



Office of the Auditor General
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News Release

For immediate release
January 8, 2004

Auditor General Encourages Legislators to Discuss Implications of Province's Deficit Position in Conjunction with a Review of Balanced Budget Legislation

*Auditor General's Report Released on the
Public Accounts for the Year ended March 31, 2003*

WINNIPEG: Jon Singleton, the Auditor General of Manitoba, released his *Report on the Audit of the Public Accounts* today, confirming that the financial statements of the Province of Manitoba for the year ended March 31, 2003 reflected an annual deficit of \$184 million, as compared to the annual deficit of \$10 million incurred for the year ended March 31, 2002.

This placed Manitoba in the company of other provinces such as British Columbia, Saskatchewan, Prince Edward Island, New Brunswick, and Newfoundland and Labrador, which also experienced deficits for their 2003 fiscal year.

For the year ended March 31, 2004, the Government has budgeted for a deficit of \$110 million.

"In my view, the existence of a deficit at a particular point in time is not necessarily a cause for alarm," noted Singleton. "However, the experience of the 70s, 80s and early 90s showed us that deficits that recur over a protracted period of time are a real concern. For this reason, as an officer of the Legislative Assembly, I encourage the Members of our Legislative Assembly to engage in a robust dialogue on the appropriate means and timing for returning Manitoba's annual operating results to a surplus or balanced situation. The goal of the discussion should be to ensure that appropriate plans are put in place to protect the public interest through the avoidance of an unduly protracted period of fiscal deficits."

"I believe that the absence of a more in-depth debate about Manitoba's fiscal situation is attributable, in large part, to the confusion caused by Balanced Budget legislation," commented Singleton. "It is important to understand that, since 1989, budgets for a part of Government operations (the Operating Fund) have been balanced under this legislation by excluding in excess of \$2 billion in pension costs from the calculations. Had these costs been included in calculating annual results, the Fiscal Stabilization Fund ("rainy day fund") would have been emptied shortly after it was established in 1989. It was initially set up through the transfer of \$200 million out of the Operating Fund, thereby creating a deficit in the Operating Fund for the year ended March 31, 1989."

Balanced Budget legislation allows the government to calculate a balanced budget for the Operating Fund by ignoring significant annual pension costs (2004 budget - \$179 million, 2003 actual - \$183 million) and by using revenues earned in previous years (i.e., transfers from the "rainy day fund") in calculating balanced annual results. "I acknowledge that the Government has continued to comply with Balanced Budget legislation," stated Singleton.

For several years, the Office of the Auditor General has encouraged the Government and the Legislative Assembly to focus more discussion and public attention on fiscal results calculated using "normal" accounting rules which are consistent with those used by the federal government and most provincial jurisdictions. It is the use of these "normal" accounting rules (i.e., accounting for all pension costs, including the results of all provincially controlled organizations and not including transfers between internal accounts), that enables the public to be aware of the total provincial annual and accumulated deficits as shown in the Province's Summary Financial Statements for 2003 and 2002, and the Summary Budget for 2004.

On a related note, the Auditor General continues to encourage the Government to prepare a plan to fully adopt generally accepted accounting principles (GAAP) by April 1, 2005. "The accounting principles used in the Summary Financial Statements are already close to GAAP due to steps taken by current and preceding governments over the past few years," said Singleton. "Full adoption of GAAP will ensure complete and transparent financial reporting for the citizens of Manitoba. In view of the above discussion, I also believe that it would be appropriate for legislators to revisit Balanced Budget legislation in relation to GAAP, and the fact that events beyond a government's control can cause a deficit in a particular year."

The Office of the Auditor General is an independent office of the Legislative Assembly providing independent assurance and advice to Members of the Legislative Assembly with a strong focus on promoting enhanced accountability of government to the citizens of Manitoba.

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