

Fourth Session - Thirty-Ninth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Leonard Derkach
Constituency of Russell

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

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

Wednesday, October 20, 2010

TIME – 7 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Leonard Derkach (Russell)

VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Ms. Wowchuk

Mr. Borotsik, Ms. Braun, Messrs. Derkach, Dewar, Mrs. Driedger, Messrs. Jennissen, Jha, Lamoureux, Martindale, Mrs. Stefanson

APPEARING:

Ms. Carol Bellringer, Auditor General

Mr. Hugh Eliasson, Deputy Minister of Finance

MATTERS UNDER CONSIDERATION:

Auditor General's Report–Audit of the Public Accounts for the fiscal year ending March 31, 2008

Public Accounts for the year ending March 31, 2008 (Volume 1)

Public Accounts for the year ending March 31, 2008 (Volume 2)

Public Accounts for the year ending March 31, 2008 (Volume 3)

Public Accounts for the year ending March 31, 2008 (Volume 4)

Auditor General's Report–Audit of the Public Accounts for the fiscal year ending March 31, 2009

Public Accounts for the year ending March 31, 2009 (Volume 1)

Public Accounts for the year ending March 31, 2009 (Volume 2)

Public Accounts for the year ending March 31, 2009 (Volume 3)

Public Accounts for the year ending March 31, 2009 (Volume 4)

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

This meeting has been called to consider the following: the Audit of the Public Accounts for the fiscal year ending March 31st, 2008; the Public Accounts for the year ending March 31st, 2008, Volumes 1, 2, 3 and 4; the Audit of the Public Accounts for the fiscal year ending March 31st, 2009, and of the Public Accounts for the year ending March 31st, 2009, Volumes 1, 2, 3 and 4.

Before we get started this evening, I would like to introduce some of our new legislative pages for 2010-2011. I understand that tonight we have with us Ashley Brekelmans from Shaftesbury High School. Ashley, how would you like to stand up, Ashley, so we could see who you are? Thank you. And we have Emilie Derkson-Poirier from St. Norbert Collegiate. Aha. Thank you. And Ayda Loewen-Clarke from St. Norbert Collegiate. Rachel Swatek from Kelvin High School and James Zubriski from Kelvin High School. He's just outside. *[interjection]* Ah, he's gone to attend to his duties. Well, thank you so much and welcome. It's good to have you here.

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

* (19:10)

Mr. Doug Martindale (Burrows): I recommend that we sit the normal hours, which I believe would be 9 o'clock.

Mr. Chairperson: Thank you so much. Agreed? *[Agreed]*

Now, in what manner does the committee wish to consider the material before us this evening, the volumes and material before us?

Mrs. Heather Stefanson (Tuxedo): I think we had discussed this earlier that the 2008 Auditor's report and the financial statements would—we can probably set those aside until the end and focus our questions on the 2009. If the committee is in agreement of that, we were—we are in favour of moving forward on that.

Mr. Chairperson: Any other views of the committee? Is that agreed to?

Mr. Rick Borotsik (Brandon West): Well, yes, I—having seen these reports in front of us, I'm wondering if we couldn't go through 2008 line by line, Mr. Chairman. Oh.

Mr. Chairperson: Is that agreed?

An Honourable Member: Perhaps not.

Mr. Chairperson: I'm afraid you lose, Mr. Borotsik.

Suggestions as to how you want to deal with this. Mrs. Stefanson has put a suggestion on the table. What is the view of the committee?

Mr. Bidhu Jha (Radisson): What is the intent of not going through this quickly and then go through this one in details, depending on whether you want to go over in details and not even touch this? What is the logic?

Mrs. Stefanson: I think the intent is we recognize the fact that much of what is in the 2008 Auditor's report and statements is also in 2009, and so we are prepared to set that aside until the end and look at passing that then and focus our efforts on questioning on the 2009 reports.

Some Honourable Members: Agreed.

Mr. Chairperson: Agreed? [*Agreed*] Thank you.

Now, I'm going to ask the Deputy Minister of Finance and his staff to join us at the table.

Mr. Eliasson, you are invited to bring your staff forward to sit beside you at the table in case you have to consult with them for questions.

And welcome this evening. Looks like we've got a full agenda ahead of us, and I'm going to start by asking the Auditor General if she wishes to make an opening statement.

Ms. Carol Bellringer (Auditor General): I will. I'll start by introducing the Deputy Auditor General, Mala Sachdeva, who's sitting beside me. And the audit principal with the primary responsibility for the Public Accounts audit—as you can imagine we have quite a large staff who work on this audit each year, but the audit principal sitting behind me, Tyson Shtykalo, is the primary audit principal.

The—I'll make reference to our audit of the Public Accounts, the report that we issued with respect to the year ended March 31st, 2009. In that

report, chapter 1 summarizes the result of our work for the audit of Public Accounts for that year end. The Auditor General Act requires me to report to the Assembly by December 31st in each year about the examinations and audits conducted under section 9 of The Auditor General Act, and that relates to audits of the Public Accounts and other financial statements included in the Province's Public Accounts. At the end of each audit, we issue an audit opinion, which is published in conjunction with the individual entities' financial statements, and which states whether or not the financial statements are presented fairly, whether they present fairly the financial position and results of operations in accordance with generally accepted accounting principles. We refer to that—it's commonly known as GAAP. GAAP are standards established by the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board.

When we conduct a financial statement audit, we do it in accordance with generally accepted auditing standards as set out by the CICA, which is designed to result in an audit opinion on the statements. And it's important to note that the financial statement audit is not designed to detect fraud nor to evaluate internal controls or identify management weaknesses; however, we would report significant matters should they come to our attention. There were no such matters that came to our attention which needed to be brought forward to the Assembly in our report.

Under section 10(2), we're required to report to the Legislature any matters of significance arising from our financial statement audits, and during the upcoming fiscal year, the year that we're in right now, we stated in that report—and we are right now doing—we'll be exploring how to enhance the information which the Legislature receives as a result of our financial statement audit work.

We're pleased to report that for the 2008-09 fiscal year the Province received an unqualified audit opinion on its summary financial statements, which means that the summary statements present fairly in all material respects the financial position and results of operations in accordance with GAAP. We also were pleased to report that for 2008-09 the Province produced one set of audited general purpose financial statements, being the summary financial statements which encompassed the consolidated financial position and operating result of the government reporting entity, and we discussed that and other highlights of the audit in section 1 of that report.

I'm—are we going to get into the chapter 2 at this point, or that will come later? *[interjection]*

It's all one and the same because it's in the report. Okay.

I'll just point—the report that we issued in 2009 included a—there's a number of other sections that relate to the financial statements. We looked at understanding the summary financial statements. We discussed the convergence, the Canadian accounting standards to international, other financial reports in the Public Accounts, and we followed up our previous year's recommendations.

But we also had a second chapter, and that was the results of our examination on how compensation paid to senior employees is disclosed in Manitoba, and our goal was to assess whether the government could improve the compensation reporting. We found that, while the disclosure practices were consistent with those of most other provinces, the reports in Manitoba are not readily accessible to the Legislative Assembly and the public. The threshold for compensation reporting hadn't been updated since 1996 and it results in capturing more than just senior employees, and we made recommendations for improvements in those areas.

Mr. Chairperson: Thank you, Madam Auditor General.

Does the deputy minister wish to make an opening statement?

Mr. Hugh Eliasson (Deputy Minister of Finance): I do.

To start off with, I'd like to introduce the staff who are at the table with me.

Mr. Chairperson: Yes, please do.

Mr. Eliasson: Betty-Anne Pratt, who's the Provincial Comptroller, and Colin Cassidy, who's the manager of Public Accounts. And I'm also joined by Helen Hasiuk and Ken Lamoureux, who is from the Business Transformation and Technology branch in the Department of Innovation, Energy and Mines, and there may be occasions where they provide some assistance as well.

Before I sort of get into an opening statement, I just wanted to make sort of a personal observation, and that's—I've been around this for a long time, but it wasn't until this year that I gained a full appreciation for the very intensive effort that goes into the preparation of the reports that are before you. And I'd

like to express my personal appreciation to staff in our Comptroller's office and the audit team in the Auditor General's office. While many Manitobans are taking advantage of those lazy, hazy days of summer, these folks are working very, very hard to make sure that the information is available to the Legislature and the public in a timely manner. And it's one thing—I note chartered accountants are used to intensive work at tax time, but that sort of always seems to happen in winter and early spring, and this occurs in summer where those days are very precious, and so I note a tremendous sacrifice on their part.

I know that the determination was made to deal with '08-09 and put '07-08 aside for the moment, but in my open remarks I'm going to bounce back and forth a little bit because all of the recommendations in the '08-09 report were carry-overs from previous reports.

So I'd like to thank the committee for the opportunity to provide an update on the 2008 and 2009 Public Accounts and the accompanying reports to the Legislative Assembly. The Province has once again successfully received an unqualified audit opinion on its summary financial statements for both of those fiscal years.

In 2009, the Province issued one set of summary financial statements as recommended by the Auditor General. The Province has implemented or completed, to the office of the Auditor General's satisfaction, nine of the 12 recommendations that were outstanding from the 2007 report and subsequently carried over into 2008 and some into 2009.

* (19:20)

And for both 2008 and 2009 the Auditor General has been able to report that there were no significant issues that had to be brought to the attention of the of the Legislative Assembly.

With regard to the Province's 2008 Public Accounts, this was the first year that school divisions were fully consolidated into the summary financial statements; the first year the government disclosed information on its operating segments as recommended by the Public Sector Accounting Board, and the final year that the Auditor General audited both the operating funds statement and the summary financial statements to determine compliance with balanced budget legislation.

With regard to the Province's 2009 Public Accounts, the Province notes that they successfully—the successful implementation of their environmental liabilities policy, which resulted in a final liability balance of 540 million being recognized on the summary financial statements. The Province changed its trust arrangements with the Civil Service Superannuation Fund and the Teachers' Retirement Allowance Fund to ensure the funds set aside for pensions purposes for these groups were irrevocable and available strictly for satisfying pension obligations in the future.

With regard to the annual reports to the Legislative Assembly issued by the Auditor General, the Province is pleased to note that of the 12 recommendations outstanding from the 2007 report to the Legislature only three recommendations remained outstanding as of the 2009 report.

With regards to the 2008 report, the Auditor General provided an update on the 12 recommendations outstanding and noted that five of these recommendations were now implemented. Six continued to be a work in progress and one required no further action. The 2008 report included a recommendation suggesting that the government set targets and report on the actual results of those targets for the financial indicators which it reports on its financial statement discussion and analysis.

The Province took some time to consider this recommendation, and in 2009 concluded that an alternate solution would be more appropriate. As a result, the balanced budget legislation implemented in October of 2008 included a requirement for an annual financial management strategy which describes the Province's objectives and measurable outcomes for the fiscal year and includes a requirement to report annually on these outcomes. This report ensures that the government is accountable for its financial performance. As a result of this, this recommendation remained a work in progress in the 2008 report, but was classified as do not intend to implement, in the 2009 report.

The next recommendation in the 2008 report suggested that the Province reshape its financial statement discussion and analysis to more closely reflect PSAB's statement of recommended practices. The Province agreed with this recommendation and implemented the appropriate changes. As a result, since 2008, the Province's financial statement discussion and analysis is now in compliance with accepted practices in public sector reporting.

The third outstanding recommendation suggested that the Province consider amending their balanced budget legislation to refer to the summary financial statements prepared in accordance with GAAP. The Province agreed with this recommendation and, in October 2008, amended their balanced budget legislation to require the Province to balance their budget on a summary basis using a four-year rolling average. As a result, the Auditor General has referred to this recommendation as implemented in the 2008 report.

The fourth recommendation in the 2008 report suggested that the Province develop generally accepted criteria to determine the amount of emergency expenditures to be excluded in determining the government's compliance with balanced budget legislation. This has been determined no longer appropriate by the Auditor General. As a result, in the 2008 report they concluded that action was no longer required on this recommendation and removed it as a recommendation from the 2009 report.

The fifth outstanding recommendation in the 2008 report suggests that the Province's quarterly reporting be prepared in accordance with the framework of generally accepted accounting principles. The Province agreed with this recommendation, however, they were unable to completely fulfil this by the end of 2008. As a result, it continued to be reflected as a work in progress. However, the Province continued to work on this recommendation and have fully implemented it during the 2009-10 fiscal year, and anticipate that the upcoming report to the Legislature will note that the Province's quarterly reporting is now prepared in accordance with the framework of generally accepted accounting principles.

Number 6 in the Auditor General's update recommended that the Province expand their internal audit and consulting services work to include testing of controls associated with significant information systems. During 2008, the Province was successful in expanding internal audit and consulting services. As a result, they were able to begin testing controls associated with significant information system and this recommendation is considered implemented.

The second–seventh recommendation suggested that the Province align the purchase approval rights awards—awarded to users in the SAP system with their delegated business authorities. Though not fully completed in the 2008 report, the Province continued

to work in this recommendation and, in 2009, was successful in fully implementing it.

The eighth recommendation refers to the Provincial Comptroller's office, in collaboration with the chief information office, which is part of the Department of Innovation, Energy and Mines, to ensure that a government-wide disaster recovery plan is developed and tested. This is a complex recommendation that involves the collaboration of both information technology and the business areas. Although a formal government plan has not yet been completed, Business Transformation and Technology, a division of Innovation, Energy and Mines, continues to work on this recommendation.

Disasters can range from an incident in which a computer system goes down and is not available to an end user to issue cheques or complete processes to completed data centre—to a complete data centre disruption which renders a facility inoperative. Though all these incidents would be classified as some form of disaster, not all need to be recovered immediately. An appropriate plan identifies the critical, high-risk business areas and the timing requirements to ensure that systems are reinstated.

The Province is currently in the process of completing this risk assessment in conjunction with the business areas. In the meantime, the Province has mitigating processes in place to ensure that the Province's systems are not significantly impacted if a disaster occurs. For example, many of our third-party vendors provide 24-hour assistance to the Province and also have a disaster recovery plan themselves. The IBM data centre, where some of these systems reside, is assessed every three to six months as to their processes and physical protection of the data centre facility.

Business transformation technology is in the process of moving many of the government's IT systems and data bases to more modern hardware and locating some of these systems into the IBM data centre here in Winnipeg. Where necessary, we use third-party consultants to assist us. For example, this past year Deloitte came and assisted with an outage in the SAP system. While the outage was due to some unforeseen circumstances, Deloitte has made recommendations that will assist in further mitigation of these types of risks.

The Province recognizes the importance of this issue and they are building this issue into their strategic plans. For example, risk management is a key element of BTT's strategic plan. BTT is in the

process of piloting a new risk-management process that will follow industry best practices in assessing risk and developing plans to mitigate these risks, and BTT has completed an assessment of their infrastructure and, based on this assessment, is developing a long-term plan to ensure that they have appropriate computer needs in place.

The ninth recommendation in the 2008 report includes an update on the recommendation that the Provincial Comptroller's office, in collaboration with the chief information officer, review the use of security software tools to better manage the risk involving users with incompatible duties. While the Province was not able to complete this recommendation by the time of the 2008 or '09 reports were issued by the Auditor, the Province can advise the committee that they have recently implemented a recommended security software tool called governance, risk and compliance to manage these risks related to the segregation of duties associated with the provisioning of SAP roles. As a result, the Province anticipates this recommendation being considered as implemented in future reports.

The tenth recommendation included in the update recommended that the Province enhance their communications to further assist departments to improve performance measures and guidance so that it complies with guidance issued in the CICA's statement of recommended practice. The Province took steps in this regard during 2008 and '09 by leading a variety of workshops. As well, they implemented a more rigorous departmental and government performance reporting process consistent with public's performance reporting guidance issued by the Public Sector Accounting Board. As a result, this recommendation is considered implemented.

* (19:30)

The final two recommendations included in the 2008 report related to clarification of terms regarding vacation and severance payable to some government organizations and clarifying terms for the funding commitments related to some pension liabilities. During 2008, the department—the Province provided these organizations with communication on these issues, and as a result the Auditor General now considers that these two recommendations have been implemented.

As well, the update on outstanding recommendations—as well as the outstanding recommendations from the 2007 report, the Auditor

General also included a new recommendation in the 2008 report. This recommendation suggested that the government provide guidance to organizations in its reporting entity that are currently expected to adopt International Financial Reporting Standards with respect to what course of action should be taken. The Department of Finance worked diligently with reporting organizations throughout 2009, offering guidance and advice to walk them through the conversion process as required. As well, the Province has continued its communication process throughout 2009. As a result, the Auditor General also considered this recommendation implemented.

In conclusion, the 2008 report originally identified 12 outstanding recommendations of which only three items are now considered outstanding in the 2009 report.

And, with that, I'll conclude.

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

The floor is now open for questions.

Mrs. Stefanson: I would like to just, first off, welcome the new pages here to the Manitoba Legislature, and, hopefully, you all enjoy your time here.

Getting to the report, in the 2009 annual report, there is a statement in there and a quote that I'll read out, it says, "In Manitoba, transfers from the federal government are a significant source of revenue for the provincial government, accounting for about 30 percent of total summary provincial revenues in 2008-09. As a result, the Province's fiscal position is somewhat vulnerable . . ."

And that states that right in the annual report, and I'm wondering if the deputy minister could indicate if the department is concerned about this vulnerability and what steps are being taken within the department to reduce the vulnerability.

Mr. Eliasson: There's three major components to federal transfers to the Province.

One is the Canada Health Transfer that is the result of an agreement amongst provinces and the federal government, and that agreement is in place until 2014 and calls for a 6 percent escalation on an annual basis in that transfer.

The second is the Canada Social Transfer which, again, is the consequence of agreement and, I think, is actually enshrined in legislation and is, again, in

place until 2014, and it has a built-in escalator of 3 percent.

And the third major transfer is equalization, which—the concept of equalization is entrenched in the Canadian Constitution. The exact formula has changed over time. The current formula is in place until 2014, and it is based upon a weighted moving average of—the maximum amount for equalization on a national basis is escalated by a weighted moving average of growth in Canada's GDP and then a complex system of measuring fiscal capacities within provinces that determines the allocation within that formula.

So each of the major transfers are governed by either legislation or agreement, long-term agreements with the federal government that are in place until 2014, and so we're quite confident that those resources will be there at their formula base levels until those agreements terminate.

Manitoba, along with all provinces, is preparing now for negotiations with the federal government on what agreements will be in place from 2014 going forward, probably for another five-year period, and the federal government is, as well, preparing for those negotiations. And so, you know, we're sitting here in October of 2010 and 2014 seems a long way away, but federal-provincial negotiations do not move at a rapid pace, and these are major areas of concern for provinces across the country. And so it's prudent to begin negotiations on these agreements early.

Mrs. Stefanson: Thank you very much for that.

And I guess my concern is that it is stated right in the annual report that—

Mr. Chairperson: Excuse me, Mrs. Stefanson. Just for the benefit of all committee members, can you tell us what page that's on?

Mrs. Stefanson: Oh, page 39 of the 2009 annual report, under revenue from federal government transfers.

Mr. Chairperson: Thank you.

Mrs. Stefanson: And, again, it does say there that, as a result, the Province's fiscal position is somewhat vulnerable—again, right in the report. And, usually, if you're vulnerable towards something, you would try and reduce that vulnerability, and I'm just wondering what steps the government, the Finance Department, is taking to reduce that vulnerability.

Mr. Eliasson: The major transfers are governed by established formulas that are in place until 2014. Manitoba, like other provinces, also negotiates with the federal government on an annual basis and relies on federal fiscal policy at times in terms of what their actions will be. And the statements of the federal government, the federal Finance Minister, are providing some comfort and, in fact, their actions in 2009–2010–11 are living up to those commitments that the federal government will not try to deal with their deficit problems by dealing with the transfers to provinces, and so we take guidance from that. So we rely on the formulas and the agreements that are in place and the actions of the federal government on an annual basis if they do anything that is in addition to what is required by formula.

Mrs. Stefanson: Thank you again for that and, again, it's—the more dependent we are on the federal government with respect to the transfer payments, the more vulnerable we are as a province, and I think what, you know, that is stated in the annual report. And I sort of take it from your response that perhaps the government does not see this as a vulnerability. Is that the case?

Mr. Eliasson: The formula, particularly surrounding equalization, means that the number can change on an annual basis within that formula, and to the extent that it's less from one year to another, that is a vulnerability. But the variance in sort of the level of payments under those transfers, particularly because the Canada Health and the Social Transfer are governed by a formula with a fixed escalator, limits the risk—or the variability in total transfers that could occur on any—in any particular year.

Mrs. Myrna Driedger (Charleswood): Mr. Chair, the Minister of Health (Ms. Oswald) has made a comment that the current levels of spending in Health right now are not sustainable.

And I think, to follow up on Mrs. Stefanson's questions then, too—you know, that the minister is already indicating that, you know, there are issues related to the level of spending in Health being unsustainable. I think, you know, adding on to her question is: the government must be looking at doing something to try to address some of these challenges, and the minister has acknowledged that, in fact, that spending is not sustainable. Would the borrowing and the—are the—sorry, the money that's coming from the federal government at 30 percent is obviously something that down the road might not be there, so we could be in a precarious position in this Province.

And I think the, you know, questions that are being asked is as—surely, the Finance Department is probably having a look at what we can do and what measures are being put into place to address this.

And, I guess, that would be the question I would ask, is: What measures are you looking at to deal with all of that?

* (19:40)

Mr. Eliasson: You know, I'm not quite sure where we're going with this. These are sort of forward-looking questions that may be appropriate as sort of a budget or Estimates debate, but I'm not sure that—

Mr. Chairperson: Excuse me, Mr. Eliasson. Their question is in order. It is not an Estimates related question. This is a straightforward public accounts question and I would expect that you would answer that question. Proceed please, Mr. Eliasson.

Hon. Rosann Wowchuk (Minister of Finance): Mr. Chairperson, I would just—if I could put a few comments on the record with regard to the finances and the issues of health costs. I can say to the members of this committee that at the Finance ministers' meeting, all Finance ministers, right across the country, talk about the cost of health care. The costs of health care are not unique to this province and there are many people that are reviewing how—what—where the growth in health care is and the various costs.

Right now, our funding is driven by a formula and we know that because of—what the numbers will be with regard to what our Health and Social Transfer will be. But I take comfort—as we look at all of this, of course, everybody's concerned about costs—but I take comfort in the fact that we—when we look at where in this particular time, what the federal government has said, and the federal Finance Minister has said that they're not going to balance their budgets on the backs of the province; that we are going to have the funds—the equalization payments continue. We saw that—they addressed that in the last year. We will be getting our number from the federal government very soon, in December, I believe; that's when we find out what the numbers are. But the issue that you raise with regard to what the costs—where the costs of health care are going is an issue right across the country.

Our government's looking at how we can address it. Yes, we are. As we put our next budget together we look at all of those areas of where we have

increased spending and where we have to—how we will manage those costs within that budget.

Mr. Chairperson: Mr. Eliasson, the question is still outstanding.

Mr. Eliasson: The Canada Health Transfer is a long-term program. It is currently guided by a five-year agreement that is in effect until 2014, and the transfer escalates at a rate of 6 percent per year over the life of its—the current agreement. Provinces, along with the federal government, are partners in a federation that will arrive at agreement on the funding arrangements that will be put in place after 2014, and that is a consequence of national discussion and eventual agreement, and provinces, Manitoba among them, are diligent in approaching those discussions early on, four years in advance of the termination of the agreement, in order to make sure that the interest of the provinces are well represented in those discussions. And I don't think that anyone at this point in time can predict what the outcome of those negotiations would be—will be—in 2014.

Mr. Jha: I personally think, Mr. Chair, that this question is out of context of looking at the Auditor's report of 2009. We are looking at what could happen if the transfer payment does not come, but that particular thing is hypothetical in terms of the report we are looking at today. We should be looking at this—the data today on this report and try to see whether this report has questions that could be relevant. But talking about health-care costs that could be skyrocketed or could be reduced—the revenues go up and down. That will be something that will be forecast in Estimates, and I don't see that to be relevant in this particular meeting.

Mr. Chairperson: Excuse me, Mr. Jha, I think I ruled on that issue already. I said that the question was in order based on the question that was asked. The preamble did, in fact, border; however, the question itself was quite in order, and I had ruled on that already. Okay? Thank you, Mr. Jha.

Mr. Borotsik: Yes, and again, we recognize, Mr. Eliasson, that the Canada Health Transfer and the Canada Social Transfer certainly have got built-in increases, 6 percent and 3 percent, respectively. Those increases are not built into the equalization payment as you've already identified. Equalization is based on formula and the formula is very complex: it deals with revenues from resources; it deals with revenues generated by the federal government in certain areas. So those are affected. The

\$2.063 billion in 2008-2009 was equalization, which was the lion's share of the transfer payments from the federal government. As Mr. Jha has suggested, looking at that 2.063 billion for '08-09, we know that that has gone forward at 2.063 for the next fiscal year, 2010. But that was a one-off. Mr. Eliasson—or Eliasson; I will get that right; I do know that, Eliasson—that was a one-off. I believe, and correct me if I'm wrong, was there not about \$175 million that was a one-off payment for equalization in the last fiscal year?

Mr. Eliasson: There was a payment in the last—or in '10-11 there will be a payment that will keep the overall level of total federal transfers even, roughly even, with the prior year.

Mr. Borotsik: Yes, and that doesn't include any increases. That would be even. That would be flat. And I think Mrs. Stefanson had indicated that her question was—is what protections, or what do you have going forward if, in fact, it's even held at flat revenue and no increase, or should it happen, and it could happen that the equalization portion be reduced because of formula, what has your department got, what mitigation or risk management policies do you have in place right now, should that happen? And that's not hypothetical, that's quite possible, by the way.

Mr. Eliasson: The Province monitors its revenues from all sources on a monthly basis and keeps very close track of the revenues that are coming in compared to forecasts that have been made. And when adjustments are required to be made in expenditures to bring them in line with revenues—and those are made through in-year expenditure management plans—when the budget is being prepared for subsequent years, the Province has a good indication of what total federal transfers will be for that fiscal year. And so budget—overall budget decisions are made cognizant of a very good estimate of what overall federal transfers will be for the subsequent fiscal year.

Mr. Borotsik: And I thank you for that. And I do know that there's the necessary correlation between revenue and expenses, but if you go back to the documents that we're looking at right now, budgets 2007-2008, 2008-2009 budget to actual, in both years, expenses were higher than what the budget had indicated—in both years. In fact, if you want to go back even further, I would suggest that in all budgets, the budget of expenditures has been less than what the actuals have been when you've done

the reconciliation at year-end. So, if that's the case and your expenses are higher, then can you again explain to me—if you keep a handle on revenues, that's fine, and if revenues are going to be equal, your budgets actual to budgets seem to have higher expenses—what type of mitigation do you have for the expenses?

Mr. Eliasson: I—when the Province determines that revenues may not be as estimated or if expenditures as a result of emergencies or any other factor are higher than expected, then in-year expenditure management is not an uncommon response to that, and departments are challenged to reduce their expenditures to mitigate the difference between originally forecast revenues and forecast expenditures.

* (19:50)

Mr. Borotsik: In-year expenditure management, can you expand on that just a little bit, and just exactly what type of in-year expenditure management has been put into place? We have—and we won't go into this fiscal year—year ending 2010 was about a \$500-million core operating deficit.

What type of in-year expenditure management did you put into place in that particular case?

Mr. Chairperson: Just a clarification, Mr. Borotsik, is that pertinent to the statements that we're considering or is that 2010?

Mr. Borotsik: Yeah, fair ball. I'll rephrase that question. The \$500-million deficit certainly is 2010, and we have the documents. We just don't have them tabled as yet. So let's go back to 2008-2009. There was a 2.2 percent increase in expenditures from budget to actual.

What type of in-year expenditure management did you put into place when there was a 2.2 percent increase in expenditures for that budget year?

Mr. Eliasson: I could—I don't have at my fingertips the expenditure management measures that were taken across government at that particular point in time. But what I can report to you is that when the plan, the annual plans of departments and the approved estimates of expenditure that are voted on by the Legislature and the estimate of revenue, if it starts to get off track, then the Province makes decisions as to how to deal with that, and it covers a myriad of decisions across government that have to do with a full range of services that the Province provides and decisions are made as to whether to

maintain those services or to find if ways to reduce them as the year unfolds. And so it's not just a process of putting in place a plan at the beginning of the year and then not paying attention until you add things up at the end of the year.

Mr. Borotsik: The year end, 2008-2009, if you look at the financials, there was a 2.2 percent variance—additional increase in expenses. Is that, I guess in the department's position, is that acceptable—the 2.2 percent increase in—from actuals to budget?

Mr. Eliasson: Decisions are made during the course of the year to determine to what extent expenditures can be constrained while meeting the policy objectives of government and those decisions are made throughout the year.

Mr. Borotsik: So 2.2 percent was reasonable then at that point in time, if in fact you've made those adjustments throughout the year and your in-year expenditure management—I take it the 2.2 percent increase in expenses, actual over budget, was acceptable?

Mr. Chairperson: Mr. Borotsik, I'm going to ask you to rephrase that question because that question is more of a policy question than it is an administrative question. So I'm going to ask you to rephrase it.

Mr. Borotsik: Yeah, well, Mr. Eliasson has just indicated that they do throughout the year, his department does throughout the year, look at revenue to expenses and, as I said, we're dealing with 2008-2009. There was a 2.2 percent change in actuals to budget. In fact, the budget was 9 billion, 799, the actual on core spent 10 billion, 13, which was 2.2 percent more than what was budgeted.

And I—and this is a legitimate question—is that 2.2 percent within the reasonable amount when you're dealing with budgets at that level? Is the department looking at 2.2 percent as being something that's reasonable?

Mr. Eliasson: There are variances in every estimate. It's very unusual for any estimate to come in exactly at what was forecast a year previous to that. The larger an entity, sort of the closer you should be able to get, and even a small percentage on a big number looks like a big variance.

Ms. Wowchuk: I just want to add to that and say that, you know, there are times when unusual circumstances arise like emergencies, things that you don't budget for. And if you'll—there are, in this—we might have in some year an extreme flood, we might

have H1N1 that ended up—we had to spend money on, and some of those things you don't budget for—forest fires.

There are unusual situations that arise that are not within the budget, and sometimes you have to spend more than you anticipate in those areas. And in the—those are—and I believe that that is acceptable, to have an amount if you're addressing the needs of Manitobans.

Mr. Chairperson: Thank you, Madam Minister.

I have a list here—Mrs. Stefanson.

Mrs. Stefanson: Just to switch directions a little bit here, but in the Auditor General's report, it was indicated that there was a correction of a financial statement presentation of \$1 billion in debentures that were purchased by the Province on behalf of Manitoba Hydro which the Province then repurchased in sinking fund investments.

I'm just wondering—and she indicated that the investment was previously netted against borrowings but should have been—but should not have been netted. And I'm wondering if the deputy minister could explain what happened here.

Mr. Chairperson: Go ahead, Mr. Eliasson.

Mr. Eliasson: In 2009 the Province reclassified approximately \$1 billion in Manitoba Hydro debt during the year from an offset to related investment assets and switched it to gross borrowings on behalf of Hydro. And this reclassification was done after a review of a practice that had been in place for a number of years, and it was determined on a joint basis between the Provincial Comptroller's office and the Auditor General's office to not reflect generally accepted accounting practices, and so the determination was made to restate that in a way that was compliant with generally accepted accounting practices. So it was a judgment that was made against the accounting standards that were in place.

Mrs. Stefanson: So would it be correct—and I'm just trying to sort of wrap my head around this issue—is it correct to say that an error was made and that error has now been corrected?

Mr. Eliasson: You know, I don't think that "error" is the right choice of words. I think that accounting standards are complex, and professional judgment is applied to state things in a way that are deemed to be compliant with those standards, and professionals can discuss the application of standards and through those discussions determine that another form of

statement is more appropriate for complying with the standards that are in place. So I think it's more a case of refining professional judgment than of correcting an error.

Mrs. Stefanson: I guess I would just ask the Auditor if she could indicate to us whether she agrees with the government on this issue.

Ms. Bellringer: So, yes, there is a significant amount of interpretation required, and yes, we have discussions from time to time.

* (20:00)

I would—with all due respect to the deputy minister, I'd probably get closer to the word "error." It wasn't something that we sat and consciously decided in the past would be better presented the way it was being presented, and it was really this year that the number was really worked on thoroughly to understand what the implications were. And this was the first time it was being reflected properly, so, you know, I call that an error.

Mrs. Stefanson: Well, I guess there's a discrepancy here, whether or not it's an error or it was just a change in accounting practices or what have you. But I guess the important thing for the public of Manitoba is that something like this, you know, doesn't happen again.

And I'm wondering what impacts this error, or what have you, had on the finances, the provincial government finances, if there were any impacts on it.

Mr. Eliasson: The reclassification increased gross borrowings of the Province and it increased gross investments, but it had no impact on the bottom line. It had no impact on the calculation of net debt or net borrowings.

Mrs. Stefanson: If it was—as I understand it, it was a debenture purchase by the Province on behalf of Manitoba Hydro, so it would have sat on the books originally as debt to Manitoba Hydro, but when they repurchased it, it came back into the provincial government. And in doing that, who would have serviced—paid for the servicing of that debt? Would it'd been the core operating government or would it have been Manitoba Hydro?

Mr. Eliasson: Manitoba Hydro.

Mr. Chairperson: Okay.

An Honourable Member: I guess—

Mr. Chairperson: Oh, I'm sorry, Mrs. Stefanson.

Mrs. Stefanson: I guess I would—I mean, in terms of servicing the cost of that—so if that was Manitoba Hydro, so that would have no—I mean, what would be the—that should have had some sort of an implication on the bottom line, would it not have? I guess I'd ask the Auditor. I don't—I'm just trying to figure this out here, so, yes.

Ms. Bellringer: It is a complex interpretation of an accounting standard, there's absolutely no question, and the deputy minister is absolutely correct there's no impact on the net debt. The—it does ultimately result in a reclassification, so the debt number does go up but it's offset completely by an increase in investments.

And it all—what it is about is when debt was repurchased, that debt—it doesn't have the name Hydro sitting on the certificate. It's debt that was originally issued on behalf of Hydro. And so, when it was repurchased, it wasn't easily identified as being Hydro debt; it was just another government issue that was then purchased back, so nobody knew that it was Hydro debt when they were repurchasing it. You had to look at the actual, if you will, certificate number and recognize that that particular number happened to be one that had been issued in the first place on behalf of Hydro to realize that you had not just purchased back debt that was general purpose debt but rather it was debt that had originally been purchased on behalf of Hydro.

So at the time that you repurchased it, you—because of the way the government business enterprises, which includes Hydro, because of the way they're recorded in the public accounts, that certificate, when you repurchased it, was actually an investment that the Province had now acquired, and so you have to show it as an investment. And at the time that it was repurchased originally, it wasn't recognized as having been that Hydro investment, but it was thought to have been a repurchase of general debt.

And that's why I characterize it as an error, but not a deliberate, you know, misrepresentation of the numbers, but rather it was missed. And so the debt number was incorrect, and it was all fixed this year.

Mrs. Stefanson: Yes, just one last question to you. So are you satisfied—to the Auditor General—are you satisfied that this error has been fixed and—that the error has been fixed?

Ms. Bellringer: Yes. We—of course, we're doing the audit at March 31st, 2009, and when we do our

audits, it is obviously at that point in time, so, I mean, I can't tell you today what—but we every year are doing an annual audit, and this is certainly something we'll be looking for.

Mrs. Stefanson: Yes, just to switch gears again too. I just have some questions regarding the debt guarantees of—for Crown corporations. I know the Province of Manitoba guarantees—do they guarantee all of the debt for Crown corporations?

Mr. Eliasson: By and large, the Province borrows on behalf of the Crown corporations in its own name and then loans the money to the Crown corporations.

An Honourable Member: Okay, so in the—

Mr. Chairperson: Mrs. Stefanson.

Mrs. Stefanson: Sorry, thank you, Mr. Chair. In the case of—I know there's Manitoba Hydro Bonds. Those would be purchased by Manitoba Hydro, I believe, in Hydro's name, so—and those, I believe, are guaranteed by the Province of Manitoba. Are they not?

Mr. Eliasson: A small part of our overall borrowing program is in the form of savings bonds and we alternate years that we issue them. This year it was Manitoba Builder Bonds, and the year prior it was—I think, it was probably Manitoba Hydro Bonds that year, and so it's an opportunity for small investors at the retail level in Manitoba to participate in the financing of infrastructure and Hydro in Manitoba.

Mrs. Stefanson: Is there a fee that is paid by Manitoba Hydro to the provincial government for the provincial government guaranteeing that debt?

Mr. Eliasson: Yes, there is.

Mrs. Stefanson: And what is that fee?

Mr. Eliasson: I can get the number for you, and—

Mrs. Stefanson: Okay. Yes, I think, as I understand, it's around 1 percent. Would that be roughly?

Mr. Eliasson: It's a little more complicated than just the guarantee fee. The Treasury of the Department of Finance undertakes activity on behalf of Hydro and some of that forms compensation for that activity.

Mrs. Stefanson: Where would this fee show up in the core—the financials for the core government?

Mr. Eliasson: I understand that the fee is netted against debt servicing costs in public debt appropriation in the Department of Finance.

Mrs. Stefanson: Okay, I guess—yes, I was wondering if that's where it was. And I'm wondering if I could ask the Auditor if that—is that usually where this would be reported?

Mr. Chairperson: Madam Auditor General.

Floor Comment: Did you recognize me already?

Mr. Chairperson: Yes, I did.

Ms. Bellringer: Okay. We're not—I'm not absolutely certain that I've captured the question completely. Was the question as to whether or not it should show up in that particular line because it's part of a core—it's a Crown adjustment that is in the core?

Mrs. Stefanson: Yes.

Ms. Bellringer: We may need to look into the technicalities of it because we're not sure if it should be showing up in the summary statements as a fully consolidated number, or whether it should show up in the results of the—of Hydro, which is picked up on an equity—net equity basis, which is a government business enterprise.

* (20:10)

May I continue? Because it's a revenue to the Province, it's appropriately recorded as an offset against their debt servicing charges because it's a cost to the Crown. So if you were looking at the income statements for that individual Crown, you would see it as a cost in their records because it's their—it belongs to them. It's their cost. So they would recognize it. And when you pick up the government business enterprises, which includes Hydro, are only recorded on a net equity basis, you only show the net result of all of their operations; you don't bring it in line by line. So it's appropriately recorded in that Crown, and only the portion that belongs to general purpose servicing costs, if you will, is recognized in the Public Accounts.

Mrs. Stefanson: Well, I guess I'm just trying to wrap my head around this, because there's the core debt servicing costs which, I think, you know, that should be for how much it costs to service the core government debt. So, why, then, would you take a revenue which is generated from a fee that is for the guarantee on a Crown corporation—on Crown corporation guarantee—like, it should be a revenue into—*[interjection]*

But why—yes. So why is it netted out of something like—in other words, the core government that—how much it costs to service the core

government debt is actually higher because it's been offset by fees that have been generated by revenues from the Crown corporation.

Ms. Bellringer: We can confirm that when we were auditing it—and the Department of Finance may have more specific information on this as having recorded it—but our recollection is that the netting is for the interest charges, not the guarantee. The guarantee is a revenue item.

Mrs. Stefanson: Well, I guess I would ask the deputy minister because, I mean, to me, a fee that the Province receives for guaranteeing a debt of a Crown corporation should be considered as a revenue somewhere in the core operations of the government. It shouldn't be netted out of core debt servicing costs which should be solely for the purposes of looking into or indicating how much it costs to service the core government debt operations.

So I guess I'm trying to get clarification as to why that would be netted out of this, out of the core debt servicing costs.

Mr. Chairperson: Mr. Eliasson. *[interjection]*

We're going to—the question was asked of Mr. Eliasson. Ms.—the Auditor General would like to make a comment.

Ms. Bellringer: I just wanted to make sure that I understand Mrs. Stefanson's question, because my—what I believe is the case is exactly what you think should happen, is what's happening, that the—but the Department of Finance will have to confirm that, that the revenue portion from the guarantee fee is recognized as revenue in the core. In the core. Oh, and—*[interjection]*

An Honourable Member: That was my first question. *[interjection]*

Mr. Chairperson: Hang on, hang on, hang on. One—excuse me folks, one person at a time. Madam Auditor General, are you finished with your answer?

Ms. Bellringer: Yes. If that's—I just wanted to say that our understanding of it is what you think it should be is, we believe, is what is happening, but Finance will have to confirm that.

Mr. Eliasson: Can I get back to you with a full explanation?

Mr. Chairperson: That's acceptable. Thank you.

Mrs. Stefanson: Sure, and I guess I just, you know, I—just further to this, you know, it concerns me a

little bit that if it is the case that the government is netting out the guarantee of the debt for a Crown corporation such as Manitoba Hydro from the core debt servicing costs, I think it falsely shows what the real core debt servicing costs are. And, you know, because the real debt servicing costs would then be more than what is really indicated because you've also taken into consideration the fees generated from guaranteeing the debt of Manitoba Hydro.

So I would appreciate knowing what—where this would be and, you know, where this would show up in, if it is a revenue—which the Auditor has said it should be, indicated as a revenue somewhere—where it does show up. I appreciate that.

Mr. Chairperson: I think Mr. Eliasson asked that he be allowed to provide that information to you at another time. So I think that just confirms that.

Mr. Eliasson, did you have anything to add to that?

Mr. Eliasson: No, that's—

Mr. Chairperson: Thank you very much.

Mr. Lamoureux—I'm sorry, Mrs. Stefanson, are you—do you still have questions?

Mrs. Stefanson: Sorry, I was just—yeah, I was just going to ask the time line that we might be able to look at getting that information back.

Mr. Eliasson: I don't suspect that it'll take very long. I think, once we sort of get the right people to put their attention to an explanation, we can produce it fairly quickly.

Mr. Chairperson: Thank you, Mr. Eliasson.

An Honourable Member: Okay, would—

Mr. Chairperson: Mrs. Stefanson?

Mrs. Stefanson: Sorry. Just within a week, is that reasonable? Okay.

Mr. Eliasson: Yes, that is.

Mr. Chairperson: Thank you very much.

Mr. Kevin Lamoureux (Inkster): I wanted to go back to the equalization. My understanding is the Canada Health Transfer and the Social Transfer, they get those guaranteed increases, but in the dialogue that was occurring a few minutes back I was under the impression, based on what was being said, is that the total transfer payments between the three is guaranteed not to be lower than the previous year. Is that a correct interpretation?

Mr. Eliasson: The—for '10-11 fiscal year, the federal government provided an additional transfer to ensure that the overall level of the three transfers remained roughly the same as the prior year.

Mr. Lamoureux: So, when I look at the Canada Health Transfer, which is a significant amount of money—there's 6 percent that goes towards health care in terms of their expenditures and the same thing for social services—you—really, what they're saying is is that then the equalization payments can go down because those others are going to be increased anyway. And it's just more of an—like, is there a written agreement? How does that work when you say 2010-2011? Like, how do we feel comfortable in knowing that overall it's going to be the same?

Mr. Eliasson: The federal government provides an indication to the provinces generally late in the calendar year of the—preceding the next budget year of what the overall level of transfers are going to be, and so it's based upon that assurance.

Mr. Lamoureux: Does the Province keep a chart of any sorts? Maybe you can just refer to me where I might be able to find the chart. In the document before us, it talks about vulnerability, and is there a chart that shows the percentage of the core funding and what percentage would be coming in from transfer payments of the three over the year?

Mr. Eliasson: On page 42 of the 2009 annual report, you'll find a bar chart that indicates the percentage of total revenue that's made up of federal transfers for the last preceding—for the 2009 fiscal year and the preceding four fiscal years.

Mr. Lamoureux: Okay, now, would this all be based on core government expenditures?

* (20:20)

Mr. Eliasson: The reporting in 2009 is on a summary basis.

Mr. Lamoureux: Yes, the money we receive from Ottawa is virtually targeted for core budget expenditures. Is that a fair comment?

Mr. Eliasson: Yes, it's targeted towards policy areas that are within the core government.

Mr. Lamoureux: So is there a chart that shows, related to the core expenditures and the amount of revenue that's coming in from Ottawa over the last number of years—and the reason why I raise that is in the Auditor's report, it talks about vulnerability and

stating that vulnerability is the degree to which a government becomes dependent upon in part.

And the issue is, in terms of those core expenditures, are we becoming more and more dependent on financing coming from Ottawa? My understanding is that is the case, and I'd be interested in seeing, over the years, to what degree that has been happening.

Mr. Eliasson: That's a calculation that could be derived, but under summary budget reporting, the way it's presented in the 2009 report as a percentage of total summary revenue, the prior years have been restated to make those comparisons possible. And so when you look at the bar chart, you see it go from 31 to 28 to 29 to 28 to 29. Those percentages are derived from a calculation that's consistent in each of those years.

Mr. Lamoureux: I guess for me personally, not being an accountant by profession, I try to keep it as simple as I can, and there's no doubt, even in the Auditor's report, it just brings the issue of vulnerability. And over the last number of years it just seems that Manitoba, more than virtually any other province in Canada it seems, has become more vulnerable to receiving federal transfers from Ottawa, and it would be nice to be able to see to what degree. And the best way to demonstrate that is through a graph or through a chart or even hard numbers. And I would think that the department would actually have that because it's so critical in terms of expenditures on our core expenditures. I would think it would be essential in terms of developing a policy.

Mr. Eliasson: The 2009 statements show that the level of federal transfers is fairly consistent over a five-year period.

Mr. Lamoureux: Mr. Chairperson, we'll go to the provincial auditor and just ask the question in regards to transfers.

Does the Auditor have any sense in terms of the—what it is that I'm requesting? Is that something that the Auditor would be aware of, to what degree? Like, I've heard, for example, that it's in the high 30s percentage point of core expenditures. Is that a fair—like, I'm trying to get a better understanding of the core expenditures and how dependent are we from Ottawa in financing that?

Ms. Bellringer: First, I just wanted to clarify the reference to the vulnerability was coming out of the

Province's annual report; we hadn't actually made any commentary on that.

There are a couple sources within the text of the annual report that do provide the hard numbers—it's not in the graphs that the member is referencing. The chart on 47 shows the actual revenues by category for the last five years. It's not on exactly the same basis year to year because the fully consolidated summary statements only took place in the '08-09, so you can see right there the education property tax is blank for '05 and '04 when the school divisions weren't consolidated. So you have to make a few adjustments to it, but you can get a pretty good picture. The last line there shows the federal transfer, so you can look at the percentage that that federal transfer number is of the total and how that changes year to year, and then the expenditure figures are on another page, so you can sort of look at it in that context as well. So, I mean, you can—and I appreciate, you know, when—for an accountant, the numbers all jump out of the page for me, but as a non-accountant, another format might be—it would be something I would recommend the Province have look at, but some of that information is in here.

Mr. Lamoureux: If the Auditor can really simplify it then for me—if I was to ask the question: What would have been the percentage of the core budget that would have been compared to transfer payments, the three—the social, transfer, equalization in health—for the fiscal year that we're reviewing right now?

Ms. Bellringer: And I—I'm not that—I can't recall whether the deputy already answered this or not, but from the annual report, you can see the revenue split for 2009 on page—it's in a little chart at the top of one of these pages—this side—oh, here it is, on page 48. And that's where you'll see the 30 percent figure; the federal transfers are representing 30 percent of the revenues.

I mean, it's as a percentage of the revenue as opposed to a percentage of the expenditure, so factoring in in '09 you had a surplus, it's actually a smaller percentage, if you will, of the expenditures, but it's—30 percent of the revenue is coming from federal transfers in '08-09.

If—sorry, can I add one more thing?

Mr. Chairperson: Yes.

Ms. Bellringer: That same chart shows the government business enterprises representing 6 percent of the revenues, and so the rest—and in—percentage-wise, you can compare that to core

because in effect what you're saying is if you gave a grant out to an external agency and they had a deficit, then that's your problem. So, really, you can look at the total here. Even though it's on a summary basis, it's a fairly representative proportion.

Mr. Lamoureux: I guess, if I was to go to a grade 12 classroom and I had to explain the issue of being vulnerable to transfer payments, I would like to be able to say, and I'll use a hypothetical number, the Province of Manitoba spends \$10 billion. Out of that \$10 billion, 3 billion comes from Ottawa, and it would be closer to \$3.8 billion, but that's the number that I'm looking at. It's something in which people can actually relate to and not be an accountant, right? Province spends X and Province receives from core expenditures. Province spends X for core expenditures and receives X from Ottawa in those three transfers. That's really what I'm looking for, and there's got to be a simple way for the Department of Finance to provide that information, given, I think, that's it an absolutely critical way to be able to tell exactly how dependent we are in terms of expenditures that are being spent by the Province. We do not agree?

Ms. Bellringer: Well, I just want to emphasize it's the Department of Finance's responsibility to do the reporting, but I'm happy to answer the question.

Let's just talk about the one year, so we don't complicate it for the grade 12 kids. So in, you know, '08-09—and let's look at it just in the revenue side—the Province brought in \$12.9 billion and 3.8 of that came from federal transfers—page 47, first column.

* (20:30)

Like, it really is that simple; that of the 12.9 in revenue, 3.8 of it came from federal transfers, but if you—and I appreciate that you're asking about core—so you can say—but the Province has responsibility over a number of operations, some of which they deliver through the departments and some of which they deliver through Crown corporations. It's still the responsibility of the Province. So that's where you get into the philosophy that our office and the accounting standards are saying that you should look at that in the context of everything the government controls, and that's why we emphasize the summary financial statements. But you should know that, of that, of that 12.9 we're talking about in total revenue, 3.8 comes from federal transfers and 800 million of it comes from Crown corporations, and that's the full picture on a very, very summarized basis.

Mr. Lamoureux: So, if we were to do the math ourselves, it would then be the total core government expenditure, which would then be found on—what page?

Ms. Bellringer: Are you trying to convince me that you shouldn't show summary financial statements? Is that the way this is going? *[interjection]*

Which is what is done. And, having said that, because of the complexity of it, it's not so easily found, and so the member is asking some pretty specific questions which I think should be delivered to the Department of Finance rather than me because I think they will give you reliable answers because it's a way of navigating your way through the Public Accounts where you will find answers to many of those questions. The Volume 3 of the Public Accounts will show you the breakdown. Again, it's all going to flow into that summary result, but you'll see the breakdown between core and adjustments that are made to the core.

Mr. Lamoureux: And I would ultimately suggest that we should have both. That's what we really need in the document. So I would go to the Minister of Finance's office and ask where would I look to find the core of government expenditure.

Mr. Eliasson: I'd be pleased to tell you. If you go to the annual report for the year ended March 31st, 2009, and go to page 114, which is schedule 11, you'll see the revenue and expenses that relate to core government operations.

Mr. Lamoureux: So the 10 billion, one–10 billion, 15 million would be the core amount spent in that particular fiscal year, correct?

Mr. Eliasson: Yes.

Mr. Lamoureux: People around you are far superior with a calculator than I am, no doubt. What would—if we were to use that figure, what percentage would that be based on the 3.866 billion of the transfers?

Mr. Eliasson: I can give you another source that you can go to because we don't have calculators here either. But if you go to Volume 3 of the Public Accounts year ending 2009, and page 3-8, you'll find a breakdown of all of the revenues, and the first major block are all of the revenues received from the Government of Canada. So that's all the major transfers, each of them itemized, as well as other transfers related to infrastructure, et cetera, et cetera. So if you wanted to do the transfers on equalization—Canada Health and social—Canada

Social Transfer, you could add those up and then compare those to both the core revenue and expenses from page 114 in the annual report.

Mr. Lamoureux: But now, you know, I'll have to get someone to actually do the division. But, you know, this aside, right, I think that there would be great value for the average person—including myself, I guess, and those grade 12 students—if, in fact, there was a graph that would clearly show, based on the core numbers—you know, this is quite complicated, and I don't know if I would get it right the first time around, but I do know that there's got to be a better way in terms of reporting it. That's how we determine how vulnerable we are to Ottawa. And I would appreciate at some point—if it's possible, if it's doable—to have, even if it's based on the last few years, I'm interested in knowing to what degree we are more dependent on transfer payments to support the core expenditures.

I think there's a great deal of value to that, and maybe the Auditor's office could look at maybe how that could be incorporated if, in fact, you believe that there's a value to Manitobans by—to know that. Thank you.

Mr. Eliasson: I think a—sort of, clarity is in the eye of the beholder. And the decision has been made to report on a summary basis for the Province, and so the graph that provides analysis are consistent with that basis of reporting. And, if we did produce a graph going back five years that compared other numbers, it may be clearer for you and it might confuse others.

So we've made the decision to be consistent in our reporting and the graphic presentation of that on a summary basis. But the financial statements and reports contain all of the information that maybe takes a little while to thumb through and find the exact places but allows for a simple calculation to do any kind of analysis that one desires. To present every analysis that responded to every question would result in an annual report that was probably confusing and it—mislead others, so.

Mr. Chairperson: Okay. Who—Mrs. Stefanson.

Mrs. Stefanson: My question is for the Auditor General. As you've noted in your report last year, the accounting standards in Canada are in the process of transitioning to International Financial Reporting Standards, and I'm wondering if you could indicate how this affects the financial reporting by government organizations.

Ms. Bellringer: I don't mind answering it. You don't want to ask the Department of Finance?

An Honourable Member: I just thought I'd ask you.

Ms. Bellringer: You just want to ask me. Okay.

The impact of International Financial Reporting Standards is on the Crown corporations. The—what it technically is is that the Public Sector Accounting Board sets the standards for Canadian governments. And it's the Public Sector Accounting Board that has—it's a national body represented by all of the—and which does due diligence with all of the major users of all of the financial statements of all levels of government, and through that process they've come to the decision that Canadian accounting standards for governments should remain—the government itself follows public sector accounting standards which are the same as the Canadian public sector accounting standards that were in place before the movement towards international. Crown corporations will adopt the International Financial Reporting Standards as Canadian accounting standards for Crown corporations.

There is discussion still in place for not-for-profit organizations that are in the government world.

Anything else?

There were a number of other organizations that—at the time that we wrote this report they weren't sure they were—where they were going to fall, but they will be following government reporting standards.

Mrs. Stefanson: I think that—I guess I'll go to the department and the deputy minister, if he could indicate whether or not the government is moving towards this, and if he could give us an indication as to where they're at in terms of the government business entities and where they're at with complying with this, which, I believe, has to come into compliance by 2011.

* (20:40)

Mr. Eliasson: There are five government business entities that will adopt international standards. The Liquor Commission, Manitoba Lotteries, Workers Compensation Board and Manitoba Public Insurance will adopt those standards for the fiscal year commencing in April 1st, 2011. So for that fiscal year they will report on international financial standards.

Manitoba Hydro—entities like Manitoba Hydro that have regulated rates have an option year. They can do it in the year where the fiscal year commences after January 1st, 2011, or they can choose to go one year later. And Manitoba Hydro is still examining the timing of when they will adopt those standards, and that decision has yet to be made. But we've worked with all of the government business entities to ensure that they're well along in addressing those issues, and each of the entities are progressing as they should.

Mrs. Stefanson: And once all of this comes into effect and everyone is reporting appropriately, and I'm just wondering, as I understand, everything is to be—under the IFRS, everything is to be reported based on market value, as I understand. Is that how—and that could lead it—lead towards more fluctuations from year to year?

Mr. Eliasson: The entities we're referring to are already covered by mark-to-market valuations on their investment portfolios, which does impact other comprehensive income. So I'm not sure that that's the change that will occur through the transition to international financial standards. That's already in place for those entities.

Mrs. Stefanson: I think I just asked the Auditor—I know we were discussing this earlier, and I think it was indicated that by moving more towards the—or by implementing the International Financial Reporting Standards, that this—that everything will be reported based on market value and that could cause fluctuations, more fluctuations, from year to year. Can you—can the Auditor just expand on that?

Ms. Bellringer: What the deputy just described, the current accounting standards that those same business enterprises are following would still—are currently already in—doing mark-to-market—the difference remains between the way the public accounts is produced for the rest of the organizations and those entities.

So that isn't a difference between the old way of accounting and International Financial Reporting Standards. There's different accounting rules for almost every account within a set of financial statements for every one of the organizations that are having to transfer over. And what the first step of all of the transition has been for each of those entities to analyze every single one of their accounts to figure out how it—how—because the standard is very, very different under the International Financial Reporting Standards, each account will be recorded differently

and it's impacted their financial—their systems of recording things significantly, their methodologies, and each one of them has come up with a different analysis. And I don't actually have a summary of what the impacts are for each of the organizations.

Mrs. Stefanson: And just switching gears here, I'm just looking at the time. And I know there was a recommendation made in the Auditor General's report that the government set targets for the financial indicators which it reports on in the financial statement discussion and analysis and report back against actual performance as compared to target in its annual report. And I know the deputy minister indicated in his opening statement that they—that the government has come up with what they believe is an alternate solution through the balanced budget legislation and other financial management strategies. Could you expand on that a little bit more and how that actually takes into consideration—because to me, this is about setting targets and seeing whether or not those targets are being met, and that's what the Auditor's asking. And I'm not—if you could indicate whether or not your strategy will take—will actually achieve those same results.

Mr. Eliasson: I could—probably the most sort of efficient way to respond is I could refer you to Budget 2010 and the financial management strategy is a component of the budget, it's tabled with the budget, and it covers nine pages. And so there are a number of priority areas with measurable outcomes that are spelled out within that strategy and it's that that the government measures its performance against. And so I could go through it in quite a bit of detail or give you a chance to review it and then maybe at another occasion we could sort of discuss it, but whatever your will is.

Mr. Chairperson: Mrs. Stefanson, I'm only going to allow you for one more question; then I'm going to move on to Mr. Jha.

Mrs. Stefanson: Okay. I guess—well, that's fine. I don't expect you to go through the whole thing right now. But I guess what I would do is just ask the Auditor if the financial management strategy of the government achieves the same results that you would like in your recommendation?

I know that they may not be taking your specific recommendation, but is it moving towards achieving those results—what is set in place right now?

Ms. Bellringer: At the time that we did the 2009 report—that would have been December, 2009—we

didn't have Budget 2010 so we didn't do that comparison and we certainly didn't do it in a specific way. And because we, at that point, were having the discussion and decided to agree to disagree, and it wasn't going to be implemented the way we described it and we didn't have the alternative at that point, we describe it in the report as do not intend to implement.

We can—we would normally have—if we had just said it was in progress, we'd end up mechanically—our next step is to look at that again this year because it then dropped off last year, we weren't planning to do that.

We certainly have seen Budget 2010. I've seen the kinds of measures that are being reported. It's most certainly a positive step. We just didn't do it in the context of comparing it back to what the recommendation was, but it's most certainly not a negative thing that that's what's being done.

Mr. Jha: Yes, I would ask the question to the Auditor General: Could she explain why she believes it's important that the fiscal stabilization and debt retirement accounts are not used to determine whether or not the Province has achieved a balanced budget on a summary basis?

Ms. Bellringer: On a summary basis, the financial results are showing all of the various sources of income for the year and all of the various categories of expenditure for the year for all of the organizations under the government's control.

So the Fiscal Stabilization Fund itself isn't a current source of income and it isn't a current use of expenditure. So it just doesn't play in the current numbers on a summary basis. That's what's behind that comment. I'm not sure if that answers the member's question.

Mr. Jha: Second element was debt retirement accounts.

Ms. Bellringer: The debt retirement account—it would be the same answer. Neither of them are current sources of income nor are they current expenditures. They're internal allocations of how accounts are being used within the summary activities. Just as if you look at your own personal wealth, you might have a chequing account and you might have a savings account and you've moved it between the two. But, at the end of the day, if you want to know where you stand, you add the two together.

*(20:50)

Ms. Erna Braun (Rossmere): Sort of tagging on to that, 2008 and 2009 represents the first time the Province produced a summary financial statement.

Can you—is that—I'm not quite at the grade 12, but can you explain why the summary financial statements are a more appropriate reflection of the Province's financial condition?

Ms. Bellringer: The quick answer is that's what the accounting standards are saying it should be. The more—the fuller answer is that it does show all of the results in the financial position of the Province for everything that the government is controlling.

If you go back to the former days of operating fund and summary statements where two sets of statements were being shown, the primary differences were that not all of the expenditures were captured in the operating fund. In particular, the pension liabilities weren't reflected in those accounts, and so they are fully reflected in the summary financial statements.

The other element of it would be just the completeness of all of the organizations within the government's control. In most cases, the revenue and the expenditure from each of those operations offsets and so it doesn't have a huge impact on the bottom line, but the Crown corporations do. They certainly are a different type of operation. They are, in effect, self-sustaining, and so that's why they—those Crown organizations aren't shown the same way as all the other things that government controls, and they come in on a one line where we called modified equity basis so you see the impact of it.

But, to see that full and big picture, we really—I don't have any question in my mind that it's the summary level, where everything is included on a fully accrued, complete basis, that you see the big picture. If you want to then look at the components of that, there is, as you see, plenty of information to go and dig into the detail.

Mr. Borotsik: Yes, three very quick questions. We've got the explanation of summary and core, and that's been some of the debate, Mr. Eliasson, certainly, core and percentage of transfers. There is a core revenue and a core expenditure that's identified in page 4 and 5 of Volume 3, I believe it is. The core government's revenue was 10 billion, 170; the expenditures were 10 billion and 13 million; and the transfer fees and equalization were some 3 billion, 6.

So, if you do 3 billion, 6 on 10 billion, what would that percentage be?

Mr. Eliasson: It would be roughly 36 percent.

Mr. Borotsik: Thank you. I know that was the number that we're trying to achieve, and I just helped out my colleague from Inkster.

Two very quick questions. We touched on the 1 percent fee that's charged to Manitoba Hydro for their borrowings. It used to be 0.65 percent. It's been increased to 1 percent. It now generates \$75 million per year. Can you tell me, Mr. Eliasson, just what service Manitoba Hydro gets for that \$75 million per year?

Mr. Eliasson: The Treasury in the Department of Finance does the borrowing on behalf of Manitoba Hydro, and so they get a benefit in terms of the administrative effort that goes into that. The primary benefit they get is the strength of the Province's credit rating, which makes monies available to them at a lower rate than they would be able to secure them based upon their own credit.

Mr. Borotsik: Yes, can you tell me what that rate is for the Province and what that rate would be for Manitoba Hydro?

Mr. Eliasson: The rate for the Province varies every time we go to market and is determined by prevailing market conditions, and that changes in response to a host of factors, including the perception of risk that's involved with any particular entity, and so I couldn't—it would be a hypothetical guess to tell you that. I mean, it depends on market conditions and the appetite of the market for different forms of debt.

Mr. Chairperson: Before we go on, I'm cognizant of the time. I still have two more questioners after Mr. Borotsik. I was wondering whether or not the committee would agree not to see the clock until we have at least dealt with the questions that the people on my list have.

Is that agreed? *[Agreed]* Thank you very much.

Mr. Borotsik: Yes, last question, Mr. Chairperson; I promise to be very brief.

The debt-to-GDP—the ratio of debt-to-GDP—in your own economic and fiscal facts from the department, it says that steps are being taken to reduce the net debt-to-GDP ratio. As I understand it, there has been a deficit for this past fiscal year and there's deficits being identified for three years into

the future. If there are deficits, which is debt, you have to borrow the money for those deficits, how does the department see in reducing the debt-to-GDP ratio?

Mr. Eliasson: You're probably deriving that from the 2009 annual report?

An Honourable Member: Yes, that the statement in 2009, that you're going to have long-term reduction of—

Mr. Chairperson: Mr. Borotsik.

Mr. Borotsik: Sorry.

Mr. Chairperson: And, Mr. Borotsik, could I just ask you to use the microphone?

Mr. Borotsik: Oh, yeah, I'm sorry. The question was: Is this reflective in 2009? Yes, in the documents that the department has put forward, they've said that they, going forward, they would like to reduce the debt-to-GDP ratio. You would like to reduce that. Under the circumstances that you now find yourself in, how does that department wish to reduce that debt-to-GDP?

Mr. Eliasson: The statement that you quoted is from 2009, and then you're asking forward-looking questions, but one of the events that transpired subsequent to the publication of the 2009 report is sort of the economic circumstance that the world economy has found itself in, and the government, in Budget 2010, has outlined where its priorities are in dealing with the challenges that are being faced in Manitoba, by other Canadian provinces in Canada, and so those priorities are spelled out in Budget 2010.

Mrs. Stefanson: I just wanted to indicate, Mr. Chairperson, that I believe, certainly on our side, that we're willing to pass these reports, but I do have a number of other questions with respect to the 2009 report. And is it possible to bring those questions forward in discussion? And I know the 2010 report is not yet tabled, but will there be an opportunity—perhaps the Auditor General could respond to this, or you can, as Chair, I guess—whether or not I'll be—I'll have the opportunity to bring those questions and those issues based on recommendations from this report forward to the 2010 report when that comes before the committee?

Mr. Chairperson: I'm going to comment on it first, and then I'll perhaps ask the Auditor General or the committee to comment.

I think we have agreed as a committee that even though we pass a report, questions related to that report can be asked at a subsequent time as well. Now, it depends on the questions, but I don't think that passing the report precludes us from asking questions that are related to that report.

Madam Auditor General, do you have a comment on that?

Ms. Bellringer: If the member's asking whether or not all of the matters included in the '09 report will be carried forward to 2010, the answer is, no, they won't. The compensation report isn't included in the 2010 report because those—it's bundled, but it's not included.

Mr. Chairperson: I'm advised that if it's a specific item that is dealt with in the 2009 report but is not going to be dealt with in the 2010 report, then that would be an issue. So there are specific areas that perhaps won't be covered in the 2010 report and we pass this report tonight, then those will not be able to be dealt with in a subsequent report.

* (21:00)

Mrs. Stefanson: Well, I think we'll just let the record show that I—we had, I think, intention of getting there, but, of course, we do have a number of questions and very serious issues with respect to the reports. And so I think, with respect to the 2009 report, we'll probably have to leave that, but we are prepared to pass the 2008 report then. And including—sorry—the 2009 report including the Public Accounts Volume 1, 2, 3, 4. We'll have to leave those, but we'll pass the Auditor General's Report 2008, plus the Public Accounts Volume 1, 2, 3, 4.

Mr. Chairperson: Okay. We'll deal with that at the end of the meeting tonight.

Mr. Martindale: Well, on that same matter, if I have to raise it, I guess, as a point of order, if we could—if the committee is willing, we could try to accommodate the member by allowing time to ask those questions tonight.

Mr. Chairperson: What is the will of the committee?

Mrs. Stefanson: Well, I—it's up to the committee as to whether or not they would like to do that now or

whether or not we would like to do it at another time. If there is an opportunity to be able to—if we can just say, and if it is, you know, as far as the Chair is concerned, this could be an issue going forward as well in terms of past reports and passing reports. And I'm just wondering if we could agree, as a committee, to allow for the questioning on the 2009 report. We could pass it tonight but allow questioning—further questioning—when the 2010 report comes forward and—on the 2009 report. If the committee would agree to that, we could move forward, I think, and pass the report tonight.

Mr. Chairperson: It is up to the committee to make that decision. The difficulty—the only difficulty with this report is it's not like other Auditor General's reports where there are follow-up reports to it. This one is sort of a finite report—*[interjection]*

Pardon me?

Floor Comment: That's not the case with the compensation report. It flows into the follow-up process.

Mr. Chairperson: Madam Auditor General, perhaps, for clarification.

Ms. Bellringer: Sure. As I—the Public Accounts report for 2009 includes the annual that you describe, which flows year-to-year, and that element of it would certainly come back in the 2010 report.

The other part of the second chapter of this, which is the one on the compensation reporting, is not—and—something we would go back to. It would follow the same kind of process we follow with all of our value-for-money audits and so on, and it would just flow into our follow-up process. *[interjection]*

That one would, yes.

Mr. Chairperson: So, is there will of the committee to allow this report to pass tonight, the 2009 report to pass tonight, with opportunity for questions to be asked on this report in the 2010-11 report?

An Honourable Member: Sure.

Mr. Chairperson: But, in essence, this report will be passed tonight. What is the will of the committee?

Some Honourable Members: Pass.

Mr. Chairperson: Agreed? First of all, I'll recognize the minister.

Ms. Wowchuk: I just want—I mean, we had said we were—there's a couple of options. We can sit tonight and take the questions that people have tonight. We can do that and we'd be willing to do that.

But I guess if there's—are there certain chapters—as I look at this—is there certain chapters that we're willing to pass and certain chapters that were—that have to be held on the report to be dealt with that are—because certain parts of it—is it the whole report that the member wants to hold back, or—

Mr. Chairperson: No. There's no option on it. I think that, Madam Minister, what we're saying is that we either have to pass the entire report or not pass it. If we pass the report, there's been a question asked of the committee, or a request made of the committee, whether there would be leave of the committee to allow for questions of the 2009 report, should they arise, in the consideration of the 2010 report.

Is there a willingness to do that?

An Honourable Member: Sure.

Mr. Chairperson: Is there a willingness to do that? I'm hearing yes.

Mr. Martindale: I wonder if Mrs. Stefanson can tell us how much time she might need. I was going to ask three questions. I'd be happy to forgo those to give Mrs. Stefanson time, although I realize that sometimes people have personal commitments at home that sort of thing and if—there might not be adequate time tonight.

Mrs. Stefanson: Why—I mean, I thought I would get through all my questions tonight is what the point is, and sometimes it takes a little bit longer than you realize and so we are where we're at. I don't know how much longer it will take, but it would be great to have the opportunity to be able to ask those questions at the same time as the 2010 report. Some of them might be comparable to the numbers going forward, and it's not just all in the area of the compensation disclosure practices. So it, you know, it goes beyond that. So I think it would be helpful, I think, for all of us to be able to do it at the same time as the 2010.

Mr. Chairperson: So is there leave of the committee? *[Agreed]* I thank you for that.

So, the hour—Mr. Martindale, you were on the list, and we indicated that we would allow for those on my list to conclude their questions.

Mr. Martindale: Thank you, Mr. Chairperson. I think this will be fairly brief.

I'd like to direct my questions to the Deputy Minister of Finance and ask if the government has made a decision yet regarding the current 50,000 threshold for public sector compensation disclosure reporting.

Mr. Eliasson: The entire response to the recommendations on public sector compensation disclosure are under review in the Department of Finance. We want to deal with all recommendations as a package. Some of the recommendations get fairly complex in terms of the entities that they cover. There's a wide range of entities from those that have ample resources supporting them and those that have very meagre resources supporting them, and so we want to find a way that allows the greatest number of organizations to improve their disclosure practices in the most efficient way possible. We're preparing options for the consideration of government in how to accomplish that, and I expect that we'll be presenting those to government in the not-too-distant future, and then the government will make its decisions on how it chooses to proceed. Some of them require legislative change; others just require administrative practice.

Mr. Chairperson: Well, thank you very much for that.

Now, before we conclude this meeting, I will go through the process of calling the different audits.

Auditor General's Report—Audit of Public Accounts for the year ending March 31, 2008—pass.

Volume 1 of the Public Accounts for the year ended March 31st, 2008—pass.

Volume 2 of the Public Accounts for the year ended March 31st, 2008—pass

Volume 3 of the Public Accounts for the year ended March 31st, 2008—pass.

Volume 4 of the Public Accounts for the year ended March 31st, 2008—pass.

Auditor General's Report—Audit of the Public Accounts for the year ending March 31, 2009—pass.

Volume 1 of the Public Accounts for the year ended March 31st, 2009—pass.

Volume 2 of the Public Accounts for the year ended March 31st, 2009—pass.

Volume 3 of the Public Accounts for the year ended March 31st, 2009—pass.

Volume 4 of the Public Accounts for the year ended March 31st, 2009—pass.

The hour being 9:09, what is the will of the committee?

An Honourable Member: Committee rise.

Mr. Chairperson: Committee rise.

COMMITTEE ROSE AT: 9:09 p.m.

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