



OFFICE OF THE
AUDITOR GENERAL
MANITOBA

Department of Finance

Web version

Government Deficits and Debt



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Main points

What we found

We selected this project to assist the Legislature with its discussions around deficits and debt. While our Act prohibits us from commenting on the merit of policy, policy discussions should take place with a full set of facts.

We engaged KPMG LLP to assist us with this project. The project report summarizes research about Manitoba's deficit and debt levels. The data and information about Manitoba's deficit and debt levels is compared to other provinces and the Government of Canada. Research is summarized from international and national sources. A list of those sources is included in the report.

We held roundtable discussions bringing together business, labour, academic and community representatives to discuss deficits and debts. We met with MLAs and senior officials of the Government and of the Official Opposition Party to present the same information as the roundtables and responded to questions.

The research and a summary of the roundtable discussions are included in this report. Based on the research, analysis and observations, we have outlined 7 considerations for the Government with respect to improving understanding of and information on government deficits and debt, as follows:

1. Framework for fiscal sustainability and addressing long-term debt and deficits.
2. Need for medium-term and long-term scenario analysis, demographic analysis and projections.
3. Setting fiscal targets and communicating results against targets.
4. More details in budget reporting on deficit and debt reduction plans.
5. Explaining the relationship and impacts of Manitoba Hydro debt.
6. Monitoring developments in comparable jurisdictions.
7. The Auditor General role and independent review of projections and assumptions.

Why it matters

Since 2007/08, the estimated aggregate net debt of the provinces in Canada has increased by approximately two-thirds. After five years in a row of surpluses, the province of Manitoba, similar to most provinces and impacted by the global recession, has incurred deficits since 2009/10 and has increased borrowings. Manitoba Hydro projects future borrowing requirements for capital expansion plans through additional self-supported debt. Government's economic policy response to the current situation and the Legislature's consideration of policy alternatives should be well informed.

Objective

The objective of this project (the “Project”) was:

To provide Province of Manitoba stakeholders and decision-makers with research, perspectives and fact-based information and materials with respect to the issues and impacts of government debt and budgetary deficits.

To be clear, the Project is not about recommending policy – the Legislature of Manitoba is responsible for policy decisions – rather the intention is to provide information and research for better understanding and discussions on these important policy issues.

Project approach

The OAG engaged KPMG LLP (“KPMG”) to assist the OAG in undertaking this Project. The data and information included in this Report was primarily obtained from secondary sources such as the public accounts and budgets of the Government of Canada, the Province of Manitoba and other provincial governments, Government of Canada agencies, the International Monetary Fund, credit agency reports, bank reports, and other sources of Canadian and international research and statistics. This Report relies on data and information from secondary sources and makes no representations on its accuracy or completeness.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the Canadian Institute of Chartered Accountants (“CICA”), and we have not otherwise verified the information we obtained or presented in this Report.

The scope and process used in this Project was multi-faceted, and started February 26, 2013 and was updated to November 30, 2013.

1. Reviewed the Province of Manitoba’s financial statements and projections on deficit and debt levels, primarily over the past 10 years, based on Public Accounts data, and annual Budgets.
 - Data was assembled from Public Accounts, analysis conducted, trends noted, and certain excerpts from Public Accounts provided to inform on this issue.
 - Reviewed material from Manitoba Hydro’s long-term Integrated Financial Forecast dated November 2012.
 - Reviewed credit agency reports (i.e., Moody’s, Standard & Poor’s, Dominion Bond Rating Service) on the Province of Manitoba and on Manitoba Hydro.
 - Reviewed Budget projections compared to actuals as well as projections from the most recent 2013 Budget.
2. Compared the Province of Manitoba to other provinces and the Government of Canada on fiscal positions and deficit and debt levels, primarily over the past five years, using Public Accounts data and examining go-forward projections from the most recent budgets, as well as research of credit agency reports and other sources.
 - Compared the Province of Manitoba’s deficit and debt position and trends to other provinces and the Government of Canada using Public Accounts data, Government statistics and other sources.
 - Reviewed credit agency reports of the Province of Manitoba and other provinces.

KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”). KPMG member firms around the world have 155,000 professionals in 155 countries.

KPMG has worked in collaboration with the Office of the Auditor General (“OAG”) in preparing this report (the “Report”) in accordance and subject to engagement terms and conditions to assist the OAG.

The Report’s contents have been prepared in collaboration with the OAG. KPMG does not accept any liability or responsibility to any third party who may use or place reliance on this Report.

- Reviewed the most recent Budget of the provinces and the federal government and their respective deficit reduction plans.
 - Analyzed key factors affecting government deficits and debt such as interest rates, economic growth, pension fund liabilities, program spending and other factors.
3. Researched the issue of government deficits and debts from international and national sources. KPMG assembled and synthesized research from many sources globally and nationally, including but not limited to sources such as:
- International bodies such as the World Bank, International Monetary Fund, OECD, World Economic Forum;
 - Canadian economic and policy organizations such as the Conference Board of Canada, C.D. Howe Institute, Centre for Policy Alternatives, Macdonald-Laurier Institute, and others;
 - Government of Canada and Auditor General of Canada reports;
 - Parliamentary Budget Office; and
 - Major banks and institutions in Canada such as the Bank of Canada.

Research was organized and binders prepared by KPMG for the OAG.

4. Facilitated roundtable discussions bringing together business, labour, academic and community representatives to discuss deficits and debts.
- A series of PowerPoint presentations were developed, including: the Province of Manitoba's fiscal position, a comparison of deficits and debt among the provinces, and national and international research and developments on government debt.
 - Two roundtables were organized and held in Brandon and Winnipeg in October 2013.
 - Consistent agendas, presentations and questions were prepared and distributed at each of the roundtables.
5. Met with MLAs and senior officials of the Government of Manitoba and of the Official Opposition Party to present the same material as the roundtables and respond to questions.
- Presentations and meetings were held in November 2013.
6. Along with this Report, through the data and materials assembled for this Project, the intention is to provide information to better inform interested Manitobans on government deficits and debt and the impacts of deficits and debts.
- The Report is one chapter of the Auditor General's annual report to the Legislature of Manitoba which is available on the OAG website.

Project findings

1. Province of Manitoba's deficit and debt position

1.1 Historical data

- After five years in a row of surpluses, the Province of Manitoba, similar to most provinces and impacted by the global recession, has incurred deficits since 2009/10. As a result of annual deficits and significant growth in borrowing in recent years, the Province of Manitoba's net debt has increased sharply since 2009/10. The annual level of debt charges has been relatively constant.
- Revenues and program expenditures experienced a relatively high level of annual growth prior to the recession in 2009. Revenues, and to a lesser extent program expenditures, have experienced relatively lower growth since 2009. In 2012/13, own-source revenues and federal transfers represented approximately 71% and 29% of the Province of Manitoba's revenues, respectively.

Province of Manitoba, Key Financial Indicators, 2003/04 to 2012/13

\$ millions (unless otherwise stated)	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Own-source revenues	5,786	6,984	7,622	8,065	8,899	8,897	8,724	9,193	9,356	9,833
% change		20.7%	9.1%	5.8%	10.3%	(0.0)%	(1.9)%	5.4%	1.8%	5.1%
Federal transfers	2,716	3,156	3,103	3,320	3,597	3,866	3,924	4,047	4,332	3,953
% change		16.2%	(1.7)%	7.0%	8.3%	7.5%	1.5%	3.1%	7.0%	(8.7)%
Total revenues	8,502	10,140	10,725	11,385	12,496	12,763	12,648	13,240	13,688	13,786
% change		19.3%	5.8%	6.2%	9.8%	2.1%	(0.9)%	4.7%	3.4%	0.7%
Program expenditures (before debt charges)	8,271	8,813	9,521	10,155	11,074	11,482	12,092	12,646	13,874	13,527
% change		6.6%	8.0%	6.7%	9.0%	3.7%	5.3%	4.6%	9.7%	(2.5)%
Debt charges	799	765	810	745	864	830	756	773	815	839
% change		(4.3)%	5.9%	(8.0)%	16.0%	(3.9)%	(8.9)%	2.2%	5.4%	2.9%
Deficit (-) or surplus*	(579)	562	394	485	558	451	(200)	(179)	(1,001)	(580)
Net debt	11,018	10,670	10,520	10,465	10,599	11,468	11,810	12,525	14,550	15,893
% change		(3.2)%	(1.4)%	(0.5)%	1.3%	8.2%	3.0%	6.1%	16.2%	9.2%
Debt, % of GDP	29%	27%	26%	24%	22%	23%	23%	24%	26%	27%

Notes: *Revenues less expenditures less debt charges, +/- other adjustments = deficit or surplus.

Note from previous budgets: actual numbers for summary expenditures for 2005/06 and earlier do not include public schools as this information is not available in a GAAP format.

Source: Public Accounts of the Province of Manitoba Summary Financial Statements.

1.2 Borrowings

1.2.1 Historical data

- The Province of Manitoba borrows for provincial operations and capital expenditures and also issues debt on behalf of Manitoba Hydro. Borrowing has increased steadily over the past 10 years, and the pace has increased significantly since 2009/10. There were restatements in 2005/06 and 2007/08 affecting total borrowings, explaining part of the increase in those years.

Province of Manitoba, Borrowings and Net Debt, 2003/04 to 2012/13

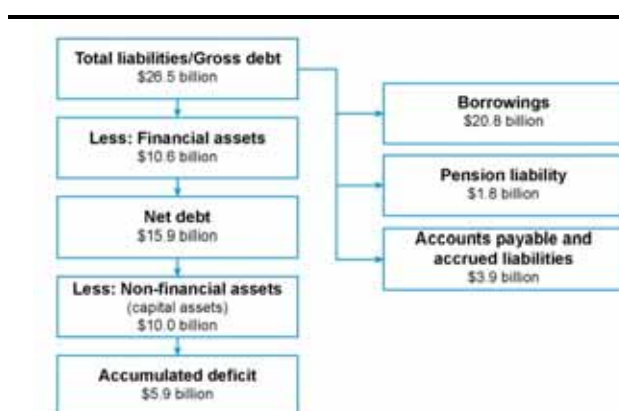
\$ millions	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Total borrowings (includes debt issued on behalf of Hydro)	18,206	18,390	20,366	20,918	22,462	23,324	25,101	26,273	29,297	31,072
Less: debt issued on behalf of Hydro included in total borrowings	(5,937)	(6,215)	(6,862)	(6,837)	(7,322)	(7,836)	(8,289)	(8,467)	(9,095)	(9,775)
Less: sinking funds and debt adjustments	(3,159)	(2,813)	(1,859)	(1,703)	(585)	(597)	(701)	(656)	(599)	(509)
Borrowings as reported on the Statement of Financial Position	9,110	9,362	11,645	12,378	14,555	14,891	16,111	17,150	19,603	20,788
Add: other liabilities	5,591	6,066	6,314	6,923	7,778	5,519	5,341	5,306	5,570	5,690
Less: total financial assets	(3,683)	(4,758)	(7,439)	(8,836)	(11,734)	(8,942)	(9,642)	(9,931)	(10,623)	(10,585)
Net debt	11,018	10,670	10,520	10,465	10,599	11,468	11,810	12,525	14,550	15,893

- Notes:
- (1) Debt adjustments include: unamortized debt issue costs; unamortized foreign currency fluctuations; unamortized gains/losses on derivative contracts; and, debentures issued by the Province that are subsequently repurchased (or held) by the Province as investments.
 - (2) Financial Assets are assets that could be used to discharge existing liabilities or finance future operations.
 - (3) Note from previous budgets: actual numbers for summary expenditures for 2005/06 and earlier do not include public schools as this information is not available in a GAAP format.

Source: Province of Manitoba Public Accounts.

1.2.2 Composition of debt at March 31, 2013

- The chart below illustrates the composition of the Province of Manitoba's debt as at March 31, 2013, to show the key components of debt, and how net debt and the accumulated deficit is derived from an accounting perspective.

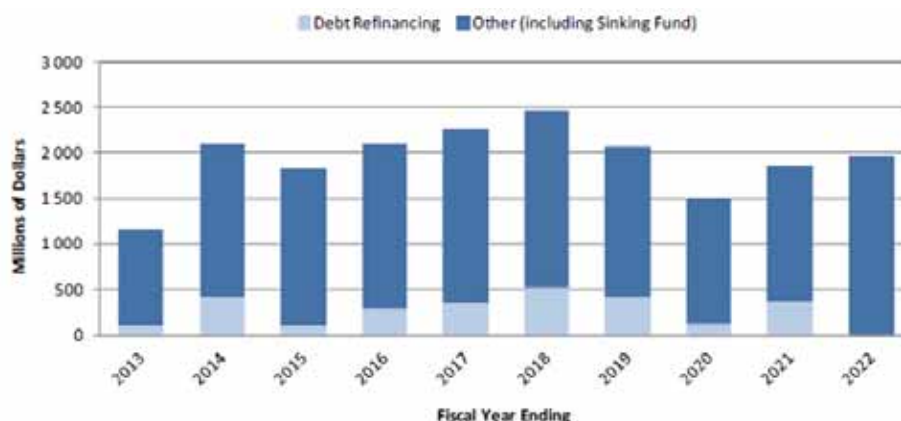


Source: Province of Manitoba Public Accounts for 2012/13; Summary Financial Statements.

1.2.3 Manitoba Hydro

- As shown in Section 1.2.1, the Province's borrowings as reported on the Statement of Financial Position are reduced by the amount of debt issued on behalf of Manitoba Hydro. Manitoba Hydro's total debt in 2013 was \$9,985 million made up of \$9,775 million issued by the Province of Manitoba on Hydro's behalf, plus other borrowings.
- Plans for future borrowings due to anticipated capital expenditures are significant.

Manitoba Hydro projected consolidated borrowing requirements

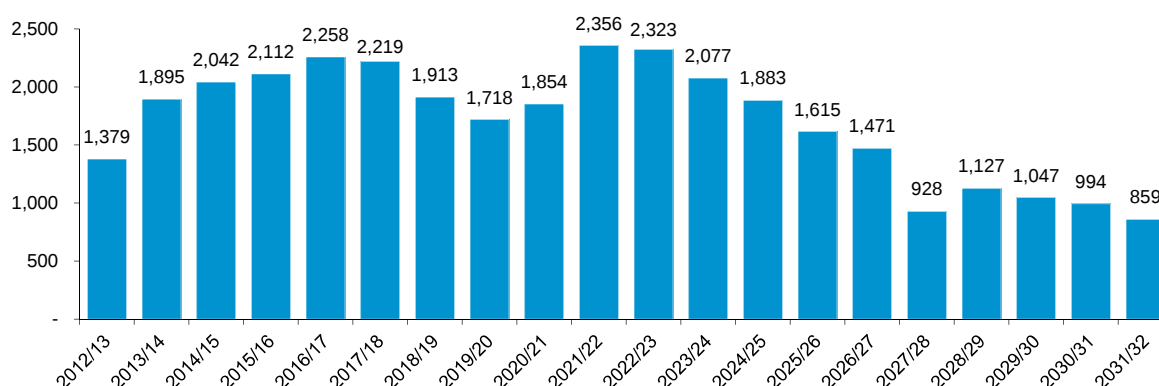


Source: Manitoba Hydro Integrated Financial Forecast (IFF12) for 2012/13 to 2031/32, November 2012

- Manitoba Hydro's projected capital expenditures from its Integrated Financial Forecast (IFF12) 2012/13 to 2031/32 is outlined below. Manitoba Hydro forecasts its cumulative capital expenditures over the next 20 years (to 2031/32) to be approximately \$34 billion.

Manitoba Hydro, summary of projected capital expenditures, 2012/13 to 2031/32

(\$ millions)

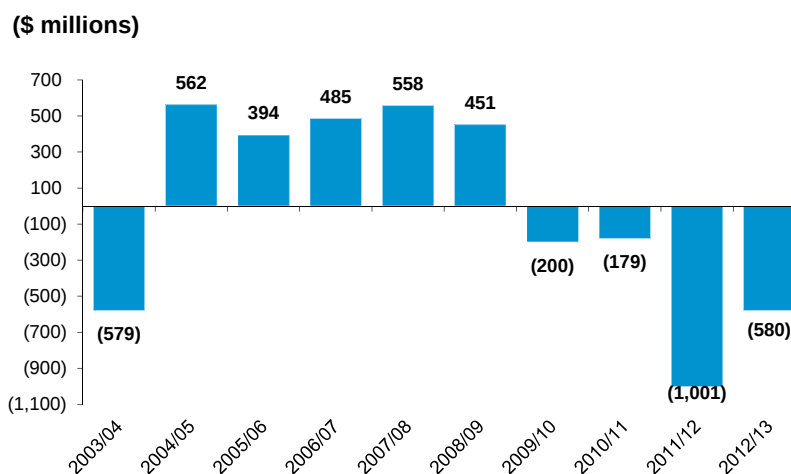


Source: Manitoba Hydro Integrated Financial Forecast (IFF12) for 2012/13 to 2031/32, November 2012.

1.3 Annual Surplus/Deficit, 2003/04 to 2012/13

- Since the global recession in 2008/09, most governments around the world have been running significant operating deficits. This has been the case in Canada and for most provinces including Manitoba.
- 2011/12 was particularly challenging because major flooding across the Province resulted in a much higher deficit than expected due to extraordinary circumstances.
- The 2012/13 deficit was \$580 million.
- The projected deficit in the 2013/14 budget is \$518 million.

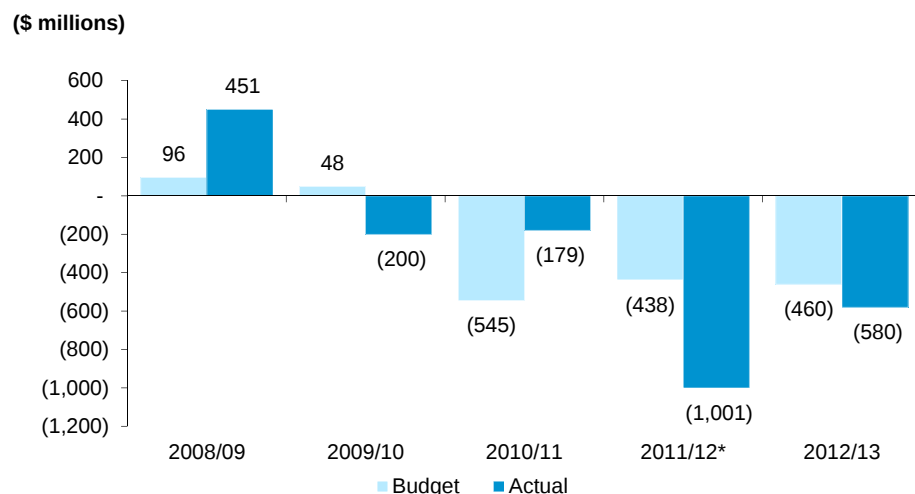
Province of Manitoba, Net Results/Annual Surplus (Deficit), 2003/04 to 2012/13



Source: Province of Manitoba Public Accounts.

- The following table compares the Province of Manitoba's budget projections and actual net results. Noteworthy is 2011/12 which was an extraordinary year due to severe flood conditions during 2011 that necessitated extraordinary expenditures.

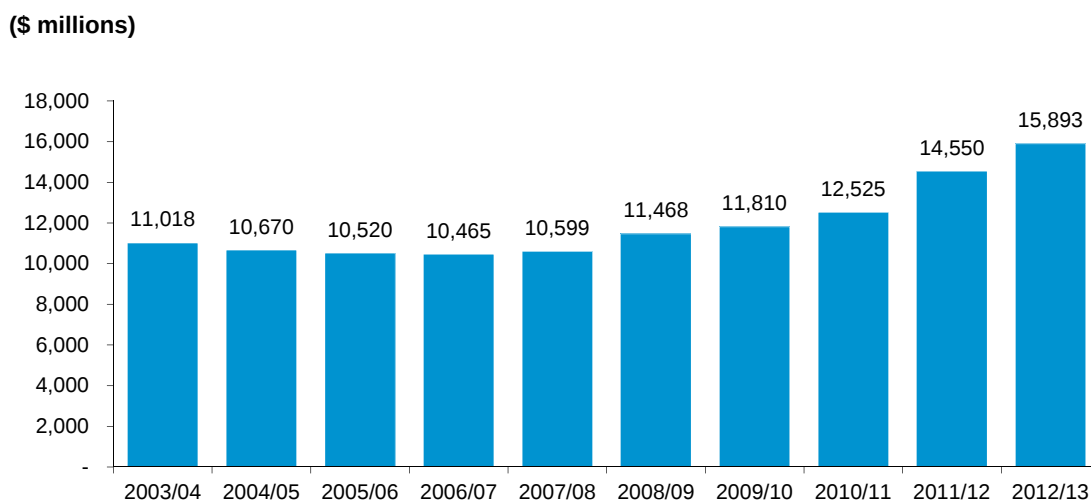
Province of Manitoba, Budgets and Actuals, 2008/09 to 2012/13



Note: *Extraordinary year due to severe flood conditions.
 Source: Province of Manitoba Public Accounts

1.4 Net Debt, 2003/04 to 2012/13

- The Province of Manitoba's net debt position was relatively steady through the 2000s, and has increased sharply since 2009/10 as a result of significant annual deficits and increased borrowings.



Source: Province of Manitoba Public Accounts. See the notes associated with the table in Section 1.1.

1.5 Summary of credit agency ratings

- The Province of Manitoba has maintained its credit rating from the three credit rating agencies over the past several years. Credit rating agencies review the Province's fiscal position and performance, debt, economic fundamentals, operating environment, institutional framework and other factors. The credit rating agencies also issue a report on Manitoba Hydro noting that Manitoba Hydro debt is a direct obligation of, and fully guaranteed by the Province of Manitoba as its owner. Issues such as level of debt and level of capital borrowing and leverage are monitored and discussed in credit agency reports.

	Standard & Poor's	Moody's	Dominion Bond Rating Service
Rating	AA	Aa1	A (High)
Rating Outlook	Stable	Stable	Stable
Rating History	Last upgrade was to AA/Stable from AA-/Positive in December 2007. Previous upgrade was in November 2006 to AA-/Positive from AA-/Stable since November 2002.	Last upgrade was November 2006, Aa2 to Aa1. Previously upgraded from Aa3 to Aa2 in January 2003, and after 13 years of A1 upgraded to Aa3 in September 1998.	Last upgrade was from A to A (High) in 2003 where it has remained since.

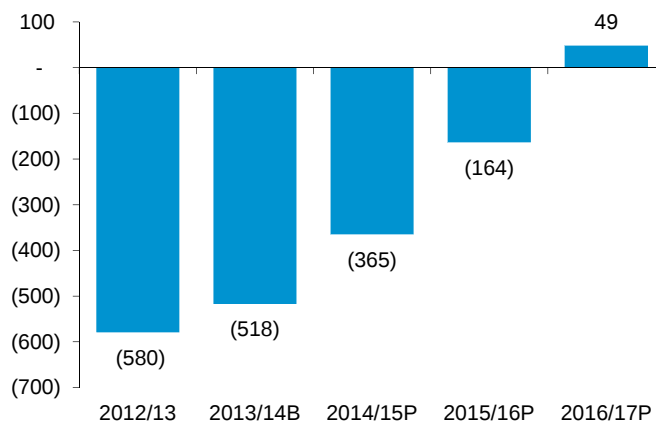
Source: Derived from information in credit agency rating reports – Standard and Poor's (September 2013 and September 2012); Moody's (July 2013 and September 2012); DBRS (October 2013 and September 2012). Note: The credit agencies also issue a separate report on Manitoba Hydro, which reflect that Manitoba Hydro's debt is guaranteed by its owner, the Province of Manitoba.

1.6 Province of Manitoba's deficit reduction plan

- Manitoba's 2013 Budget indicates a plan to balance the budget by 2016/17. The 2013 Budget projects a net loss or deficit of \$518 million in 2013/14, and a steadily declining deficit in 2014/15 and 2015/16.
- Revenues are projected to increase to \$14.18 billion or 3.0% in the 2013/14 budget from the 2012/13 Forecast.
- Expenditures are projected to increase to \$14.85 billion or 3.1% in the 2013/14 budget. (Note there are also projected in-year lapses and adjustments that account for differences.)
- Both revenue and expenditure growth are projected to moderate after 2013/14, with revenues growing at a relatively higher pace than expenditures.

Province of Manitoba – Deficit Reduction Plan 2012/13 to 2016/17P

(\$ millions)



Note: 2012/13 Public Accounts, 2013/14 Budget, Projection for 2014/15 to 2016/17.

Source: Manitoba 2013 Budget, Financial Management Strategy, Summary Budget Outlook

1.7 Fiscal indicators

- The Province of Manitoba outlines a number of indicators of financial condition in its Annual Report/ Public Accounts.
- The Province of Manitoba's Annual Report for the year ending March 31, 2013 (pg. 29) noted that the Public Sector Accounting Board ("PSAB"), through a statement of recommended practices, suggests a number of financial indicators to assist in the assessment of a government's financial condition. There are no established public sector benchmarks for these indicators. The indicators, expressed as ratios or trends, provide a picture of what has occurred over a period of years to facilitate comparisons and assist in the assessment of the Government's financial health in the context of the current economic and financial environment. The recommended indicators are grouped into three categories:
 1. Sustainability: measures a government's ability to maintain its programs without the need to increase its borrowings.
 2. Flexibility: how well a government can respond to rising financial commitments by either expanding its revenue or increasing its borrowings.
 3. Vulnerability: how much a government relies on revenue sources beyond its direct control or influence, both domestic and international.

Sustainability Indicators	Flexibility Indicators	Vulnerability Indicators
Net Debt % of Provincial GDP Net Debt to Total Annual Revenue Accumulated Deficit % of Provincial GDP Annual Net Income (Loss) Annual Net Income (Loss) % of Provincial GDP	Public Debt Charges to Total Revenue Own-Source Revenue to Provincial GDP Annual Change to Net Book Value of Tangible Capital Assets Net Book Value of Tangible Capital Assets to Cost of Tangible Capital Assets	Federal Transfers to Own-Source Revenue Federal Transfers to Total Revenues Foreign Currency Debt to Net Debt

Source: Public Accounts for the year ending March 31, 2013, pages 29-45.

2. Comparison to other governments in Canada

2.1 Overview of federal and provincial debt in Canada

- Since 2007/08, the estimated aggregate net debt of the provinces has increased by approximately two-thirds, over double the rate of increase of the Government of Canada's net debt over this five-year time period. The aggregate results of the ten provinces went from a surplus of approximately \$11.9 billion before the recession to an aggregate budgeted deficit of approximately \$17.8 billion in 2012/13.
- In a national context, Manitoba, with 3.2% of Canada's GDP, represents approximately 3.1% of the aggregate net debt of all provinces, and approximately 3.3% of the aggregate budget deficit of all provinces in 2012/13.



	2012/13 Estimate	2007/08
Net Debt, All Provinces	\$508 B	\$301 B
Net Debt, Gov't of Canada	\$671 B	\$516 B
(Deficit) Surplus, All Provinces	(\$17.8) B	\$11.9 B
(Deficit) Surplus, Gov't of Canada	(\$18.9) B	\$9.6 B

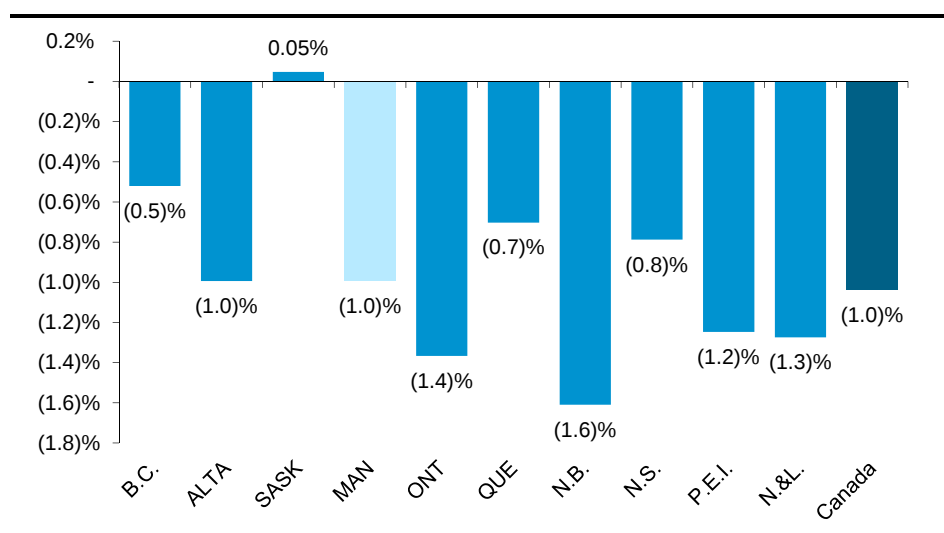
Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.2 Deficit comparisons

- The following comparisons use the surpluses and deficits as reported by each province in their audited summary financial statements. Quebec and British Columbia both had qualified audit opinions on some of the summary financial statements used in the comparisons. This means the auditor noted misstatements in the amounts reported in the financial statements. The comparisons were not adjusted to reflect these misstatements.
- Quebec's audit opinion was qualified in 2012/13 noting that the \$2,515 million deficit should have been a \$3,141 million deficit.
- BC's audit opinion was qualified in each year from 2008/09 to 2012/13 noting the following misstatements of the reported surplus or deficit:
 - 2008/09: the \$78 million surplus should have been a \$8 million surplus
 - 2009/10: the \$1,779 million deficit should have been a \$1,846 million surplus
 - 2011/12: the \$1,840 million deficit should have been a \$2,360 million deficit
 - 2012/13: the \$1,146 million deficit should have been \$1,749 million surplus

2.2.1 Surpluses/(Deficits) relative to GDP, Provinces and Canada, 2012/13 estimates

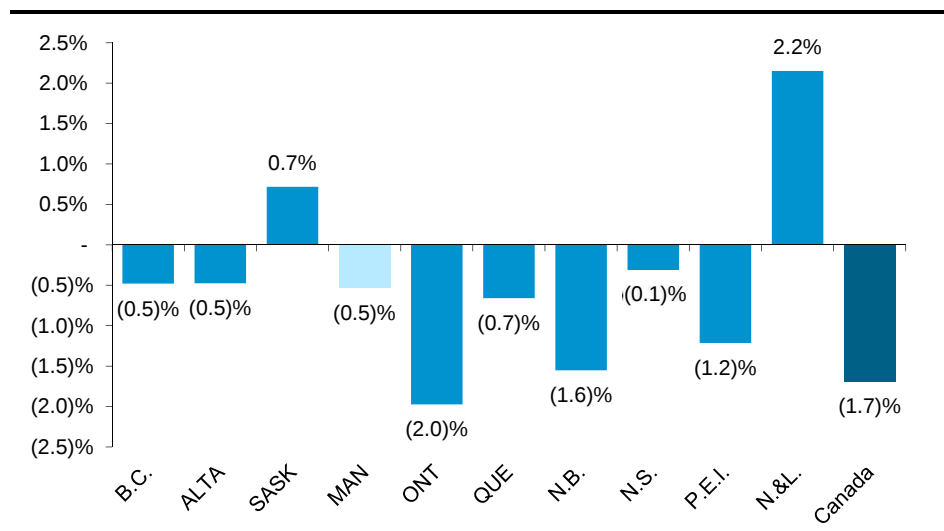
- In 2012/13, the Province of Manitoba's deficit of \$580 million represents 1.0% of the Province's GDP.
- Relative to other provinces, Manitoba's budget deficit to GDP ratio was middle of the pack.



Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. GDP data for Canada and by province from Statistics Canada, November 2013. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.2.2 Surpluses/(Deficits) relative to GDP, Provinces and Canada, annual average 2008/09 to 2012/13 estimates

- Over the past five fiscal years, the average annual deficit/surplus of the Province of Manitoba was (0.5)% of the GDP, similar to B.C., Alberta and Quebec.
- Only Saskatchewan and Newfoundland experienced surpluses on average.
- The Governments of Canada and Ontario have experienced much larger relative deficits.

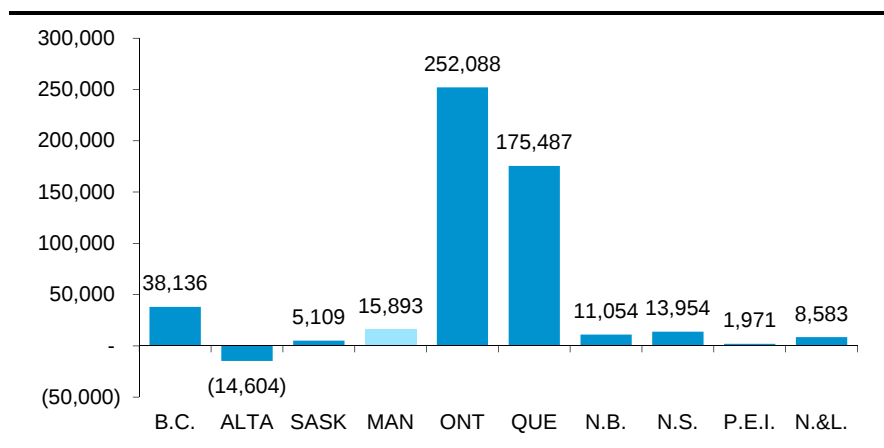


Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. GDP data for Canada and by province from Statistics Canada, November 2013. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.3 Net Debt comparisons

2.3.1 Net Debt, Provinces, 2012/13 estimates

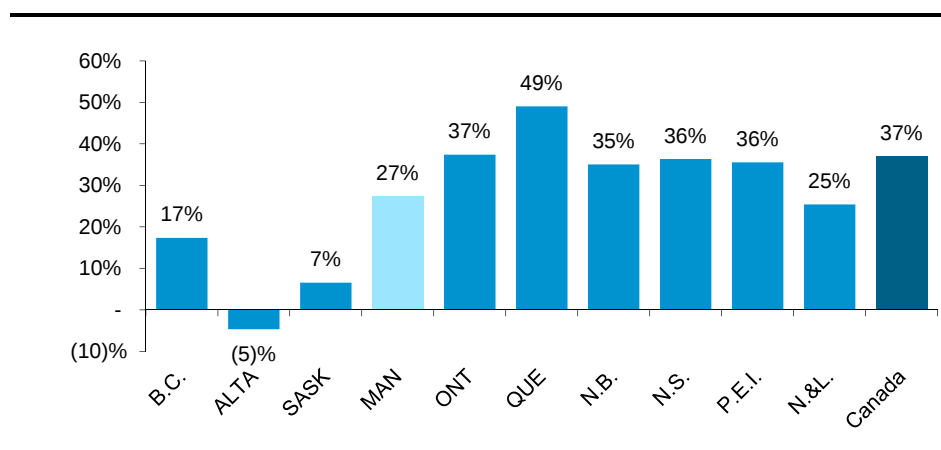
- The two largest provinces, representing 62% of Canada's population, account for \$428 billion or 84% of the aggregate debt of the ten provinces. B.C. is next at \$38.1 billion of net debt, followed by Manitoba at \$15.9 billion.



Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.3.2 Net Debt to GDP ratio, Provinces and Canada, 2012/13 estimates

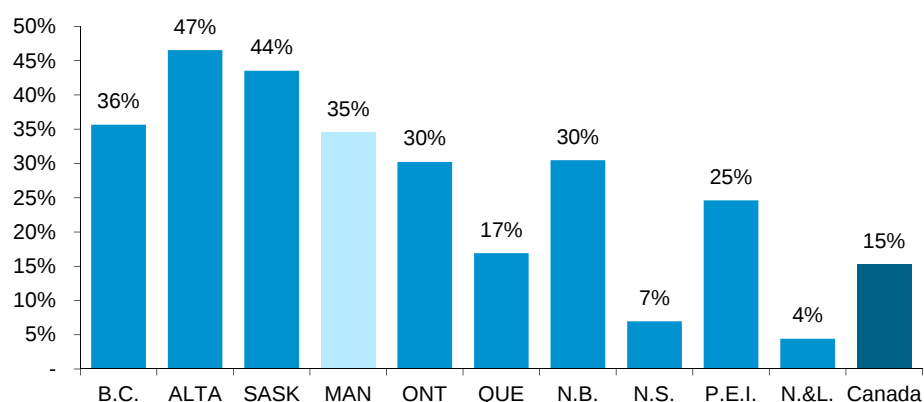
- A key financial indicator used worldwide is the net debt to GDP ratio.
- This is a key measurable outcome outlined in the Manitoba Budget "...it is important to measure changes in net debt against the growth of the economy as measured by the nominal GDP... The outlook is for a decline in this ratio in 2015/16..." (Manitoba Budget 2013, p.16).
- At 27%, Manitoba's net debt to GDP ratio is better than all provinces to the East except Newfoundland, but substantially higher than other western provinces.



Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. GDP data for Canada and by province from Statistics Canada, November 2013. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.3.3 Percentage increase in Net Debt, Provinces and Canada, 2009/10 to 2012/13 estimates

- In the past three years since the 2009 recession, the western Canadian provinces have experienced the largest increases of all provinces. Alberta is the only province with no net debt, however, its surplus position has sharply decreased.
- The growth in net debt of most provinces significantly exceeded the growth rate of net debt of the Government of Canada over this time frame.

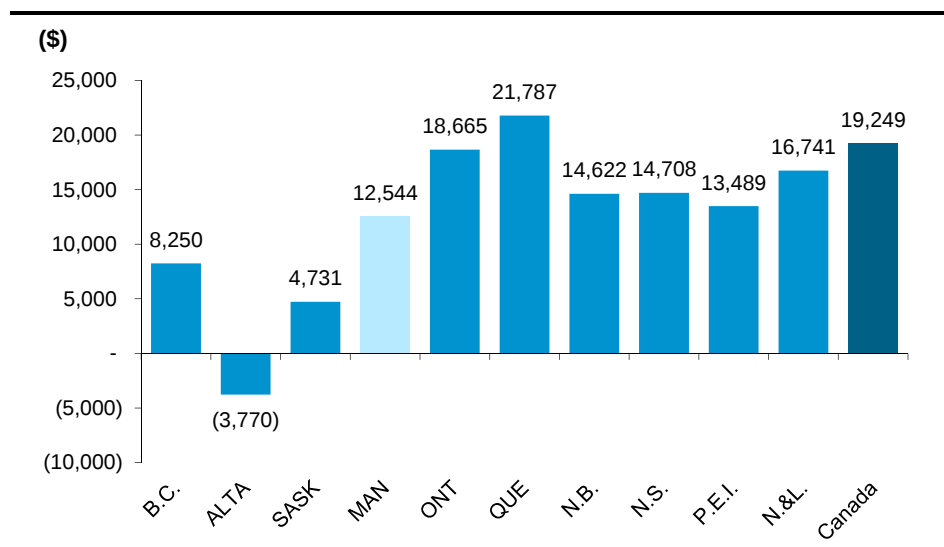


Note: * Represents a decrease in surplus; Alberta is the only province to record no net debt as of 2013.

Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.3.4 Net Debt per capita, Provinces and Canada, 2012/13 estimates

- Similar to the net debt to GDP ratios, the Province of Manitoba's net debt per capita is lower (better) than all provinces to the East as well as the Government of Canada, but substantially higher than other western provinces.

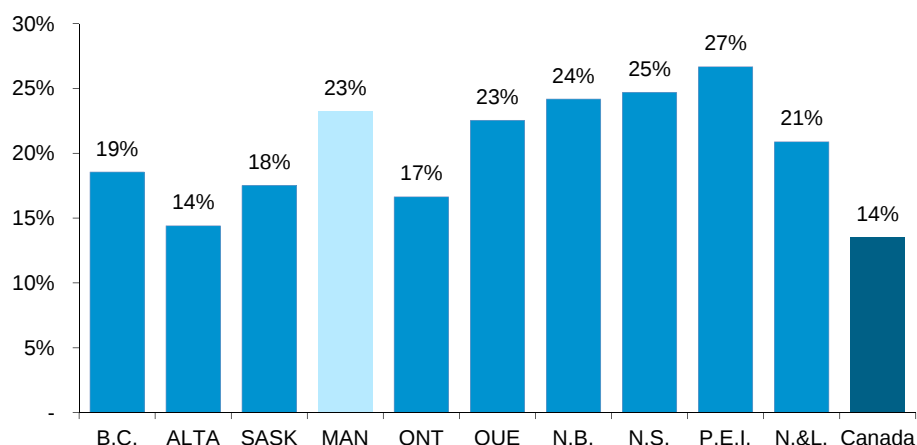


Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.4 Program expenditure comparisons

2.4.1 Program expenditures relative to GDP, Provinces and Canada, 2012/13 estimates

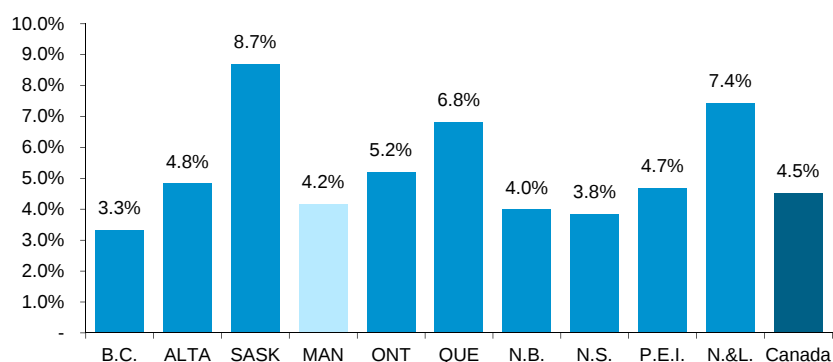
- Manitoba has among the highest level of program expenditures to GDP in Canada, at 23%, which is significantly higher than the other western provinces and Ontario.
- The 2013 Manitoba Budget indicates expenditures as a percentage of GDP as a measurable outcome. The ratio has remained relatively stable over the last five years.



Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. GDP data for Canada and by province from Statistics Canada, November 2013. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.4.2 Average annual growth in program expenditures, Provinces and Canada, 2008/09 to 2012/13 estimates

- Spending growth rates have declined across Canada but continue to exceed annual inflation and economic growth in almost all provinces.
- Over the past five years, Manitoba's annual increases in program spending have averaged 4.2%. Manitoba has been near the middle of the provinces in terms of average annual spending increases.

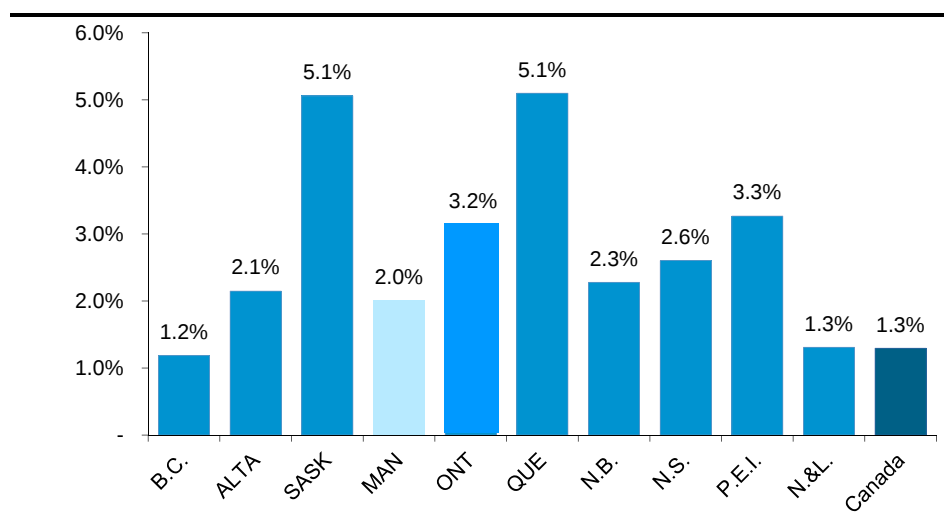


Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. GDP data for Canada and by province from Statistics Canada, November 2013. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.5 Revenue comparisons

2.5.1 Average annual growth in revenues, Provinces and Canada, 2008/09 to 2012/13 estimates

- During and since the global recession, revenue growth has been slow across most provinces and governments.
- Over this period, Manitoba averaged revenue growth of 2.0% annually, higher than the Government of Canada, and lower than most provinces.



Source: For historical results to 2011/12, derived from consolidated summary financial statements in Public Accounts. For 2012/13, derived from Public Accounts for B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, and derived from forecasts from 2013 budgets or budget updates for other provinces, and from Annual Financial Report of the Government of Canada. Some data from RBC Economics, TD Economics and Statistics Canada. GDP data for Canada and by province from Statistics Canada, November 2013. Due to accounting and/or reporting differences, may not be strictly comparable between provinces. As of November 2013 and subject to revisions and updates from governments.

2.6 Credit agency rating considerations

- The Province of Manitoba currently holds the following credit rating agency ratings:
 - Moody's: Aa1;
 - Standard and Poor's: AA; and
 - DBRS: A (high).

Manitoba's credit ratings are in the middle of the provinces; lower than all western provinces and higher (better) than Quebec and most Atlantic provinces.

- The table below outlines the key factors taken into consideration by one of the credit rating agencies (DBRS) when rating senior governments in Canada, along with the relative risk they introduce in the rating of each province when analyzed on a forward-looking basis. A red box indicates a source of relatively higher risk to the credit profile, while a green box indicates a relatively low risk (positive consideration).

- Manitoba is noted by DBRS to be in the middle of the provinces with no relatively high risks and moderate risks in a number of areas.

	Long-Term Rating	Economic Fundamentals	Budgetary Balance	Debt-to GDP Ratio	Foreign Currency Exposure	Interest Rate Sensitivity	Relative Overall Tax Burden	Fiscal Discipline	Dependence on Federal Transfers
Canada	AAA								
Alberta	AAA								
British Columbia	AA (high)								
Saskatchewan	AA								
Ontario	AA (low)								
Manitoba	A (high)								
New Brunswick	A (high)								
Quebec	A (high)								
Nova Scotia	A								
Newfoundland	A								
P.E.I.	A (low)								
Relative Risk		Relatively high		Moderate		Relatively low			

Source: DBRS 2012 Canadian Federal and Provincial Governments Overview.

2.7 Current budgetary balances and fiscal plans

- Across Canada, all senior governments have an intention to reduce deficits and return to balanced budgets, ranging from one year to five years.
- Most other provinces are focusing on a combination of revenue measures and expenditure constraints.
- In the 2013 Budget, the Province of Manitoba outlined its target to return to balanced budget for 2016/17. Ontario is projecting to balance in 2017/18, the furthest target year of all provinces. The Government of Canada re-iterated its intention to return to balanced budget by 2015/16 and also outlined a long-term debt to GDP target.

	2012/13 Actual or Forecast (Deficit)/Surplus \$ millions	Target to Return to Balanced Budget
B.C.	(1,146)	2013/14
Alberta	(3,099)	2014/15
Saskatchewan	+37	Balanced
Manitoba	(580)	2016/17
Ontario	(9,220)	2017/18
Quebec	(2,515)	2015/16
New Brunswick	(508)	2016/17
Nova Scotia	(302)	2013/14
P.E.I.	(69)	2015/16
Newfoundland	(431)	2015/16
Canada	(18,929)	2015/16

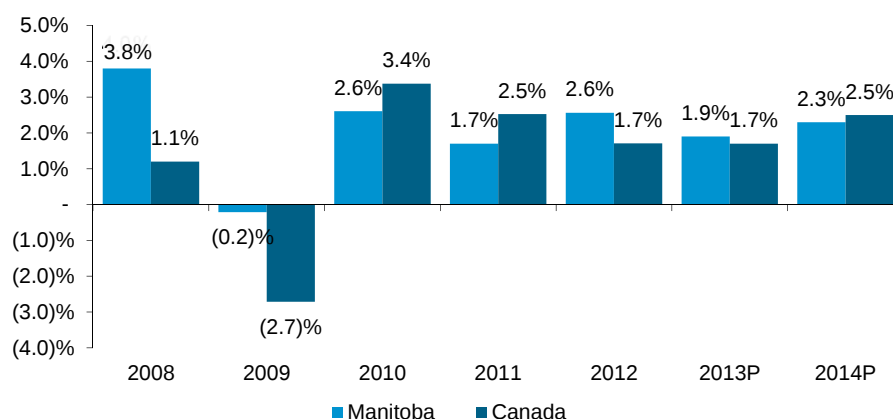
Sources: Derived from Provincial Public Accounts, Budgets and/or Budget updates; Annual Financial Report of the Government of Canada, 2013 Budget.

2.8 Other key factors affecting debt

2.8.1 Economic growth

- Economic growth has a considerable impact on government finances.
- Coming out of the recession, Manitoba's economic growth in terms of real GDP lagged the national average in 2010 and 2011, but is expected to slightly exceed the national average in 2012 and 2013.

Real GDP growth, Manitoba and Canada, 2008 to 2014

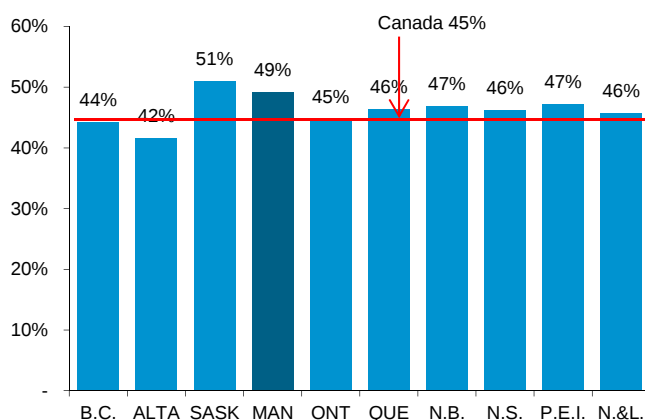


Sources: Statistics Canada 2008-2012 real GDP expenditure based, November 2013; Manitoba 2013 Budget and Manitoba Finance survey average of economic forecasters for 2013-2014.

2.8.2 Demographics

- The age of a province's population has an impact on government revenues and expenditures, particularly in terms of structural programs over the long term.
- Manitoba has experienced relatively faster population growth in recent years, driven by international migration.
- Alberta has the youngest median age in Canada at 36.1 years, followed by Saskatchewan, then Manitoba at 37.6 years.
- Of particular concern in Manitoba's demographics is that the relatively high growth of its youth and seniors results in a higher dependency ratio than almost all provinces.
- It is important to monitor demographic trends and understand potential impacts on government expenditures.

Dependency ratio, Provinces, 2012



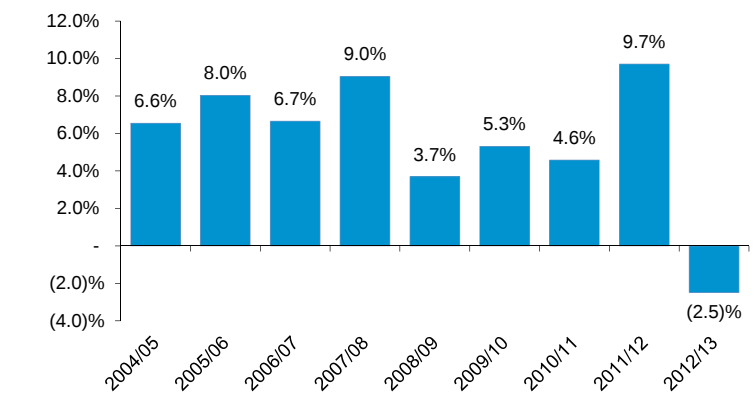
Note: Dependency ratio equals dependent persons (<15 years to >65 years) as a proportion of working age persons.

Source: Statistics Canada.

2.8.3 Expenditures

- Across all provinces, social programs namely health, education and family/social services represent the majority of expenditures. Healthcare is the largest spending category by far and represents 38% of all expenditures of the Province of Manitoba, followed by education at 25%.
- In 2011/12, Manitoba recorded a 9.7% increase in spending, in large part due to extraordinary circumstances of major flood-control costs. Total expenditures in Manitoba declined 2.5% in 2012/13, and are projected to increase by 3.1% in the 2013/14 Budget.
- In Manitoba, over the past five years, average program spending increases have averaged 4.2% annually. From 2004/05 to 2007/08, program spending increases averaged over 7.5% annually.

Annual change in program expenditures, Province of Manitoba, 2004/05 to 2012/13



Note: Program expenditures before debt charges.
Source: Public Accounts of the Province of Manitoba.

2.8.4 Unfunded pension liabilities

- The state of unfunded pension liabilities across senior governments in Canada is an ongoing issue and concern.
- Governments at all levels are exposed to varying extents to unfunded pension liabilities where the value of pension assets is exceeded by pension liabilities. In some provinces such as Newfoundland and Labrador, unfunded pension liabilities are the government's major source of debt. In Saskatchewan, the level of unfunded pension liability represents the dominant source of the Province of Saskatchewan's net debt.
- In response to market losses in 2008, many provinces have initiated reviews or reforms of their public sector pension plans. In 2012, the Province of Ontario initiated a new funding framework.
- The 2013 Manitoba Budget noted that the government began to take direct actions in 2007/08 to address the unfunded pension liabilities for the Civil Service Superannuation Fund and the Teachers Retirement Allowances Fund with the government borrowing funds that would be invested by these two pension plans on behalf of the government.
- The Province of Manitoba's net pension liability is projected to increase from \$1.63 billion in 2011/12 to nearly \$2 billion in 2013/14. This is following four straight years of declines from a level of \$2.2 billion in 2007/08.

2.8.5 Interest rates and inflation

- A general trend across Canada during the 2000s was provincial governments lowering debt-servicing costs as a percent of revenues and expenditures. This was driven by declining interest rates.

- Since the recession, this trend has reversed and debt-servicing costs have been rising across provincial governments, and with relatively high growth rates. Most governments went from running surpluses to sizable annual deficits and larger capital programs, which has significantly increased debt levels.
- The Province of Manitoba's debt-servicing costs have been relatively stable over the past decade. Interest costs to total revenue have consistently been significantly below the provincial average.
- Debt-servicing costs have been kept relatively low due to historically low interest rates. However, governments are vulnerable to rising interest rates which would add further pressure on budgets.
- As noted from Province of Manitoba Public Accounts 2013 (page 97):

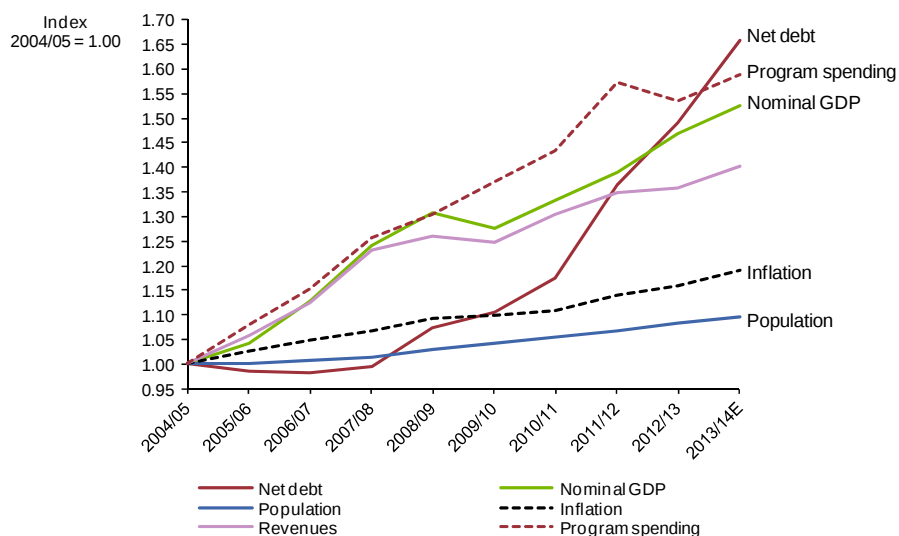
To reduce its exposure to interest rate risk, the Government uses derivatives to manage the fixed and floating interest rate mix of its debt portfolio. After taking into account derivatives used to manage interest rate risk, investments held as sinking funds and eliminating debt incurred on behalf of Manitoba Hydro-Electric Board, the structure of the debt as at March 31, 2013 was 88% at fixed rates and 12% at floating rates (2012 – 90% at fixed rates and 10% at floating rates). A one percent (100 basis points) movement in interest rates on the 12% floating rate debt for an entire year would increase/decrease debt servicing costs, net of recoveries, by \$24 million (2012 - \$18 million).

- The inflation rate has also remained relatively low and stable in Manitoba and Canada over the past decade. The Consumer Price Index in Manitoba has increased by an average of 1.7% annually from 2008 to 2012; however, Manitoba's inflation rate in 2013 (year-to-date) is the highest of the provinces.

2.9 Comparison of net debt growth with other key growth indicators

- The following chart illustrates the growth of net debt by comparing changes in net debt to nominal GDP growth, growth in revenues and program expenditures, and growth in population and inflation, for the Province of Manitoba over the past 10 year period.
- In Manitoba, net debt has increased sharply since the recession and growth in net debt has outpaced growth in other measures.
- Up to 2008/09, revenues and program spending were generally correlated with nominal GDP growth. Since 2008/09, program spending has exceeded GDP growth and revenues have grown slower than nominal GDP.
- Over this time period, inflation and population combined has grown by approximately 28%, nominal GDP has grown by 53%, while net debt has grown by 66% with effectively all of that growth since 2007/08.

Province of Manitoba, Compounded Growth Adjusted to Index,
2004/05 to 2013/14E



Source: Derived from Statistics Canada; Province of Manitoba Public Accounts 2005-2013; Province of Manitoba Budget 2013.

3. Government debt issues – independent agencies in Canada

3.1 Auditor General of Canada

- In 2011, the Auditor General of Canada encouraged the Government of Canada to publish the long-term financial projections needed to fully assess the impact of challenges facing the country and to inform Canadians.
- In the Fall of 2012, the Auditor General of Canada issued its report to the House of Commons and Chapter 7 focused on long-term fiscal sustainability.
- The Fall 2012 report examined whether the Department of Finance takes into account the impact of spending and tax measures of long-term fiscal sustainability before recommending new policies and how analyses of long-term fiscal sustainability are prepared and reported.
- Key findings included:
 - Finance Canada prepares long-term fiscal analyses of spending and tax measures when they consider it relevant to do so. When considered, they should assess impacts on budgetary balance and the public debt.
 - The long-term fiscal sustainability analyses have not been made public. Many Organisation for Economic Cooperation and Development (“OECD”) countries already publish reports on long-term fiscal positions.
 - The Finance Department agreed with the recommendations, with a caveat that the Department will publish long-term fiscal analyses for the Federal Government on an annual basis, but is not accountable for the fiscal situation of the provinces and territories.
- The Fall 2012 Report of the Auditor General of Canada outlined the concept of long-term fiscal sustainability and how it helps governments plan for the future.
- Fiscal sustainability has four dimensions:
 - Solvency: capacity to finance existing and probable future liabilities.
 - Growth: capacity to sustain economic growth over an extended period.
 - Stable taxes: capacity to finance future obligations without increasing the tax burden.
 - Fairness: capacity to provide to future generations benefits that are not less than current benefits.
- Long-term fiscal sustainability analyses may include baseline projections, fiscal gap analyses, and intergenerational accounting.
 - Baseline projection: estimates revenues, spending, budget balance, and public debt at the end of a selected long-term period, using demographic, economic, and policy assumptions. This involves critical assumptions such as GDP growth, wages, productivity and interest rates.
 - Fiscal gap analysis: estimates the fiscal adjustment necessary to ensure that the present value of the primary balance (which is defined as the amount by which revenues, excluding investment income, exceed expenses, excluding public debt charges), given the present value of the debt, achieves a specific level of debt at the end of a selected period.

- Generational accounting estimates the tax position of each age group over an extended period. This analysis focuses on the benefits that each age cohort will receive and the taxes it will pay.
- Long-term fiscal sustainability analyses provide estimates, not predictions. Reasons for the uncertainty of long-term projections include the following, among others:
 - inappropriate fiscal modeling;
 - wrong demographic assumptions;
 - wrong macroeconomic assumptions;
 - poor estimates or growth/decline in governments' revenues and spending; and
 - projections do not consider emergency spending to fund unforeseen events.

3.2 Provincial Auditors

- In a 2012 Report, the Office of the Auditor General of Manitoba noted it is looking at ways to assist the Legislature with its discussions around deficits and debts. In its Annual Report released January 16, 2013 the Auditor General of Manitoba stated:

While our Act prohibits us from commenting on the merit of policy, policy discussions should take place with full sets of facts. We have started to find ways to research and report on these matters within the constraints of our legislation and will be conducting workshops and other meetings with legislators throughout the coming year.

- Other provincial Auditor Generals have recently commented on the issue of debts and fiscal sustainability.
 - The Auditor General of Nova Scotia in its 2012 Report dedicated a chapter on long-term debt.

The province's [Nova Scotia] ongoing indebtedness is a drain on current and future resources and limits the ability of government to make choices in providing services to citizens."... "Government should have the goal to eventually eliminate long-term debt and should have a plan for doing so."... "I have no specific recommendations to the government in this respect. I raise the issue out of concern for the wellbeing of this province, for the financial health of the government, and for the best interests of the people of Nova Scotia. (pages 1 and 3).

- The Report of the Auditor General of New Brunswick in 2012 dedicated a chapter on the Province's fiscal position.

This continued increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses." (page 11)

It may eventually impact the Province's [New Brunswick] ability to meet its existing financial objectives both in respect of its service commitments to the public and financial commitments to creditors, employees and others. Government's announced plan of returning to balanced budgets by 2014-15 is welcome news, however, we would also encourage a similar long term commitment from government with respect to decreasing Net Debt. (page 18)

- The Provincial Auditor of Saskatchewan issued a Special Report – *The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan* in April 2013. This report was not about fiscal sustainability, but focused on the presentation of budgets and audited financial statements as Saskatchewan is the only province that does not focus on a Summary Budget and Summary Financial Statements.

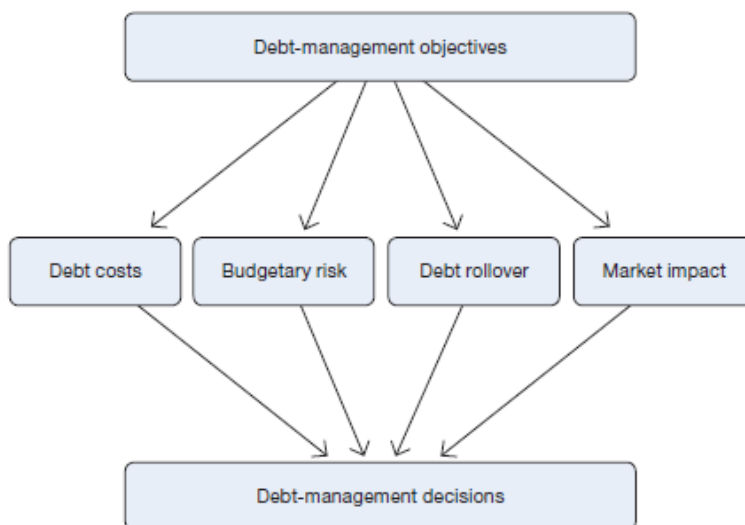
3.3 Parliamentary Budget Office

- The mandate of the Parliamentary Budget Officer (“PBO”) is to provide independent analysis to Parliament on the state of the nation’s finances; the government’s estimates and trends in the national economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.
- In its *Fiscal Sustainability Report 2013*, the PBO examines the path of federal and provincial debt-to-GDP over the next 75 years based on the current system of revenues and expenditures.
- This type of analysis of very long-term projections requires a number of key assumptions about economic and demographic conditions and their impact on revenues and expenditures. The analysis is not intended to generate predictions, but rather examine whether the current path is sustainable.
- The analysis suggests that provincial debt levels could increase substantially in the long-term. The analysis highlights the extent in which the current structure of revenues and expenditures is not poised to handle demographic aging, high dependency ratios and slower GDP growth.
- The analysis contains a number of alternative projections to examine the sensitivity of the results to key assumptions.

3.4 Canadian Banks

- The major Canadian Banks all produce regular analysis and reports on government finances in Canada.
- The Bank of Canada provides commentary through its regular reports and statistics, as well as occasional special reports.
- The Bank of Canada Review’s *Developing a Medium-Term Debt-Management Strategy for Government of Canada* noted the complex task and balance between the many considerations that flow from the Government of Canada’s debt management objectives and principles.
- Factors considered in debt management decisions included projected debt costs, the projected annual variability of debt costs and their potential impact on the budgeting balance (budgetary risk), the amount of debt maturing in a specific period (debt rollover), and maintenance of a well-functioning market in Government securities (market impact).
- To balance these competing considerations, debt managers have various approaches to assessing the cost-risk trade-offs of different borrowing strategies. These include analytical tools and consultations with market participants.

Factors considered in debt-management decisions



Source: The Bank of Canada Review, Developing a Medium-Term Debt-Management Strategy for Government of Canada, Summer 2011.

3.5 Research Organizations

- In addition to credit rating agencies, banks, and accounting and advisory firms, a number of Canadian economic and policy organizations or “think-tanks” have produced various reports or articles on the issue of government deficits and debt.

3.5.1 C.D. Howe Institute

- The C.D. Howe Institute produced Canada’s 2012 Fiscal Accountability Rankings (5th annual study, released February 2013). The report noted the spending overruns of federal, provincial and territorial governments have surpassed \$53 billion in the last 10 years.
- There is considerable variation in the financial reporting of the Canadian government. The C.D. Howe Institute report indicated the federal government and the governments of Ontario and New Brunswick are leading the way in presenting clear public accounts documents (grade of “A”) and efforts to compare and explain deviations from budgeted figures (“A”).
- Manitoba received good grades of A and B, respectively. On the other end of scale, the C.D. Howe report indicated low grades for Quebec, Nova Scotia, P.E.I., Newfoundland, and two territorial governments.
- The study also measures each jurisdiction’s 10-year fiscal record for bias (the average difference between budget and actual) and accuracy (over or under budget targets). Resource-based provinces such as Saskatchewan and Alberta had poor bias and accuracy scores. Manitoba had the third poorest score of the provinces on bias, and was middle of the pack for accuracy.

3.5.2 Conference Board of Canada

- The Conference Board of Canada produces various reports, articles and regular economic outlooks.
- An article from the Chief Economist, “When Public Debt Becomes Dangerous: The 80 Per Cent Rule” discusses at what point does public debt become a burden for countries and governments.
- The 2008–2009 global financial crisis and recession, combined with exceptional fiscal stimulus to kick-start economic growth, were key factors behind growing fiscal deficits in nearly every industrialized country and sub-national jurisdictions, as well as most emerging markets.
- The article notes that many industrial countries including the U.S., Japan, U.K., and much of Europe were chronically in fiscal deficit during the boom years before the recession. The recent surge in fiscal deficits has added considerable pressure to the public debt burden.
- The Chief Economist’s hypothesis is that when a jurisdiction’s level of public debt reaches 80% of GDP, capital markets begin to lose confidence and private credit can very quickly switch from open to closed, often with little warning.
- While Canada’s federal net debt is in the range of 35% and much better than most other major industrial countries, provincial debt also has to be considered to determine the full debt burden on taxpayers in each province. He notes that Quebec’s net debt is approaching 50% of provincial GDP, and combined with the federal government debt is in the warning signal zone. The Government of Quebec’s fiscal plan was to eliminate the provincial deficit by 2013/14.

3.5.3 Canadian Centre for Policy Alternatives

- On the other side of the issue, the Canadian Centre for Policy Alternatives (“CCPA”) has produced articles that are much less concerned about Canadian deficit and debt levels.
- In a Technical Paper, *Big Train Coming: Does Canada Really Have a Deficit and Debt Problem?*, the CCPA discusses a new conventional wisdom is that Canada must endure a period of deep public spending cuts to eliminate deficits and reduce debt.
- While acknowledging that debt has risen due to the Great Recession and that debt does matter because it has to be serviced which diverts resources from social services, the CCPA argues there will be major human and economic costs if deficits are eliminated before real recovery has been achieved.
- The CCPA purports that debt is not growing to an unsustainable level as long as low interest rates are maintained and potential growth rates are increased through higher rates of private and public investment.
- “It is appropriate, and indeed essential, to use deficits to fight high unemployment and to pick up the slack of unused productive potential in times of recession, with the proviso that debt levels as a share of the economy should be reduced gradually through economic growth, not spending cuts, in times of recovery.” (page 2)

3.5.4 Macdonald-Laurier Institute

- The Macdonald-Laurier Institute's publication in October 2012, Provincial Solvency and Federal Obligations, suggests that a combination of future economic conditions and fairly rapid growth in health care spending will put a number of provinces into debt positions that could lead to defaults.
- Interestingly, despite being the only province currently with no net debt, the Macdonald-Laurier Institute report suggests Alberta has the highest longer-term default probability after the next 30 years. According to this analysis, Alberta is followed by Ontario, then Manitoba. Alberta's risk is attributable to expected high deficits, heavy exposure to volatile revenues, and a more rapidly aging population.
- The report discusses "interest bite" – interest expense to total revenue ratio, and suggests default is likely at a 25% interest bite. Note that current debt charges to revenue average 8% in Canada; Manitoba is approximately 6%; Quebec is highest at 11.5%.

4. Government debt in a global context

The financial crisis in 2008-2009 led to dramatic increase in the public deficit of many countries due to massive stimulus programs, recapitalization, government bailouts, decrease in tax revenues and other factors.

There is no one policy answer on deficits and debts. Deficits and debt are the subject of different schools of thought among economists and different approaches among governments around the world.

Economists more in the Keynesian school believe that governments should run deficits during recessions and periods of high unemployment to stimulate the economy and compensate for downturns in private sector demand, and should run surpluses during periods of strong economic growth and very low unemployment.

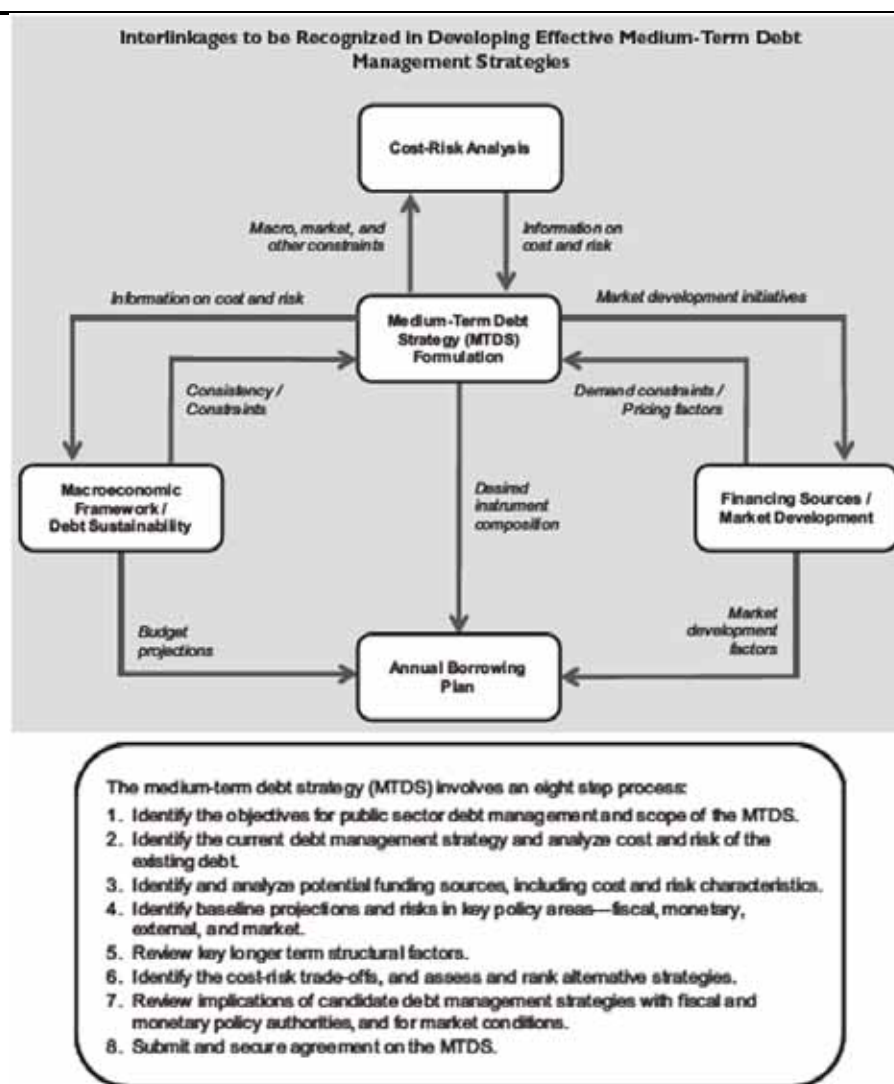
Economists on the other side of the argument such as the Chicago school and other schools of thought believe that the most important issue is to reduce the deficit by curtailing government spending.

Some economists are expressing concerns over the current emphasis in industrial economies to reduce debt-to-GDP ratios in the short-term. They argue that tomorrow's consumption will be paid for by tomorrow's production, regardless of today's public debts.

There are many related issues around government deficits and debt such as crowding out private investment, impact on trade and investment deficits, interest rates, standards of living and other issues.

4.1 International Monetary Fund

- The International Monetary Fund (“IMF”) published Public Sector Debt Statistics: Guide for Compilers and Users (the “Guide”), the first global guide of public sector debt statistics.
- The Guide was prepared under the joint responsibility of nine organizations including the IMF, OECD and World Bank through the Inter-Agency Task Force on Finance Statistics.
- The international financial crisis, global recession, and associated large fiscal deficits and debt levels in many countries underscore the importance of reliable and timely statistics.
- Debt statistics are presented for general government and more broadly the public sector in a transparent and comprehensive manner for users.
- The Guide provides:
 - a conceptual framework including definitions and accounting principles;
 - a compilation of principles and practices;
 - analytical tools; and
 - sources of international agency data and information.
- The IMF and World Bank designed a framework for developing an effective public sector debt management framework.



Source: International Monetary Fund, Public Sector Debt Statistics: Guide for Compilers and Users, 2011.

- The IMF produces the World Economic Outlook (“WEO”) twice a year, covering global developments and detailed economic and financial statistics and projections for countries.
- Fiscal policy and debt continue to be major concerns. In 2012, government deficits as a percentage of GDP were brought down below 6% in 2012 despite weak activity, but net debt-to-GDP ratios continue to rise. In emerging economies, debt ratios declined. The world debt-to-GDP ratio has risen to about 80%, driven by sharp increases in advanced economies.

“Among the risks ahead, the most insidious relate to debt overhangs and fiscal deficits in advanced economies and potential output growth and budding financial excesses in emerging market and developing economies.” (p.19)

- The IMF maintains the World Economic Outlook database containing data series from the World Economic Outlook Report which presents IMF’s analysis and projections of 188 countries.
 - The WEO database is released in April and October each year.

- National statistical agencies provide historical data, and IMF and other international agencies are involved with analysis with the objective of harmonizing methodologies which assists comparisons.
- Most countries' data broadly conform to the System of National Accounts.
- The WEO is a main source of reference of international macroeconomic and financial statistics for country comparisons.
- There is considerable international research on the potential effects of high debt on economic activity.
- High debt payments can lead to:
 - lower public investment which may, in turn, lead to declining private investment;
 - a reduced scope for countercyclical fiscal policies; and
 - less room for government to enact growth stabilization and policy reforms.
- Much of empirical work tries to identify the threshold beyond which the correlation between debt and growth becomes negative (see the IMF report which cites several examples).
- There is not a simple conclusion, but the IMF noted above a threshold of about 95% of GDP, increases in debt ratios are associated with declines in GDP growth.
- These empirical studies are limited and some studies find little causal relationships between high debt and lower growth. However, according to the *Global Financial Stability Report*, countries with gross debt above 100% of GDP experience lower growth.

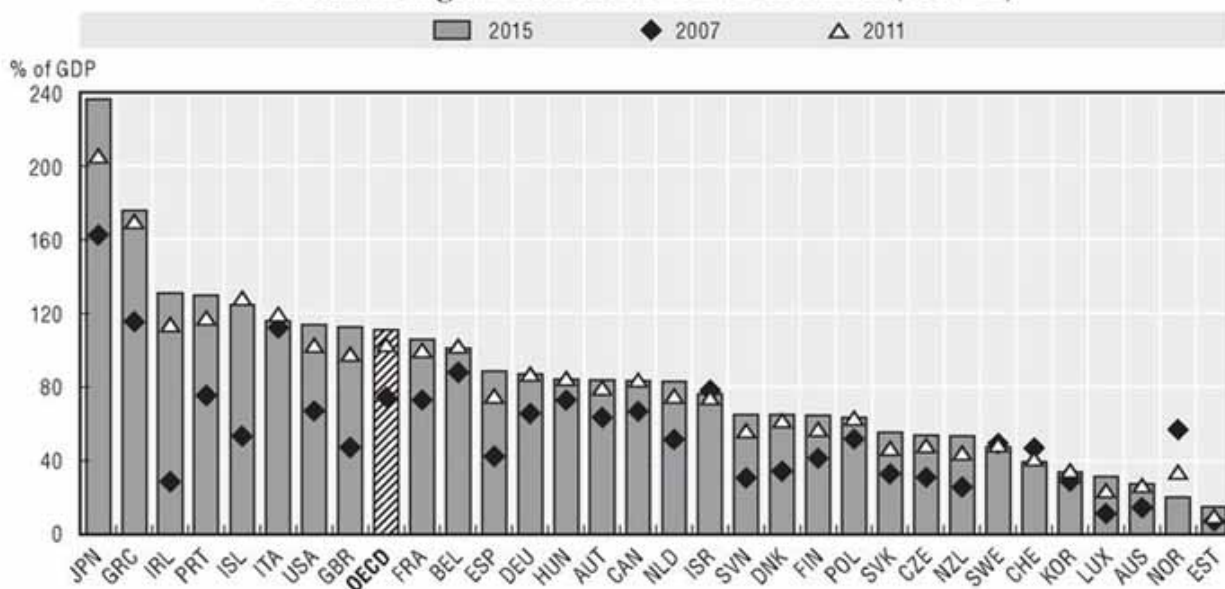
4.2 Other independent agencies and reports

4.2.1 Organisation for Economic Cooperation and Development ("OECD")

- The OECD has 34 member countries of developed economies. The OECD provides a wealth of information on a broad range of topics to assist governments. There have been a number of OECD reports on deficits and debt.
- The OECD produces key annual reports including the *OECD Economic Outlook* and *OECD Factbook*, as well as member country surveys and working papers and articles on many subjects.
- The OECD held its 22nd *Global Forum on Public Debt Management* in January 2013 in Paris, where public debt managers, regulators, central bankers and other financial policy makers from OECD countries discussed leading practices, experiences and policies in government debt management.
- The OECD produces an annual *OECD Sovereign Borrowing Outlook*. The 2013 report projects the gross borrowing needs of OECD governments to increase sharply to around US \$10.9 trillion in 2013. The report expects the rating agencies will continue to keep the pressure on governments.
- The general government deficit for the OECD as a whole is projected to decrease to 4.6% of GDP in 2013, down from 5.5% in 2012 (OECD, February 27, 2013 News Release).

- A 2012 paper, *Fiscal Consolidation: How Much is Needed to Reduce Debt to a Prudent Level?*, stated:
 - Large fiscal consolidation¹ of over 3% of GDP will be needed in many countries.
 - Future health and long-term spending account for consolidation needs of 2% of GDP on average.
 - The toll of the crisis on public finances has contributed to larger needs for fiscal consolidation.
- The general government gross debt to GDP ratio has risen from under 80% in 2008 to over 100%. Just stabilizing debt – before bringing it down – is a major challenge.
- OECD noted that empirical estimates suggest that changes in the functioning of the economy occur around debt levels of 70–80% of GDP.

Evolution in gross debt across OECD countries (2007-15)



Source: OECD, *Restoring Public Finances*, 2012 Update.

- The OECD's *Restoring Public Finances* report documents the state of public finances across OECD member countries. In order to stabilize or reduce debt-to-GDP ratios to prudent levels, most OECD countries will need to undertake substantial fiscal consolidation measures. Each country's plans and challenges are outlined. The report discusses fiscal consolidation measures required to get to a target general government debt-to-GDP ratio equal to 60% of GDP by 2025.
- For Canada, the report noted that if provincial and territorial debt is included, Canada's gross debt ratio has increased to around 80%, below the OECD average. Note that Canada's net debt level is around 35% and substantially below most OECD countries.

¹ Fiscal consolidation is defined as concrete policies aimed at reducing government deficits and debt accumulations, often stated as a percent of nominal GDP.

4.2.2 European Commission

- Much can be learned from Europe, because many European countries have experienced relatively more significant government deficit and debt problems than Canadian provinces.
- The European Commission's *2012 Fiscal Sustainability Report* analyzes the sustainability of public finances in the Member States.

“High levels of public debt and/or significant budget deficits need to be addressed resolutely and promptly so as to ensure the stability of public finances. Failing to do so might prompt strong and sudden policy adjustments at some point.”

- Analyzing government debt and deficit development and risks is critical for the European Union (“EU”) to formulate appropriate policy responses and restore credibility and confidence.
- According to the Commission's *2012 Ageing Report*, demographic changes will be challenging for Member States to maintain sound and sustainable public finances in the medium and long-term. This will require a credible strategy of entitlements reforms (pensions, health care, long-term care) to address the expected growth in age-related spending.
- The report noted that while there is no defined upper limit to sustainable debt levels as limits differ across countries over time, countries with high debt ratios (as well as large external imbalances or contingent liabilities) are particularly exposed to market turbulences.
- Sustainability incorporates an assumption of convergence towards the 60% of debt-to-GDP target threshold (EU Maastricht Treaty) by 2030.
- The European Central Bank (“ECB”) and the national central banks of Member States constitute the Eurosystem, the central banking system of the Euro area. The main objective of the Eurosystem is to maintain public stability and safeguard the values of the Euro. The ECB plays an active role in monitoring public finances.
- The European Central Bank produces regular reports, statistics, and periodic working papers.
- An ECB Working Paper, *The Impact of High and Growing Government Debt on Economic Growth – An Empirical Investigation for the Euro Area*, investigated the impact of government debt on GDP per capita growth in 12 Euro countries over a period of almost 40 years.
- The working paper found a non-linear impact of debt on growth with a turning point beyond which the government debt-to-GDP ratio has a negative impact on long-term growth of about 90-100% of GDP, but the negative growth effect of high debt may start at around 70-80% of GDP.
- When government debt levels change, the corresponding impact on economic growth rates is realized through the following channels:
 - private savings;
 - public investment;
 - total factor productivity; and
 - sovereign long-term nominal and real interest rates.

4.2.3 KPMG

- KPMG has developed a number of thought leadership publications in the area of government finance, including *Walking the Fiscal Tightrope – A Framework for Fiscal Sustainability in Government* – a 2013 global study.
- To better understand the extent of governments' struggles to achieve fiscal sustainability, KPMG examined the fiscal policy settings of 19 countries within the G20 group of countries (the EU is not a country but a member of the G20) across the budgetary, economic and intergenerational cycles.
- Counter to popular opinion, the roots of the current sovereign debt crisis do not lie solely in the Global Financial Crisis.
- The challenges now facing government finance in many of the world's leading economies will likely not be solved in the short term. Most governments, if not all, will now also have to deal with the rising costs created by intergenerational aging.
- Governments need to demonstrate a greater commitment and capacity to control their own finances and to live within their means. It is not about the size of government spending, or the extent of social welfare or the level of entitlement spending that a nation's citizenry wishes to embrace. It's about the affordability of that embrace.
- Governments have an ongoing struggle to achieve fiscal sustainability. There are a number of additional factors, notably an inability by governments to successfully implement and sustain their fiscal policy targets, that have created today's fiscal sustainability issues within many of the G20 countries examined in the study.

4.2.4 G20 Summit

- At the G20 Summit held September 2013 in St. Petersburg, Russia, the Prime Minister and Finance Minister of the Government of Canada announced a new target for reducing the national debt, bringing its debt-to-GDP ratio to 25% by 2021 (from approximately 35% currently), in addition to its commitment to eliminate annual deficits by 2015. Canada pressed other countries at the G20 Summit to set targets to reduce deficits and debt.
- The G20 Leaders' Declaration outlined the main challenges to the global economy, including:
 - weak economic growth and persistently high unemployment;
 - financial market fragmentation in Europe and continued fiscal policy uncertainties;
 - slower economic growth in some emerging market economies;
 - insufficient levels of private investment and volatility of capital flows; and
 - high public debt and its sustainability.
- The G20 St. Petersburg Action Plan included fiscal deficit and debt target commitments from advanced economies including Canada as well as from a number of emerging market economies.

The medium term strategies will support confidence and sustained growth and the improve the resilience of our economies and public finances to shocks. They will also help ensure that countries are able to address significant fiscal challenges in coming years (including age related expenses) and provide an anchor that will help build more fiscal space and give countries more room for discretionary actions and/or allowing automatic stabilizers to be fully operational, as necessary.

4.3 International budget accountability offices

- Several industrialized countries have established independent budget offices, similar in mandate to the Parliamentary Budget Office in Canada. These independent offices regularly report on government fiscal sustainability and a relatively recent trend is to conduct and undertake very long-term scenario analysis such as 50 to 75 years, based on various assumptions.

Long-Term Fiscal Projections of Agencies in Select Countries						
Country	Statutory reporting obligations	Most recent report title (release date)	Time horizon	Periodically produced	Reported methodology and key assumptions	Related to Budget
Australia	<i>Charter of Budget Honesty Act 1998</i>	Intergenerational report 2010 – Australia to 2050: future challenges (January 2010)	40 years	Yes, every 3 years	Yes	Yes
Germany	<i>EU Stability and Growth Pact</i>	Third Report on the Sustainability of Public Finances (October 2011)	Until 2060	Yes, every 3 years	Yes	Yes
New Zealand	<i>Public Finance Act 1989</i>	Challenges and Choices: New Zealand's Long-term Fiscal Statement (October 2009)	40 years	Yes, at least every 4 years	Yes	Yes
United Kingdom (Office for Budget Responsibility)	<i>Budget Responsibility and National Audit Act 2011</i>	Fiscal Sustainability Report (July 2012)	50 years	Yes, annually	Yes	Yes

continued

Country	Statutory reporting obligations	Most recent report title (release date)	Time horizon	Periodically produced	Reported methodology and key assumptions	Related to Budget
United States (Office of Management and Budget)	<i>Budget and Accounting Act of 1921</i>	Analytical Perspectives, Budget of the United States Government, Fiscal Year 2013 (February 2012)	75 years	Yes, annually	Yes	Yes
United States (Government Accountability Office)	No	The Federal Government's Long-Term Fiscal Outlook – Fall 2012 Update	75 years	Yes, annually	Yes	Yes

Source: Report of the Auditor General of Canada (Fall 2012); OECD; Country reports.

4.3.1 United States Government Accountability Office

- The United States Government Accountability Office (“GAO”), the audit, evaluations and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people.
- The GAO produces regular reports and updates on the fiscal positions of the U.S. Federal Government, as well as U.S. State Governments.
- Since 1992, the GAO has published long-term fiscal simulations showing federal deficits and debt under different sets of policy assumptions. *The Federal Government's Long-Term Fiscal Outlook Fall 2012 Update* provides long-term simulations from 2012 to 2086 (75 years).
- In the GAO's baseline extended simulation, they assume current law including the discretionary spending limits and other spending reductions contained in the *Budget Control Act of 2011* and expiration of certain tax cuts enacted in 2001 and 2003. Net debt-to-GDP declines in the short-term before turning up again.
- The fundamental imbalance between estimated revenue and spending is largely driven by demographics (aging population and rising health care costs). Health care spending is growing faster than the economy.
- The GAO's *State and Local Governments' Fiscal Outlook April 2012 Update* provides long-term fiscal simulations for the state and local government sectors to 2060 (approximately 50 years). The aggregate state and local operating balance is close to balanced (0% of GDP). The model's base case simulations show a steady decline through 2060 towards (4)% of GDP, absent any policy changes, primarily driven by the rising health-related costs and health care compensation for government employees and retirees.

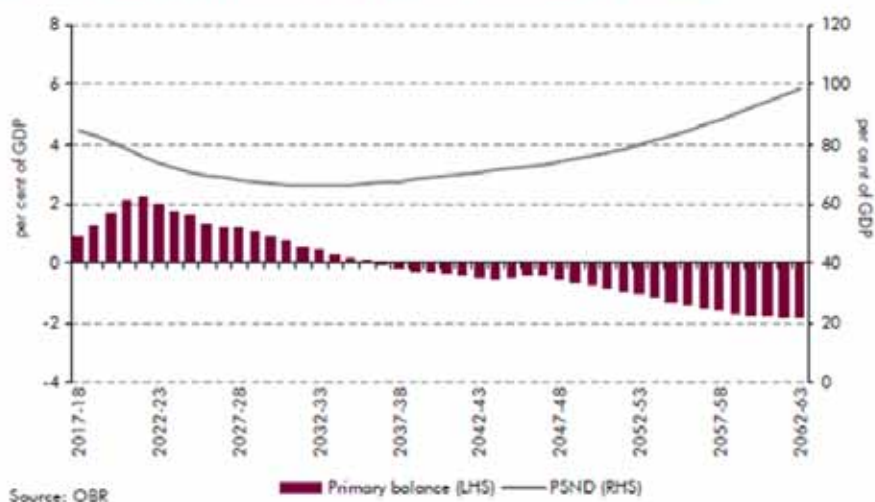
4.3.2 Congressional Budget Office

- Founded in 1974, the Congressional Budget Office (“CBO”) produces independent analyses of budgetary and economic issues to support the Congressional budget process. The agency is nonpartisan and conducts objective, impartial analysis.
- The CBO does not make policy recommendations and each report and cost estimate discloses the agency’s assumptions and methodologies.
- The CBO produces an economic and budget outlook covering the 10-year period used in the Congressional budget process. The latest report was issued in April 2013.
- Periodically, the CBO examines options for reducing budget deficits. In November 2012, the CBO issued *Choices for Deficit Reduction* reviewing the scale and sources of the federal government budgetary imbalance, various options for bringing spending and taxes into closer alignment, and criteria for evaluation. The report noted that bringing the federal budget into balance by 2020 would require policy changes that would reduce the deficit by about \$1 trillion relative to the effects of the current policies of CBO’s fiscal scenario.
- The CBO provides estimates of the cost of bills approved by Congressional Committee to show how the bill would affect spending or revenues over the next 5 to 10 years.
- Various other reports and challenges and analyses are issued by the CBO, including long-term projections (covering 25 or more years), each June.

4.3.3 U.K. Office for Budget Responsibility

- The U.K. Office for Budget Responsibility (“OBR”) was created in 2010 to provide independent and authoritative analysis of the UK’s public finances.
- The OBR provides an analysis of the long-term sustainability of U.K.’s public finances in its annual *Fiscal Sustainability Report*.
- As part of its analysis, the OBR makes 50-year projections of all public spending, revenues, and significant financial transactions. These projections suggest that public finances are likely to come under pressure over the longer term.
- In the OBR’s central projection, spending other than on debt interest rises from 36.7 per cent of GDP in 2017-18 to 40.6 percent of GDP by 2062-63, an increase of 3.9 per cent of GDP. The main drivers are upward pressures on key items of age-related spending (e.g., health spending, state pension costs, social care costs).

Chart 1: Central projection of the primary balance and PSND



Note: PSND = Public sector net debt.

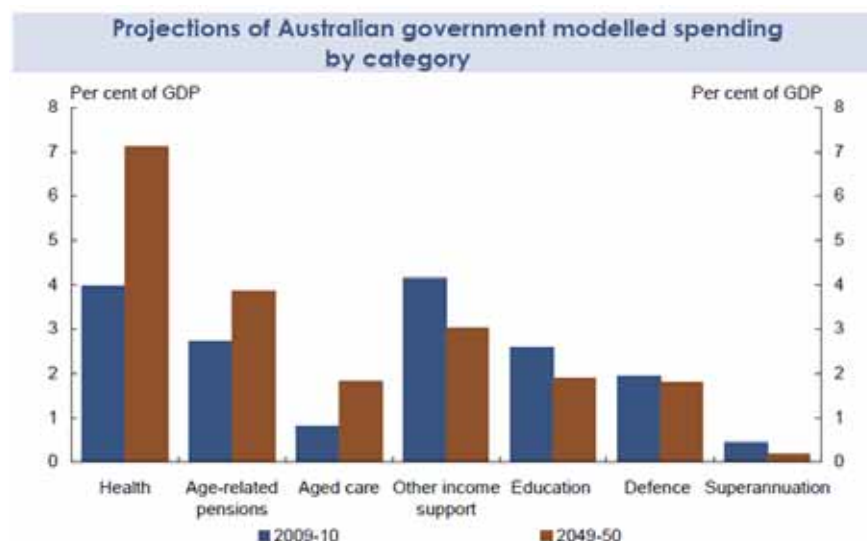
Source: U.K. Office for Budget Responsibility, *Fiscal Sustainability Report*, July 2013.

4.3.4 Australia

- Under its *Charter of Budget Honesty Act of 1998*, the Government of Australia issued its first Intergenerational Report *Australia to 2050: future challenges* in January 2010. The report provides a comprehensive analysis of the challenges that Australia will face over the next 40 years.

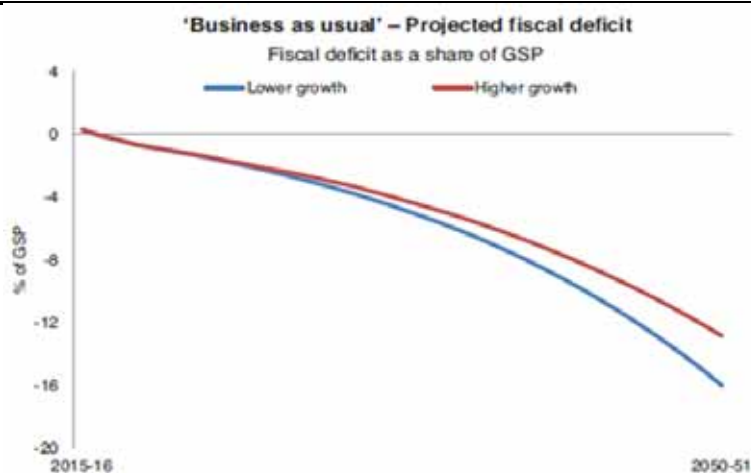
An ageing population and climate change present significant long-term risks for the economy and the sustainability of government finances. As the population ages, the rate of economic growth will slow. Pressures for government spending will increase, particularly in the health sector.

- As summarized in the graph, more than a quarter of Australian government spending was directed to health, age-related pensions, and aged care in 2009/10. Spending in these areas is projected to increase their share of spending to almost half by 2049/50.



Source: Government of Australia, *Australia to 2050: future challenges*, January 2010.

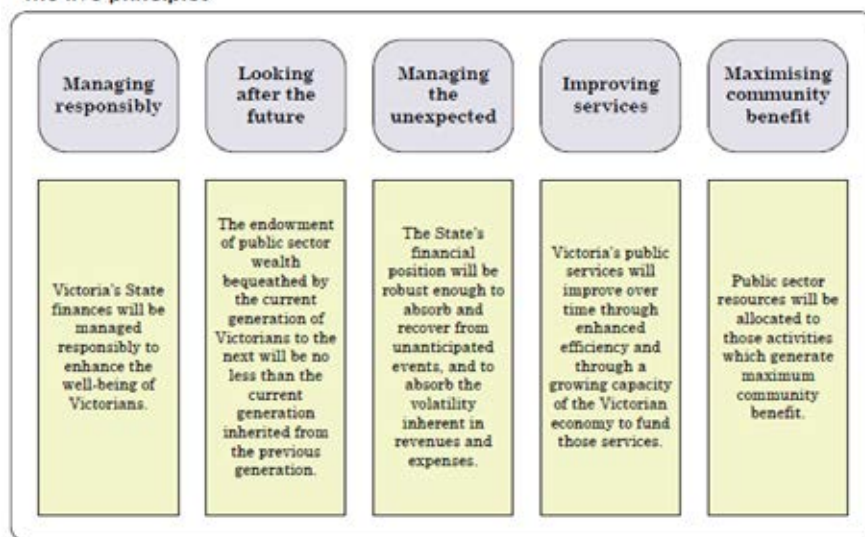
- Interestingly, a number of States in Australia have conducted recent commissions or reports examining long-term fiscal sustainability at a state level.
- Queensland's economy has some similarities to Manitoba. Queensland is a relatively smaller state within Australia, resource-based but with economic diversity in industries such as financial services, tourism and manufacturing, most of the population concentrated in the south, about one-half lives in the capital region, and in 2011, the state experienced major floods which impacted its finances.
- A large proportion of the State of Queensland's historical economic growth has been driven by population growth, increased workforce participation, and the development of the State's vast mineral resources.
- According to the Queensland Commission of Audit, these factors are unsustainable and Queensland's per capita economic growth over the next 40 years is likely to be significantly lower than that of the last 25 years. Without sustained policy action, this is expected to cause a significant fiscal deficit over the longer-term period through to 2050/51.
- In its February 2013 Final Report, the Queensland Commission recommended a two-stage strategy to restore Queensland's financial strength.
- The recommendations are intended to form part of a coordinated systemic reform to lift productivity in the State's public sector, and enhance the performance of its economy to meet the challenges which lie ahead.



Source: Queensland Commission of Audit, *Final Report*, February 2013.

- The State of Victoria in Australia set up an independent panel to review the State's finances and outlook and develop a financial management plan.
- The Panel concluded that combined challenges of a deteriorating fiscal operation position, inadequate protection against economic shocks, insufficient investment in infrastructure and the recent surge in debt, require a new approach to how the State's finances are managed.
- A fiscal management framework was developed around five principles.

The five principles



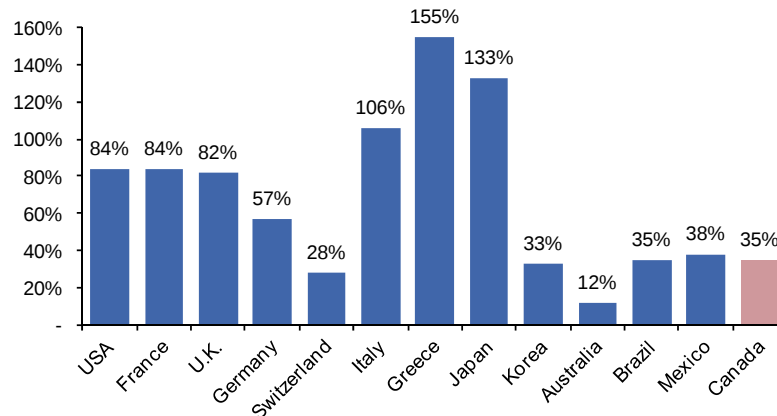
Source: State of Victoria Panel, *Independent Review of State Finances*, April 2011.

- The Panel outlined a set of medium-term targets over rolling five-year periods, including:
 - the net operating balance should be equal to the level of net infrastructure investment;
 - net debt should be equal to zero within 10 years; and
 - pension liabilities should be equal to zero by 2035.

4.4 Manitoba's debt position in a global context

- The chart below provides a comparison of net debt of international countries. Canada has a relatively low level of net debt compared to most industrial countries; however, comparisons have limitations because of differences in national structures and accounting procedures.

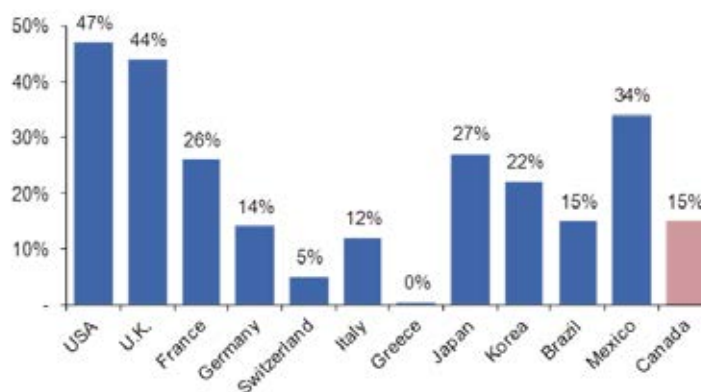
**International Comparisons – General Government
Net Debt as a Percent of GDP, 2012 Estimates**



Source: Country data derived from information provided by the International Monetary Fund, World Economic Outlook Database, October 2013. Canada from Annual Financial Report and Public Accounts. Due to accounting and/or reporting differences, may not be strictly comparable.

- In terms of growth of net debt since the recession of 2008-2009, most national governments and sub-national governments experienced sharp increases in a short period of time.
- Countries such as Greece that already had very high debt-to-GDP ratios have had minimal growth in net debt because of severe constraint measures necessarily imposed.

**International Comparisons – Growth in General
Government Net Debt, 2009 to 2012 Estimates**



Source: Country data derived from information provided by the International Monetary Fund, World Economic Outlook Database, October 2013. Canada from Annual Financial Report and Public Accounts. Due to accounting and/or reporting differences, may not be strictly comparable.

- In a global context, along with most provinces, the Province of Manitoba at 27% currently has a relatively lower net debt to GDP level than most industrialized countries. However, the Province of Manitoba's growth in net debt since the recession, at 35% from 2009/10 to 2012/13 has been significantly higher than Canada and relatively higher than most industrialized countries over this time period.

5. OAG roundtables in October 2013

5.1 Roundtable format

- The OAG held two roundtables: October 10, 2013 in Brandon and October 28, 2013 in Winnipeg. These were half-day sessions with presentations by the Auditor General and KPMG LLP, followed by questions to facilitate open discussion and thoughts.
- The roundtables were attended by approximately 20 people in Brandon and approximately 40 in Winnipeg. The mix of participants included representatives from: business, banking, accounting, associations, labour, education, government and community organizations.
- At the start of each session, Carol Bellringer, Auditor General, and Stuart Duncan, Director, Advisory Services, KPMG LLP, outlined the agenda and objectives of the roundtables, and made introductions.
- The first half of each session were presentations. The Auditor General presented the Province of Manitoba's fiscal position. KPMG presented comparisons of deficits and debt among all provinces and the federal government based on public accounts and budget data. KPMG also presented national and international perspectives on government debt from various sources such as Auditor-Generals, Canadian research organizations, independent budget offices in Canada, the U.S., U.K. and Australia, the International Monetary Fund, OECD and other sources, and put Manitoba's debt into a global context.
- After a short break, in the second half of the session, the OAG and KPMG facilitated an open exchange of observations and ideas on challenges and opportunities. Participants talked about key facts from the presentations that stood out to them, general impacts of government debt, performance indicators and targets, and how these issues may be better addressed in non-partisan ways.
- It was emphasized that the OAG was looking for their comments, and this was not intended to develop consensus views but rather to hear all comments on these issues. Questions asked to facilitate discussion included the following:
 - From the information presented, i.e., Manitoba's fiscal position, comparisons to other provinces and the federal government, international developments, what are the key facts that stand out to you?
 - Do you think Manitoba's debt position is generally in the right range, too high, not high enough, and why?
 - From your perspective, what are the main factors that should be considered in addressing Manitoba's deficits and debt in the long-term? (e.g., new revenues, spending controls, sale of assets, size of civil service, health care, education, focus on core services, interest rates, infrastructure investment, etc.)
 - Among other roles, the Auditor General's role includes annually an annual review, audit and comments on the Province's fiscal position. Understanding that the legislated mandate of the Auditor General prohibits commenting on the merits of government policy, do you think the OAG should play a role in reviewing the Province's medium and long term fiscal projections?
 - What other non-partisan, independent efforts do you suggest for addressing the issue of government debt from a long-term perspective for the interests of Manitobans?

- What other fiscal performance indicators and targets do you think the government should or should continue to report on regularly?
- The Auditor General closed the roundtables, thanking all participants and noting that the OAG would be reporting on this issue and making information available in its March 2014 report to the Legislature.

5.2 Summary comments

The following points are a summary of points/example comments from the presentation.

Key facts/information that stood out from the presentations

- Lots of good information, helps educate.
- Rapid increase in debt since the recession.
- Length of time to get back to balanced budget in Manitoba compared to other provinces.
- Manitoba is high in program expenditures as a percent of GDP, and dependency on federal transfers.
- The government needs to look at long-term impacts from demographic trends.

Factors and impacts of increasing government debt

- To encourage dialogue, asked if Manitoba's debt position is generally in the right range, too high, not high enough? The majority of participants said too high. A significant portion didn't know.
- Deficits depend on circumstances; sometimes need deficits to manage recessions.
- The right amount of debt is the amount that you can afford to pay for in the long-term.
- What assets should we own? What services need to be provided?
- In the 2000's, the economy was strong and we should have spent less then and more in recession.
- Depends on strategy; debt borrowings should be tied to objectives.
- Need to look at borrowing for operations versus borrowing for assets/infrastructure.
- Risk management needs to be considered: budgeting, planning, risk of higher interest rates.
- The risk with regards to Hydro capital plans and relationship to long-term economic impacts.
- How do we communicate the issue of debt to citizens and engage all stakeholders?
- Decisions should be made in the context of the long-term impact and future generations.

OAG role/other mechanisms for independent review

- Currently the OAG performs audits of historical results, not on projections/future.
- There was not consensus with respect to further role for the OAG, except a recognized need for an independent office to comment and analyze short and long-term projections.
- The OAG could comment on previous projections versus actual; and help explain risks.
- The OAG could help explain and tie together Hydro' capital plans with the Province's fiscal position.

Fiscal performance indicators

- Other fiscal performance indicators that the government could consider reporting on included:
 - benchmarking against other provinces;
 - actual versus budget analysis;
 - program expenditures as a percent of GDP and per capita; and
 - broader indicators that tie to an overall strategy.
- There was general consensus that Government needs to set targets and report against targets.

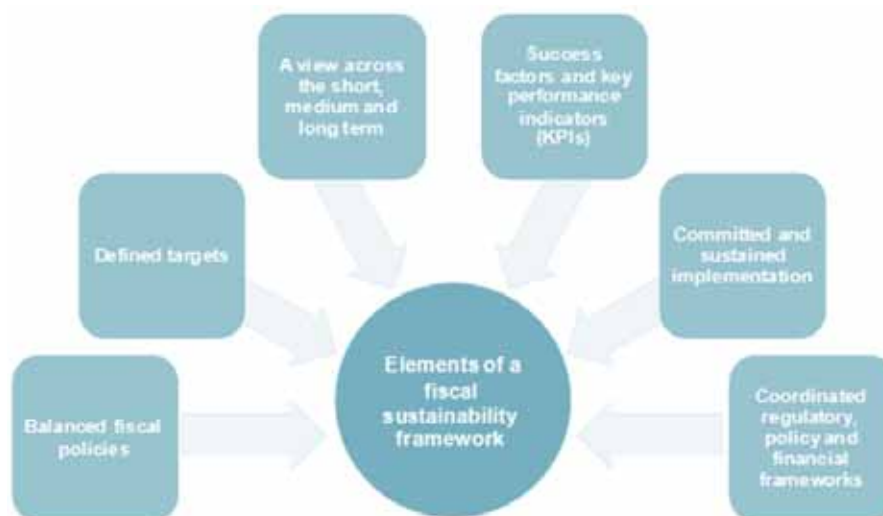
6. Considerations

The issue of government deficits and debt is fundamentally important to the Legislature and the people of Manitoba in the short, medium and long-term. A key objective of our research in the area is to increase awareness of the issues, and the facts, and to make information on government deficits and debt publicly available for Manitobans who have an interest in reading more information on this issue. But the Government should consider other non-partisan ways to provide greater awareness and education on these issues.

We have outlined 7 considerations for the Government with respect to improving understanding of and information on government deficits and debt, as follows:

6.1 Framework for fiscal sustainability and addressing long-term debt and deficits

- A recent global study by KPMG concluded that better frameworks from all governments is one appropriate step to addressing fiscal sustainability challenges. A sample framework is outlined below. The Government may consider a long-term fiscal sustainability framework suitable to Manitoba's situation.



Source: derived from KPMG, Walking the fiscal tightrope: A framework for fiscal sustainability in government.

6.2 Need for medium-term and long-term scenario analysis, demographic analysis and projections

- An international trend, certainly at a country level, but also in some sub-national governments, is for governments or government agencies to conduct long-term scenario analysis and projections. Decisions on the level of government deficits, borrowings and debt have very long-term implications for any level of government.
- Beyond the traditional high-level, medium-term projections undertaken and reported by the Province of Manitoba, the Province may consider conducting long-term fiscal projections based on different scenarios and assumptions for the benefit of long-term planning.
- A key related issue is to better understand demographic impacts and to consider long-term demographic changes and their impacts on government programs and fiscal positions. Governments should project, consider and monitor long-term demographic changes and intergenerational ageing which adds future fiscal pressures to structural government programs.
- The Department of Finance and Treasury Board Secretariat provide the Legislature and Manitobans detailed estimates and information for the Province of Manitoba's annual budget. Annual budgets also contain high-level, medium-term projections. The Department of Finance may benefit from an independent external review of their process for projections over both the medium and long term.

6.3 Setting fiscal targets and communicating results against targets

- The Province of Manitoba reports annually on a number of key fiscal indicators in the annual Public Accounts under three main categories.

Sustainability Indicators	Flexibility Indicators	Vulnerability Indicators
Net Debt % of Provincial GDP	Public Debt Charges to Total Revenue	Federal Transfers to Own-Source Revenue
Net Debt to Total Annual Revenue	Own-Source Revenue to Provincial GDP	Federal Transfers to Total Revenues
Accumulated Deficit % of Provincial GDP	Annual Change to Net Book Value of Tangible Capital Assets	Foreign Currency Debt to Net Debt
Annual Net Income (Loss)	Net Book Value of Tangible Capital Assets to Cost of Tangible Capital Assets	
Annual Net Income (Loss) % of Provincial GDP		

Source: Public Accounts for the year ending March 31, 2013, pages 29-45.

- This is an appropriate list of indicators. Some other indicators could be added such as: program expenditures as a percent of GDP; net debt per capita; and total borrowings as a percent of GDP.
- The Government should consider setting targets for certain key fiscal indicators in addition to reporting on each metric and trend. We made this recommendation in our report on our audit

of the Public Accounts for the year ended March 31, 2007. The Government should then annually report and communicate results and compare to targets, along with commenting on variances between results and targets. This is certainly done for annual budgets compared to actuals, enabling the Government to account for key reasons for variances. Setting targets and communicating results compared to targets provides further accountability to the Legislature and to Manitobans.

6.4 More details in budget reporting on deficit and debt reduction plans

- The Province of Manitoba's medium-term deficit reduction plan provides the Legislature and Manitobans with the Government's intended targets in the medium-term. We note that all provincial governments in Canada have outlined deficit reduction plans in their recent budgets to varying extents.
- The Government may consider providing some further detail on its deficit reduction plans. For example, estimated amounts or targets expected to be achieved from economic growth, spending curtailments and/or cost savings initiatives, sale of any assets, incremental tax measures and other components, to further increase transparency and accountability of medium-term plans. The Budgets of the Government of British Columbia and Ontario, for example, provide relatively more information on components of their respective deficit reduction plans.
- The Government should also indicate its risk exposure to interest rate changes and potential impacts on borrowing costs of interest rate changes.

6.5 Explaining the relationship and impacts of Manitoba Hydro debt

- The Province of Manitoba borrows for provincial operations and capital expenditures and also issues debt on behalf of Manitoba Hydro. The level of borrowing has increased significantly since 2008/09.

Province of Manitoba, Borrowings and Net Debt					
2008/09 to 2012/13					
\$ millions (unless otherwise stated)	2008/09	2009/10	2010/11	2011/12	2012/13
Total borrowings (includes debt issued on behalf of Hydro)	23,324	25,101	26,273	29,297	31,072
Less: debt issued on behalf of Hydro included in total borrowings	(7,836)	(8,289)	(8,467)	(9,095)	(9,775)
Less: sinking funds and debt adjustments	(597)	(701)	(656)	(599)	(509)
Borrowings as reported on the Statement of Financial Position	14,891	16,111	17,150	19,603	20,788
Add: other liabilities	5,519	5,341	5,306	5,570	5,690
Less: total financial assets	(8,942)	(9,642)	(9,931)	(10,623)	(10,585)
Net debt	11,468	11,810	12,525	14,550	15,893

Notes: (1) Debt adjustments include: unamortized debt issue costs; unamortized foreign currency fluctuations; unamortized gains/losses on derivative contracts; and, debentures issued by the Province that are subsequently repurchased (or held) by the Province as investments.

(2) Financial Assets are assets that could be used to discharge existing liabilities or finance future operations.

Source: Province of Manitoba Public Accounts.

- Borrowings of Manitoba Hydro are of a very large magnitude and are 100% guaranteed by the Province of Manitoba. While the accounting and reporting is appropriate, the Province of Manitoba may wish to consider better explaining the relationship between its borrowings and Manitoba Hydro borrowings. Based on Manitoba Hydro's Integrated Financial Forecast 2012/13 to 2031/32, borrowings by the Province of Manitoba on behalf of Manitoba Hydro are expected to substantially increase in the short, medium and long-term.

6.6 Monitoring developments in comparable jurisdictions

- As has been provided in this Project, it is important for the Province of Manitoba to continue to compare fiscal positions with all other provinces on several indicators and to continue to monitor fiscal developments, budgets and medium-term plans of other provinces.

6.7 The Auditor General role and independent review of projections and assumptions

- During the roundtables, there was discussion on the role of the Auditor General. Several participants commented that there should be an independent review of projections and go-forward plans of Government. Many also noted that this would be a different role and not necessarily appropriate for the Auditor General.
- Government may consider an independent office for external review of its projections, assumptions and further plans. This role may be similar to what the Parliamentary Budget Office does in relation to the Government of Manitoba, but at a smaller and narrower scale and scope.

Appendix A: Key public sector fiscal terms/definitions

Accrual basis of recording	Flows and stock positions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished.
Borrowings	Borrowings are securities issued in the name of a government to capital markets investors. Securities include debentures, treasury bills, promissory notes, medium-term notes and bonds.
Budgetary cycle	Typically a medium-term period in the three to five year range.
Core Government	A component of the GRE. Represents the operations of government, including the revenues directly under government's control, and the programs and services delivered by government departments.
Debt servicing costs	Contains the cost of interest and related expenses associated with all provincial borrowings.
Deficit	For the public sector, total revenues less total expenditures reported on a consistent basis; a net result or reported surplus (deficit) on an annual or quarterly basis through budgets and financial statements.
External debt	Debt liabilities owed by residents to non-residents are external debt.
Federal Transfers	Canada Health Transfer, Canada Social Transfer, Equalization, and other grants and transfers are mostly received by core government, although some federal funds are provided directly to Other Reporting Entities.
Financial Assets	Assets of a government such as cash, investments, loans and accounts receivable that could be readily converted to cash in order to pay the government's liabilities or finance its future operations.
General government sector	The general government sector comprises all government units and all non-market non-profit institutions that are controlled by government units.

Appendix A (cont'd)

Government Business (GBE)	A Crown organization delegated with the financial and operating Entity authority to carry on a business. It sells goods or services to individuals and organizations outside the GRE and can maintain its business on those revenues.
Government Reporting Entity (GRE)	Includes core government and Crown organizations, government business entities and “Other Reporting Entities” or public sector organizations such as health authorities, school divisions, universities and colleges.
Gross Domestic Product (GDP)	Represents the total market value of all final goods and services produced within a national or sub-national (e.g., provincial) economy.
Gross or total debt	Total gross debt – often referred to as “total debt” – consists of all liabilities that are debt instruments and other liabilities. Shown on the Province’s Public Accounts as “Total Liabilities”. Includes Borrowings, Pension Liability, Accounts Payable and other accrued liabilities.
Net debt	Key aggregate measure of reported debt. Net debt is total liabilities/total debt less total financial assets.
Net debt to GDP ratio	The ratio of government net debt relative to the total market value of all final goods and services produced in the economy. This measure is widely used by credit rating agencies and analysts to evaluate the financial status and trends in jurisdictions in regards to their relative credit worthiness.
Net financial worth	Net financial worth of an institutional unit (or grouping of units) is the total value of its financial assets minus the total value of its outstanding liabilities.
Pension liability	Outstanding actuarial-calculated pension liability of the government and participating Crown organizations. The expense includes amounts funded through the appropriations of Core Government as well as for the actuarially determined increases in the pension liability.

Appendix A (cont'd)

Public sector	The public sector consists of all resident institutional units controlled directly, or indirectly, by resident government units; that is, all units of the general government sector, and resident public corporations.
Sinking fund	A sinking fund is a separate account, which may be an institutional unit or not, that is made up of segregated contributions provided by the unit(s) that makes use of the fund (the “parent” unit) for the gradual redemption of the parent unit’s debt.
Summary Budget	Presents a full picture of how a provincial government and other related entities operate as a whole. Summary Financial Information consolidates the Estimates of core government with projections of expenses and revenues of Other Reporting Entities of the Government Reporting Entity to produce the Summary Budget.
Summary Financial Statements	Related to Summary Budget, the main method of public reporting of the financial results and positions of governments in Canada. Direct government operations and functions indirectly controlled by government are consolidated. Public Sector Accounting Board (PSAB) and full Generally Accepted Accounting Principles (GAAP) require federal, provincial, and territorial governments to prepare their annual financial statements on this basis.
System of National Accounts	The System of National Accounts, 2008 (2008 SNA) is a statistical framework that provides a comprehensive, consistent and flexible set of macroeconomic accounts for policymaking, analysis and research purposes. It has been produced and is released under the auspices of the United Nations, the European Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the World Bank Group.

Appendix B: Sources

Select Canadian Research on Government Debt

Office of the Auditor General of Canada

www.oag-bvg.ca

Report to the House of Commons, Chapter 7 – Long-Term Fiscal Sustainability, Fall 2012, Office of the Parliamentary Budget Officer

www.oag-bvg.gc.ca/internet/English/parl_oag_201210_07_e_37351.html

Office of the Parliamentary Budget Officer

www.pbo-dpb.gc.ca

Fiscal Sustainability Report

www.pbo-dpb.gc.ca/files/files/FSR_2013.pdf

Bank of Canada

www.bankofcanada.ca

Canadian Banks

www.rbc.com/economics

www.bmonesbittburns.com/economics

www.td.com/economics

<http://research.cibcwm.com/res/Eco/EcoResearch.html>

www.scotiabank.com/ca/en/0,,3112,00.html

C.D. Howe Institute

www.cdhowe.org

Canada's 2012 Fiscal Accountability Rankings

www.cdhowe.org/canadas-2012-fiscal-accountability-rankings/20744

Fraser Institute

www.fraserinstitute.org

Macdonald-Laurier Institute

www.macdonaldlaurier.ca

Provincial Solvency and Federal Obligations

www.macdonaldlaurier.ca/files/pdf/Provincial-Solvency-October-2012.pdf

Conference Board of Canada

www.conferenceboard.ca

Appendix B (cont'd)

Canadian Centre for Policy Alternatives

www.policyalternatives.ca

Big Train Coming: Does Canada Really Have a Deficit and Debt Problem?

www.policyalternatives.ca/publications/reports/big-train-coming

Government of Canada

Public Accounts

www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2013/index-eng.html

Budget 2013

www.budget.gc.ca/2013/home-accueil-eng.html

Canadian Provinces

Province of British Columbia

Public Accounts

www.fin.gov.bc.ca/ocg/pa/12_13/Pa12_13.htm

Budget

www.bcbudget.gov.bc.ca/2013_June_Update/default.htm

Province of Alberta

Public Accounts

www.finance.alberta.ca/publications/annual_repts/govt/ganrep13/goa-2012-13-annual-report.html

Budget

www.budget2013.alberta.ca

Province of Saskatchewan

Public Accounts

www.finance.gov.sk.ca/public-accounts

Budget

www.finance.gov.sk.ca/budget2013-14

Province of Manitoba

Public Accounts

www.gov.mb.ca/finance/financialreports.html#annual

Budget

www.gov.mb.ca/finance/budget13/index.html

Province of Ontario

Public Accounts

www.fin.gov.on.ca/en/budget/paccts/2013

Budget

www.fin.gov.on.ca/en/budget/ontariobudgets/2013/

Appendix B (cont'd)*Province of Quebec***Public Accounts**www.finances.gouv.qc.ca/en**Budget**www.budget.finances.gouv.qc.ca/budget/2013-2014/index_en.asp*Province of New Brunswick***Public Accounts**www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html**Budget**www2.gnb.ca/content/gnb/en/departments/finance/budget/2013-2014/budget.html*Province of Nova Scotia***Public Accounts**www.novascotia.ca/finance/en/home/publications/publicaccounts/default.aspx**Budget**www.novascotia.ca/finance/en/home/budget/default.aspx*Province of Prince Edward Island***Public Accounts**www.gov.pe.ca/finance/publicaccounts**Budget**www.gov.pe.ca/budget*Province of Newfoundland and Labrador***Public Accounts**www.fin.gov.nl.ca/fin/public_accounts/index.html**Budget**www.budget.gov.nl.ca/budget2013**Credit Rating Agencies****Moody's Investors Service**www.moody.com**Standard and Poor's**www.standardandpoors.com/home/en/us**DBRS**www.dbrs.com

DBRS 2012 Canadian Federal and Provincial Governments Overview

Appendix B (cont'd)

Select International Research on Government Debt

International Monetary Fund (IMF)

www.imf.org

Public Sector Debt Statistics: Guide for Compilers and Users

www.tffs.org/PSDStoc.htm

Global Financial Stability Report

<http://www.imf.org/external/pubs/ft/GFsr/index.htm>

World Economic Outlook

www.imf.org/external/pubs/ft/weo/2013/01

Organisation for Economic Cooperation and Development (OECD)

www.oecd.org

Fiscal Consolidation: How Much is Needed to Reduce Debt to a Prudent Level?

www.oecd.org/eco/public-finance/50100974.pdf

Restoring Public Finances

www.oecd.org/gov/budgeting/restoringpublicfinances-reportoutliningthefiscalconsolidationplansof30oecdcountries.htm

European Commission

<http://ec.europa.eu>

Fiscal Sustainability Report 2012

http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-8_en.pdf

European Central Bank

www.ecb.europa.eu/ecb

The Impact of High and Growing Government Debt on Economic Growth – An Empirical Investigation for the Euro Area

www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1237.pdf

Bruegel

www.bruegel.org

The Debt Challenge in Europe

www.bruegel.org/publications/publication-detail/publication/686-the-debt-challenge-in-europe

U.S. Government Accountability Office

www.gao.gov

The Federal Government's Long-Term Fiscal Outlook

www.gao.gov/products/gao-13-481sp

State and Local Governments' Fiscal Outlook

www.gao.gov/assets/660/654255.pdf

Appendix B (cont'd)**U.S. Congressional Budget Office**www.cbo.gov

Choices for Debt Reduction

www.cbo.gov/publication/43692

The Budget and Economic Outlook

<http://www.cbo.gov/topics/budget/budget-and-economic-outlook>**U.K. Office for Budget Responsibility**<http://budgetresponsibility.org.uk>

Fiscal Sustainability Report

<http://budgetresponsibility.org.uk/fiscal-sustainability-report-july-2013>**Australia Government**<http://australia.gov.au>

Australia to 2050: future challenges

http://archive.treasury.gov.au/igr/igr2010/Overview/pdf/IGR_2010_Overview.pdf

Queensland Commission of Audit Final Report

www.commissionofaudit.qld.gov.au**KPMG**www.kpmg.com

Walking the Fiscal Tightrope: A Framework for Fiscal Sustainability in Government

www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/government-fiscal-sustainability/Documents/walking-fiscal-tightrope-final.pdf