

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

*Chairperson*  
*Mr. Reg Helwer*  
*Constituency of Brandon West*

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**MANITOBA LEGISLATIVE ASSEMBLY**  
**Fortieth Legislature**

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

**Monday, February 25, 2013**

**TIME – 2 p.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Reg Helwer  
(Brandon West)**

**VICE-CHAIRPERSON – Mr. Gregory Dewar  
(Selkirk)**

**ATTENDANCE – 10 QUORUM – 6**

*Members of the Committee present:*

*Hon. Mr. Struthers*

*Ms. Crothers, Mr. Dewar, Mrs. Driedger,  
Messrs. Ewasko, Helwer, Jha, Pedersen,  
Whitehead, Ms. Wight*

**APPEARING:**

*Ms. Carol Bellringer, Auditor General*

**WITNESSES:**

*Hon. Stan Struthers, Minister of Finance  
Mr. John Clarkson, Deputy Minister of Finance*

**MATTERS UNDER CONSIDERATION:**

*Auditor General's Report—Annual Report to the  
Legislature, dated January 2012*

*Chapter 1—Accounts and Financial  
Statements: Section 10 Annual Report*

*Chapter 7—Taxation Division, Audit Branch:  
Department of Finance*

*Public Accounts for the fiscal year ending  
March 31, 2011 (Volumes 1, 2, 3 and 4)*

*Public Accounts for the fiscal year ending  
March 31, 2012 (Volumes 1, 2 and 3)*

*Auditor General's Report—Operations of the  
Office for the fiscal year ending March 31, 2012*

\* \* \*

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

This meeting has been called to consider the following reports: Auditor General's Report—Annual Report to the Legislature, dated January 2012,

Chapter 1—Accounts and Financial Statements: Section 10 Annual Report, Chapter 7—Taxation Division, Audit Branch: Department of Finance; Public Accounts for the fiscal year ending March 31st, 2011 (Volumes 1, 2, 3 and 4); Public Accounts for the fiscal year ending March 31st, 2012 (Volumes 1, 2 and 3); and the Auditor General's Report—Operations of the Office for the fiscal year ending March 31st, 2012.

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

**Mr. Blaine Pedersen (Midland):** Mr. Chairman, I would suggest that we sit till 4 p.m. unless we wrap up before then, but—and then reconsider at 4 p.m.

**Mr. Chairperson:** Do we have consent of the committee? *[Agreed]*

So we'll meet 'til 4 p.m. and reconsider at that point.

Do we have any suggestions for the order in which we should address the reports?

**Mr. Pedersen:** Mr. Chairman, I ask the committee if we could perhaps consider the Auditor General's Report—Operations of the Office first. My understanding is that there may not be that many questions, but then if—and if it was to be dealt with first rather than at the end.

**Mr. Chairperson:** Okay, and then follow with the Auditor General's reports, chapter 1 and 7?

**Mr. Pedersen:** Just a clarification, like, chapter 1, chapter 7 and then the Public Accounts, 2011-2012, can we do those in a global fashion or do we have to deal with specific chapters?

**Mr. Chairperson:** I would suggest that we deal with the Auditor General's reports together, the Operations of the Office first and then the Report to the Legislature, chapters 1 and 7, and then when we are finished with those ones we can address the Public Accounts, if the committee would agree. *[Agreed]*

All right. Does the Auditor General 'wist'—wish to make an opening statement and introduce staff, please?

\* (14:10)

**Ms. Carol Bellringer (Auditor General):** I'm—so I'll speak first to the Operations of the Office report.

The staff who are here today are actually here in support of the Public Accounts audit, but I will introduce them: Tyson Shtykalo is right behind me, and Tyson is the assistant auditor general responsible for the financial statement area; and a little further back—but they'll move up as the chapters are discussed—Susan Hay is an audit principal who worked on the taxation report; Bradley Keefe is our principal who is in charge of the Public Accounts audit; Fraser McLean—principal in charge of the IT area; and Maria Capozzi, who is our governance expert in the office but also provides support to all the work of the Public Accounts Committee.

The Operations of the Office report is something we issue each summer. It's a requirement in our act to do so and it is to provide an accounting back for the funds that we have had voted for us by the LAMC and it includes our financial statements and some comments on those. But we also use the report to include further information about the work of our office. We list the audits that we completed during the year and we describe our work with the Public Accounts Committee and also include a list of audits we will be completing in the future, and I'll say the list of audits completing in the future has been a very useful way to enable all of the members of the Legislature to contact us and engage in the audit prior to it being completed, so that's been a good move forward.

There are just three areas I just want to draw attention to for the members of the committee so that these are areas I'd say we would like some dialogue and some input.

The first is on the risk management area, and in that section of the report we speak to those risks which are of concern to us and which we manage quite carefully, and one of them is a risk to our independence. And The Auditor General Act states that the officers and employees necessary to enable the Auditor General to perform his or her duties must be appointed in accordance with The Civil Service Act. We've historically interpreted that to mean we must follow Civil Service Commission and Treasury Board Secretariat policies and procedures on hiring, compensation, and classification of staff positions, and the staff members we've worked with have most certainly been helpful. However, it's inappropriate

that we're subject to decisions of those two areas while also being their auditor, and that conflict of interest did cause some difficulties in the year that we wrote this report, and we had hired an external consultant in the current year in one area to help us work through some of those problems.

The second area is the allocation of our audit time, and we did see—we set an internal goal of working 50 per cent of our audit time on financial statement audits and the other 50 per cent on project audits. It's an arbitrary allocation, but we think it does reflect the wishes of the Legislature to both meet our statutory obligations as financial statement auditors but also provide other information to them so we'd all, at any time, appreciate input to that.

And the last area is our designation as an articling office. We support and train accounting students that we hire on campus at the University of Manitoba, and we're permitted to train them to become chartered accountants. Some of the issues that we encounter are we're only able to hire as many as we can anticipate keeping, and so if there was an opportunity to explore ways that our office can train students for positions in Crown corporations or central government that would be something that we would encourage.

**Mr. Chairperson:** Thank you, Madam Auditor General.

Do we wish to deal with the others at the same time or deal with this one in particular first? This one? All right.

Before we get into questions, I'd like to remind members that questions of an administrative nature are placed to the deputy minister—we're not talking about that yet—we're not in there yet. Sorry.

So the floor is now open for questions on the Auditor General's Report—Operations of the Office.

**Mrs. Myrna Driedger (Charleswood):** Mr. Chair, I wonder if the Auditor General could just go into a little bit more detail in terms of seeing your office put in a position of conflict of interest and what we need to do in order to move beyond that. You stated it's a—you know, a significant concern in terms of addressing the independence of your office, and certainly we know with the audits that come forward independence is critical and if there is any conflict of interest that is certainly something that we need to address.

So can you give us some detail around that and then maybe some suggestion as where we need to go next on that to eliminate that?

**Ms. Bellringer:** The—in terms of the issue, it's—we've reported it for a couple of years because the structure itself speaks for itself. It's just those individuals we are auditing are the same individuals who are making decisions that impact our office. And so that in and of itself just is problematic.

The specific situation that I referred to in the report I'd rather not get into, because it is a personnel issue and it does involve individuals in my office. But it was a situation where I had made a request that would impact that individual and the request was denied. And when I appeal—and the decision is made by senior civil servants. The—when I appealed that decision, it was reversed and I—it was permitted. So, unfortunately, it just is an awkward situation to be in because I don't—for their sake—don't wish for them to be seen as being perceived as making the decision just because it's going to make me happy, any more than I like to have to deal with a situation where they've declined it and then I'm not unhappy—I am unhappy. So that's the nature of what we're referring to.

We would have to do some further work or have some direction around being permitted to do that additional work, to look at some options to overcome that. There are other set-ups in other jurisdictions in Canada where the office of the Auditor General of our province or federally, has more flexibility in how they deal with certain personnel issues. And so we could try to obtain some of that information and provide you with further details of how they are, in certain ways, more distant. It would—I would suggest to you, apply to all of the independent offices, not just my office, because we're all in a similar situation where we're dealing with either the Civil Service Commission or delegated authorities through the Legislative Assembly.

**Mrs. Driedger:** Can the Auditor General indicate whether the conflict of interest largely arises out of personnel issues? Is that where the—you know, the most chance there would be for a conflict of interest, or can it be something even broader than that?

**Ms. Bellringer:** We weren't referring to it in any other—in a broader way. We did bring it up in the context of our lease, because our lease—our space is actually negotiated through Manitoba Infrastructure and Transportation, through government services,

who it—that hasn't become problematic, but it—there's certain that possibility as well.

**Mrs. Driedger:** Would the auditor be—and it sounds like she might be interested in pulling some of this information together to bring back before Public Accounts so that we could look at it with that—you know, more detail.

You've obviously indicated that this has been an issue for a number of years, that it could be getting worse. I would think that for Public Accounts it might be something all of us want, to ensure that your office is seen to be completely independent, and wondered if you would be prepared to—and I don't know how much work that would be and how that would impact your office, but to have a look at that and bring something back to Public Accounts.

**Ms. Bellringer:** We could most certainly do that and will start with something small and see how much more you'd like to have.

**Mrs. Driedger:** I would just like to ask, in terms of the mandate of the auditor's office, I understand that the Public Accounts Committee can request a special audit. And I would ask the auditor if that has ever happened?

**Ms. Bellringer:** It has happened once; it was the Spirited Energy audit.

So it—the access through section 16 is either a request by the Minister of Finance, Cabinet or the Public Accounts Committee. So it—the mechanism has been there for some time and the Spirited Energy audit was the first and only request that's come 'thrum'—from Public Accounts Committee itself.

We probably would have preferred for it to be something that—I'm going to be quite blunt about it, that was less political in nature so that it would be something where the committee really did require a further investigation into a matter, that it would be of use to all the members for us to do so.

\* (14:20)

**Mrs. Driedger:** Is the auditor aware of how issues like this are handled in other provinces? Are their Public Accounts committees more active in terms of asking for special audits?

**Ms. Bellringer:** I don't have the details at the tip of my fingertips, but I know that it's discussed at the annual conference quite often as to the involvement

and the interaction between the audit office and the committee.

I'd suggest there are—we'll find that there are some jurisdictions where it happens quite often. There's different degrees of involvement. For example, in some jurisdictions, the committee will review the actual audit plan of the office—not to improve it but for input. And that might be—you know, that's another way to do it.

So the mechanism that's in our act is a specific request, but there's different forms that that takes in different jurisdictions, so I'd say we're probably middle of the pack in terms of the degree of involvement in the work and direction of the work of our office.

**Mrs. Driedger:** And I would assume then that if there was going to be a request out of PAC for a special audit, it would have to be with full agreement of the Public Accounts Committee. It can't just come from, you know, one side, for instance, of the Public Accounts representatives around the table. It would have to be a consensus view of Public Accounts Committee. It—would that be accurate?

**Ms. Bellringer:** The act is not specific on that. It says—oh, it's by resolution of the Standing Committee on Public Accounts. So then you'd have to go back to the rules to see how that takes place.

**Mr. Wayne Ewasko (Lac du Bonnet):** Back to the independence point there, Auditor General—just ask a quick question: What other jurisdictions in Canada have a similar set-up as we do?

**Ms. Bellringer:** We're—we participate on a Canadian Council of Legislative Auditors and we have a subcommittee that deals with human resource issues, and they've shared details, but it's been done confidentially, so I can't really speak to it without double-checking to see the extent to which that's public information.

It varies significantly from one jurisdiction to another and how they deal with each of the components. So some have hiring flexibility without any external approval and others have—they can actually do their own—set their own compensation levels, and they can deal with their own classification system. Some have separate bargaining units, but also have unions. But it is so significantly different from one place to another that it would take quite a—I'd have to really go through it to give you better information.

**Mrs. Driedger:** Can the Auditor General give us a—just a little bit of an overview of the number of audits that have been done in the past year and if there's a certain trend that she's seeing in terms of the type of requests that are coming forward and if those requests are coming from individuals in the public or MLAs or where they tend to come from and if she's noticing any particular trends?

**Ms. Bellringer:** Certainly. So half of the work of the office is financial statement audits which are set in legislation, so we don't select those. We actually do choose some of them to be done by external firms of chartered accountants on our behalf, but we don't change that significantly from year to year.

The projects for the other half we select ourselves, and so we take into account information that may be brought to us from the outside, but it's—actually forms a very small part of the selection process in terms of the other audits we're doing.

When we issued this report, we had—one, two, three, four, five, six, seven, eight—eight that we had listed the previous year and we were continuing to work on, and we had added another seven to that list. And they range from everything from looking at correctional services, which is a large value-for-money audit through to daycare services, Provincial Nominee Program—those two were issued in the most recent report that we issued, so they're a little bit all over the place.

But we also have two staff that we have assigned full-time to dealing with citizen concerns. And there's no mechanism in our act to follow up citizen concerns, but we've chosen to do so because we do find that they often are irritants that can easily be looked at but the person with the concern doesn't have access to the information. So we've chosen to do those, and I think the number—we had 66 in 2011-12. Many of them are looking for other information. So they're looking for information that is already publicly available, or they've come to the wrong place, and so we send them to the right place.

Some of them are fairness issues that are specifically identified in the Ombudsman's act, and so we will send them there. And in the event that it does fall outside of all of those things and that we have enough information to go forward, we do initiate limited scope audits.

So there were—I think it was four—there weren't that many, but they're a few that we reported on in

our last report, and those would have been the ones we worked on during this 2012 year.

**Mrs. Driedger:** Can the auditor indicate what kind of interrelationship there is between her office and the Ombudsman's office? Would there ever be dual investigations going on, or would one take it over and—or is there some kind of a—you know, some activities that are mutually moved forward on?

**Ms. Bellringer:** When the Ombudsman has a request under the whistle-blower protection act, there's actually a very specific process that he has to follow, and in the event that he believes our office should look at it, then we are—we're actually given a formal request.

There's other things we do together that are less formally—we don't have to work together, but we choose to on a few things. He's asked us for help on a couple of audits that were more financial in nature, and we've just provided staff assistance for a period of time, but it's—they've retained the full investigation themselves.

He's, for example, asked me to review reports that he says, you know, if I wrote this, what do you see in here that I might want to take into account? And I've done that in an informal way.

We did work on one audit with them, probably four years ago now, where we assigned a staff member to it, and the individual worked through from beginning to end and really did it for them. But it was their product at the end.

It doesn't happen the other way around. It's just not the nature of the matters that come to us.

**Mrs. Driedger:** And I just have a final question. Are there any entities out there that the Auditor General feels her office should be auditing that you are currently not auditing in far as government reporting entities?

**Ms. Bellringer:** And just to—I'm going to answer this in the context of the financial statement audit. We have access to follow the dollars. So we can look at any monies that are spent within a government department, within an agency, board or commission, all the way through to a grant recipient. So we're—we don't have any concerns about those. We have access, and we choose those each year.

The financial statement audit framework has been put together over many different pieces of legislation, over many years, over many different governments, and so they—they've lost a little bit of

their logic, and so what we recommended in a subsequent report—I think it was in the most recent one on the Public Accounts—we recommended that there be a review done to best allocate it so that the logic is put back into place, not so much that we can identify one or two audits that we think we should be doing as opposed to others, but is it consistent? We do not audit any of the child and family services authorities or agencies for the financial statements. We audit very little within the health care. We do the dollar flow-through audits; we do the Manitoba Health Services Insurance Plan, but it's just, again, a flow-through of monies from the Province; we don't do any of the regional health authority audits.

We have oversight; we do oversight in terms of look at the results of the external audit, so it's not an absence of any work on our behalf, but it's not the same as going in and doing the audit itself. And we do not do any of the audits of the major Crowns.

**Mr. Chairperson:** Are there any further questions?

No further questions, so we shall deal now with this report.

Auditor General's Report—Operations of the Office for the fiscal year ending March 31st, 2012—pass.

So now we return to the Auditor General's Report—Annual Report to the Legislature, dated January 2012, Chapter 1—Accounts and Financial Statements: Section 10 Annual Report. Shall we do them together? Shall we do them together with Chapter 7—Taxation Division, Audit Branch: Department of Finance? *[Agreed]*

\* (14:30)

Okay, with the will of the committee, we will then do chapter 1 and chapter 7 together.

Does the Auditor General wish to make an opening statement?

**Ms. Bellringer:** So first on chapter 1. So The Auditor General Act requires us to report to the Assembly by December 31st in each year, about the examinations and audits conducted under section 9 of the act. This relates to audits of the Public Accounts and other financial statements included in the 'provinch'—the Province of Manitoba's Public Accounts. And it is also required in the section 10(2) of the act for us to indicate anything resulting from this work that we consider should be brought to the Assembly's attention.

So we're pleased to report for 2010-11 the Province again received an unqualified audit opinion on its summary financial statements, which means that the summary statements present fairly in all material respects the financial position and results of operations in accordance with Canadian public sector accounting principles. And in the report we have included additional information to understand the complexities of the financial statements and we included discussion on—in—one particular issue is the inclusion of core government results in the summary financial statements, and we recommended that the Province only report the summary results in those statements.

The list of matters that we brought to the Assembly's attention in that report included the requirement to recognize a liability for sick leave benefits, the annual revaluation of environmental liabilities, overpayments to pensioners from the Civil Service Superannuation Fund, accruals for wage settlements in the Manitoba Health Services Insurance Plan, continuing operations of Leaf Rapids' town property, the application of incorrect discounts to some driver premiums at Manitoba Public Insurance and areas for improvement in the information technology environment.

Chapter 7, on Taxation Division. One of the responsibilities of the Taxation Division in the Department of Finance is to make sure that taxes owing to the government are properly paid. The department's audit branch conducts audits under provincial tax laws to ensure proper payment of taxes and promote voluntary taxpayer compliance. The provincial tax laws include retail sales tax, health and post-secondary education tax levy, corporation capital tax, gasoline tax, motive fuel tax, tobacco tax and mining tax.

So for those areas we examine the branch's audit selection process, use of performance targets, actions to detect unreported taxable business activity and their overall practices for conducting audits. Our procedures were limited to the examination of file documentation on hand in the branch, rather than a reverification at taxpayers' premises. The tax revenue under those provincial tax laws totalled over \$2.6 billion for the year ending March 31st, 2011, and we found that the branch found in that year \$34 million in taxes owed.

What we found was that the branch does many of the right things. Specifically, it identified more taxes, tax recoveries than it cost to operate,

generating \$5 of revenue for each dollar of operating expenses. They used targeted risk factors to select taxpayers' files for audit. They set 'performant' targets for tax recoveries per audit hour and the number of audits to be done each year. They used an audit process consistent with generally accepted assurance standards and they correctly determined and adequately supported the audit findings in their audit files.

But the branch can improve its operations and may find more unreported taxes by implementing our recommendation to estimate the tax revenue lost due to unreported taxable business activity in Manitoba, analyze which economic sectors are more susceptible to such activity and use this analysis in planning how to detect unreported taxable business activity.

**Mr. Chairperson:** Thank you, Madam Auditor General.

The floor is now open for questions regarding chapter 1 and chapter 7. *[interjection]*

Do we want a minister for this one?

We need a minister for this one.

Do we have a minister and a deputy minister?

You're waiting?

**An Honourable Member:** I was waiting for my cue.

**Mr. Chairperson:** Okay.

**Floor Comment:** He was hoping he didn't have to.

**Mr. Chairperson:** Oh, he didn't have to testify to this one.

Would the minister introduce staff that he has present, and—Mr. Minister?

**Hon. Stan Struthers (Minister of Finance):** I sure will, Mr. Chairperson.

I'm joined at the table by the deputy minister for Finance, Mr. John Clarkson.

**Mr. Chairperson:** Welcome, Mr. Clarkson.

Do you have an opening statement?

**Mr. John Clarkson (Deputy Minister of Finance):** Yes, I do. I'd like to thank the committee for the opportunity to provide some brief comments on the 2011 and 2012 Public Accounts in the Report to the Legislature Assembly for January 2012.



We are proud of the fact that we have received unqualified audit opinions for the 2011 and 2012 summary financial statements. For both years, the statements present fairly in all material respects the financial position and the results of the operations of the Province in accordance with the public sector accounting standards. When you look at the pile in front of you, you can tell that the preparation of the Public Accounts is a massive undertaking. I want to thank the staff of the Comptroller's Division who work intensively on the Public Accounts from about January to the end of July. We also want to thank the office of the Auditor General staff who work on the Public Accounts till the end of August to ensure that these reports are completed prior to September 30th and are made available to Manitobans and to the members of this committee.

In chapter 1 of the January 2012 report, the Auditor General has provided eight new recommendations. We would like to point out that the Province agrees with all of the recommendations in this Report to the Legislature, and we are pleased to inform the committee we have already implemented three of the recommendations.

On the recommendation of the Auditor General's, schedule 10 and all references to the core government has been removed from the 2012 summary financial statements.

The Auditor General also recommended that the Department of Finance revise the information included in Volume 3 in order to make the information more relevant to users in a manner consistent with the summary financial statements. For 2012, the Department of Finance has revised the information in Volume 3. The information now reconciles to the balances in the summary financial statements while still preserving the ability to compare detailed core information to the amounts budgeted and voted by the Assembly.

Finally, the Auditor General recommended that the Province perform evaluation of the accumulating non-vested sick leave and determine if a liability is material. The Province has estimated that on a summary basis the liability for non-vesting sick leave was estimated to be \$62 million, and this was recorded in the 2012 summary financial statements.

One recommendation related to the valuation of environmental liabilities will be implemented for the March 31, 2013 year-end, and the remaining recommendations, of which there are four, are

related to information technology, and action is under way on all these recommendations.

The January 2012 annual report to the Assembly also includes seven recommendations from prior years which have not yet been implemented. The recommendation on a comprehensive IT risk assessment process has been implemented. There are six recommendations from this report which progress has been worked on on all six. The Auditor General's recommendations for a government-wide disaster recovery plan is from the 2007 report and is also still in progress.

Chapter 7 includes one recommendation on how to improve the quantification and analysis of unreported income and improve therefore our audit ability on tax purposes. We agree with the recommendation in working on how to address this issue.

I want to end by acknowledging the Department of Finance's very professional and collaborative relationship with the office of the Auditor General. We do appreciate the thoroughness of their work and their recommendations which, over the long term, will provide a strong, controlled environment and ensure that the summary financial statements continue to be reported in an accurate and timely manner, includes information that is presented fairly and is useful to the users. Thank you.

**Mr. Chairperson:** Thank you, Mr. Deputy Minister.

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

The floor is now open for questions.

\* (14:40)

**Mrs. Driedger:** Welcome to the minister and the deputy minister. Can the deputy indicate—I'm thinking regarding recommendation 1, if he could just repeat what the department has decided and, if I heard correctly, that you are actually going to agree with that recommendation now, whereas in the past number of years it was not agreed to. Did I hear correctly or can he walk us through that?

**Mr. Clarkson:** I can't comment on prior years' discussions on this, but I can comment on that we've agreed with this recommendation, and that as the—what we have done is repositioned what was schedule 10 into a different part of the Public Accounts and therefore have provided the information we believe that's appropriate for this, and the auditor has agreed with the action that we've taken on this.

**Mrs. Driedger:** Can the minister—or the deputy indicate, where it will now appear and how readily visible will it all be, or do we have to dig in order to figure out where that core spending is?

**Mr. Clarkson:** It will appear at the back of Volume 1, and it is in currently the March 31st, 2012 Public Accounts.

**Mrs. Driedger:** In looking at chapter 1, I wonder if the—and I'm looking at page 30—if the deputy could just—not clarify so much as just restate for me. Am I reading this correctly in that, for the government business entities of Liquor and Lotteries, that in 2010 the government took in \$539 million and in 2011 it was \$582 million. There seems to be an upward swing in terms of the amount of liquor bought and lottery involvement. Am I interpreting and have I added this correctly?

**Mr. Clarkson:** Yes, that is correct.

**Mrs. Driedger:** So we're looking at probably over half a billion dollars, then, that the Province is taking in in these two particular areas. Can I ask the deputy to indicate what has led to that increase in income in those areas? Were there any specific initiatives that drove up the spending in these areas and therefore income for government?

**Mr. Clarkson:** Sorry, I don't have the information here with me on what the details of those levels of increases might have been.

**Mrs. Driedger:** Would the deputy be willing to undertake the initiative to provide some feedback in terms of what led to this increase, whether it's just people drinking more and gambling more, or were there some specific initiatives by government that has driven up demand in these areas?

**Mr. Clarkson:** Yes, we'll undertake to do that.

**Mrs. Driedger:** And I note in that same little graph on page 30 that the Hydro-Electric Board, the income has dropped from 2010 to 2011. Can the deputy indicate whether that trend is continuing now,

or is that just something that was seen at that one time?

**Mr. Clarkson:** In terms of the income levels for Manitoba Hydro and the changes in those, those are something that I think the Public Accounts Committee gets an alternative chance to question Hydro on what their plans are, and I think those questions are best asked at that time.

**Mrs. Driedger:** Can the deputy tell us—and me, particularly, as a new Finance critic—does this government put out third-quarter financial statements? I just noted that one other province that I was just noticing the other day has already put out a third-quarter statement. I wondered where Manitoba was at in releasing third-quarter statements.

**Mr. Clarkson:** Yes, we do usually put out a third-quarter statement.

**Mrs. Driedger:** Can the deputy indicate when?

**Mr. Clarkson:** The timing of that will be determined.

**Mrs. Driedger:** Can the deputy indicate the criteria that he uses? Is there not a set time and a more timely presentation of that data to the public?

**Mr. Clarkson:** The timing of the third-quarter report is generally determined by the government itself.

**Mrs. Driedger:** Can the Finance Minister, then, indicate when he plans to release the third-quarter financial statements? As we are now almost at the end of the fiscal year, when can we expect to see those third-quarter financial statements?

**Mr. Struthers:** There hasn't been a date set by which we would do that. You noticed that we did put out the second quarter numbers already. There wasn't—we hadn't come forward in terms of first quarter numbers. That's not usually standard practice. There have been years when the third quarter has been brought forward and years when it hasn't been, dating back over the decades. There's a various—provinces do have different standards by which—they use. Some provinces come forward; some don't. But to my knowledge, there's nothing written in an act or anything that lays out a time frame or lays out a framework by which, as far as I know, any government follows that I'm aware of. But I would advise to stay tuned.

**Mrs. Driedger:** I guess, hearing the minister's answer, it surprises me, because I would think that all governments had some commitment to the public

as you're spending taxpayer dollars to be transparent with financial—quarterly financial statements. So I'm surprised to hear that actually sometimes we do or we don't actually put forward statements.

Has—can the minister indicate whether his government has put forward third-quarter statements in the past?

**Mr. Struthers:** Yes, our government has in the past consistently put out a third quarter number. There have been different dates by which that is accomplished. We are very committed to making sure that we're transparent with Manitobans and making sure they understand the decisions that are being made in terms of their tax dollar and where we stack up, especially in terms of other provinces and in terms of our whole budgeting cycle. So we've done it in the past, and I again would ask the MLA to stay tuned for the one in the future.

**Mrs. Driedger:** Thank you. Just to look at the recommendations again that have been put forward by the auditor: the recommendation on sick leave liability, can the deputy just reconfirm? He's indicated that that one has been addressed and is being dealt with. Is that correct?

**Mr. Clarkson:** Yes, that is correct.

**Mrs. Driedger:** And the recommendation on environmental liabilities—recommendation 4—can the deputy indicate—I think he indicated there might be some progress on that one.

\* (14:50)

**Mr. Clarkson:** Yes, there's been progress made on that one. Guidelines have been developed, and we've been working with the departments responsible for their environmental liabilities and looking at how to appropriately reflect those in the 2013 accounts.

**Mrs. Driedger:** The—with the Civil Service Superannuation Fund, \$450,000 was written off. Who made that decision?

**Mr. Clarkson:** The Civil Service Superannuation Board itself made that decision.

**Mrs. Driedger:** Can the deputy indicate why they would do that and whether or not they take their direction from government or is that solely an independent decision taken by that board?

**Mr. Clarkson:** That was a decision solely taken by that board.

**Mr. Pedersen:** In terms of the Leaf Rapids Town Properties, there was a four-year commitment in March 31st of 2008. Has that now expired, or when did that current four-year agreement expire?

**Mr. Clarkson:** Sorry, I don't have the information here with me on when the agreement expires.

**Mr. Pedersen:** Well, just doing a—rather simple math, four years from March 31st, it suggests that it expired March 31st, 2012, whether it's '12 or '13. What is the plan—what is the department going to do? Are they going—have they been asked to extend it and what is the department's position right now?

**Mr. Clarkson:** Sorry, I'm not aware of what currently the department responsible for this is—their position on this is and what plans they're putting in place. I do know that they're working at analyzing the situation.

**Mr. Pedersen:** Has there been a request to the Department of Finance to continue a—to continue for funding for the town of Leaf Rapids?

**Mr. Clarkson:** We recognize that the funding of the Leaf Rapids Town Properties is not a long-term solution, but we have not yet seen what the department is recommending or a request for funding from them.

**Mrs. Driedger:** On page 40, point number 3.6, with Manitoba Public Insurance, it is indicating that there was a writeoff there of almost half a million dollars. Can the deputy indicate why MPI decided to write that off and not to seek recovery of those unpaid fees?

**Mr. Clarkson:** That was a decision of the MPI board, and I'm not aware of what factors they considered in making that decision.

**Mrs. Driedger:** Does the deputy find it disconcerting at all that the—you know, between these two writeoffs that we're just talking about, that almost a million dollars was written off and just let go? Does the deputy find that a little bit disconcerting at all or is that common practice?

**Mr. Clarkson:** Can't comment on whether it's common practice. I can comment on the fact that the boards are appointed of the Crown corporations to be responsible for the affairs of the Crown corporations, and that would fit within their responsibilities to deal with that. And questions related to that should come up at the time of reviewing their activities.

**Mrs. Driedger:** Is the deputy aware of a lot of writeoffs that—or writeoffs similar to this that have occurred in the past?

**Mr. Clarkson:** No, I'm not aware of a lot that have taken place.

**Mrs. Driedger:** Under the wage accruals documentation review, the Manitoba Health Services Insurance Plan, 3.4, there seems to be some challenges here and disagreements for determining accrual, and I understand that this might be something that has been going on for a couple of years. It sounds like a significant amount of money, and I wonder if the deputy could give us any indication as to whether or not this funding within health care is being addressed so that these kind of challenges are taken care of.

**Mr. Clarkson:** I can relay the fact to you that the Finance Department and the Health Department and the regional health authorities are working through these issues collectively and collaboratively, and that a common solution will be brought forward on this issue.

**Mrs. Driedger:** I understand this has been going on for a few years and that that resolution isn't readily happening.

Does the minister have a time—or deputy minister have a time frame in which he expects to see this cleared up?

**Mr. Clarkson:** There was actually a resolution of this issue put forward in the '11-12 Public Accounts and that we will continue to monitor this situation as we go forward.

**Mrs. Driedger:** Recommendation No. 5 relates to a comprehensive IT risk assessment process.

Can the deputy just give us an update in terms of—well his recommendation 5, 6 and 7—can he just indicate where those are at in terms of progress?

**Mr. Clarkson:** There are a number of different sections to the issue of looking at the IT risk assessment in terms of the work going on with the Department of Health. There is agreement with the recommendation that has been made and that the Department of Innovation, Energy and Mines has been working with the Health Department in terms of how to lever what is already being done within the Department of Innovation, Energy and Mines and determining from there the best practices to go forward.

In terms of the work with the post-secondary educational institutions, there is individual discussions being conducted by Advanced Education and Literacy with each one of those institutions to look at the role of IT and the comprehensive risk assessment in each one of those activities, and from that the next steps will be determined as they work through that process.

In terms of the IT security, work is under way with Manitoba Health—this is recommendation No. 6—in terms of examining the work that, again, Innovation, Energy and Mines has already done to see how it can be converted into a comprehensive security policy that would cover the Department of Health activity as well.

And No. 7, in terms of the IT security policy standards, guidelines and procedures, there has been a complete inventory of all of those have now been made and there has been a contract with a third party dealing with—specifically with the issues of disaster recovery on No. 8.

**Mrs. Driedger:** Has the deputy put a time frame around when he expects more of this to be completed?

**Mr. Clarkson:** The activities of this—of these recommendations and the response to them are actually under the Department of Innovation, Energy and Mines, and so they would be responsible for putting forward a timetable related to this. We could certainly work with them to try and bring that forward, but we haven't set, as the Finance Department, a timetable to address these.

**Mr. Ewasko:** Deputy Minister, just a question going back to what Mrs. Driedger had asked. In the superannuation fund, the \$450,000 that was overpaid—from page 39, 3.3—just repeat—just quoting the passage from the report: the board of the fund decided not to attempt to recover the overpaid amounts. The fund was—has—the fund has corrected the error on a go-forward basis.

\*(15:00)

Can you—can the deputy elaborate to—on what does that mean exactly—corrected to make sure that this doesn't carry on?

**Mr. Clarkson:** It means that the action was taken by the Civil Service Superannuation Fund to ensure that these kind of mistakes don't take place going forward. But they didn't go back and try to recover the \$450,000 in overpayments.

**Mr. Ewasko:** Thank you, that's basically what I read. But also I'd just like to ask—but there is no concern from either yourself or the minister that there's \$450,000 that was overpaid and there's been no thought to possibly go back and try to recoup that?

**Mr. Struthers:** Well, the first thing to remember is that we—that steps have been taken to solve this on a go-forward basis. And I guess I can surmise from the question that your advice to me would be to go back to the people who actually received the money and have put it in their bank accounts, and ask for it back. The board has decided not to do that, but if you have different advice on it I'm sure they would be open to hearing from you.

**Mr. Ewasko:** I would just like to correct the minister. And I didn't actually give any suggestion on how to recoup it, I just had wondered if you had asked the question or the deputy had asked that question.

**Mr. Struthers:** Well, the deputy has indicated it was a board's decision and that they put in place a mechanism to make sure that this is prevented from happening on a go-forward basis and that they had taken a position that they would not ask for that money back.

**Mrs. Driedger:** In chapter 7, related to the Taxation Division audit branch, can the deputy indicate what the department's position was regarding the recommendation to estimate the tax revenue lost because of unreported taxable business activity? What is the department, I guess, what are they thinking about doing to address that, to look at the underground economy and to determine what plans there would be to do an analysis of economic sectors that are most susceptible for unreported taxable business? Can the deputy just give us an overview of where the department might be going with this?

**Mr. Clarkson:** Well, the department recognizes that the underground economy is a significant drain on our tax revenues and we need to look at this very carefully. Currently, what we have been doing—and by the way, we do agree with the recommendations that we do need to do more work in this area.

The auditor, in the report, points out a number of areas that we're already doing well on this and has made a couple of suggestions. What we've currently been doing is looking at reports that are already prepared by others: Stats Canada; our own government statistical areas; and what other

governments are doing to see if there's something from that we can actually reuse or lever rather than us trying to recreate and dedicate resources specifically to this purpose. So for our first task right now is to review what might exist, what's out there and then determine from that if we need to recreate something new or whether we can use what's already there to help improve what we're doing in this area.

**Mrs. Driedger:** I just want to touch on some of the comments that are made on page 44 comparing actual year-end results to budgets. And I would note that—and perhaps I'm not sure who I should be asking the question to, I guess it's going to be who decides they want to answer. But the government has missed the budget 11 out of 12 times, and I would—maybe the—go to the deputy first to ask the question. You know, why is this happening on such a regular basis, that the government would be missing its budget so many times?

**Mr. Clarkson:** When one goes through and examines the various different explanations for meeting or not meeting budgetary targets—and it's consistent across the country that there is variances—some provinces closer than others—and a recent report actually was just out on that basis in terms of how well provinces are meeting—and the federal government meeting—their fiscal projections—the variances are generally related to things that cannot be predicted at the time of budget activities: downturns in the economy that result in revenues coming up short or increases in program activities that were not previously anticipated at the time that the budgets were prepared or emergency expenditures, like floods and fires are two key issues that take place.

**Mrs. Driedger:** The auditor, on page 45, indicated—and I'll just read the words from page 45: We noted in our 2010 report that the forecast to actual variance could have been reduced if there had been closer scrutiny of information in preparing the third-quarter forecast.

Can the deputy indicate whether or not he feels that there is close enough scrutiny on budgets, or is there something else that needs to be put in place to help ensure a government that they are closer to meeting their budgeted statements?

**Mr. Clarkson:** We believe that there is close scrutiny and that we're improving our activities related to that on a continuous basis just as part of the improvement processes that we undertake.

**Mrs. Driedger:** Can the deputy indicate what actually happens within his department to scrutinize this spending that is going on, so that you're picking up on the red flags throughout different departments? Is that a job of Finance or is it Treasury Board? Who actually watches to see what's happening across government to watch where the red flags are because of increased spending, so that you can get in there to work more closely with those departments so that they can come in closer to budget?

**Mr. Clarkson:** There are a number of processes in places to ensure that departments can come in as close to budgets as they can and terms of also decision making that's required to assist in that process. On the revenue side, those activities are generally monitored through the Finance Department and up through the Treasury Board ministers. And, on the expenditures side, those activities are generally monitored through the Treasury Board Secretariat. As items are approved, or are required to be approved, on a continuous basis, those requests come up through departments, who are ultimately responsible for their own results, through Treasury Board, Treasury Board ministers in that kind of fashion as well, too. So the activities, as they are identified and require scrutiny, take place, and information necessary to review those comes forward to ministers to make those kind of decisions.

**Mr. Chairperson:** Are there any further questions regarding chapter 1 or chapter 7?

Seeing no further questions, does the committee agree that we have completed consideration of chapters 1 and 7 of the Auditor General's Report—Annual Report to the Legislature, dated January, 2012? *[Agreed]*

All right. Thank you.

We now move on consideration of Public Accounts for the fiscal year ending March 31st, 2011 (Volumes 1, 2, 3 and 4).

Does the committee wish to consider this separate from the 2012 or together?

**An Honourable Member:** Globally.

**Mr. Chairperson:** Globally? All right. We will then consider the Public Accounts full—for the fiscal year ending March 31st, 2011 (Volumes 1, 2, 3 and 4), and Public Accounts for the fiscal year ending March 31st, 2012 (Volumes 1, 2 and 3).

And does the deputy minister wish to make a statement at this time or open the floor to questions?

\* (15:10)

**Mr. Clarkson:** No statement. Open for questions.

**Mr. Chairperson:** Okay. The floor is now open for questions for these two years of Public Accounts.

**Mr. Pedersen:** March 31st, 2012, Volume 1, page 31, halfway down the first paragraph it says: A sustained trend of increasing net debt to total annual revenue would indicate that an increasing amount of time will be needed to eliminate net debt. And there is an explanation back farther of net debt, so I understand that.

So what would it take—what would need to happen to decrease the amount of time to eliminate net debt?

**Mr. Clarkson:** The necessity to decrease that would require the government to run continuous and ongoing surpluses.

**Mr. Pedersen:** And, based on graph 1, the net debt as a percentage of provincial GDP has gone from 21.6 per cent in 2008 to 25.5 in 2012. Is there a quantifiable time that because of this increase in net debt, how many more years it would take? I imagine we're talking about years here. Can you quantify the time that has elapsed that it would take just to cover this in five fiscal years to reverse this—or to pay off this extra net debt?

**Mr. Clarkson:** Rather than looking at this as the ability to pay this off or when does this get eliminated, net debt to GDP reflects two activities of government, generally speaking. It's the money that we require to borrow for infrastructure and capital program activities as well as the fiscal situation in the Province and the deficits that we run. The growth in the economy can accommodate a certain degree of borrowing of the economy—of the government, I should say, and therefore it becomes an important part of the way government undertakes activities.

In terms of levelling off, I think, is where you want to go to and decreasing is really the questions that we need to address. The government has announced a plan to bring balance to its fiscal situation by '16-17, and at that point you would start to see this level off and then decrease as surpluses are generated.

**Mr. Pedersen:** So just so I understand, this net debt, this percentage of provincial GDP, it only relates to capital and—what was it else you had mentioned?

**Mr. Clarkson:** No. The net debt to GDP is a calculation of the gross debt less financial assets divided by GDP.

**Mrs. Driedger:** The fiscal year '11-12 summary deficit was almost a billion dollars. Was there also another billion dollars in—that went towards the debt because of capital borrowing so that actually the total deficit for that particular year would have been \$2 billion if you incorporated capital borrowings? Is that accurate?

**Mr. Clarkson:** Roughly speaking, the Province borrows each year somewhere between 3 and 4 billion dollars is our borrowing program, part of which relates to government programming activities or the deficit. Part of it relates to infrastructure programs that take place and part of it relates to refinancing of existing capital requirements.

**Mrs. Driedger:** So you're—the deputy is indicating that every year the government would borrow 3 to 4 billion dollars. Is—and, okay, and the deputy is indicating that that is correct. So when we look at the summary deficit, how does that jive with what he's saying with the borrowing? Is the summary deficit only showing operational deficit then, or is—what else is in there?

**Mr. Clarkson:** There's a difference between the deficit and the debt of the Province. The deficit reflects the difference between revenues and expenditures on an operating basis each year, and that's what the billion dollars is, on a summary basis, which includes all the government reporting entities. So that's the difference between what the—we take in and record as revenues and what's we—flows out in terms of expenditures.

The financing of government to manage its cash requirements, to manage its capital expenditures, to manage the various other activities that take place, are often done through borrowing requirements, and that's what figure is reflected in the debt requirement; it is both the shortfalls over the years between the revenue and expenditures or net, of course, in the years we ran surpluses plus the borrowings that were undertaken for the capital requirements.

**Mrs. Driedger:** The net debt, I understand, increased by almost \$2 billion in '11-12, and if \$1 billion is the—or almost a billion is the deficit, then the other billion is what?

**Mr. Clarkson:** Roughly speaking, the other billion dollars would be related to capital expenditures that the government would be undertaking.

**Mrs. Driedger:** Can the deputy indicate whether all capital is debt financed or whether there is some actual cash financing or, you know, payments made from monies that the government has in their, you know, in their bank account in a year? Do they ever take cash and pay for something, or is everything all debt financed?

**Mr. Clarkson:** Again, there's a distinction between capital projects and capital financing and debt that the government requires. In terms of capital financing, all major capital projects and infrastructure and those items we classify as capital are treated as capital expenditures for the purposes of accounting. For the purposes of generating cash for those, we borrow money based on the cash requirements and the cash on hand that the government has on a daily basis and on a regular routine basis. So there is no direct link in that way, but they do affect the level of borrowings that we undertake in terms of capital expenditures.

**Mrs. Driedger:** Is that a government policy? I'll leave it at that for the moment. Is that a government policy?

**Mr. Clarkson:** It's actually a management strategy to ensure that we maximize the benefits of the cash that we have and minimize the cost on government in terms of achieving the results that are being looked at.

**Mrs. Driedger:** Because I'm—and the reason I ask that, I guess, is because I'm aware that in the '90s there were some capital projects that were actually, you know, they were paid for with dollars that the government has so that they—they're, you know, when it came to CancerCare or there were some other capital projects out there, and they were not debt financed. So it led me to my question is, you know, could this be a particular choice of government, a policy of government, or is it something that, I guess, financial gurus would, you know, say is a better way to fund capital?

**Mr. Clarkson:** I know in the '90s the accounting standards were different, that governments followed at that time, and major capital projects were often dealt with through the operating expenditures of government.

Now, what I can't comment on was, at the time, was whether they used cash on hand to actually finance those, or whether it was part of cash that was generated through the borrowing programs that

government ran at that time. I'm just not aware of what the relationships were.

**Mr. Pedersen:** Again, on Volume 1, 2012, page 76, it's showing net acquisition of tangible capital assets, \$910 million. Is there a listing of those tangible capital assets anywhere?

\*(15:20)

**Mr. Clarkson:** Schedule 7, page 107 summarizes those changes in the tangible capital assets.

**Mr. Pedersen:** Schedule 7, page 107.

**Mr. Clarkson:** Yes.

**Mr. Pedersen:** So there is no—Mr. Chairman, what I would like—I realize that this is a breakdown of them, but is it possible to get a list of the actual projects and their costs and provide that—not necessarily today, we don't need to take up time with you reading them off today, but can I get a written list of those capital project—capital assets?

**Mr. Clarkson:** Yes, we can provide that to you.

**Mr. Pedersen:** Thank you.

Then, on that same page—back on page 76, there is an exceptional loss in terms of Crowns: \$40 million at Hydro, \$37 million at MPI. Can you explain those losses? I realize that that's perhaps different departments, but you have carried that loss in Finance, so do you have an explanation of where those losses have incurred?

**Mr. Clarkson:** Sorry, can you repeat the page that you're looking at there? Sorry.

**Mr. Pedersen:** Page 76, it's consolidated statement of change in net debt, and there's a line that says other comprehensive income, schedule 3, and it's \$77 million under actual in 2012.

**Mr. Clarkson:** That is a reflection of the change in valuations of assets on a particular day year-over-year change so it's—but it was concluded in a previous year at the current year at the new market value and we record in the consolidated statements of change in that debt the effects of those changes in our—in the asset valuations in the government business enterprises.

**Mr. Pedersen:** So what you're telling me then is—if I understand this correctly—Hydro has \$40 million less in net value in assets as of the end of March 31st than it did the previous year March 31st, 2011.

**Mr. Clarkson:** That's the correct answer, although I don't know where the \$40 million is—that's what I was just questioning. But the—that's the concept is that there's been a valuation done of specific assets and that's a change in the asset value.

**Mr. Pedersen:** Does the Department of Finance charge—when Manitoba Hydro borrows money, does the Department of Finance charge a surcharge on the monies borrowed?

**Mr. Clarkson:** Yes, there is a surcharge that is placed on that money to cover the cost that we incur to go out and borrow that money for them.

**Mr. Pedersen:** Obviously, what's the cost?

**Mr. Clarkson:** So the cost that we charged to Manitoba Hydro is a guarantee fee and it's at a hundred basis points or 1 per cent.

**Mr. Pedersen:** Entirely different subject, just to make sure you keep awake. We don't want to—can you explain—can the deputy minister explain to me what appropriation 27 is and how it works?

**Mr. Clarkson:** Appropriation 27 is where we charge all of the emergency expenditure items.

**Mr. Pedersen:** Now, when different departments such as MAFRI or MIT had flood expenses in 2011—in the flood—we were in Estimates with MAFRI in the spring of—for the fiscal year ending 2011. We asked where these expenses went and it was always, they've moved them to appropriation 27. When we asked for how is—what was the paper trail, the—how is the accountability for those expenses done when it's moved to appropriation 27 and that bill is then paid? We could never get an answer back from the department, from MAFRI in this case, as to how the billing was done.

Is there—when—as I understand the Department of Finance is in charge of appropriation 27 used for disaster payments. When they get a bill from another department what is required for invoicing to make sure that that bill is accountable?

**Mr. Clarkson:** Because of the nature of the flood in 2011 and the size of it, all of the flood expenditures were recorded through and accounted for in appropriation 27. The process, though, for dealing with each of the individual payments that were made were exactly the same as in any other government activity in that the department responsible for them examined and compared the claim that was there to the rules and regulations that were in place and



authorized those payments, and then those payments were made under appropriation 27.

**Mr. Pedersen:** Just so I understand, the particular department, and I'm using MAFRI in this case, they would justify, they would make sure that the invoice was correct, that it was for the—the work was done, or the flood compensation was—that the proper paperwork was there and then that amount then was just forwarded to appropriation 27? Who actually checked to verify the amount of money being paid?

**Mr. Clarkson:** Each one of the individual departments. So, in the case you're talking about, the Department of Agriculture was responsible for verifying that the invoices matched the work that was done, and then the invoices were forwarded to the Finance Department for payment and charging to appropriation 27.

**Mr. Pedersen:** It will be a very long list, but is there a list, then, of all the payments made out of appropriations 27, and being able to match them back to a particular department or to a particular invoice? I'm just really unclear here. I was unclear during Estimates process because MAFRI told us everything was moved to appropriation 27. You're telling me that MAFRI was the one who verified the claim, verified the invoice and appropriations 27 simply wrote the cheque.

I'm—you have to help me here. I'm getting mixed—I have mixed signals here.

**Mr. Clarkson:** The responsibilities for verifying that the charges took place were in the departments responsible. So in the case you're referring to it was in Agriculture. The responsibilities for making the payments came out of appropriation 27 and the responsibilities, therefore, the Department of Finance.

\* (15:30)

The activities related to this—although they're not reported on an individual billing basis in terms of that list that you asked for though, have been reported publicly and are available on our website—that relate to under which programs dollars have been expended and all charged to appropriation 27 related to the flood expenditures.

**Mr. Pedersen:** So if I—if the public wants to know—and again, it relates back to personal information, but the actual invoices, is—are they available for public scrutiny through MAFRI then?

**Mr. Clarkson:** So currently were vetting all of those requests for information through the Department of Finance to make sure that we have consistent response and that we have protected in the issues related to privacy as you have mentioned.

**Mrs. Driedger:** I will just go back to an issue we were talking about earlier. But considering that the net debt has increased in each of the last five years, can the deputy indicate what steps are being taken to reduce the net-debt-to-annual-revenue ratio? Is there any effort right now going on to look at trying to control deficit and debt, and keep it more in line with the revenues that are coming in. And if the deputy could indicate what departments have been asked to do in order to try to address that challenge.

**Mr. Clarkson:** It starts off with the government making a commitment to balance its budget by '16-17; that we'll significantly work towards that issue then of leveling the net debt off, and as the government runs surpluses to decrease that net debt.

In terms of budgetary activities, targets have been given to each individual department in terms of managing their expenditures for the coming budget activities. And, as future budgets are developed, government will determine what kind of activities individual departments will be taking at that time.

**Mr. Chairperson:** Mrs. Driedger, is this a continuation or new question?

**Mrs. Driedger:** Both.

**Mr. Chairperson:** I just have another question. So if you have a new question, I'd go to—

**Mrs. Driedger:** Oh, this is a continuation.

**Mr. Chairperson:** A continuation.

**Mrs. Driedger:** No, it's on the same topic.

The deputy indicated that targets have been given to departments. Can the deputy indicate what those targets are? Is there one global target or are there different targets for different departments?

**Mr. Clarkson:** There are different targets for different departments.

**Mrs. Driedger:** Is the deputy at liberty to indicate what those targets are?

**Mr. Clarkson:** No, the deputy's not at liberty to do that.

**Mr. Bidhu Jha (Radisson):** Two things. Firstly, to clarify one of the questions that the member asked,

just for my understanding, that when we talk about the debt or borrowing, I think it's cash flow, it has nothing to do with the real deficit at the year-end. If anyone who owns a business—you know, you have receivables coming in. You borrow money from the bank on the line of credit. So borrowing is not really the deficit; borrowing is a process of cash flow.

Am I correct in saying, that 3 to 4 billion dollars, whatever we borrow, is for the operations which would be paid off by the end of the year on the GDP revenues earned, and then you get the final deficit? Am I correct?

**Mr. Clarkson:** Well, I think there are three different terms there that are often interchanged and they are completely different things. There is currently, you know, the borrowing requirements of the government which are, as I mentioned before, reflect three things that we have to deal with: our cash requirements to operate government on a regular basis, the cash requirements related to the net requirements for any capital projects that are undertaking and the borrowing requirements to refinance existing debt. So that is our annual borrowing program and that roughly has been 3 to 4 billion dollars for a number of years.

The debt of the Province relates to the accumulation of all of the surpluses and deficits and borrowing requirements over a number of periods of time, and those are one statement of financial activities. And then the net debt is a relationship of the total debt less the tangible—the financial assets, sorry, not the tangible but the financial assets—to come up with a measure of where we actually stand from a provincial perspective.

**Mr. Jha:** One question about this which we have been talking about, the net-debt-to-GDP ratio. We have been all talking about that. How do you think—I mean I—yesterday I read—today, this morning in The Globe and Mail, the Alberta Premier talking about a huge deficit and making a little more into the red ink to do things, programs, that she thinks is important for the province.

So I would like to ask, what do you think—how do we compare with other provinces in terms of the debt-to-GDP ratio?

**Mr. Clarkson:** All provinces talk about net-debt-to-GDP ratio as one of the mechanisms that they use for measuring how they perform. Credit rating agencies use that measurement as well, too, but nobody uses that measurement in a consistent fashion, so it is

pretty difficult to compare province to province. Even credit rating agencies themselves have difficulty doing this, mainly because we each have a different way of calculating what the GDP is for your individual provinces, is one of the issues, and each one of us use different kinds of factors to consider what that is.

Having said that, a measure that we've often used is actually the debt-to-revenue figure, is one that we've used, or the cost of servicing the debt. And in those cases—just checking my notes here—so in debt servicing, cost is a percentage of total revenue; it's one that we look at as a more meaningful comparison, and we're currently fourth lowest in Canada in terms of our debt-servicing cost as a percentage of total revenue.

**Mrs. Driedger:** Can the deputy put a number on that? How much are we paying down each year?

**Mr. Clarkson:** We're not actually paying down debt in that case, but as a percentage of revenue our debt-servicing costs are about 5.9 per cent.

**Mrs. Driedger:** Did the deputy just say that we are not making any payments towards our debt, that we are just paying a debt-servicing cost, but the debt itself is not changing, other than going up?

**Mr. Clarkson:** We are making debt payments. It's just that it's not decreasing the debt because we continue, of course, to borrow money.

**Mrs. Driedger:** How much is put down against the debt this past year?

**Mr. Clarkson:** Sorry, we'll have to get that number for you.

**Mrs. Driedger:** The—can the deputy just remind me where the government has gone with the balanced budget legislation in terms of changing it? I know there used to be a component of that legislation that indicated, you know, so many millions had to be paid down against the debt each year. I believe that that legislation had been changed and perhaps the numbers have also then changed dramatically.

\* (15:40)

**Mr. Clarkson:** Yes, I don't have those details on me, but we can certainly get the details to the changes that have already been made to the balanced budget legislation.

**Mr. Jha:** I would just seriously recommend the member to really ask not the policy questions because—

**Mr. Chairperson:** Mr. Jha, that's the prerogative of the Chair, not of the members.

**Mr. Jha:** Because the balanced budget act, in a way, it's not the responsibility of the deputy minister. It is our responsibility, so I don't think we should ask him those kind of questions. That's my view.

**Mr. Chairperson:** Mr. Jha, that is the prerogative of the Chair to allow the question and the deputy's prerogative to answer or not answer it. Thank you.

**Mr. Jha:** Just made a point. Thank you.

**Mr. Chairperson:** Thank you.

**Mr. Pedersen:** I am deeply concentrating on appropriations 27 because it's still not there. Under—on the Department of Finance website for 2011-2012 expenditures, which would be covered under one of these books, there is flood fighting for \$141,000,119, and mitigation, restoration and flood proofing for \$68,000,394. Would it be possible for the department to provide me with a line-by-line breakdown of that only in terms of department costs—what other departments in the government have forwarded to the Department of Finance to be paid under appropriations 27? Can you release these costs for where—and I'm—because that is not about compensation, it's not about claims from different flooded people or flood victims? This is department costs that have been forwarded to your department.

**Mr. Clarkson:** There is certainly some level of detail that we can provide to you on that, and we'll look at what that can be and we'll get you a separate report on that.

**Mr. Pedersen:** While you're at it then, I would like the same thing for the Lake St. Martin outlet and other works, which is \$73,108,000, so the same criteria on there from departments. Thank you.

**Mr. Clarkson:** Okay. We'll do that.

**Mrs. Driedger:** Can the deputy minister indicate how vacancies are being managed throughout the departments in government? Does each department have their own vacancy rate established, or has there been any direction from his department or elsewhere in terms of trying to control spending by dealing with it administratively through vacancy rates?

**Mr. Clarkson:** Each department is responsible for individually managing their own vacancy rates, and each one has dealt with that through vacancy allowances that are built into their budgets, depending on how they want to manage. A separate

exercise as part of this, though, is that the government has announced a reduction of 600 positions over a three-year time frame and that part of those vacancies will be looked at in terms of managing that reduction that takes place.

**Mrs. Driedger:** Can—for my clarification, can the deputy tell me, when positions are on the books but they are vacant, what happens to that money? Does that department still get money for that position, or is that money not given to the department?

**Mr. Clarkson:** At the time that the budgets are prepared, the budgets are prepared on the basis of what departments feel they need. Those salary dollars could be voted for positions that are vacant at that time, or they may be already reduced because of vacancy allowances that departments have included in their budgets. The ability of departments to manage their resources and manage the programs and deliver services to the public are critical and therefore departments need to be able to make decisions on filling the positions or not filling positions themselves and their budgets reflect their ability to be able to do that.

**Mrs. Driedger:** I'd like to switch gears a little bit to ask the deputy for some information in terms of federal transfers. Right now Manitoba is incredibly reliant on federal transfers to the tune of something like—well, in '11-12 it appears to be 37, almost 38 per cent of the operating funds of government came from the federal government.

Can the deputy indicate why Manitoba over the last decade has grown more reliant every year for more money from the federal government? I note that if I looked back from 1999 to '11-12 it's gone from 32.7 per cent to 37.8 per cent.

Can the deputy tell us why Manitoba is so reliant on federal transfers?

**Mr. Clarkson:** The federal transfers program is a critical part of all provincial government's financing activities ranging anywhere from about 12 per cent to 40 per cent of provincial budgets across the country. Manitoba's is currently around 31 per cent in terms of total federal transfers and, roughly speaking, around 24 per cent for what we classify as the major transfers, which would be the transfers for health, the transfers for social services and the equalization programs.

The reflection on some of why they're higher than others, the flood created a large transfer from

the federal government for us that increased the percentage of revenue that were coming in. But, generally speaking, on the major programs the three—the health, the social transfers and the equalization program—they've roughly been about \$3.3 billion since 2008-2009 and have been actually decreasing from 26 per cent of our revenue down to 24.3 per cent of our revenue over that time frame.

**Mrs. Driedger:** Can the deputy indicate, if he's able to, what types of discussions are ongoing right now if there was a potential decrease in federal transfers? Is that something that's likely to happen?

**Mr. Clarkson:** I think right now we're at a point where we have pretty good certainty in terms of our federal transfer activities. On our health transfers and our social services transfers agreement certainly is in place in terms of funding increases and formulas for that that would take us right through to 2023-24. So we have good predictability and certainty on that.

On the equalization side, discussions have been going on and proposals presented by the Minister of Finance (Mr. Struthers) to the finance—provincial Finance ministers. They still need to be reflected in budgets and legislation by the federal government, but we have pretty good certainty on what our federal transfers on equalization are going to be right up 'til 2018-2019 now. So we are in a consistent period.

Having said that, the Finance ministers provincially, federally, and territorially meet regularly to undertake discussions on fiscal transfer arrangements, as well as the premiers have taken this task on and have created a fiscal arrangements working group to look specifically at all of the transfers that take place between federal and provincial governments to make sure they're done in an appropriate way and reflect the needs of Canadians across the country.

**Mrs. Driedger:** Can the deputy just go back and repeat what he said about health transfers? I—and saying that they're set for a certain period of time. Can he just clarify what he said? Like, he was talking about 2023.

\* (15:50)

**Mr. Clarkson:** So in December of 2011 Flaherty made an announcement in terms of what his funding levels were going to be for health and the social services transfers. There wasn't agreement by the provinces to those numbers, but they have been

announced and put in place by the federal government. And they reflected a flat percentage rate increase up until 2016-17 of 6 per cent and then a formula from that time forward with a minimum on the formula of 3 per cent and going out to 2324. So the formula is there. We know what the numbers are going to kick out for us. Did we agree to them at the time they were presented? No, but they're there. We know what they are. So we have predictability. We know what they are.

**Mrs. Driedger:** And certainly with—and, thank you, that was my understanding too and does indicate that there's no actual cuts to health care. It's just the formula is actually going to change. There will always be increased—there will always be the support there for funding of health care and other social programs. It just may change in terms of the percentage each year; instead of a 6 per cent we might be seeing something like, you know, 3 per cent or something based on a percentage to GDP. Is that what he's saying?

**Mr. Struthers:** It's very clear that the—I was at that meeting in British Columbia over a year ago. I'm really pleased the deputy added that there wasn't agreement because you didn't see agreement from any of the provinces to what Mr. Flaherty put on the table. What Mr. Flaherty put on the table certainly gives us some certainty as to what numbers we can expect from the federal government, and those numbers aren't very pretty.

The—I think the member herself has put her finger on the problem, and that is at one time the federal government was kicking in for 50 per cent of these programs, now they're in and around the 19 or 20 per cent range. As forecasted, the certainty that the minister has put on the table is that they will certainly reduce to about 11 per cent of what it costs to provide decent health care in Canada. That is exactly the stepping back from their responsibilities at a time when health care and demographics show the opposite happening not just in Manitoba but across the country. So the—while there is certainty in terms of the numbers, there's certainty in terms of equalization coming out of the FPT meetings from before Christmas just back here in December of '012, and there's certainty all right but let's not confuse certainty with support coming out of the federal government.

**Mr. Ewasko:** Mr. Deputy Minister, just a quick question in regards to the—just to add to what Mrs. Driedger was asking.

Between the years '10-11 and '11-12, the federal transfer payments to the Province I do understand that we do have a direct quote from Hansard stating the three major components which are the equalization payments, the Canada Health Transfer payments and the Canada Social Transfer payments. So can the deputy minister say what the difference was between '10-11 and '11-12 for those transfer payments?

**Mr. Clarkson:** Just to clarify, you're looking for the difference between the—those three or for total transfers?

**Mr. Ewasko:** Total transfers for '10-11 and '11-12, the difference between the two.

**Mr. Clarkson:** So, in terms of total transfers, I have 4 billion, 47 million for '10-11, and 4 billion, 332 million for '11-12. The bulk of that difference is made up of transfers that were required for the flood expenditures.

**Mr. Ewasko:** Okay. So just clarification again, if you could repeat those three as well. If we just talk about equalization, health transfer and social transfer, what were the total transfer payments for those three categories?

**Mr. Clarkson:** So in '10-11 the major transfers were 3 billion, 355 million. In '11-12 they were 3 billion, 359 million. So a \$4-million difference in those.

**Mr. Ewasko:** And the increase?

**Mr. Clarkson:** The increase was \$4 million.

**Mr. Ewasko:** Does the minister agree with the deputy minister?

**Mr. Struthers:** I agree that we have to keep working with the federal minister to make sure that he understands that the federal government plays a role in supporting provinces like Manitoba and Québec and Prince Edward Island and New Brunswick and now Ontario, which has been squeezed into at least the equalization component of the fiscal arrangements. I believe we have to keep the federal government on its toes, because, as we saw with its stepping back from support of health care, as we've seen in terms of them flatlining other major fiscal arrangements, that we have to remain vigilant to make sure that not only we—do we get certainty on the—in these programs, but that we don't allow the federal government to step back any more than they have already in terms of equalization and health transfer and social transfer and other fiscal transfers

that we're—that every province is involved with the federal government on.

**Mr. Ewasko:** Thank you, Mr. Minister.

I specifically heard, though, that the deputy minister stated that there was a \$4-million increase from '10-11 and '11-12, and my question to you was, do you agree that there was a \$4-million increase from '10-11 and '11-12 in the equalization payments, Canada Health Transfer payments and the Social Transfer payments?

**Mr. Struthers:** Well, just checking with some of the numbers here, the—far from that, the—there was a decrease in that time frame the member is asking about of \$260 million in terms of equalization in Manitoba. What the federal government signed on to a few years ago was something called Total Transfer Protection, where they top up for some provinces the amount that, sort of, to keep us whole, to make sure that provinces aren't hit disproportionately in terms of the formulas that are in place with these fiscal arrangements that we have.

I know where the member would like to go politically on this. I want him to know that he doesn't have the ground to stand on when it comes to fiscal arrangements. We work very hard to make sure the federal government takes its responsibilities seriously and doesn't work at cross purposes to provinces like ours.

**Mr. Chairperson:** Seeing we are approaching the agreed upon 4 o'clock time, what is the will of the committee?

**An Honourable Member:** Committee rise.

**Mr. Chairperson:** So we'll go to 4 o'clock and then rise, is that—all right.

Any further questions?

**Mrs. Driedger:** Can the deputy indicate, and I had been doing some reading of different financial reports across the country, and with what he might have said not too many minutes ago, I wonder if he could clarify for me, I had heard that Manitoba and Prince Edward Island were the most reliant on federal transfers of all the provinces in Canada. Has that changed?

**Mr. Clarkson:** I don't have those details with me, but we can certainly get those details and get those numbers to you.

**Mrs. Driedger:** Is there any discussion in the government to try to make this Province less reliant on federal transfers? And I don't want to get into, you know, sort of the politics of it all, but when we're relying so heavily on federal transfers, certainly there must be some discussions from departments as to how to become less reliant.

\* (16:00)

I wonder if the deputy can indicate, you know, what kind of conversations are there so that in case there's trouble at the federal level and those transfers decrease more than the 30-some per cent we're going to be in a lot of trouble.

So, you know, just from a survival point of view, I guess, what is happening to try to not only control our deficit—not have a deficit control, the debt which

has doubled—but to become less reliant on federal transfers? Is that all part and parcel of the discussions that go on in government?

**Mr. Clarkson:** In terms of a response to that, I think I'd just emphasize again that the federal transfer program—

**Mr. Chairperson:** Excuse me, Mr. Deputy Minister.

It now being 4 o'clock, the committee will now rise and we will have to deal with these issues another day.

Thank you to the minister and the deputy minister and to the Auditor General and all the staff that have been present and certainly to the committee and to the pages. Thank you.

**COMMITTEE ROSE AT: 4:01 p.m.**

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