Second Session - Thirty-Ninth Legislature

of the

Legislative Assembly of Manitoba

Standing Committee on Public Accounts

Chairperson
Mr. Leonard Derkach
Constituency of Russell

Vol. LX No. 6 - 7 p.m., Wednesday, October 8, 2008

ISSN 0713-9462

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

Member	Constituency	Political Affiliation
ALLAN, Nancy, Hon.	St. Vital	N.D.P.
ALTEMEYER, Rob	Wolseley	N.D.P.
ASHTON, Steve, Hon.	Thompson	N.D.P.
BJORNSON, Peter, Hon.	Gimli	N.D.P.
BLADY, Sharon	Kirkfield Park	N.D.P.
BOROTSIK, Rick	Brandon West	P.C.
BRAUN, Erna	Rossmere	N.D.P.
BRICK, Marilyn	St. Norbert	N.D.P.
BRIESE, Stuart	Ste. Rose	P.C.
CALDWELL, Drew	Brandon East	N.D.P.
CHOMIAK, Dave, Hon.	Kildonan	N.D.P.
CULLEN, Cliff	Turtle Mountain	P.C.
DERKACH, Leonard	Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary, Hon.	Concordia	N.D.P.
DRIEDGER, Myrna	Charleswood	P.C.
DYCK, Peter	Pembina	P.C.
EICHLER, Ralph	Lakeside	P.C.
FAURSCHOU, David	Portage la Prairie	P.C.
GERRARD, Jon, Hon.	River Heights	Lib.
GOERTZEN, Kelvin	Steinbach	P.C.
GRAYDON, Cliff	Emerson	P.C.
HAWRANIK, Gerald	Lac du Bonnet	P.C.
HICKES, George, Hon.	Point Douglas	N.D.P.
HOWARD, Jennifer	Fort Rouge	N.D.P.
IRVIN-ROSS, Kerri, Hon.	Fort Garry	N.D.P.
JENNISSEN, Gerard	Flin Flon	N.D.P.
JHA, Bidhu	Radisson	N.D.P.
KORZENIOWSKI, Bonnie	St. James	N.D.P.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar, Hon.	The Pas	N.D.P.
LEMIEUX, Ron, Hon.	La Verendrye	N.D.P.
MACKINTOSH, Gord, Hon.	St. Johns	N.D.P.
MAGUIRE, Larry	Arthur-Virden	P.C.
MARCELINO, Flor	Wellington	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McFADYEN, Hugh	Fort Whyte	P.C.
McGIFFORD, Diane, Hon.	Lord Roberts	N.D.P.
MELNICK, Christine, Hon.	Riel	N.D.P.
MITCHELSON, Bonnie	River East	P.C.
NEVAKSHONOFF, Tom	Interlake	N.D.P.
OSWALD, Theresa, Hon.	Seine River	N.D.P.
PEDERSEN, Blaine	Carman	P.C.
REID, Daryl	Transcona	N.D.P.
ROBINSON, Eric, Hon.	Rupertsland	N.D.P.
RONDEAU, Jim, Hon.	Assiniboia	N.D.P.
ROWAT, Leanne	Minnedosa	P.C.
SARAN, Mohinder	The Maples	N.D.P.
SCHULER, Ron	Springfield	P.C.
SELBY, Erin	Southdale	N.D.P.
SELINGER, Greg, Hon.	St. Boniface	N.D.P.
STEFANSON, Heather	Tuxedo	P.C.
STRUTHERS, Stan, Hon.	Dauphin-Roblin	N.D.P.
SWAN, Andrew, Hon.	Minto	N.D.P.
TAILLIEU, Mavis	Morris	P.C.
WOWCHUK, Rosann, Hon.	Swan River	N.D.P.
Vacant	Elmwood	

LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, October 8, 2008

TIME – 7 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Leonard Derkach (Russell)

VICE-CHAIRPERSON – Ms. Jennifer Howard (Fort Rouge)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Mr. Selinger

Mr. Borotsik, Ms. Braun, Messrs. Derkach, Dewar, Ms. Howard, Messrs. Lamoureux, Maguire, Ms. Marcelino, Mr. Martindale, Mrs. Taillieu

APPEARING:

Hon. Nancy Allan, MLA for St. Vital

Mr. Doug Sexsmith, President and CEO, Workers Compensation Board

Ms. Carol Bellringer, Auditor General of Manitoba

Ms. Diane Gray, Deputy Minister of Finance

MATTERS UNDER CONSIDERATION:

Auditor General's Report - Review of the Workers Compensation Board, dated January 2006

Auditor General's Report - Audit of the Public Accounts for the year ending March 31, 2007

Public Accounts for the year ended March 31, 2007 (Volume 1)

Public Accounts for the year ended March 31, 2007 (Volume 2)

Public Accounts for the year ended March 31, 2007 (Volume 3)

Public Accounts for the year ended March 31, 2007 (Volume 4)

* * *

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

The meeting tonight has been called to consider the following: The Auditor General's Report, Review of the Workers Compensation Board, dated January 2006; the Auditor General's Report, Audit of the Public Accounts for the year ending March 31, 2007; Volumes 1, 2, 3 and 4 of the Public Accounts, the year ended March 31, 2007.

It has been announced in the House that the committee would sit until 9 o'clock this evening or, if we deem it necessary, until 10 o'clock.

Are there any suggestions as to the order in which the reports should be considered? *[interjection]* Prior to us dealing with that issue, is it agreeable that we should revisit the time the committee should sit until at 9 o'clock? *[Agreed]* Thank you.

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

Mr. Rick Borotsik (Brandon West): If I may, Mr. Chairperson, as identified on the agenda, we should go through the reports beginning with the Workers Compensation Board.

Mr. Chairperson: Is that agreed to? As printed? *[Agreed]* Thank you very much.

So now we will go to the minister and ask if the minister would like to make an opening statement and introduce your staff.

Hon. Nancy Allan (Minister charged with the administration of The Workers Compensation Act): I don't feel an opening statement is necessary. I'd just like to invite my staff to join me at the table.

I'd like to welcome Jeff Parr, the Deputy Minister of Labour and Immigration, and Doug Sexsmith, the CEO of the Workers Compensation Board. I'd like to ask Doug to introduce his staff that he has with him this evening.

Mr. Doug Sexsmith (President and CEO, Workers Compensation Board): Yes, thank you. Starting from the left, I have Lori Sain, our Corporate Secretary and General Counsel. Harold

Dueck is our CFO. In the second tier of chairs, I have Alice Sayant who is our Vice-President, Prevention, Assessments and Customer Service, and Rob Campbell who is our Associate Vice-President, Human Resources and Administration.

Mr. Chairperson: Thank you. Madam Minister.

Ms. Allan: As well, we have from the Department of Labour and Immigration, Dr. Rick Rennie.

Mr. Chairperson: Thank you. Does the critic for the official opposition have an opening statement?

An Honourable Member: No.

Mr. Chairperson: No? Thank you. Does the Auditor General have an opening statement?

Ms. Carol Bellringer (Auditor General of Manitoba): I don't have an opening statement, but there were two questions that were asked at the previous Public Accounts Committee meeting, and I do have responses to those. They were questions that were asked specifically of myself.

One of them was a reference in the report about another whistle-blower situation. I had mentioned at that meeting that I believed that it was the Department of Education and it was with regard to the Teachers' Retirement Allowances Fund. I just want to confirm that that is the case. I have some news clippings that just refer to the situation, and I'll provide them to the Clerk for distribution to the members. Also, I just want to mention that with regard to that, it's a situation that is in the courts. There's both a statement of claim and a counterclaim that have been filed between the Teachers' Retirement Allowances Fund and a gentleman named Thomas Ulrich. So that was it on the first question.

The second question that was asked had to do with the role of the Deputy Minister of Finance on the investment committee. We had a fairly lengthy discussion, I believe, at the last Public Accounts Committee meeting about the governance situation and the changes that have taken place within the Workers Compensation Board in terms of structure. The Deputy Minister of Finance no longer sits on that investment committee. The investment committee was not reporting to the board. It currently is. I did go back through our files. It wasn't something we had looked into as to whether there were any specific issues around that, but I didn't find anything to suggest that we should have looked into it further at the time. So, if there are further questions from the members on that, I can see if I have answers to that tonight that are more comprehensive than the last meeting, but there was nothing that I thought needed to be brought forward.

Mr. Chairperson: Thank you, Madam Auditor General. Before we move on to questions, I'd like to ask whether Mr. Sexsmith from the Workers Compensation Board would like to make an opening statement.

Mr. Sexsmith: No, I don't have an opening statement, thanks.

Mr. Chairperson: Thank you. The floor is now open for questions.

Mr. Kevin Lamoureux (Inkster): Mr. Chairperson, just for the Auditor's further comment, the letter that she's referencing, and I appreciate her being able to get back to the committee as quickly as she has, it indicates in the report that, and I quote right from the report: We are also aware of one other instance in which the former CEO, a letter of complaint to a minister, received insufficient action on part of the minister.

So the letter you're referring to would have been in the hands of the minister. Would the minister have given a direction on that particular letter, because, in the report, it's in essence saying that there was insufficient action on the part of the minister? Do we know what it is that the minister–like, what did the minister do wrong?

Ms. Bellringer: Mr. Chair, I don't have any further detail other than what was in the report and what I've provided. What I will add is, with the new whistle-blower legislation, the process that would be undertaken in any similar situation going forward is much different now. So we, going forward, have avoided anything like this ever happening again. But I don't have anything specific on the choice of words that you're being fairly specific about that is included in that report. If the member would like to ask me something really specific around that, I can go back to the file and see if I can find something, but, I'm sorry, I don't have that detail with me.

Mr. Lamoureux: Yes, very specifically, could the Auditor get back to me as to confirmation as to what minister–does the Auditor's office know which minister they would have been referring to?

***** (19:10)

Ms. Bellringer: That was with regard to the Minister of Education (Mr. Bjornson).

Mrs. Mavis Taillieu (Morris): In the last meeting, I was asking questions in regard to the investment committee and the fact that, at the time the Deputy Minister of Finance was on the investment committee, and I was asking questions in regard to who made the decisions on the investment committee, and if there was direction from the minister and through the deputy minister. I wonder if you can indicate today, after you've looked into it further, the structure of the committee, who was voting on that committee and what transpired for the decisions that were made to invest the $2 million into the True North corporation.

Ms. Bellringer: I do have a little bit more information on that particular decision that was made by the investment committee. I'll call it a loan; it wasn't a loan that was provided–but there was–in fact, I did not look into the actual loan agreement to have any of the specifics around it. But it's a $7.5-million loan facility that could've been provided. But, as Mr. Sexsmith indicated at the last meeting, it never was. In return for that, there were $2-million worth of, they're not actually shares, they're limited partnership units that were provided in return with an attributed value of $2 million.

I did look at the minutes of the meeting for that final decision, which I would separate from any discussions that may have taken place prior to that, and other analyses that may have been provided to either the investment committee or the board. I didn't look into that. I just looked at the minutes for that final decision, and there were only two individuals present who were part of the committee, and that was the Deputy Minister of Finance and there was a chairperson designate who was the CEO because the Chair was absent from the meeting, by the minutes, and it's my understanding that it was because he removed himself because of a potential conflict that could've been perceived. So, in effect, the Deputy Minister of Finance was the only voting member at the time that that decision was formally made.

Mrs. Taillieu: So I'm to understand that the deputy minister did make the final decision, then, on the placement of the $2 million. But you did indicate that there was $7.5 million–I'd like to maybe ask Mr. Sexsmith, was there a request for $7.5 million and then a decision to just provide a $2-million loan guarantee?

Mr. Sexsmith: Yes, I think, having had the chance to look back, or to recall back on this issue–first of all, I'd like to correct the record from last time. I think I said it was 2003; in fact, it was 2002. So my memory's even fuzzier going back to 2002 than it was for 2003.

But, to your question, it was a loan facility which would've provided up to $7.5 million, and in return for providing that loan facility, there were $2 million in limited partnership units that were provided to the WCB.

Mr. Chairperson: Just before you proceed, if I might, two pieces of information have been handed out, requested. I'm hoping all members of the committee received them. One being the Auditor General's information regarding an answer that she provided. Secondly, there's the outstanding reports list and the outstanding volumes list that was provided as well.

Mrs. Taillieu: Okay. One sec, here.

I guess I'm just a little unclear as to the meaning of this $2-million loan guarantee, so you just have to indulge me, if I can ask a few questions as to exactly what that means. I think at the last meeting you indicated that would mature as of 2010. Can you explain what kind of return on that $2-million loan guarantee, what kind of return on investment you would receive? Are you getting shares in the True North company, and are they valued at 2002 level or 2010 level?

Mr. Sexsmith: Just to be clear, this is a loan facility provided with a maximum loan that would have been provided of up to a maximum of $7.5 million. The $2 million is not the loan amount. The $2 million is the equity that was provided as payment, if you will, for the provision of the loan facility to the WCB. So the $2 million is what we have on the books for payment for providing the loan facility.

Mrs. Taillieu: So what is the current value, then, on your books of the loan guarantee?

Mr. Sexsmith: We currently have it on our books at $2 million.

Mrs. Taillieu: Okay. You'll have to indulge me a little here. I'm not an accountant.

So then, you didn't put any money in, but you have a loan guarantee on your books for $2 million.

Why don't you just walk me through that again, then, as to what you put in, what the return is on the investment and why you did it?

Mr. Chairperson: Mr. Sexsmith, I'm going to ask that you provide some clarity because, obviously, there seems to be a little confusion on this point.

Mr. Sexsmith: Okay. I'll do my best. I'm not an accountant either, by the way, so, you know, we'll try and speak the same language. The arrangement that was made–sorry, don't mean to insult the accountants in the crowd, but the arrangement that was made at the time that True North was putting in place arrangements to build the arena was they had a major lender who was providing them with a loan, and as a, I guess, a backup, a further loan arrangement to provide further security, we provided, at their request, a loan facility for a maximum of $7.5 million. I think I mentioned last time that this facility was put in place to provide further assurances should issues arise during the construction and for the period of time shortly after the construction of the new arena. So that was the purpose of it. It was to give the lender enough comfort for them to put the deal together, that there was a further loan facility available if it needed to be called on.

The only payment that we–pardon me. If that loan facility were ever called on, we would have received a rate of interest on that loan, and I think I mentioned last time that it was about 8.75 percent, and I looked it up and it is. It was 8.7–well, there were several options, but 8.75 was probably what it would have been. I've lost track of my time, but anyway, it has never been called on, that's right.

So, as a result, we have the $2 million in equity on our books that we received in return for providing that loan facility.

Mrs. Taillieu: Okay. Is that truly an equity that's worth $2 million?

Mr. Sexsmith: We believe that $2 million is a reasonable value. The Auditor General mentioned in the report that we didn't have an independent valuation of that. We still are carrying it on our books at $2 million, which was the value at the time based on the value of the issues that were made at that time. We still have it on the books at $2 million.

We have no reason to believe that the $2 million would have eroded. True North is now a successful venture and we're hoping that at some point that $2 million will be worth a lot more money.

***** (19:20)

Mrs. Taillieu: Is it possible, then, that you can sell your interest and get the equity out of it?

Mr. Sexsmith: It is possible that it could be sold at some point, but I can't give you a time frame on that.

Mrs. Taillieu: I'm on actually page 58 of the review and it does say: However, a conventional valuation report in support of the 2-million deemed value was not available for review. It should be noted that the Workers Compensation Board had an offsetting liability on the balance sheet of 1.7 million represented as unearned revenue.

Could you just explain that?

Mr. Sexsmith: Yes. Now you're getting into the accounting side of it and I'm going to have to pause for a minute and get advice.

Yes, okay, I understand that, for accounting purposes, we recognize the $2 million as income over the life of the facility that was in place. So that's why it would have been recognized the way that it was.

Mrs. Taillieu: Thank you, but I just want clarification on the 1.7 as unearned revenue or liability.

Mr. Sexsmith: Okay, I understand that it's not an asset until we've recognized it over the period of the life of the agreement; therefore, it sits on the liability side of the balance sheet as a deferred payment.

Mrs. Taillieu: Well, perhaps the Auditor General would like to comment on that.

Ms. Bellringer: Just from a pure accounting perspective, if you were to look at the financial statements year to year, you're going to see a different number in the investment and you're going to see a different number in the revenue and you're going to see this deferred revenue account.

So what you'd see in the first–on day zero, none of the revenue is recognized yet. When you get to the end of the full period, you'll have seen the 2 million. So each year a portion of it is recognized, so it isn't until you're finished. At the point that this audit was conducted, of the 2 million in revenue, 1.7 of it had not yet been recognized–only 300,000, in effect.

So it's gradually brought in until you get to the end of the–now that's assuming that it's never called on over that full period and, in that event, by the end of the period, you would have recognized the full 2 million.

So, in each year, you'll only see a portion of that. It sounds like it's a seven-year-total period, so somewhere between 200 and 300 a year, which is what explains that difference.

Mrs. Taillieu: Just on the next page–and I'm going to ask for clarification–it says that the 2 million deemed carrying value of one private-placement investment was not supported by a conventional valuation based on the operating performance of the investment and therefore is uncertain.

Could I ask the Auditor General what that means by uncertain? Uncertain as to what?

Ms. Bellringer: The uncertainty is with respect to what the investment is worth. So, in any kind of investment that's not, in effect, traded on a stock exchange, you're going to have to come up with a formula to figure out how to value it. It's a factor of what policy is chosen to use to do that valuation. In this case, if something's not traded–I mean, it really boils down to, it's worth what you get the day you sell it. Without knowing that, you don't know what that number is.

So one way to accomplish that on a regular basis is to go and get an independent valuator to come in and apply some formula to figure out what it's worth. So what this is suggesting is that that should be done.

Mrs. Taillieu: Well, thank you very much. So I'm understanding that that was not done at the time when the decision was made by the Deputy Minister of Finance. But I'm going to ask Mr. Sexsmith now, what are the policies and procedures around the decision-making process and how many people are there now serving on the investment committee?

Mr. Sexsmith: Well, as you know, and as we discussed last time, there have been significant changes in the legislation since this period of time. Now on the investment committee there are five members. They are one member from each of the three representative groups, plus the chair of the board sits on the committee as well. The Investment and Finance Committee has the wherewithal under the legislation to hire up to three additional people to sit on the committee and they have one additional person sitting on the Investment and Finance Committee, a retired vice-president from Investors Group. His name is Bob Darling, and he also sits on the committee.

Mrs. Taillieu: Thank you for that. I wanted to ask just–you've told me in the last meeting that you have ceased the practice of doing private placement investment, but at one time you did have, I think, 19 private placement investments. Now, I don't know if you've divested yourself of all of those private placement investments or not. I think you indicated that you're not doing it anymore, but what of those 19 do you still have?

Mr. Sexsmith: I'm not exactly sure how to count to 19, but there were something in the area of 17 or 19 such investments. As you said, we are not making any new investments, we're looking for opportunities to divest ourselves or to let these ones run their course. The Manitoba Property Fund is no longer there. I'm not sure if that would have been counted in the 19 that the Auditor General was referring to, but that's one that I can give you as an example that no longer exists. I'm not sure whether that was counted as real estate or private placement, but nevertheless. I understand that was probably counted as real estate.

So we're down, I think we're down about four private placements since that time.

Mrs. Taillieu: Thank you. In section 7 entitled Investment Management in the report, it says that the private placement investments were $23.9 million and Winnipeg-based real estate investments were $15.7 million, 11 of these 19 private placements made and located in Manitoba, four of five real estate investments located in Manitoba.

You're telling me now that the Manitoba Property Fund is no longer in existence. But there's a significant amount of money here. I think, probably $39 million or so. What's happened to that money if you don't have it in these private placements?

Mr. Sexsmith: Any money that's not in the private placements would have been re-allocated elsewhere in the investment portfolio.

Mrs. Taillieu: And you did indicate that the Manitoba Property Fund no longer exists. Is there a similar fund under another name that is invested in, but it's not called the Manitoba Property Fund, but may be called something else?

***** (19:30)

Mr. Sexsmith: We do continue to make investments in real estate. I think I mentioned last time that our investment policy allows for 12.5 percent investments in real estate, but there's no like fund to the Manitoba Property Fund that I can think of.

I'd also like to mention that, having looked back through the *Hansard* at our last discussion, just to clarify for the committee that the Manitoba Property Fund was not a losing venture for the WCB. The Auditor General had a number of comments and recommendations around the structure of the Property Fund which, I think, with the benefit of hindsight were good advice, but I just want to make it clear to the committee that the Manitoba Property Fund was not a loser.

In fact, we invested approximately $3 million and got back over $4 million, for an annual return of 17 to 18 percent in the Manitoba Property Fund. I think that our staff did a very good job of managing that fund and making sure that the WCB's interests were protected or managed throughout that.

Mrs. Taillieu: It sort of begs the question: Were some of the funds losers? Perhaps you could indicate if some of the investments in some of the funds were private placements or property funds in which you did not fare so well.

Mr. Sexsmith: Yes, I can tell you that, over the five-year period ending in 2006, private equity returned an average of 8.9 percent; over the five-year period ending 2007, private equity returned 5.2 percent.

As is the nature of these kinds of investments, they're higher risk. Some of them make money and some of them don't. I think we talked last time about the investment in the Crocus Fund. That was not a money-making venture for the WCB. We invested about half a million dollars in that fund, as I mentioned last time, so there's an example.

Mrs. Taillieu: I understand, though, that there's been settlement with Crocus. I wonder if the Workers Compensation Board has made a settlement.

Mr. Sexsmith: No, we're still actually waiting for that to be settled.

Mrs. Taillieu: I'm looking now on page 20 of the review and, just on figure 3, revenue, investment income, it starts from 1999 to 2004. I can see that it did go up slightly in 2000, but then dropped off a little in 2002. Can you explain that, please?

Mr. Sexsmith: I'm still looking for the line you're referring to, but I can tell you, off the top of my head, that, in the years 2001 and 2002, investment markets were somewhat weaker than the norm, so you would expect to see income from the investments be lower in those years.

Mrs. Taillieu: I see in the report on the previous page it says Workers Compensation set up a new concept called other comprehensive income and then, when the investment is sold, the realized gain is reclassified from other investment income to investment income. Then I see in the table Figure 2, Accumulated other comprehensive income, in 2004 of 60 million. Would you explain that?

Mr. Sexsmith: I'll do my best to explain this in layman's language. Again, we're getting into accounting detail here, but let me give you sort of the layman's view of how that occurred.

In 2004, there were accounting changes that were introduced and, in years previous to that, we used to, what we called, smooth our investment income into our books. However, the accounting rules changed in, I believe it was 2004, which no longer allowed us to smooth the investment income in over a period of time. What that essentially amounted to was sort of averaging in investment gains and losses over a period of time. We no longer were allowed to do that, and at the same time, we then had to recognize those, what I would call unrealized gains or losses on our books. That's what the other comprehensive income is.

Really, what it amounts to is when you sell an equity, for example, and you have a capital gain, it then moves to your income line. I hope I've explained that adequately.

Mrs. Taillieu: Okay. Thank you, but can I ask, why was the decision made to do it that way? Who made that decision?

Mr. Sexsmith: I would call them the ruling accounting bodies. I don't know their proper names, but you can be assured it wasn't our idea.

Mrs. Taillieu: Okay. I just want to clarify that you did actually do an investment into the Manitoba Property Fund of $10 million, and you did tell me that you realized a gain through that fund.

Mr. Sexsmith: Actually, we didn't invest $10 million. We only invested, I think I said earlier, it was about–excuse me while I check my notes here–it was a little over $3 million, and we sold it for $4.4 million. That's approximately correct.

Mrs. Taillieu: On page 62: ABC Fund was an investment with a $10-million commitment from Workers Compensation Board that was dedicated to making real estate investments related to revitalization, redevelopment, and/or development of the downtown area–okay–as of December 31, had advanced $2.3 million for the purchase of four parking lots and two office buildings. Is that what you're referring to here?

Mr. Sexsmith: Yes, it is.

Mrs. Taillieu: Do you still own the four parking lots and the two buildings?

Mr. Sexsmith: No, we don't. We sold them for $4.4 million.

Mrs. Taillieu: Thanks. Who bought them?

Mr. Sexsmith: We sold them to Huntingdon REIT.

Mrs. Taillieu: Okay. You know, it's just pretty confusing to try and figure out who partner A and partner B and all of that is, but it does say that the Workers Compensation had already committed the $10 million of it and approved it. So there was a commitment of $10 million to the Manitoba Property Fund but that never materialized?

Mr. Sexsmith: That's correct. When the fund was set up, there was an intent of it being a certain size but that did not materialize, and we never went beyond the initial investment here that we've talked about.

Mr. Doug Martindale (Burrows): I see in Appendix D that there are different rates of return, and I'm not sure what CVCA means, but I wonder if you could comment on the rates of return for the various investment portfolios and their success. Also, how does your rate of return compare to other provinces?

***** (19:40)

Mr. Sexsmith: Actually, our rates of return–I can share a number of years back with you in going backwards from 2007, our rates of return were 6.5 percent, 13.9 percent, 12.9 percent, 11.8 percent and 11 percent over the last five years. We regularly rank near the top, I would say, in comparison with other WCBs in the country.

In 2007, which was a difficult year in the investment market, I believe we were the top-rated WCB investment fund over that 2007 period.

Mr. Martindale: I notice on page 19, 4.2, it says that the WCB of Manitoba is one of the few fully-funded WCBs in Canada. I wonder if you could tell me, Mr. Sexsmith, how many are fully funded? It says one of the few.

Mr. Sexsmith: Yes. At the time this report was written there would have been very few fully funded. We were one of the first. We've been fully funded since the late '90s, I believe. There are more boards who are fully funded now.

Now the majority of the boards are fully funded. At that time we were certainly ahead of most of the boards in terms of being fully funded. I think I mentioned last time that our reserves are very healthy, and our balance sheet was very strong at the end of our last accounting period.

Mr. Martindale: I noticed somewhere in the report the amount of the total investment portfolio, but this report is a few years old. I believe it was in the area of 800 million–*[interjection]* 785.

Could Mr. Sexsmith tell me what the current investment portfolio is worth?

Mr. Sexsmith: At the end of the last accounting period, at the end of the last fiscal year, it would have been approximately $1 billion.

Mr. Borotsik: That, basically, was going to be my question, but, currently, when you say the end of the last accounting period, what's that? Are you talking year end?

Mr. Sexsmith: Yes, I'm talking December 31, 2007, our books as per our last annual report.

Mr. Borotsik: So that was $1 billion; previous to that it was 785 and this was as of December 31, 2004. I know this is probably something that you don't have an answer for, but we recognize that we're in some fairly turbulent times at the present time, that the markets perhaps aren't reacting the way we would have liked to have them react. In the past they were very advantageous; right now they aren't.

You do, I assume, on a daily, weekly basis receive updates on your portfolio and how they're performing. Can you share with us right now just what's been happening over the past three months particularly, where we've had some difficulties in the marketplace?

If Mr. Sexsmith can't answer that I can appreciate it. It's a matter simply of where we're at. We're going to get the financials at the year end, December 31, 2008. We're almost there. I just wonder if there've been any quarterly reports that he can share with us at the present time.

Mr. Chairperson: Mr. Sexsmith, I'll allow you to answer the question, but this is certainly not within the scope of the report. Nevertheless, if you can answer that, Mr. Sexsmith, it is entirely up to you.

Mr. Sexsmith: I can't answer it in a specific way. First of all, we haven't in the last short period provided a forecast to the end of the year for our board. I wouldn't present something here that I hadn't presented to the board, but I can tell you everybody knows that the equity markets have been troublesome for the last while, and I would just say that that's–you know, back to some of the comments that we made at the last meeting. That's why we maintain a well-diversified portfolio, what I would call quite conservatively managed. We're not market timers. We have a diversified portfolio, and we manage it in a conservative way, I guess.

What I would tell you is that nobody's equity returns at this point in the year are going to be stellar.

Mr. Borotsik: I thank you for that answer, Mr. Sexsmith. I didn't mean to put you on the spot. We all recognize that there is some difficulty in the equity markets right now. I'm sure that you will be reporting that back to your board. I suspect the one billion isn't going to be quite a billion, but that's okay. There are other portfolios that aren't quite as robust as they have been.

When you say conservative, you mean small "c" conservative, but I do appreciate that.

Another question: The ABC, which is very interesting–the only thing that I can recall as ABC is Asset Back Commercial Paper, and I know that's not the ABC Paper that you have. I appreciate that. That was a joke. I don't imagine you have any investments in Asset Back Commercial Paper.

Mr. Chairperson: Mr. Sexsmith, once again a question out of scope in terms of the report. Nevertheless, I'll let Mr. Sexsmith use his prerogative as to the answer.

Mr. Sexsmith: One of our fixed income managers did have a very small exposure to asset-backed commercial paper in one of our fixed income portfolios, probably in the range of–the order of magnitude was $100,000, something like that. As I understand it, that's our only exposure.

Mr. Borotsik: Again, you have a fairly reasonable portfolio, and you're going to be fairly diversified, so I do appreciate the fact that you're going to have other areas of risk. That's just the way it works, certainly with this type and this level of portfolio, so I appreciate that.

You did say that you were divesting yourself of the property in the ABC Fund. There were 19 properties at one point or 19 investments at one point in time. I appreciate that you sell in a high market and you keep in a low market.

Is there a time line, a time frame when you are attempting to divest yourself of these properties and obviously get into a different portfolio or different cash position?

Are you looking at a one-year period or a two-year period or is that an unfair question given the market currently?

Mr. Sexsmith: No, I think it's a fair question but we don't have a specific time frame in mind. We're letting some of the investments run to the course of our commitment or else we're looking for an opportunity to exit in an advantageous way. But we're not going to look to liquidate the assets in a hurry.

Mrs. Taillieu: I'm back on the private placements. I'm actually on page 52 and 53 of the report. Just on the bottom of 52 and then to the top of 53.

It says, out of 19 private placement investments as of December 31, 2004, seven were direct investments in venture capital. Two were investments for private equities. Seven were a mixture of both venture capital and private equity. Three other investments were more difficult to categorize and are best considered as one off, and transactions including one secured real estate investment. I'm curious as to what you're referring to here?

Mr. Sexsmith: Well, of course, I'm not sure which ones are which here, but I'd be glad to answer any questions if we can–we're speculating a little bit because they're not named in the report. We did have a couple of secured real estate investments with the University of Manitoba which were essentially bonds, which were guaranteed by the university. We're thinking that those are referred to here. I'm sorry. Some of them are not named so it's a little bit–we're speculating a little bit.

***** (19:50)

Mr. Chairperson: Just to interrupt, perhaps the Auditor General can provide clarity in that regard.

Ms. Bellringer: I wish I could provide the clarity right now. I cannot because we don't know which those are referring to either. It is, obviously, our report and we do have that information in the file, so I can get it for you.

Mrs. Taillieu: Thank you very much. Just further down it says, many of the Workers Compensation Board private-placement investments involve the same Winnipeg-based co-investors and often lack co-investment capital and expertise from outside of the province of Manitoba. Co-investors were usually other Winnipeg-based financial institutions, Winnipeg-based investment funds, agencies of the Province of Manitoba and individual investors, including the principals of the private-placement entities.

I think that you have the report in front of you, so if you could just go through those ones and tell me who they are, Mr. Sexsmith.

Mr. Sexsmith: You know, I must say I'm guessing a little bit here again. So I assume that these–I can only assume that these comments are referring to some of the partners that we had and some of the ventures that were undertaken. I think that, for example, we've said clearly on the record that we purchased shares from Crocus and the Manitoba Property Fund. TRAF was a partner.

They're not named here, so I'm at a bit of a loss to read them off to you.

Mrs. Taillieu: When it mentions agencies of the Province of Manitoba, do you have any knowledge of what agencies are referred to here?

Mr. Sexsmith: Again, I'm not sure what was exactly meant by agencies of the Province. I guess one could call us an agency of the Province, perhaps, because certainly our board of directors is appointed by the government, even though we do operate independently, certainly in terms of investments.

Mrs. Taillieu: It also, just a little further, says, in July of 2004 the Workers Compensation Board had committed 10 million to a conventional institution investment fund for investment in and outside of Manitoba.

This seemed to be an unusual occurrence, but can you tell me what that refers to?

Mr. Sexsmith: We think that that probably is referring to the Richardson Financial group, where we made a commitment of $10 million in a fund that they had set up to invest both inside and outside of Manitoba.

Mrs. Taillieu: I just wondered if you can indicate what kind of return you received on that.

Mr. Sexsmith: Yes, I believe I can. If you just bear with me for one minute, I'll find it for you here.

Rate of return is 5.7 percent to December 31, 2007.

Mrs. Taillieu: Can you tell me if the Workers Compensation Board had any private placements or real estate investments with Community Ownership Solutions?

Mr. Sexsmith: I don't recognize that name at all. So I don't believe so.

Mrs. Taillieu: I'm just going to ask another question regarding the Manitoba Property Fund, which was a fund to revitalize the downtown Winnipeg and buildings, revitalization kind of fund.

Were you ever knowledgeable of any–was tax increment financing ever mentioned at that time?

Mr. Sexsmith: No, I have no knowledge of that.

Mrs. Taillieu: Thank you. You know I go through the recommendations that have been made by the Auditor General in terms of this report. First of all, I'm going to ask the Auditor General–the way I'm reading this is that there was a lot of concern around private placements regarding just rules and regulations and, I guess, strategies and just how those were to be entered into, but I don't find anywhere that there was a recommendation to be very careful with the private placements and look at how to proceed. But I don't see anything in here that says you should never do private placements.

Can the Auditor General elaborate or confirm?

Ms. Bellringer: It's quite correct that there is no recommendation saying that the Workers Compensation Board should or should not enter into private placements. That would fall into what I would consider a policy decision that is up to the board.

I mentioned this at the last meeting in terms of what we thought would be an appropriate investment strategy for any of the organizations that we may audit. We don't look at that from a merit-of-policy perspective. We're actually prohibited from doing that.

I have to say, though, if we were to see an organization that had something where they were accepting a very high risk on an overall portfolio, we certainly wouldn't remain silent and not point it out, because that would be something that would be an unusual situation. I would not say that was the situation, even at the time of the audit. It was a percentage of the total portfolio; it wasn't the full amount.

One of the reasons why most of the recommendations are referring to the private-placement area, as opposed to any of the other areas within the investment portfolio, is because that was the only area we looked at. That was the only part of the portfolio that was subject to audit, and that's why you see the recommendations in that area.

But, in terms of whether it was appropriate or not appropriate, we don't go there and we never would.

Mrs. Taillieu: I'd like to ask Mr. Sexsmith, in light of the recommendations that were to have stricter rules in regard to private-placement investment, the decision was made to cease private-placement investment.

Can you indicate how that decision was arrived at? Who made the decision to just stop that?

Mr. Sexsmith: The investment committee and the board would have made that recommendation, because that was a policy decision that was taken by them at the time.

Mrs. Taillieu: I'm just going to ask you a few questions about the recommendations. I know that you indicated that you had gone through the recommendations and you had complied with them, but I just wanted to ask a few questions.

There was a recommendation that you develop a formal board orientation process. Has that been completed?

Mr. Sexsmith: Yes, we've done a lot of work on our board orientation. Yes. The short answer is, yes, we've done a lot of work on that.

Mrs. Taillieu: Thanks. Another recommendation was the conflict-of-interest policy be reviewed on an annual basis and that a declaration of conflict of interest signed every year. Is that something that's in practice now?

Mr. Sexsmith: We updated our by-laws on conflict of interest, and we have the board members sign a conflict-of-interest declaration every year.

***** (20:00)

Mrs. Taillieu: Thank you. There was a further recommendation that the practice of allocating $1 million in grants under the Community Initiatives and Research program be reviewed to ensure a documented rationale exists for the practice and on what basis the annual amount is determined. I'm wondering if there is a report on this and if that's public information.

Mr. Sexsmith: What we did on that particular issue was highlighted it in our budgeting process to make sure that the board specifically looked at that issue and made sure that they were satisfied that they were allocating $1 million as the–you know, in line with what the intent of the program was.

Mrs. Taillieu: Further in the investment management portion of the recommendations there were recommendations made in regard to a breakdown of Workers Compensation Board returns for its private placement investments, analysis of where they have been successful or unsuccessful, lessons learned, that kind of thing. I know you've indicated that you don't do the private placements anymore, but did you actually do a situational analysis and did you look at what things went wrong in those investments, and have you implemented any procedures to alleviate those happening in the future?

Mr. Sexsmith: As I said, we did take a policy decision not to enter into any new private placements, but we have beefed up our reporting on existing private placements, I believe in line with the recommendations made by the Auditor General.

Mrs. Taillieu: I'm just on the top of page 77 and there's a statement here that says: modifying definitions used in the SIPO document, such as private placement and institutional investor to conform with those used by Canadian venture capital and private equity industry. So I'm wondering if these are terms that have now been changed to other terms. I guess what I'm asking is, you don't do private placements anymore, but you do the same thing under another name?

Mr. Sexsmith: No, we're clear on that. We're not making any further private placements, I think, by any definition, that would be acceptable to anybody, I think.

Mrs. Taillieu: Thank you. Can you tell me who the investment–okay, the investment committee reports to the board, and who does the board report to?

Mr. Sexsmith: Well, you know, that's an interesting governance question. The board is an independent body appointed by the government so, certainly, they have a relationship to the government but they operate on an independent basis to run the affairs of the WCB.

Mrs. Taillieu: This is something I see right in the appendices but I just want to ask the question. We know that the Workers Compensation Board now does not have the Deputy Minister of Finance on the investment committee but the investment committee before would have the Deputy Minister of Finance or a designate. So is there a–even though the Deputy Minister of Finance is not on the committee, would there be another designate from the Department of Finance?

Mr. Sexsmith: No, there wouldn't. That whole provision for the Deputy Minister of Finance to be a member of the investment committee was changed when the legislation was changed on January 1, 2006.

Mrs. Taillieu: Is it normal that private entities or real estate people come to the Workers Compensation Board and ask you to invest with them?

Mr. Sexsmith: Is it normal? I think, you know, it does occur from time to time. We, of course, hire a professional real estate manager, and he is located in Winnipeg. So I guess it would be reasonable, being located in Winnipeg, that he would know people here, and so they may approach him on real estate issues.

So that could happen from time to time. I'm not sure how else to answer that.

Mrs. Taillieu: Well, thanks very much. I want to thank you for all of your answers, but I think, as I've gone through, you have, I understand, attended to all of the recommendations from the Auditor General's report.

Are there any outstanding that you haven't been able to complete yet?

Mr. Sexsmith: I don't recall any that we haven't done some work on or at least considered or put an alternate solution, or some sort of a solution, in place. We're still working on a couple of the things in the human resources area, building a new manual, but all, or most, of our human resources policies are in place, for example.

Mrs. Taillieu: Just speaking of human resources, I know one of the things identified in this report was kind of a culture at the Workers Compensation Board, and those kinds of cultural things, environments, take some time to change.

I'm wondering if the senior management at Workers Compensation Board have changed or the same people, and are you experiencing a different culture, I guess, I'll put it, in the Workers Compensation Board at the present time?

Mr. Sexsmith: I think I'll answer that by saying that I think the culture amongst the senior management folks is a very positive one at the WCB. There hasn't been much turnover, except for the fact that one of them is about to retire very soon. I assume they're nodding their heads behind me. I don't know if they are or not.

I would say it's a very positive culture.

Mrs. Taillieu: Well, I just want to thank you very much for answering the questions tonight. I apologize if I've been repetitious in any way, but I just wanted to fully understand the report and appreciate all of the staff that have, again, come out tonight to answer the questions. So thanks very much.

Mr. Lamoureux: I did have just a couple of follow-up questions regarding the True North. I want to make sure that I understand what it is myself. Correct me if I'm wrong, but what I understand is that WCB would have provided a $7-million-plus loan guarantee in case there were cost overruns or something of this nature from True North, that they could have access to that pot of money, even though they never used the pot of money, but that was what the arrangement was.

In return, WCB, through the investment committee, was given a $2-million value or share of True North.

Am I right in my assessment?

Mr. Sexsmith: Yes, I think you've got it right there.

Mr. Lamoureux: The $2 million, the investment group would have–if I invested $2 million into a company, I would probably want to have an understanding in terms of what is the value of that company. Do you have an opinion or assessment of what is the value of True North?

Mr. Sexsmith: I think I mentioned earlier that we think that $2 million is a reasonable valuation. That's what the value was when the facility was put in place. We regularly monitor the financial position of the organization and we have no reason to think that that has–certainly it hasn't been impaired. So we think that $2 million is a reasonable valuation.

***** (20:10)

Mr. Lamoureux: What I'm thinking of is the overall value of the project. Is the True North worth $200 million? Is it worth $50 million? Given that you've got $2 million tied into this project, what is it actually worth, the overall project?

Mr. Sexsmith: I think it was mentioned earlier that it would be worth whatever you could sell it for. So you know, I don't mean to take the question lightly, but there aren't a lot of people out there buying arenas and whatnot, so it's really hard to establish a market for an asset like that. I'll just repeat myself. We think that the $2 million is a reasonable evaluation. I can't tell you what, you know, what an arena would be worth if it were put on the market.

Mr. Lamoureux: Would you receive dividends of any sort based on that $2 million?

Mr. Sexsmith: No, we haven't received any dividends of any sort at this point.

Mr. Lamoureux: Again, if I was an investor and I had $2-million share in a building, I would either anticipate that that share is going to increase in its value, therefore I'll keep it, or I would sell it so that I could take the $2 million and reinvest it where I would be getting a dividend. Mr. Sexsmith, maybe just provide comment on that.

Mr. Chairperson: Mr. Sexsmith. I'm not sure of the question, but go ahead.

Mr. Sexsmith: I think the $2 million in equity that we have there I guess in a way is a dividend. I mean we got it for providing the loan facility. We think it's an excellent return, although it has not been realized yet. I'm not sure what else to say.

Mr. Lamoureux: You know, it's not necessarily a return, unless, of course, there is something, you know, that Workers Compensation is ultimately going to be able to see or to benefit from. If you have two million on the paper, on the books, you show $2 million, I would think, technically, you should be able to acquire that $2 million. Has the issue ever been brought back to the board as to the value in whether or not this is, in fact, an investment in the best interests of Workers Compensation and injured workers?

Mr. Sexsmith: All of the recommendations in the Auditor General's report have been discussed along with this one. I can tell you that the investment committee would consider this to have been a very good deal for the WCB. Don't forget that the $2 million in equity did not require any cash investment by the WCB. In fact, had we been called upon to provide the loan facility, we would have received an interest of 8.75 percent.

Mr. Lamoureux: I don't question that. I'm trying to envision someone that would be on the investment board looking at this objectively and saying, if I'm not getting any sort of a return on it, if I can sell it for the $2 million, I would be able to get a rate of return which would help reduce Workers Compensation rates potentially into the future. You've got, it seems like a $2-million asset or share, but best I can tell, Workers Compensation, maybe the investment board is saying, yeah, we got a share there, but we'll just leave it and, you know, it's just in the public good not to touch it, just to leave it. Like, the investment board just doesn't see any value in revisiting the decision. I don't quite understand the value of keeping the investment, $2 million. Is it because you can't sell it?

Mr. Sexsmith: Well, you know, I don't want to get into the accounting of it, because, you know, we had a discussion before about the two million and the 1.7. But, I think, in principle, if we had an opportunity to sell it, you know, at what we think is a reasonable price, I have no doubt that we would do that.

So it's like the other private placements we have. You know, we're not entering into any new ones, but we certainly will entertain ways to exit from the ones that we're in, including this one.

Mr. Lamoureux: I'm encouraged by that statement. I would ask: Does WCB get any privileges, whether it's boxes, seats, parking, as a result of having that $2-million investment?

Mr. Sexsmith: No, there are no box seats, unfortunately. No, all kidding aside, there are no privileges for the WCB. The only thing that I can think of is that WCB employees have the opportunity to buy tickets on-line through the ticket-sale window at the same price as everybody else.

Mr. Lamoureux: I guess I could probably go on for awhile and I don't because it is very important to me to get to some other issues. I know other people have questions, but I do want to conclude by indicating that I do believe it's in the Workers Compensation Board and the investment committee's best interest to review that $2-million investment.

If it's not really $2 million, then the books should reflect that. If there is no way of selling that $2 million, I don't think it's–I have a hard time seeing it in Workers Compensation's book if, in fact, you can't even sell it. I suspect, I'd be surprised if you could get 50 percent of that.

I say that because we don't really know. I pose questions like: What is the arena worth? Well, because there are no buyers, you responded, we don't really know.

I have a tough time, primarily because I believe that the investment committee is supposed to be looking at investments that would provide a rate of return that would help those injured workers and the employers. That's why I'm a little bit–I don't quite understand why it is we have this $2 million and we're just prepared to leave it sit unaccounted.

Mr. Sexsmith: I just want to remind you that I think I mentioned earlier–you know, I will accept your advice as advice and we'll take it from there, but I do want to remind you that we have stellar investment returns when we're compared to other WCBs and most other institutional investors.

I think we have a record of doing a good job for the employers and workers of Manitoba. We have the third-lowest rates in the country. So I'll take that as advice and we'll continue to try to do our best to make sure we have the best return that we can.

Mr. Lamoureux: This will be my final question, Mr. Chairperson. It's more of a policy nature; please let me know if it's out of order. My question is for the minister responsible for Workers Compensation.

From a policy perspective, does the minister have a problem with investments that are made by Workers Compensation, where there is no rate of return or any return on the investment? Is this something that she would encourage?

Ms. Allan: The WCB is an arm's-length agency and the minister responsible for the WCB is responsible for the administration of the WCB legislation and has absolutely nothing to do with the investment strategy at the WCB. I do not direct the board of directors to make any decisions about their investment strategy.

Mr. Martindale: I wonder if Mr. Sexsmith or even the minister are aware that the first doctor at the Workers Compensation Board was my late great-uncle, Dr. Angus Fraser, and that he was there from 1919 to 1929, and that he wrote a book called *Trauma, Disease, Compensation*, and his picture is on the wall of the boardroom with the board of directors.

Mr. Chairperson: I don't know whether that's relevant to the 2007 report, but we'll let the minister respond.

Ms. Allan: No, I did not know that but, as always, the MLA for Burrows always comes up with neat pieces of information that he shares with us from time to time. So thank you for that.

Mr. Chairperson: Relevant to the report, Mr. Martindale.

Mr. Martindale: I didn't expect that anyone would know that, but it's an interesting bit of history–my only connection to the WCB.

Second and final question: Can Mr. Sexsmith tell us who manages the WCB portfolio? Is it done in-house or by an outside company?

***** (20:20)

Mr. Sexsmith: We hire what I would call institutional managers to manage the portfolio. We also have a firm called Eckler and associates. I think that's the right–Eckler Partners, who are investment specialists whom we use to monitor the performance of those managers and to assist us from time to time in hiring new managers.

Mr. Larry Maguire (Arthur-Virden): I'd like to go back to the–I don't want to belabour the fact, but Mr. Lamoureux's–I have looked at the $2 million, Mr. Sexsmith, in regard to an investment, and you received that from True North as a–tell me what the word is I'm looking for–in regard to the potential end then of a $7.5-million loan that could have been there. Is that correct?

Mr. Sexsmith: That's correct.

Mr. Maguire: And so did they actually provide cash or was that a paper transaction?

Mr. Sexsmith: If you're referring to the WCB, we didn't provide any cash. No, we just made the loan facility available.

Mr. Maguire: I wasn't. I was referring to True North giving you $2-million worth of cash as an investment for you to have for the line of credit that they were going to set up.

Mr. Sexsmith: No, that was not a cash transaction.

Mr. Maguire: I was just trying to, as well as the others, find the value for the $2 million, and I just wanted clarity on that for my own purposes, or my own vision of this. I just wanted to then say, is this still outstanding then? Is there still a potential of the True North being able to borrow up to $7.5 million?

Mr. Sexsmith: Yes. That loan facility is still in place.

Mr. Maguire: If it's still in place, can you tell me what the financing of the True North facility is? Back then, of course, you'll have someone represented on their financial statements and keep in touch with what those financial statements are. Can you give us an indication of the financial status? I don't need a number, but is it good or bad or indifferent or neutral or is the financial statement of a nature that may require the $7.5 million to be used in the near future?

Mr. Sexsmith: I would say, just in a very general way, that facility is performing very well, and I think they would describe it as it's meeting their expectations and their financial position is positive.

I would also say, and I think this has been mentioned in this or another public forum before, that we probably wouldn't have ever really expected them to call on this loan facility because it does provide for a rate of 8.75 percent. If they had the opportunity to go elsewhere and get a lower rate, they probably would.

Mr. Maguire: That struck me a bit funny when I heard the rate, given the rates that we've seen over the last 10 years, six or seven years at least anyway, much lower than that, that they would be looking elsewhere before they came to implement that.

I guess I was just wondering at what point was this even set up in this manner, or were they not able to find this kind of–usually those kinds of rates are agreed to because you can't find financing somewhere else. Do you believe that to be the case in this regard?

Mr. Sexsmith: You know, I'm speculating a little bit here. Just thinking back to the time that this arrangement was made. Certainly, we were not the prime lender so, as I said before, they were looking for a secondary facility here. I don't think even from the start they would have wanted to call on it because of the interest rate. I'm sure they would have looked elsewhere. So I'm not sure if that answers your question, but I'm speculating a little bit.

Mr. Maguire: So it really was kind of a trapdoor for the investment, just an out in case there was an overrun in costs.

Mr. Sexsmith: Yes, that's my understanding of what the facility was there for.

Mr. Maguire: Can you just give me some expectation of how long you expect this position or this loan to stand, or will you be removing that clause at some point?

Mr. Sexsmith: I believe it expires December 31, 2009, or I think I said last time, 10. It's '09 or '10. Did I say '10? I believe it's December 31, 2009, it expires if I–that'd be the correct date.

Mr. Maguire: Thank you very much for that. That's the end of my question.

Mr. Borotsik: I hate to flog a dead horse. You know, we have a billion-dollar portfolio, and it's $2 million that we're spending an awful lot of time on. But just the last question, if I could, please?

You've brought in about $1.7 million into revenue with this particular investment, interesting investment, to say the least. But you brought in a $1.7 million on revenue on this. It's on your books. We don't know if it's valued at $1.7 or $2 million when you bring it ultimately in at 2009.

My final question, I promise you, on this investment: Can you realize $2-million worth of value, and can you sell this particular equity in that facility?

Mr. Sexsmith: Yes, I'm just checking. I believe the agreement–there's nothing in the agreement that prevents us from selling. So I think the answer is, yes, we could sell it. But other shareholders would have right of first refusal, as I understand the agreement.

Mr. Borotsik: I appreciate the fact that you can sell it, legally, but is there a market to sell this particular investment equity now, in the marketplace? Can you realize $2 million for your equity position in that particular facility?

Mr. Sexsmith: I think what you're suggesting is that it's not a terribly liquid investment, and I think I would agree with you there. So it's–*[interjection]*

Mr. Borotsik: Thank you. I promise I won't ask another question on that. You answered my question. You do have $1.75 million. You'll have $2 million in revenue on the books. It may not be achievable, but you'll work that out, and I'm sure you'll have some write-offs at a later date.

However, let's get away from investment portfolios and talk about what you're really there for, and that's to provide benefits for workers when they are injured on the job. Wow. Isn't that something? We have an organization that does that, and does it very well, actually.

Unfortunately, this goes back to the December 31, 2004, the latest numbers, and I assume your benefit liabilities–and correct me if I am wrong–but on page 20, it shows benefit liabilities at $703 million. Is that correct?

Mr. Sexsmith: Page 20, you said?

Mr. Borotsik: Yes. There are payables and accruals of $19 million as of 2004, and there are benefit liabilities at $703.447 million.

Mr. Sexsmith: Yes. That's correct.

Mr. Borotsik: That's up, not substantially, but up over 2003.

Have you been seeing an increase in those benefit liabilities? Again, I have to have relevancy here, and I can't talk about '06, '07 and '08. But have you been seeing an increase in the benefit liabilities on a fairly standard basis? I know that it did go down in 2002, but otherwise it has been going up.

Do you anticipate that the benefit liabilities will be increasing on a fairly substantial basis over the next little while?

Mr. Sexsmith: Benefit liabilities have grown over time. Yes, I think it's fair to say that they grow over time as there are injuries and they're also affected by interest rates and whatnot. So, you know, we have to calculate the present value of the future payments that have to be paid out, and in a lower interest rate environment those liabilities go up because of that.

***** (20:30)

Mr. Borotsik: I'm also going to question, and I know that you've already touched on this, but if you look at the other two areas–and I've noticed in the notes or in the schedules there was an amalgamation of the Rate Stabilization Fund and the Accident Fund Reserve. Those two were amalgamated into the Accident Fund Reserve. Can you tell me the rationale behind that, or is that just simply an accounting process, or is there a reason for that amalgamation of those two funds?

Mr. Sexsmith: Yes. I think I would call it an accounting change, and we did it at the same time as that accounting change that I mentioned earlier, where we now keep track of OCI, other comprehensive income.

Mr. Borotsik: Now, that was my next question. It just flows into that other comprehensive income, and I appreciate the fact that that's an accounting requirement, as accountants are.

There's $60 million which is identified in a line item, which hadn't been identified before, so, in 2004, it was done. Can you just walk me through that other comprehensive income. What you were doing prior to that, you were taking and accruing income, I assume, on an annual basis forward, and now they are saying, if you take the capital gains on investments that you show it now in that fiscal year. Is that how I'm supposed to understand that? Maybe if Mr. Sexsmith can't answer that, the Auditor General can tell me the accounting principles behind it.

Mr. Sexsmith: I'll give it a shot. If I have to be corrected on accounting basis, that's fine.

In 2004 when the accounting rules changed, it simply meant that we had to account for unrealized gains or losses, which would not previously have been visible in the financial statements. That's really what other comprehensive income is. Accumulated other comprehensive income is those surpluses, I guess, that are sitting there as unrealized gains. How's that?

Mr. Borotsik: Thank you. Were they all identified in that one fiscal year?

Mr. Sexsmith: I think the short answer to that is yes, and, in fact, we started to recognize them so everything that was there was recognized.

Mr. Borotsik: It seems the Minister of Finance is just anxious to be able to jump into the fray on this one.

Mr. Chairperson: Are you done?

Mr. Borotsik: No. I'm asking the Minister of Finance a question.

Mr. Chairperson: What's the question?

Mr. Borotsik: If he wants to answer–*[interjection]*

Mr. Chairperson: To ask a question?

An Honourable Member: Correct.

Hon. Greg Selinger (Minister of Finance): You asked us to mix it up.

An Honourable Member: Exactly. I thought you wanted to answer it.

Mr. Selinger: No. I want to build on the query of the Member for Brandon West (Mr. Borotsik) on this notion of other comprehensive income, which was an accounting change in '04, and ask the Auditor General that the basis for that OCI, as I understand it, is mark-to-market on the specific time and place every year. Can you just confirm that?

Ms. Bellringer: That would be correct, and in 2004, because that was the year of the change in the accounting policy, that would be a year where there would be everything–it's done for the first time. It's not brought back retroactively. So, in '05 and '06, which, of course, you'll see in Volume 4 of Public Accounts, which is next on the agenda, you'll see that it will continue to be reported each year. You'll see that there won't be as much of a swing each year, but you will see swings every year.

That was why the accounting profession made the distinction between gains and losses that were realized, and gains and losses that were not yet realized. In your, if you will, income numbers, only see those things that you are realizing in the current year and things that you are giving effect to, so that you understand what the impact is, are being reflected in this other line called comprehensive income, so that it's seen as–you know what that impact is, but you also know that it's not something that has yet been realized. The market could change tomorrow. It could go up; it could go down, and you're going to see some very fairly big fluctuations, and that's one of the biggest changes in the international accounting standard changes. It's a huge change from many years ago where we never looked at any kind of market valuation on things. We always looked at it from a historical perspective, and now everything's moved to market.

Mr. Selinger: The reason I sought that clarification, because this mark-to-market methodology being done on, say, one day a year, as you've said, will generate some volatility either up or down, and this is a source of great controversy in terms of Wall Street valuations going on right now and bank valuations going on around the world.

We've seen, recently, a flood of complaints by CEOs of insurance companies and banks in Canada challenging this methodology, because it undervalues, in tough markets, the true value of assets of companies, if held to maturity.

I just wondered if there's been a debate on that in the accounting profession, whether that methodology is the appropriate methodology to value assets which are going to be held beyond those specific dates upon which they're valued. Some have suggested that it falsely represents the true value of the underlying assets of that particular institution, in this case, the Workers Compensation Board; if it was, say, valued today, might not get an accurate picture of the value of those assets when they're being held for the long term.

I wondered if you wanted to comment on that.

Ms. Bellringer: Just a simple little question from the minister.

There's absolutely no doubt that there's been debate within the profession. There's also a resolution to that debate which is when they select the accounting policies that they recommend be applied. When we get into generally accepted accounting principles, it's gone through due diligence of many, many layers of response to recommended drafts of wording, and so on. The shift to international accounting standards by the Canadian accounting standards setters has certainly been the result of many years of those discussions.

So they didn't land there lightly. Having said that, there are always implications to the changes, and there are many different perspectives on what's appropriate, which is why they have to go through that process.

There is absolutely no doubt there'll be more volatility in the results that you're going to see as a result of reflecting market values, and the only thing–I mean this is one of those things that obviously ages us. When I took my chartered accounting designation, they started talking about this futuristic discussion around going to a market value on such things as investments and all these other assets that are–today, we're seeing that happening, and at the time, we had some kind of question on the C.A. exam that we all thought was bizarre that you would go there, but that's where the world has gone. So that's where we're all going.

Mr. Selinger: Just a final comment in the form of a question. It seems to me that this mark-to-market methodology, we're now seeing markets being tremendously volatile due to short selling, speculative behaviour, media-driven interest that is putting some companies underwater and forcing some of these companies to be taken over or entered into bankruptcy. Some commentators are saying that the mark-to-market methodology is a contributing factor to some of the collapse that's going on in the financial sector.

I wondered if the accounting profession, in view of some of the implications of that, will be reviewing these kinds of standards and looking for a way to manage volatility better in the way they value comprehensive income and assets, generally.

Ms. Bellringer: I'd like to get the option of considering this out-of-scope. It's an excellent question, though.

Mr. Chairperson: Well, that would kind of cover the waterfront. Is there any more?

Mr. Borotsik: I just wondered if that was relevant to this particular discussion as well.

Floor Comment: If you want, I'll explain why.

Mr. Borotsik: No, no.

Mr. Chairperson: Mr. Borotsik, do you have a question?

Mr. Borotsik: Well, no, I understand valuation, and I understand where the market valuations are going, what the minister is suggesting at this point in time. So we'll leave it at that. I won't flog a dead horse for the 2 million. I'm sure the minister won't flog this dead horse.

I don't know whether–

Point of Order

Mr. Chairperson: Point of order. Madam Minister.

Ms. Allan: Point of order. I'm actually one of the few people around the table that actually owns a horse.

Mr. Chairperson: That's not a point of order, Madam Minister.

* * *

***** (20:40)

Mr. Chairperson: Shall the Auditor General's Report, Review of the Workers Compensation Board, dated January 2006 pass?

Mr. Lamoureux: Mr. Maguire just got me to just ask one more question because of the question he posed, so it's kind of like a supplementary to a question that he had asked earlier.

It's in regard to–True North has this $7-million loan option that they can exercise all the way up to 2009 in December. Has WCB been approached or the committee been approached at all in regard to extending or looking at the possibility of extending?

The second question is, do they feel that, once that December 2009, as far as you're concerned or Workers Compensation investment group is concerned, it's just a dead issue? It's just something that the investment committee wouldn't authorize?

Mr. Sexsmith: You're asking me to speculate there. I can tell you that we haven't been asked to extend it. Would we extend it? I guess I would suggest that probably it would be outside the intent of our policy with regard to private placements. We said we wouldn't go into any new private placements. If we had for some reason to do something to protect one of them, we might consider something. I guess I would say it's very unlikely that we would ever extend it.

Mr. Chairperson: Auditor General's Report, Review of the Workers Compensation Board, dated January 2006–pass.

I'd like to turn our attention now to the Audit of the Public Accounts for the year ended March 31, 2007, Volumes 1, 2, 3 and 4.

Pardon me, we'll do the Auditor General's Report first, ending March 31, 2007.

I will allow for questions on this report to perhaps also include questions from Volumes 1, 2, 3 and 4 of Public Accounts for the year ended March 31, 2007 as well, because I think they are connected. Is that agreed? *[Agreed]*

Mr. Selinger: No opening statement.

Mr. Chairperson: The minister does not have an opening statement.

Does the critic have an opening statement?

Mr. Borotsik: None whatsoever.

Mr. Chairperson: Thank you, Mr. Borotsik.

Does the Auditor General have an opening statement?

Ms. Bellringer: No, I do not.

Mr. Chairperson: The floor is now open for questions.

Perhaps before we get to questions, I would like to ask the Minister of Finance to introduce his staff.

Mr. Selinger: I have with me tonight the Deputy Minister of Finance, Diane Gray; the Comptroller, Betty-Anne Pratt, and her officials that are accompanying her.

Mr. Chairperson: Thank you very much. The floor is now open for questions.

Mr. Borotsik: Just for the record, we have had one session with the Auditor General's report for the Public Accounts. We have also had the opportunity of discussing at some length Volumes 1, 2 and 3. So I will have some questions, very few questions of the minister and of the deputy minister.

The first one in Volume 4, which is page 15 in Volume 4, just for clarification and certainly, perhaps, for some information for myself, that would be on Volume 4, page 15. It's got to do with debt retirement fund.

There is a debt retirement fund which we get an auditor report every year. As at 2007, the fund itself had a balance of some $51 million. Just for my own purposes, I wonder if the deputy minister might be able to explain. There is a transfer of 110 million each year into the debt retirement fund and out of that transfer, $85 million then goes to the purposes of the retirement pension obligation for the Teachers' Retirement Allowance Fund. Can you explain why the in and out on that one? Why the 85 million from the debt retirement fund and then into the teachers' retirement?

Ms. Diane Gray (Deputy Minister of Finance): So, under the balanced budget and debt retirement fund legislation, $110 million is transferred to the debt retirement fund. Within that fund, on an annual basis, the debt allocation committee makes a determination on the allocation that will go to pension liabilities versus general purpose debt. So, for the purpose of '06-07, $85 million was transferred for the purpose of pension obligations.

Mr. Borotsik: There's substantially more than $85 million in pension obligations, whether it be a pension liability or whether it be an annual obligation for the teachers' fund. Why is that $85 million is the identifiable amount out of that particular debt retirement fund?

Ms. Gray: It's essentially a judgment call of the debt retirement committee to determine how much of the $110 million is recommended to be allocated to our outstanding pension liabilities. So the recommendation of the committee, in this particular fiscal year, was $85 million of the $110 million.

Mr. Borotsik: Can the deputy minister tell me who is on the debt retirement committee?

Ms. Gray: Bob Puchniak, who is the CFO for James R. Richardson–I'm not sure of the exact company name, but he works in Richardson & Sons, and he's the CFO; the Deputy Minister of Finance, Gary Gibson, who is the ADM of Treasury; Betty-Anne Pratt, our Comptroller, who is the secretary to the committee; Jan Lederman, we believe she is a lawyer–we don't believe that: she is a lawyer and we believe she's with Thompson Dorfman Sweatman.

Mr. Borotsik: How often does the debt retirement committee meet?

Ms. Gray: The committee meets once a year to make this determination.

Mr. Borotsik: I read the rationale. It did come in with the 1995 balanced budget legislation; however, there's only $51 million which is sitting in this particular fund, a debt retirement fund. There's $51 million, $25 million that was put in from 2006, $25 million from 2007 and $1 million in interest, as I understand it.

Why were there not additional funds placed in this prior to 2006?

Ms. Gray: The fund itself collapses every five years, and that money, then, rolls into the general purpose debt. So every five years there's a refreshment and the fund begins again.

Mr. Borotsik: Okay, thank you. I wasn't aware of that. I do appreciate it. So we're now two years into the fund, 2008 fiscal year-end will be three, and so there should be somewhere in the neighbourhood of $75 million, I assume, in the fund at the fiscal end of 2008. Is that correct, Madam Deputy Minister?

***** (20:50)

Ms. Gray: We would have to confirm it, but we believe it's $81 million. Oh, I'm getting nods from the auditors.

Mr. Borotsik: I can confirm that. There is a report out, and I'm sure I can confirm that. Thank you very much. That did answer some questions that I had.

If you can go to page 27, the pension assets fund statement of financial position. The Teachers' Retirement Allowances Fund, the TRAF fund in 2007 shows almost $700 million in that particular fund. There was and has been a great deal of fanfare with the government having borrowed $1.5 billion to fund an unfunded liability. It is not identified in this particular fund balance. Is there a separate fund balance that those funds were put into?

Mr. Selinger: The short answer is, this is before the borrowing occurred, and I just have to correct that the TRAF portion is $375 million of the total there, okay? So this is the result of annual contributions out of the 110 and then the 1.5 came subsequent to that.

Mr. Borotsik: Yes, thank you, and I do apologize. You're right. That's the superannuation, and the TRAF makes up the $700 million. So there's $375 million, the $1.5-billion transaction happened in 2008 not 2007. Will it be identified in this Teachers' Retirement Allowances Fund or is there a separate fund that is going to be set up to have that $1.5 billion placed into?

An Honourable Member: It'll be in this fund.

Floor Comment: It'll be in TRAF.

Mr. Chairperson: Just a moment, please. Mr. Minister, we'll let you answer that.

Mr. Selinger: It'll be in this account.

Mr. Borotsik: So, in the 2008, once we get to it, in the not too distant future, we'll be able to find that $1.5 billion identified in that. That's great, thank you.

If I can, and Volume No. 4 is really interesting, and I know we could probably go over it for days, but I'm not going to, I can assure you of that. We will be out of here by 9 o'clock. I would like to go simply because I have a personal attachment to this particular one. Can you go to page 52 please. It's the Assiniboine Community College, and it's identified as the notes to financial statements and the due from the Province.

Floor Comment: What page again? Sorry.

Mr. Borotsik: I'm sorry, page 52. It's Assiniboine Community College Notes for their financial statement. In the paragraph, it does say the Province of Manitoba is guaranteed the receivable for severance and vacation pay in the amount of $1,999,250. Actually, it's fairly close to the $2 million, but we're not going to talk about $2 million any longer, I promise you that.

It's just that it's been guaranteed by the Province of Manitoba. Could you, perhaps, explain what that actually means, that severance and vacation pay that's been guaranteed by the Province of Manitoba?

Mr. Selinger: This is simply an acknowledgment on the part of the Province of Manitoba that they are accepting that liability for the pre-98 obligations, and then after that, it was assumed by the independent governance of the ACC.

Mr. Borotsik: Yes, that would be a liability showing to ACC, and it says on the final line that no payments have been received from the Province with respect to this receivable, which was their own liability. Is there any intentions that the Province, in fact, will pay the remainder of that $2 million to ACC, because it will be showing as a receivable on their books. It would be nice to be able–I'm sure ACC would love to get that off their books, and all it takes is simply a cheque from the Province. Is there any intention of them writing that cheque soon?

Mr. Selinger: Well, the bottom line is we have committed to being responsible for it, and we'll pay it as required.

Mr. Borotsik: If the Assiniboine Community College sent a letter to the Minister of Finance (Mr. Selinger), and, saying that it was required, would he write a cheque to ACC and fund that liability?

Mr. Selinger: Well, I would take that letter and promptly turn it over to my officials and ask them to verify that it was required.

Mr. Borotsik: Maybe we can ask the officials if, in fact, the letter did present itself, that this particular liability would be taken off the ACC books. By the way, as I say, I have a soft spot in my heart for Assiniboine Community College. They have not asked me, I can assure you, to bring this forward. It's simply a matter of finance and it's a matter of liability, and if I were sitting at the board table of ACC, I would love to see this receivable collected.

Ms. Gray: The accountants, who are smarter on this than I, say that if the liability drops below the receivable, then we will certainly consider their request seriously.

Mr. Borotsik: If the liability drops below the level of the receivable, then they will, in fact, pay it immediately. Okay, I'll have to get my accountants to look at that one, Mr. Chairperson. Thank you very much, but I do have an answer, and maybe we can resolve some of the receivable issues at ACC.

I, as promised, will not be much longer; however, I do have two questions and they're, in my opinion, very legitimate questions. Again, there may not be an answer, and I appreciate that, perhaps, we may have to have some answers forthcoming.

On page 276, it's the First Nations of Northern Manitoba Child and Family Services Authority, and the one thing that jumped out quite dramatically, and I appreciate that this isn't the Minister of Finance's department; it is the Minister of Child and Family Services' (Mr. Mackintosh). However, in 2006, the Province of Manitoba, authority funding was $6.5 million, and that was then increased in 2007 to $9.6 million. It just seems a 50 percent increase in funding seems to be a substantial amount. Again, I don't know whether the Minister of Finance (Mr. Selinger) or the deputy minister can explain why and–please, there are a lot of numbers in Volume 4 and I appreciate the fact that you don't know all of the answers to all of the numbers, but is there any rationale as to why that type of an increase in that particular agency?

Mr. Selinger: The short answer is, as you know, there is a huge amount of human need in the child welfare area, and there was a commitment by the government made to increase their funding to move beyond crisis reaction child welfare services to what they call differentiated response, where they move in and work with communities and working with families to prevent serious child welfare issues from occurring. This funding increase is part of that commitment by government to further enhance support for child welfare services in First Nations communities.

Mr. Chairperson: The hour approaching 9 o'clock, I'm wondering whether there is–

An Honourable Member: One more question.

Mr. Chairperson: –a will to carry on beyond 9 o'clock.

An Honourable Member: Sure.

Mr. Chairperson: One more question? Mr. Borotsik, you've got two minutes.

Mr. Borotsik: We've still got three minutes, and I only have one more question, so we could maybe tie that in?

Mr. Chairperson: Mr. Borotsik, you have two minutes.

Mr. Borotsik: On page 279, again, it's with the First Nations of Northern Manitoba, and, again, probably not an answer that can be forthcoming, but if you look at No. 4, internally restricted assets, there are two line items under 2007 which were not there in 2006. One is a communication strategy, and the other one is research and development for $200,000–$100,000 each.

Does the deputy minister have any–and I see the head shaking, and I appreciate that–again, perhaps a question better asked of the Minister of Family Services. Okay. Thank you.

Mr. Chairperson: Thank you very much. Shall the Auditor General's report, Audit of the Public Accounts for the year ended March 31, 2007 pass?

Some Honourable Members: Pass.

Mr. Chairperson: The report is accordingly–Mr. Lamoureux?

Mr. Lamoureux: Actually, if we could canvass–the only report that I would maybe have some questions on would be this one here, the one that you read. Were you thinking of passing these ones now?

If we could just kind of hold on this report and pass the rest?

***** (21:00)

Mr. Chairperson: May I ask the committee for leave to sit until we have gone through the process of passing these various reports?

Some Honourable Members: Leave.

Mr. Chairperson: Thank you. Is that agreed? *[Agreed]*

Thank you very much. So we shall leave the Auditor General's Report, Audit of the Public Accounts for the year ending March 31, 2007, open? *[Agreed]*

Volume 1 of the Public Accounts for the year ended March 31, 2007–pass.

Volume 2 of the Public Accounts for the year ended March 31, 2007–pass.

Volume 3 of the Public Accounts for the year ended March 31, 2007–pass.

Volume 4 of the Public Accounts for the year ended March 31, 2007–pass.

The hour being 9 o'clock, what is the will of the committee?

Some Honourable Members: Rise.

Mr. Chairperson: Committee rise. Thank you very much.

COMMITTEE ROSE AT: 9:01 p.m.