not we happen to be the attest financial statement auditor for the organization.

The minister made a reference to an experiment that we are attempting at this time for the first time which is we have engaged several public accounting firms to conduct a part of the audit work on some of our own financial statement audit works on our behalf. We had a couple of motivations for that. One is that we think that there will be benefit to us in working more closely with the public accounting profession and having an opportunity to see how other kinds of auditors carry their work, the use of technology by public accounting firms.

In each of the cases where we have done that we have made it clear that we are remaining the auditor of the project and we will be signing the audit opinion. We simply have an agreement with various public accounting firms to conduct the field audit work on our behalf. We are going to be doing an assessment this fall as to how well that has worked out. We established a base line customer service schedule with the various clients that we are conducting this project with, and I am optimistic that there will be also a benefit to the public accounting firms in bringing to them a greater

sensitivity of the issues of publicly owned government corporations and the kinds of things that they should be aware of and alert to when they are conducting their financial statement attest work.

Mr. Lamoureux: Mr. Chairperson, but you see where I see a big difference. If the Provincial Auditor's office decides that it wants to contract out, ultimately it is the Provincial Auditor that it is going through, and it is getting the seal of approval, if you like, through the Provincial Auditor's office, whereas what I have detected, because I have raised this issue myself in the past, is the government has been taking away some of the responsibilities of audits from the Provincial Auditor's office directly or indirectly. What I am interested in, because there is a big difference in that than the Provincial Auditor's office contracting out—what I am interested in knowing is can the Auditor provide for me or committee members a list since 1988 of areas in which the Auditor's office was responsible for conducting the audits so that we currently have a list here that we can compare to? I am interested in knowing which ones have been taken away. Is that possible?

Mr. Singleton: There would be no difficulty in providing that list to the committee if that is—

* (1210)

Mr. Stefanson: I think the member for Inkster is confused, because to do an attest audit the same standards apply whether or not it is the Provincial Auditor or whether or not it is the private sector. So the kind of audit results, the kind of report generated should basically be the same, because the standards are the same. I think what he is looking at are areas like Value-for-Money audits, and there are some differences how auditors have functioned across Canada in terms of how much value-for audit work they do. Our Provincial Auditor has indicated an interest in doing more Value-for-Money audits in Manitoba, subject to available resources. That is an entirely different function from doing the attest function on the accuracy of the financial statement. So where we have been using the private sector here in Manitoba has basically been for doing attest audits, attest functions. The end result should be exactly the same under both auditors.

Mr. Lamoureux: Should be.

Mr. Stefanson: Should be and will be, I am confident. I mean, I have as much confidence in the private sector as I do in the Provincial Auditor and vice versa in terms of meeting the auditing standards set down by the Canadian Institute of Chartered Accountants and so on. So I think, in fairness to the member, he is confused between a Value-for-Money audit and an attest function audit where the private sector is utilized.

Having said all of that, the opportunity is there. We just heard a lengthy discussion under Housing and some questions specifically about the Provincial Auditor looking at individual Housing projects, looking at various aspects of how the Housing department operates. That opportunity is there for the Provincial Auditor in all parts of government and agencies of government either in terms of their own review, that they feel it should be done, or based upon a request from members of the Legislature or the public to at least look into the issue to determine whether or not further work should be done.

So in terms of doing the kind of overall review of value-for-money, how departments are functioning, that opportunity is there irrespective of who does the attest audit. Even if the private sector does the attest audit, the Provincial Auditor can still go in and determine a Value-for-Money on how the department or agency is functioning, so I think it is important that we all very clearly understand the difference in responsibilities, the difference in the kinds of audits and work that is done by auditors.

Mr. Lamoureux: Yes, but, Mr. Chairperson, surely the minister would acknowledge that if you take away some responsibilities from the Provincial Auditor's office that that does have an impact in terms of their overall awareness of something that they would have previously been auditing. Again this could be a bad example: I believe Lotteries used to be done through the Provincial Auditor's Office. I would think that if it was being done through that office, and then it is being taken away—I just use that as an example and hopefully I am not too far off on that—their sense of awareness of the Lotteries is going to be nowhere near as high if they ultimately had the responsibility to ensure that it was an audited document that went through, whether they are

contracting it out in the private sector themselves. The bottom line being is that I think there is more confidence from the public's perspective that the Provincial Auditor's office is involved in areas in which there are government expenditures, even if it is going through the private sector.

I am not an accountant; the minister might have some valid points in terms what he has raised. I did want to move on, because I appreciate the Auditor did say that he was going to attempt to get me a list of those that he had prior in 1988. Does the minister want to say a few words?

Mr. Stefanson: I will be brief, but it is a poor example again. In terms of the attest function, whether the Provincial Auditor or the private sector does it, you end up with the same result. There is nothing precluding the Provincial Auditor, if they think there are some issues related to Lotteries, from going in and reviewing those issues or doing a Value-for-Money audit as it relates to Lotteries or being called in on specific aspects of the Lotteries Corporation.

Other organizations also do a review of the Lotteries Corporation, like the Crown Corporations Council and so on. So if the member is getting at this whole issue of accountability and so on, all of those avenues are there, and I think you are doing a disservice to the function of the attest audit function performed to try and indicate that that is something that there is a benefit one way or the other by having a Provincial Auditor do it. There is not. In fact one could argue that, by contracting out some of these additional audits, it hopefully frees up time and resources within the Auditor's department to continue to assess some of the other areas that they are assessing in terms of Value-for-Money audits and so on.

Mr. Lamoureux: Mr. Chairperson, in the Provincial Auditor's report he makes reference to that there is an ongoing dialogue that occurs with respect to change and how the Provincial Auditor's office might be able to assist in MLAs. I know this was something that was fairly important to Carol Bellringer's predecessors, and it has a great interest, I know, for me personally.

Unfortunately, I was not able to make one of the meetings and there was an attempt to rearrange

meetings and so forth. I do have a lot of strong thoughts on it. I hope that this is something that is in fact ongoing. As the beginning of the committee started, I do believe that the Public Accounts committee, for example, should be meeting on a more regular basis. The amount of time that we get to meet is very infrequent, and two and a half, five hours a year does not necessarily justify the benefits of what this committee could in fact realize for Manitobans. I wanted to just emphasize that particular point, and the Provincial Auditor might want to comment on that.

Lastly, I would like to believe in the Provincial Auditor in reference to responding to—the member for Radisson (Ms. Cerilli) did make reference to the fact that you do give some weight to what the MLAs are suggesting, and I am pleased to hear that in the sense that I think that we are privy to information through all different types of or through all different types of people and departments and so forth.

A good example of that is the issue surrounding the Grow Bonds, an excellent concept as a program, a government program, but there have been a lot of questions posed in terms of how that Grow Bonds is in fact being administered, and it is an area in which I do believe that there might be a role for the Provincial Auditor's office. I know to a certain extent they have already been looking into it, things such as Woodstone and so forth, but I think that there is some more to be done in that particular program, because it is a program that, if it is not handled properly, will not see the benefits in the future, because Manitobans will lose confidence in the program, and that is something in which I believe that in particular rural Manitobans cannot afford to see, because it provides many potential opportunities. With that I will leave it.

Mr. Sale: I just say to the honourable member, I think in future those are really important questions that he has raised, and it would be helpful if we all contributed to the agenda, and so if we get a chance to do that—I do not know if the mechanism did not work. Maybe his office did not get the request for agenda items, so we maybe just need to check that out.

Mr. Chairperson: All members of the committee get the notice.

Mr. Sale: All members of the committee.

Mr. Chairperson: And Mr. Lamoureux is a member of the committee.

Mr. Sale: Thank you. Could we move to No. 11? Could the minister tell the committee when he expects final payments of holdbacks, et cetera, in regard to the sale of the Winnipeg Jets, or have all payments been received and finalized; and, secondly, are there any further legal implications of the sale in regard to liabilities, contingent, otherwise, still outstanding?

Mr. Stefanson: Technically this is a '96-97 Public Accounts question in terms of the issue of the final proceeds, but I think what I can indicate to the member today is, in the '96-97 revenue Estimates, the province expected to receive about \$10 million from its share of the sale of the Winnipeg Jets. A total of \$9.3 million was received by March 31, 1997. The balance of \$1.2 million related to the holdback was still outstanding, and payment of the holdback does not occur for five years. Certainly to the best of my knowledge there are no further legal implications in regard to liabilities still outstanding. However, if anything does arise it would be a claim on the holdback. I should indicate that the province also is entitled to a share of any future expansion revenues if any of that occurs. So that is the most current information on that issue.

Mr. Sale: I appreciate the fact that this was going a little forward, but the Jets do show up in a variety of places in the statements. I think rather than going back over that unhappy chapter I just wanted to know whether we were more or less clear of the whole thing at this point, and I appreciate the minister's answer.

Question 12, the process of active devolution of housing responsibility I believe actually did begin during fiscal—not FU but FY—1995-96. Nothing intended here. How will this affect the statements of Manitoba Housing in future? Are there any implications here for accounting?

Mr. Stefanson: The most current information I have is the implications of devolving responsibility are not clearly known at this time, and the Department of Housing, as we discussed earlier, is currently involved in negotiations with the federal government, but no

conclusions have been reached or recommendations made at this time.

* (1220)

Mr. Sale: The particular issue here is the market value of property versus the book value. The whole question of appraisal is a very difficult issue for public housing, because in many cases there is no market for the housing, or if there is it is a very hard market to determine. I am very concerned as a member of the Legislature that we may well be being asked to accept liabilities that are expressed in the form of mortgages that are far, far greater than the market value of the properties involved. I recognize that, again, this is not a concern that is specific to the '95-96 statements, but it seems to me it is appropriate to raise it in Public Accounts, because there is a huge potential liability, as the member for Radisson has pointed out before. Again, in my volunteer role in the past which I no longer hold, I was aware that the theoretical value of these projects far, far exceeded their market value. That is the kind of liability that I am sure that we do not want to accept, so I am just wondering whether either the Auditor or the minister or both have some mechanism in mind to protect Manitobans against offloading of a very substantial liability.

Mr. Stefanson: I think I state the obvious. We are always concerned about offloading in any areas from the federal government, and there has been a significant amount in the last two years. I will certainly undertake to follow up on this issue with Housing.

Mr. Sale: Just a further, final comment. We are told that in the agreement so far, and there are other provinces involved in this process as well, as the minister, the Auditor know, the attempt of the federal government at least is to get the provinces to assume the stated liability of the mortgage, in effect the book value of the project rather than anything approximating market value. So our concern is, fair enough, if you want to bring them onto our books at that full cost, then let us provide a transition payment that recognizes the difference between the book value and some approximation or appraised market value. That is why we are raising this question, because we have been told by other sources in other provinces that the attempt of

the federal government is to offload the full liability, and we think this is very inappropriate.

Mr. Stefanson: Well, the members do raise a legitimate concern and, as indicated, we have been in discussions with other provinces to certainly, I guess, learn from their accomplishments or lack of accomplishments in terms of their agreements, but the members are raising a concern that we are aware of, and I think we share the concern. So that will ultimately be reflected in whatever final agreement is potentially reached with the federal government.

Mr. Sale: Question 13, McKenzie Seeds, we have spoken about this before very briefly, but is it, in the view of the Auditor, appropriate that the proceeds from the sale in '94-95 are actually credited to the current years which we are examining, '95-96? Is this going to be policy, that the sale of a capital asset can be credited to more or less whatever year the government chooses, which does not seem to us to be appropriate?

Mr. Stefanson: Very briefly, as I responded when this question was asked last year in Public Accounts, the effective date of the sale was December 20, 1994. It occurred during McKenzie's fiscal year ending October 31, 1995, and was reported in the audited financial statements for that fiscal year-end. There were also a number of transactions required to wind up the company which were completed during the province's 1995-96 fiscal year. For these reasons the revenue from the sale of McKenzie assets and subsequent dissolution were properly recorded in the province's 1995-96 Public Accounts.

Mr. Singleton: I think one of the key points to remember in this transaction was that McKenzie Seeds sold its assets, but the corporation continued to exist, and it was not until subsequent to the March '95 fiscal year that the corporation itself was wound up. One of the things that we do routinely, as do officials of the Department of Finance, when financial statements are being consolidated that have a different year-end than the province's year-end, there is an examination made of transactions between the year-end date of the corporation and the province's year-end to see if there are any significant transactions that should be adjusted. In this case the actual sale of the assets did not generate that significant a profit on the corporation's books in

terms of the total scope of the financial statements of the province. It was not deemed significant enough to put an adjustment through at that time. I think it was approximately \$800,000.

Mr. Sale: I appreciate that explanation. Number 14, we may not get through this question, but let me just explain the concern here. There are a number of assets in the form of shares or other forms of assets that are held in a number of different ways, and Linnet Graphics is one which the province is showing as having a book value of only \$1, which I presume related to the initial agreement about profit sharing and the role of the company in developing the Manitoba Land Related Information System.

My understanding from the previous minister of this department was that divestiture was in process. Presumably if there is divestiture, does it then flow back to the province through a transfer from MDC to the province? How is this going to happen? Is it going to happen? That is the issue here.

Mr. Stefanson: I know we are almost out of time. I referred this question to the Department of Natural Resources and I have a written response from the department that I will distribute. I think as the member for Crescentwood (Mr. Sale) knows, I do not participate in discussions or decisions related to Linnet Graphics because of a perceived conflict of interest. So I am tabling that and would encourage him to ask any other questions directly from the minister responsible if he is comfortable with that.

Mr. Sale: Is it appropriate, in the Auditor's view, to maintain the book value of \$1 as the value of the shares when in the case of, for example, Linnett or in the case of Faneuil we are recognizing some value of shares there that have some real assets behind them. Linnet has some real assets behind it as well. I am not asking this on a political basis; that is another issue. I am asking in terms of the appropriateness of carrying it at only the book value when it is producing significant profits and we are attempting to sell it. Is there no approximation of market value of these assets, and is it not appropriate to do something other than carrying them at book, because they are clearly worth more than \$1. If they are returning three-hundred-and-something

thousand dollars in profits, there is something more than a dollar worth of shares there.

Mr. Chairperson: Do we have time for an answer? Very quick.

Mr. Singleton: Okay, I will attempt to be brief. Typically in normal accounting practices one takes a very small "c" conservative approach to these things and records an asset at the lower of the book value or its market value, so if the market value were lower than

\$1, we would be looking for an adjustment downward. It would take something pretty persuasive in order to justify a change from normal accounting practices and write up an asset to a higher value than it is on the books.

Mr. Chairperson: It is 12:30. What is the pleasure of the committee? Committee rise.

COMMITTEE ROSE AT: 12:30 p.m.