

Second Session – Forty-First Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Matt Wiebe
Constituency of Concordia

Vol. LXX No. 2 - 7 p.m., Wednesday, November 30, 2016

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MANITOBA LEGISLATIVE ASSEMBLY
Forty-First Legislature

Member	Constituency	Political Affiliation
ALLUM, James	Fort Garry-Riverview	NDP
ALTEMEYER, Rob	Wolseley	NDP
BINDLE, Kelly	Thompson	PC
CHIEF, Kevin	Point Douglas	NDP
CLARKE, Eileen, Hon.	Agassiz	PC
COX, Cathy, Hon.	River East	PC
CULLEN, Cliff, Hon.	Spruce Woods	PC
CURRY, Nic	Kildonan	PC
DRIEDGER, Myrna, Hon.	Charleswood	PC
EICHLER, Ralph, Hon.	Lakeside	PC
EWASKO, Wayne	Lac du Bonnet	PC
FIELDING, Scott, Hon.	Kirkfield Park	PC
FLETCHER, Steven, Hon.	Assiniboia	PC
FONTAINE, Nahanni	St. Johns	NDP
FRIESEN, Cameron, Hon.	Morden-Winkler	PC
GERRARD, Jon, Hon.	River Heights	Lib.
GOERTZEN, Kelvin, Hon.	Steinbach	PC
GRAYDON, Clifford	Emerson	PC
GUILLEMARD, Sarah	Fort Richmond	PC
HELWER, Reg	Brandon West	PC
ISLEIFSON, Len	Brandon East	PC
JOHNSON, Derek	Interlake	PC
JOHNSTON, Scott	St. James	PC
KINEW, Wab	Fort Rouge	NDP
KLASSEN, Judy	Kewatinook	Lib.
LAGASSÉ, Bob	Dawson Trail	PC
LAGIMODIERE, Alan	Selkirk	PC
LAMOUREUX, Cindy	Burrows	Lib.
LATHLIN, Amanda	The Pas	NDP
LINDSEY, Tom	Flin Flon	NDP
MALOWAY, Jim	Elmwood	NDP
MARCELINO, Flor	Logan	NDP
MARCELINO, Ted	Tyndall Park	NDP
MARTIN, Shannon	Morris	PC
MAYER, Colleen	St. Vital	PC
MICHALESKI, Brad	Dauphin	PC
MICKLEFIELD, Andrew, Hon.	Rossmere	PC
MORLEY-LECOMTE, Janice	Seine River	PC
NESBITT, Greg	Riding Mountain	PC
PALLISTER, Brian, Hon.	Fort Whyte	PC
PEDERSEN, Blaine, Hon.	Midland	PC
PIWNIUK, Doyle	Arthur-Virden	PC
REYES, Jon	St. Norbert	PC
SARAN, Mohinder	The Maples	NDP
SCHULER, Ron, Hon.	St. Paul	PC
SELINGER, Greg	St. Boniface	NDP
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SMOOK, Dennis	La Verendrye	PC
SQUIRES, Rochelle, Hon.	Riel	PC
STEFANSON, Heather, Hon.	Tuxedo	PC
SWAN, Andrew	Minto	NDP
TEITSMA, James	Radisson	PC
WHARTON, Jeff	Gimli	PC
WIEBE, Matt	Concordia	NDP
WISHART, Ian, Hon.	Portage la Prairie	PC
WOWCHUK, Rick	Swan River	PC
YAKIMOSKI, Blair	Transcona	PC

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

Wednesday, November 30, 2016

TIME – 7 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Matt Wiebe (Concordia)

**VICE-CHAIRPERSON – Mr. Reg Helwer
(Brandon East)**

ATTENDANCE – 10 QUORUM – 6

Members of the Committee present:

*Messrs. Bindle, Helwer, Johnston, Ms. Klassen,
Mr. Maloway, Mrs. Mayer, Mr. Michaleski,
Ms. Morley-Lecomte, Messrs. Wiebe, Yakimoski*

APPEARING:

*Mr. James Allum, MLA for Fort Garry-
Riverview*

Mr. Norm Ricard, Auditor General

WITNESSES:

*Hon. Cameron Friesen, Minister of Finance
Mr. Jim Hrichishen, Deputy Minister of Finance*

MATTERS UNDER CONSIDERATION:

*Public Accounts for the fiscal year ending
March 31, 2014 (Volumes 1, 2, 3 and 4)*

*Public Accounts for the fiscal year ending
March 31, 2015 (Volumes 1, 2 and 3)*

*Public Accounts for the fiscal year ending
March 31, 2016 (Volumes 1, 2 and 3)*

*Auditor General's Report-Follow-up of
Recommendations, dated May 2016*

Accounts and Financial Statements

* * *

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

This meeting has been called to consider the following reports: Public Accounts for the fiscal year ending March 31, 2014, volumes 1, 2, 3 and 4; Public Accounts for the fiscal year ending March 31, 2015, volumes 1, 2 and 3; Public Accounts for the fiscal year ending March 31, 2016, volumes 1, 2 and 3; and the Auditor General's

Report-Follow-up of Recommendations, dated May 2016—Accounts and financial statements.

Before we get started, are there any suggestions from the committee as to how long we should sit this evening?

Mr. Jim Maloway (Elmwood): Mr. Chair, I would suggest we sit for two hours 'til nine, and perhaps we'll be finished before then, but let's go for that.

Mr. Chairperson: Is it agreed that we will sit for two hours and revisit the time then? *[Agreed]*

Are there any suggestions as to the order in which we will consider the reports?

Mr. James Allum (Fort Garry-Riverview): In a global fashion, Mr. Chair.

Mr. Chairperson: It has been suggested that we will consider the reports in a global fashion. Is that agreed? *[Agreed]*

Before I move on to the—inviting our guests up to the table, I would like to turn the table over to Mr. Helwer.

Mr. Reg Helwer (Brandon West): I move that this committee recommend that in future meetings dealing with the Public Accounts printed copies of volume 4 will not be distributed to the members of this committee.

And I'd like to speak to the motion, if you don't mind.

Mr. Chairperson: Just one moment, Mr. Helwer.

Okay, it has been moved by Mr. Helwer that this committee recommend that in future meetings dealing with the Public Accounts, printed copies of volume 4 will not be distributed to the members of the committee.

The motion is in order. And the floor is open for questions or discussion.

Mr. Helwer: Well, as you can see, volume 4 is a substantial volume. And currently we print at least one copy for each member of the Public Accounts Committee. I believe that what we used to do in the past is print three volumes, and that would be in the purview of the Clerk's office. They'd be brought out

for the meetings. They are accessible to all the members. They are available in electronic version. And I know that the minister and other ministers will be dealing with how we go about tabling electronic copies as we move forward.

So, in the interests of saving a few trees, and although I'm sure that I will have an impact on the Clerk's athletic exercise, we—I would like to reduce the number of copies that we—of the number of trees that we kill for this report. It's still verily available to all the committee members and to the public.

Mr. Chairperson: Is the committee ready for the question?

The question before the committee is as follows: that the committee recommend that in future meetings dealing with the Public Accounts, printed copies of volume 4 will not be distributed to members of the committee.

Shall the motion pass? *[Agreed]*

At this time, I would like to invite the minister to the table, as well as the deputy minister and any other staff that you have with you that you'd like to bring to the table.

And I'd like to invite at this time for the—either the minister or the deputy minister to introduce the staff that are joining us at the table.

Hon. Cameron Friesen (Minister of Finance): I want to introduce the deputy minister of the Department of Finance, Mr. Jim Hrichishen. And I'll allow Mr. Hrichishen to introduce the staff who are with us this evening at the table.

Mr. Jim Hrichishen (Deputy Minister of Finance): Mr. Chair, I'd like to introduce my colleagues.

Sitting with me at the table is our new Provincial Comptroller, Aurel Tess. Tonight is his first committee meeting as comptroller.

As well, I'd like to welcome Michel St. Amant, our manager of accounting standards.

Mr. Chairperson: Thank you very much for joining us this evening.

Does the Auditor General, Mr. Ricard, wish to make an opening statement?

Mr. Norm Ricard (Auditor General): I do have an opening statement with respect to the follow-up portion of the meeting. Do you want me to make that now, or?

Mr. Chairperson: Sure, yes.

Mr. Ricard: Okay, but first I would like to introduce the staff that I have with me here tonight.

To my left are Tyson Shtykalo; he's the Deputy Auditor General responsible for the audit of the Public Accounts and other financial statements.

And behind us are Bradley Keefe and Natalie Bessette-Asumadu, who are key players in the—key auditors for the audit of Public Accounts.

So I'll just move into my opening comments.

Mr. Chairperson: Please proceed.

Mr. Ricard: In this follow-up report, we note the statuses of all recommendations issued as a result of our audits of the Public Accounts and other financial statements included in the government reporting entity for the years end in March 31st, 2010, '11, '12 and '13. No new recommendations were issued as a result of our audit of the Public Accounts and other financial statements for the years end in March 31st, 2014 and '15.

Mr. Chair, for 10 of the 26 recommendations followed up in this report, they have been implemented. Our practice has been to follow up on these recommendations until they are implemented or otherwise cleared. Beginning in 2017, we will follow up these types of recommendations in a manner consistent with our process for following up on project audit recommendations. As a result, we will only follow up on recommendations stemming from our audits of the Public Accounts and other financial statements for three consecutive years.

In this report, we note that there are nine recommendations from these audits for the years ended March 31st, 2010, and '11 and '12 that remain in progress. These recommendations will no longer be followed up.

* (19:10)

We encourage the Public Accounts Committee to consider which of these recommendations it should continue to monitor and to request appropriately detailed action plans from the relevant government organizations.

Thank you, Mr. Chair.

Mr. Chairperson: Does the deputy minister wish to make an opening statement?

Mr. Hrichishen: Yes. Thank you.

First of all, I'd like to thank the committee for the opportunity to provide some brief comments on Public Accounts for the years ended March 31, 2014, 2015 and 2016. As the March 31, 2014 and 2015 Public Accounts have been discussed by the committee on previous occasions, I will limit my opening statement to the March 31, 2016 Public Accounts.

Please note that I will endeavour to answer all administrative-related questions posed by the committee on the reports reflected on tonight's agenda, and as always, it is possible we may need to take some questions as notice and provide a specific response to the question to ensure accuracy.

As I mentioned, sitting at the table with me is our new Provincial Comptroller, Aurel Tess. Tonight is his first committee meeting as comptroller. Aurel has been with the Province for 15 years and has been the Provincial Comptroller since February, 2016. Aurel replaced Betty-Anne Pratt, who retired from the Province in January after approximately eight years in this very important position.

As well, I would like to welcome Michele St. Amant, our manager of accounting standards, who has been here before.

We are proud that we have yet again received an unqualified audit opinion on the March 31, 2016 summary financial statements. Since March 31, 2007, that represents nine consecutive year ends that the Province has received an unqualified opinion. The achievement of having nine consecutive unqualified audit opinions is a—in a row should not be taken lightly. Other jurisdictions have recently had summary financial statements qualified by their auditor generals.

That is another reason why we're pleased that the Finance Department and the OAG, our Auditor General, agree that the March 31, 2016 financial statements represent fairly in all material respects the financial position and the results of operations of the Province in accordance with Canadian public sector accounting standards.

The Province's Public Accounts for the year end March 31, 2016, volumes 1, 2 and 3 were released on September 29th, 2016. Volume 1 includes the economic report, the financial statement discussion and analysis and the audited summary financial statements of the government.

The Province experienced a summary loss of \$846 million, which was \$424 million over the

budgeted loss of \$422 million. Summary net debt as at March 31, 2016, is \$21.4 billion, a one thousand, nine hundred and thirty-two million or \$1.9 billion, approximately, increase from the previous year.

The increase in the net debt was the result of the following: a summary loss of \$846 million, net increases in tangible capital asset investments of one thousand and twenty-five million, increases in other non-financial assets of \$18 million and unrealized losses on investments of \$43 million at government business enterprises as a result of the mark-to-market accounting sometimes referred to as other comprehensive income.

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

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

I want to thank the Comptroller's Division, who prepare the Public Accounts. I'm proud to say that the Comptroller's team has done their utmost to ensure a successful presentation of our Public Accounts. Likewise, I'd like to thank Mr. Norm Ricard, provincial auditor, and the Office of the Auditor General staff who audit the Public Accounts and acknowledge the professional and collaborative relationship with the Department of Finance.

In doing this job, we work as a team, and their input, advice, is very valuable to us. Mr. Ricard and his team have been invaluable in ensuring that Manitobans are provided with accurate and timely results in respect to the Province's financial situation, and we look forward to continuing that constructive relationship in the year ahead.

Thank you very much.

Mr. Chairperson: Thank you very much, Mr. Hrichishen.

Before we proceed further, I'd like to remind those members of the committee of the process that's undertaken with regards to outstanding questions. As was mentioned at the end of every meeting, the research officer reviews the Hansard for any outstanding questions that the witness commits to provide an answer for, and we'll draft a

questions-pending-response document to be sent to the deputy minister.

Upon receipt of the answers to those questions, the research officer then forwards the responses to every PAC member and to every other member that was recorded as attending that meeting. Therefore, I'm pleased to table the responses provided by the Deputy Minister of Justice to all the questions pending responses from the October 31st, 2016, afternoon meeting.

These responses were previously forwarded, though, to all members of this committee by the research officer.

Before we get into any questions, I would like to remind members that questions of an administrative nature are to be placed through the deputy minister and that policy questions will not be entertained and are better left for another forum.

However, if there's a question that borders on policy and the minister would like to answer that question or the deputy wants to defer it to the minister to respond to, that is something we will consider at this committee.

The floor is now open for questions.

Mr. Helwer: Mr. Chair, I'd like to start, if I could, with the Auditor's accounts and financial statements, and when I look at the recommendations on page 103, the work in progress, the Auditor General has recommended that the Province increase the threshold for the statement of payments in excess of \$5,000 that is reflected in volume 2.

Can the Auditor General comment on the progress of this, and then we'll go to the deputy minister, and what would you recommend the threshold be set at?

Question to the Auditor General, if he can tell me where we are there, and then we'll go to the deputy minister with that question.

Mr. Ricard: In terms of the progress, I really can't add much more than what we have indicated in the report, which is that the Province noted that an administrative policy setting a threshold is under consideration and review.

In terms of your request for a suggestion on what the threshold should be, that is not something that I, quite frankly, am prepared to suggest. We recommended an increase, I think, because the threshold hadn't changed since, I believe, 1984.

It's been a number of years, so, but what that threshold should be is not something that I could—I could or should comment on.

Mr. Helwer: So, then, to the deputy minister, with respect to the threshold of \$5,000, can you tell me where the department is in terms of analyzing what that should be, if you have a suggestion of what the amount should be and if you plan to make any progress on that?

Mr. Hrichishen: Yes, certainly, that work is in progress. We are conducting a survey of other jurisdictions to see not only what the thresholds are, but what mechanisms might be put in place to have some type of normative escalator. Is that something that's common, or uncommon, so we're doing our homework. I think it's important and we've heard over a number of years some enthusiasm for recognizing the fact that this threshold has not been raised for a considerable amount of time and I can say it is under active review right now.

Mr. Helwer: Thank you for that answer, Mr. Deputy Minister. Not that we want to hide anything, and public information needs to be available, but also when we look at volume 2, it also has a disclosure of public sector compensation payments of \$50,000 and more, and is that level under review as well, and is that the similar process that the deputy's or the department's undertaking?

Mr. Hrichishen: Yes.

* (19:20)

Ms. Janice Morley-Lecomte (Seine River): I'm new to this committee, and I probably don't understand a lot about what goes on, so I would like for someone—for yourself—to define what you would determine to be infrastructure.

Mr. Hrichishen: So thank you for your question, and it's a straightforward question that belies a complicated response, I suppose.

So we have found a useful reference for you, and that is in volume 1 of the Public Accounts ending for—the year ending March 31, 2016. On page 87, we define infrastructure assets including those of land; land improvements; transportation, including bridges and structures; provincial highways, roads, and airstrips; dams and water management structures.

Ms. Morley-Lecomte: Is that—okay, again, and I don't know—is that similar to—would that be defined as core infrastructure or general infrastructure?

Mr. Hrichishen: So in—for public accounts purposes there is no core infrastructure separated out? Is summary infrastructure?

Ms. Morley-Lecomte: Can you define summary infrastructure?

Mr. Hrichishen: So those are the infrastructure assets that I refer to in my first question. Those being land, land improvements, transportation, bridges and structures, dams and water management that are investments undertaken by the summary entity, which includes the general summary entity inclusions of many agencies.

Ms. Morley-Lecomte: Another question I have: Would it be possible to know how much money—or, if PST went into the infrastructure to cover expenses, or if it was debt financed?

Mr. Hrichishen: Tangible capital assets are largely financed through debt, and that's reflected in the public accounts.

Ms. Morley-Lecomte: Okay, so to—just to be clear, every part of infrastructure that's debt financed—what is debt financing?

* (19:30)

Mr. Hrichishen: I'd refer you to page 80 of volume 1 of the '15-16 Public Accounts, where the consolidated statement of change in net debt is shown. In that table, there is a category called tangible capital assets, and there's an acquisition of tangible capital assets, which is included in net debt for the year. It's shown gross and then there's an adjustment for amortization of tangible capital assets and then a net acquisition of tangible capital assets.

So for the fiscal year 2015-16, a total of approximately 1.7 billion was acquired in tangible capital assets. We have additional detail on those investments, if you would like.

Mr. Helwer: Going back to volume 4 a bit, now we have volume 4 for 2014. We don't have volume 4 for 2015 yet, nor for 2016. Can the deputy tell us when we might expect to see those volumes printed?

Mr. Hrichishen: I'm advised that '14-15 is almost ready to go or is ready to go, and '15-16, volume 4, will be available to be published next month.

Mr. Helwer: Thank you to the deputy for that.

What types of things does the department have to do in order to be able to have the minister table that report electronically, as opposed to be in paper

form? I imagine there's something we need to change in legislation or otherwise, but obviously a place—a direction I hope that we want to go in the government so we're not continuing to kill the amount of trees that we do.

Mr. Hrichishen: At the risk of sounding repetitive, we are—that is a work in progress. We're looking at that very question. We'll be consulting with the Auditor to ensure that we're in alignment with the Auditor's perspective on this issue. And, to be clear, it has been raised before in Public Accounts Committee meetings and we want to be attentive to the various issues of being transparent and helpful and informative but, at the same time, recognizing the value that a hard copy of volume 4 adds to understanding and debate.

Mr. Helwer: Thank you to the deputy for that answer.

And, I guess, when you are looking at the electronic forms, is that something that you would avail in a searchable format, as opposed to a PDF format. I know we've talked about open source and open text before and making sure that it's publicly available and searchable, as opposed to a format that is just there on the Web for people to see.

Mr. Hrichishen: I'm advised that the format would be a searchable PDF. That would be our objective, again, trying to facilitate the access and usefulness of the document to all parties.

Mr. Blair Yakimoski (Transcona): What are the factors that lead to the approximate doubling of the net loss of \$846 million, compared to the \$424 million in Budget 2015, as in the Public Accounts, volume 1, page 78 for '15-16?

Mr. Hrichishen: I'll give an overview answer, and, if you have further supplementary questions, I'd be happy to dig a little deeper for you.

The variances are explained on pages 48 and 49 of volume 1 of the Public Accounts. Own source revenue was higher than expected by \$198 million; government business enterprise revenue was less than expected by \$46 million; and federal transfers were \$61 million less, for a total of \$91 million in favourable total revenue variance.

On the expenditures side, health, education and the family services sectors were the main drivers behind an overall \$365 million over-budget amount. The in-year adjustment lapse that are reflected in

each sector category makes up the remaining \$150-million variance.

So that is an overview of—

Mr. Yakimoski: Can you explain what is the lapse portion to a layperson?

Mr. Hrichishen: So the adjustment known as the lapse factor is budgeted as an increase in revenue and/or a decrease in expenditures related—unforeseen revenue and expenditures. The actual results are represented within the revenue and expenditure items and revenue categories and expenditures sectors.

The lapse in the '15-16 fiscal year of \$150 million—as I recall, \$70 million was related to the core entities, and \$80 million was related to the other reporting entities.

Mr. Yakimoski: So that's what lapse is. I see that there's also quite the issue with Health and Education in terms of the budgeted amount versus the actual amount. Is—was it a result of poor under-budgeting? What is a result of going to a dart board?

Has Education and Health over the past few years had issues like that?

*(19:40)

Mr. Hrichishen: So, I have a two-part answer.

The first is to make you aware that, when the 2015 budget was produced, we erroneously reduced the EPT, the education property tax revenue, by \$205 million for tax credits in a consolidation error. So the deficit was not affected; it was in revenues and expenditures.

The amount of the \$493 million in the budget should have been \$698 million. We over-applied the Education Property Tax Credit to revenue and, at the same time, the Education expenditures were reduced by \$205 million. The change made revenue \$205 million lower than it should have been and expenditure \$205 million lower, so there is no net change in the net—pardon me, net change to the net loss of the Province. However, in this consolidation error, revenues and expenditures in the budget were both reduced by \$205 million relative to what they should have been.

We cannot restate the budget, so it's only in the Public Accounts that this is reflected. So, when we talk about the variance, we are—should note that \$205 million in expenditures should have been there and, in the budget, they were not there. On the revenue side, similar thing. Revenues should have

been \$205 million higher. So it appears that there's a significant variance around the Education related to the Education Property Tax Credit because they are both reduced in the consolidation error at the time of the budget.

So, my second part, the variance of \$357 million breaks down as follows. In—for health care, it was \$156 million. Education was \$199 million. However, be mindful of the fact that 205 of that variance was associated with the budgeting error in the 2015 budget. The health-sector variance of \$156 million in '15-16 reflects higher operating costs.

Mr. Yakimoski: I don't know if it's completely clear to me but, from what you're explaining with the budgeting error, should the budget, when it actually came out at that point, been not at about \$420,000—or, \$420 million—it should have been 200—approximately 200 more?

Mr. Hrichishen: I'm sorry. Yes. So, to be clear, the Budget 2015 had an education property tax amount of \$493 million. The correct amount should have been \$698 million. Because of a human error, the consolidation error of \$205 million was deducted twice.

On the other hand, the Education budget amount for expenditure of \$378.8 million should have been \$399.3 million. So revenues and expenditures were both reduced—double reduced—for the property tax credit when they should have been adjusted only once.

So the consequences of that are that the variance around that for revenues and expenditures seem quite large. But, again, these do not reflect the fiscal balance of the Province; it's just a consolidation error. I say just, however it is a very serious error and one that came to light as we were preparing the Public Accounts for '15-16, and one that we take very gravely.

Mr. Yakimoski: When you discovered that error, was that a bad day?

Mr. Hrichishen: You know, the Finance Department—those folks who know the Finance Department know us as being probably obsessive with data and double-checking, triple-checking. They—perhaps it's unhealthy, the amount of checking and double-checking and assurances and risk management that we do as a department. So it was very unfortunate because we do, and that's right throughout the department, including Treasury Board

Secretariat and Central Services, worked very, very hard with many numbers, and it's extremely disappointing. My go-to right now is to ensure that this never happens again. So I cannot assign a zero probability to an error being made by the Finance Department or anyone else.

But the point now is that we have to ensure that we're—through various means, that we undertake to make sure there's quality control against human error. And in a perfect world, my thought is that human errors will always be caught; that there's checks, that processes lend themselves to a system where you cannot help but find that errors are caught. So I've discussed with our new comptroller our opportunities to work, and I've asked him to work with the Auditor General to ensure that those systems be put in place so that we do not see this situation again. Having said that, perfection is not a thing of this world, but everyone in the Finance Department will try to achieve that goal, and it's certainly a top priority for us in the department.

Mr. Yakimoski: Thank you for your candour and your honesty and your diligence in terms of—I can imagine, well imagine, when mistakes happen; how it can shake you when 'this' is not supposed to happen. We are trained for this not to happen. So I can well imagine.

I—there's another thing I'm looking at here, and you can explain it to me, and I think I understand—under revenue, on the same page, page 48, Sinking Funds and Other Earnings. What be that?

Mr. Hrichishen: So those are the interest earnings on our sinking fund and other investments. Our sinking fund are funds that are readily convertible to cash and set aside to provide for the orderly retirement of borrowings as they become due. So it's interest earnings on our sinking fund.

Mr. Scott Johnston (St. James): Further to my friend Mr. Yakimoski's questions in regards to net loss, I'm very curious and very interested in the challenges that the Finance Department has in regards to addressing of the current deficit at the level that it is at. I'm just—the question that I have is more general and looking for commentary on, is what are the challenges that your department faces in addressing this particular issue?

* (19:50)

Mr. Hrichishen: Insofar as there's a policy element to that, I'll defer to my minister from the policy point of view. From the administrative point of view, I

suppose there's a challenge around financing the debt and there is concern—or, the deficit, rather, which is a factor within the calculation of net debt, is dealing with potential credit rating downgrades, I suppose, insofar as that will affect our budget.

So—and that's always the case, it's not particular to any one budget or any one Province, we all face that situation.

Mr. Johnston: If the current trend continued, what would be some of the further challenges you would see?

Mr. Hrichishen: So—I'll just refer to illustrate on the issue of credit ratings, there's some concern that was expressed by Standard & Poor's rating agency around the potential for a further downgrade to Manitoba's credit rating in the event that the fiscal balances are not corrected.

So, back on July 29th, our rating agency, Standard & Poor's, indicated that the negative outlook which they assigned to our province reflects our view—and I'm quoting—that, in the next two years, there's at least a one-in-three chance that we could lower the ratings by one notch in Manitoba's new—if Manitoba's new government fails to take the revenue and expenditure measures needed to avoid sustained deficits or after-cattle deficits exceed 10 per cent of total revenue. So they expressed concern—I think it's fair to say that concerns were expressed by other credit rating agencies about the outlook for our—for Manitoba's finances.

So I hope that answers your question.

Mr. Helwer: To the deputy minister, we have a variety of debt instruments in the Province. What would some of the oldest ones be?

Do we have 20-year bonds out there still? Or 30-year bonds? Or—can you give me an overview of what type of instruments we use?

Mr. Hrichishen: So we've concluded that we need clarification.

Was the question in relation to the existing terms of our debt instruments now? In which case, we do have one bond that—it matures in 2063, for example. So that's an ultra-long. Or is the question in respect of bonds or debt instruments sitting on our books now that may have been issued 10 years ago or 20 years ago?

So, just—

Mr. Chairperson: Mr. Helwer.

Mr. Helwer: Yes, more the latter question. I know you're issuing new bonds now that mature at a future date, but I'm just interested in: What's our oldest bond? At what interest rate did we offer on that bond? Is there—can you give me an idea of what our average—going forward, now, what is our average interest rate that we're paying now, as well?

I mean—

Mr. Chairperson: Mr. Hrichishen.

Mr. Hrichishen: The average interest rate we do have with us here, and that is 4.112 per cent, is the current average interest rate. In terms of the longer term bonds, we do not have that information. I will take it as notice.

Mrs. Colleen Mayer (St. Vital): One question I have: Can you give me some examples of what type of prepaid expenses would be found on the books? I noticed on page 86 of volume 1—can you give me some examples of what prepaid expenses are, exactly?

Mr. Hrichishen: Yes. My controller gives me the example of insurance, where insurance might be taken out for a period of time, the benefits which are for a period of time in the subsequent fiscal year, so they would apply to a subsequent time period, but the asset value is booked in the current year.

Mrs. Mayer: Can you tell me where in the statements, exactly, can I find out how much revenue is collected from PST?

Mr. Hrichishen: The amount is shown on page 78 of volume 1 of the '15-16 Public Accounts, and the amount for the '15-16 fiscal year was two thousand and two hundred and sixty-nine million dollars, or roughly 2.2-2.3 billion for that year.

Mrs. Mayer: Can you explain to me what that PST revenue was actually used for?

Mr. Hrichishen: So the PST revenue enters a consolidated fund and is used for the general expenditures of government.

Mrs. Mayer: I'm just referring to the report, Financial Management Strategy Report on Outcomes ending March 31st, and where it says it commits to spending the \$1 billion on strategic infrastructure on roads, bridges, flood protection, hospitals, schools, universities—it goes on and on.

That's the example of—sorry, Mr. Chair—that he would be clarifying for me?

* (20:00)

Mr. Chairperson: Before we proceed with the question, I just wanted to clarify for the members, and the reason that the clerk and the Vice-Chair and myself were having discussion, the particular document that the member referred to is not one that we technically are considering as part of this committee's proceedings. However, the information that's contained in it refers to other information which we are considering.

So, obviously, the question is in order. And I appreciate the member trying to tie it back to something that the deputy and others in the committee can follow along on. But, for future reference, if she can instead, or if all members can instead, refer to the actual Public Accounts which are being considered here by the committee. Just as a clarification; the question is certainly in order.

Mrs. Mayer—or Mr. Hrichishen.

Mr. Hrichishen: In the 2015 budget, this may be what you're referring to, there is a—the government commit—I'll quote—the government committed to invest more than the revenue raised and the additional point of PST introduced in 2013 into new investments in core infrastructure over and above existing spending levels.

The statement on page 6 of the Financial Management Strategy Report on Outcomes for the fiscal year ending March 31, 2016, refers to core infrastructure investment, including the 2015-16 actual and the budget amount.

Mrs. Mayer: Okay, sorry for the question. I probably didn't word it right. There's a lot of information that's coming, and I'm trying to still work it out in my mind. So I will save some of my further questions for next time we meet. And perhaps we will discuss some of these.

Can you explain to the committee: Is strategic infrastructure the same as tangible capital asset?

Mr. Hrichishen: So tangible capital assets are an accounting concept and is very well defined, I think, in public sector accounting standards. Strategic infrastructure is a more subjective construct that is not defined in the accounting parlance.

I know you may not have it but in Budget 2016, for example, there's a—page 12 of the budget outlines strategic infrastructure, which includes tangible capital assets but also includes current expenditures. So it's not a capital investment, it's not a capital asset

per se, but includes operations associated with the maintenance and preservation, for example, of capital assets, of capital infrastructure.

Mrs. Mayer: So, when you're reporting on tangible capital assets, would this capture all types of acquisitions by the Province?

Mr. Hrichishen: It would, as defined in the Public Accounts.

Mr. Yakimoski: When it comes to budgeting for a department like Education, I assume—am I correct in assuming—thank you, Mr. Chair—that the department brings forward budgetary numbers to yourself? Is that correct?

Mr. Hrichishen: Departments bring forward their estimates to Treasury Board, not to the staff of the Finance Department per se, but to Treasury Board.

Mr. Yakimoski: The reason I ask—thank you, Mr. Chair—is I noticed that looking at—on volume 1, page 53, the Expense Trend Analysis by Function, the actual expenses in Education for '14-15 are 3,838, but it seems strange that in the following year's budget they would have estimated it \$50 million lower when trends are always going up. So they've got an actual number. Would that something be that your department would have said, yes, that's understandable, or is that a Treasury Board issue or—I—you understand my confusion here?

Mr. Hrichishen: Yes, and I apologize. And as an economist, I learnt fairly early on that accountants have their own world, and it often involves stating numbers most recent being to the left rather than the right, and I—so it's possible that '15-16, being the leftmost number—*[interjection]*

Mr. Chairperson: Mr. Yakimoski.

Mr. Yakimoski: Fifteen-sixteen is the leftmost. I'm referencing the '14-15 before the '15-16 budget would have been prepared.

Mr. Hrichishen: So, just to clarify, sir. So the question is why it's increased from year to year? *[interjection]*

Mr. Chairperson: Mr. Yakimoski.

Mr. Yakimoski: Sorry, Mr. Chair.

Why the budgeted amount for '15-16 would be \$50 million less than the actual amount in the previous year when the trends for Education and health care are increasing.

Mr. Hrichishen: It—we believe it's because the budget amount reflects the error that we spoke about before. I am sorry for the confusion.

Mr. Yakimoski: No, I was just wondering if something might have been reclassified or if there was not, the error seemed to permit—perhaps refer to that.

Thank you, Mr. Chair.

Mr. Kelly Bindle (Thompson): Looking at the summary financial statements on page 78 of volume 1, in 2015, the net loss for the year was \$430 million, and in 2015, Moody's downgraded their credit rating. There was a credit downgrade. Did Moody's give—or, what reasoning did Moody's provide for that downgrade?

* (20:10)

Mr. Hrichishen: I believe the rationale Moody's gave was the concern they had with execution error in achieving fiscal targets.

The credit rating agencies are largely driven by their assessment of the fiscal results of any jurisdiction, as well as their expectations for finding balance—or, pardon me, the jurisdiction finding balance or improving their fiscal situation. So there are those two elements: the current observed fiscal performance of the Province as well as their expectations for the timing, or the aggressiveness by which a province would see an improvement in their fiscal situation.

Mr. Bindle: Given—well, given that the following year the net loss for the year was double the previous year, was there another downgrade since then?

Mr. Hrichishen: Just to clarify, are you asking about what has happened subsequent to the 2015 Budget, or the 2016 Budget?

Mr. Bindle: Well, the way I'm—I understand it is that the downgrade came—the downgrade by Moody's came before the actual net loss of the year was stated in 2015.

Is that correct?

Mr. Hrichishen: I believe that's correct.

Mr. Bindle: So, since that 2015 actual net loss came out for \$430 million, the following year they budgeted \$422 million as a net loss in the budget.

Was—did any of those credit rating agencies downgrade after—subsequent to that? Or was there any following—downgrading of the credit after?

Mr. Hrichishen: So the Province of Manitoba was downgraded in—on July 29th of 2016. And there was reference to the current fiscal situation as well as concern respecting the outlook for the Province over the medium term.

As I mentioned before, there was concern. Standard & Poor's indicated there was at least a one-in-three chance that they would lower the ratings by one notch for Manitoba.

Mr. Bindle: Okay, so—but there wasn't a subsequent downgrading again by Moody's, was there?

Mr. Hrichishen: I don't believe so. I can verify that, though, and provide you with a history—a recent history, if that would be valuable. I don't want to be unequivocal here.

Mr. Bindle: And how is—like, what do they use as a main key performance indicator? Would it be the net debt-to-GDP ratio? Is that true?

Mr. Hrichishen: From my experience, I think they are largely driven by the financial metrics of the Province. We would include here the net debt-to-GDP ratio, the ratio of net debt to revenue, the fiscal balances of the Province.

But I'd also add that, in doing their assessment, in my experience, they also focus on factors outside of the bare financial reporting of the Province. And this is not unique to Manitoba; it's the way credit rating agencies conduct themselves. They look at such factors as financial flexibility, whether the Province has access to international markets, whether, in the event of a liquidity crisis in one particular market, they would have access to other markets to conduct their borrowing for the necessary programs of the provincial government.

They look at the stability of the economy, which is, I think, quite universally recognized as a credit positive amongst the credit rating agencies for Manitoba, given that we have a very stable, diversified, broad-based economy that over time tends to be less sensitive to business cycles than many other jurisdictions.

So there's a number of factors that are looked at, but, again, it's principally the fiscal metrics, the fiscal reports end, and the outlook.

Mr. Allum: I thank the deputy for coming tonight and his staff. It's very helpful, very useful.

My ears always perk up when I hear a history lesson given that I once spent a lot of time doing

history. I wonder if it might be useful for the committee when you talk about a bit of a historical background, or whether it wouldn't be useful to provide a really longer term than just a couple of years. It might be useful if we could go back, say, 20 years, and then we could sort of see how it's gone up and down over the last couple of decades. And then members will have an opportunity just to see sort of the ebb and flow of credit ratings over time.

Mr. Hrichishen: If you're referring to the credit rating changes themselves for the Province, we do have that information.

Ms. Judy Klassen (Kewatinook): In regards to the special needs education of the Auditor General, page 34, I had a question of the review of recommendations, and I was wondering if the department has made any progress in regards to recommendation 17, specifically points 1 and 3?

Floor Comment: What page are you on?

Ms. Klassen: Oh, sorry. Page 36–35, 36.

Mr. Chairperson: So, just for clarification for members of the committee, while we are considering the report that she referenced, we're not considering that particular section. So my apologies for not making that more clear to the committee.

Are there any further questions for members of the committee?

Mr. Helwer: Well, we have 2014 here, so we better look at it. It might be the last time we look at it for a bit.

When I look at page 76 of the 2014 report, page 76 of the 2015 report, and page 78 of the 2016 report—and thank you to the department for having them in roughly the same area so that it's a little easier for us to find them—when I look at the net loss for the year, we've tended, it seemed, to have quite a difference between the budget and actual.

And I know going back years prior to 2014 there was discrepancies as well. You know, we've had quite a difference in 2015 between the budget and actual net loss of the year from 375 to 452 and again, of course, in 2016, the deputy already spoke to that difference. But can you give me a feel for what the department feels is acceptable in terms of how far apart these numbers are? I mean, the 2014 numbers, we're looking at 518 to 522, so not a huge numerical difference, still millions of dollars and that matters to Manitobans and prior years were a little farther apart.

Is there a—can you give me an idea of what's close in respect to the department?

* (20:20)

Mr. Hrichishen: I think the answer is that we'll make any accounting adjustments that we feel better reflect the actual financial results of the Province. In a perfect world there would be none, but insofar as those occur, that changes in accounting policy occur, information's discovered that was not available at the time or misinterpreted at the time, we'll do our utmost to bring them forward and be as completely transparent about the rationale for those as possible.

In this particular instance, I'd like to take the question as notice and provide a comprehensive and very specific answer to your question.

Ms. Klassen: Page 78 of volume 1, I believe, regarding federal transfers, equalization, Canada health and social transfers, how do we receive funding? These are transfers for Manitobans, correct?

Mr. Hrichishen: That's correct. The Canada Health Transfer, Canada Social Transfer and equalization or federal transfers to the provinces. In the case of CHT and CST, to the territories as well, and the CST and CHT are per capita grants at this stage now. Equalization is based on a very complicated formula but one that seeks to address differences in fiscal capacity amongst the various regions of Canada to ensure that Canadians are—have access to levels of services, regardless of where they live in this country, at tax levels that are roughly comparable amongst jurisdictions. That's what equalization is there for.

The current terms of those arrangements are that CST, I believe, is the current formula of a 3 per cent escalator on the total envelope of CST to all jurisdictions is in place until, I believe, 2023-24 fiscal year. CHT is in place until the same period. Of course, there's been a change in the escalator formula, which will reduce transfers to provinces including Manitoba over the next number of years. I believe next year the impact is roughly 40 million to us.

Equalization—the terms of the equalization formula are discussed by provinces and the federal government extensively for a period of a year to 18 months prior to the renewal of the equalization terms. Again, it's not an agreement; it's—there's a conversation that takes place between the federal government, finance departments, across the country

as well, to find the best way of ensuring that the constitutional commitment to provide equalization in the manner described is provided.

Now, those terms are expired for the '19-20 fiscal year, so discussions to ensure that Manitoba's represented, our interests are represented, and all provinces will participate in these as well, will begin very likely next year.

Ms. Klassen: You've said that regardless of where you live. I have a great deal of difficulty getting answers because I'm always told to go to my federal cousins. I represent Kewatinook, and I'm always told that they're a federal responsibility, but you're telling me that it's regardless of where we live, we should be getting support through these equalization.

Mr. Hrichishen: The requirement for the equalization program is to attempt to address the problems associated with regional disparities: economic disparities, disparities in income, as translated within the formula as fiscal capacity, or the amount—the capacity of each jurisdiction to raise revenue based on their particular circumstances relative to a national standard.

You're describing a somewhat broader question which, I think, is probably beyond our discussion today.

Ms. Klassen: So you speak of the funding formula. Could you table that funding formula?

Mr. Hrichishen: I would refer you to volume 1, page 44, that scopes out the—in a general way, the purposes of the equalization program and the metrics. I can provide a more extensive description of that. It's available on various websites, but I'll undertake to provide that to you.

The actual equalization program itself is a much more complicated document. In fact, I recall one practitioner once telling me that there is probably only about 10 people in the country who really knew how it worked, and five of them were retired and the other five wouldn't talk to you anyway.

But, it is a very complicated formula. The last time I worked on equalization as an economist there were 5,000 individual calculations that went into calculating the entitlement for each and every jurisdiction relative to the national average.

It's also quite complicated by the fact that now the federal government has imposed a cap on the equalization, so they're rate of growth of total entitlements to provinces can only grow at a

three-year moving average of GDP. And, if you exceed the cap on your entitlement, the cost of that through reduced entitlements is then distributed across all the recipients.

The calculation, if you're willing, I'll provide a modestly detailed description of that program to you. I think a comprehensive—I'm not aware of any comprehensive description or outline of the equalization program that would be helpful to most people.

Ms. Klassen: Thank you. We've been fighting that 2 per cent funding gap for decades upon decades in indigenous countries, so I appreciate your attempt to try and get me that formula. It would be great.

Thank you.

Mr. Yakimoski: On 2016, volume 1, on page 40, under Own Source Revenue, about three quarters of the way down, it references income taxes increasing by \$98 million, and then in the very next thing, and maybe it's more of a question, on page 48-49, to compare variance analysis, on page 49, right near the top at the first bullet point, it says: A decrease of \$75 million in income taxes due to overestimation.

* (20:30)

So, in one spot, it says, income taxes increasing by \$98 million, but then, in the variance analysis, it says we've got a decrease of 75.

Could you elaborate?

Mr. Hrichishen: The increase of \$98 million that is referenced on page 40 refers to the net year-over-year increase. The \$98-million increase is also reflected on page 48 of volume 1. The reference on page 49, in volume 1, refers to the actual-to-budget variance in '15-16—actual compared to budget.

So I apologize. It was not clear.

Mr. Yakimoski: One is actual to actual, and the other one is actual to budget? *[interjection]*

Mr. Chairperson: Mr. Hrichishen.

Mr. Hrichishen: Pardon me—actual to prior-year actual, and the actual to budget.

Mr. Chairperson: Okay, seeing no further questions, I'll put the question to the committee.

Volume 1 of the Public Accounts for the fiscal year ending March 31st, 2014—pass; volume 2 of the Public Accounts for the fiscal year ending March 31st, 2014—pass; volume 3 of the Public Accounts for the fiscal year ending March 31st, 2014—pass; volume 4 of the Public Accounts for the fiscal year ending March 31st, 2014—pass.

Shall volumes 1, 2 and 3 of the Public Accounts for the fiscal year ending March 31st, 2015, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: I hear a no. This report is not passed.

Shall volumes 1, 2 and 3 of the Public Accounts for the fiscal year ending March 31st, 2016, pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: I hear a no. This report is not passed.

Does the committee agree that we have completed consideration of the Accounts and Financial Statements of the Auditor General's Report—Follow-up of Recommendations, dated May 2016? *[Agreed]*

The hour being 8:33, what is the will of the committee?

Some Honourable Members: Rise.

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

Committee rise.

COMMITTEE ROSE AT: 8:33 p.m.

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