

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, 28 January, 1988

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. D. Blake (Minnedosa)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Doer, Kostyra; Hon. Mrs. Smith (Osborne)

Messrs. Baker, Blake; Mrs. Hammond;
Messrs. Maloway, Manness, Scott, Smith (Ellice)

APPEARING: Mr. Fred Jackson, Provincial Auditor

Mr. John Singleton, Asst. Provincial Auditor

Mr. Rick Mayer, Director, Special Audits

Mr. C. Curtis, Deputy Minister of Finance

Mr. John Bothe, Director, Public Accounts
Audit

MATTERS UNDER DISCUSSION:

Report of the Provincial Auditor to the
Legislative Assembly for the fiscal year ended
March 31, 1987.

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MR. CHAIRMAN: For the first order of business, I have before me the resignation of Mr. Jay Cowan, MLA for Churchill, effective today. I am now accepting nominations to replace Mr. Cowan.

Mr. Scott.

MR. D. SCOTT: I would nominate Mrs. Smith.

MR. CHAIRMAN: Mrs. Smith has been nominated. Are there any further nominations? Seeing none, all those in favour of Mrs. Smith replacing Mr. Cowan? (Agreed)

Mrs. Smith, take your seat.

When the committee rose, we were considering page 57 of the Auditor's Report.

Mr. Kostyra.

HON. E. KOSTYRA: There were a number of items at the last sitting that I was asked to provide additional information on. I have some of that here. At this point some of it is still being worked on and some may be ready before we conclude today, and some would be subsequent.

Firstly, dealing with the questions regarding the incident of a Flyer bus in California. I can give a partial report from that. We don't have the final information but, indeed, there was an incident regarding a Flyer bus in which some people were killed and injured. There is a report and I'll just read some of the whole thing

into the record. This is a press report, and the reason I'm reading a press report is because the original comment about the mechanical report came from a press report out of a California newspaper quoting the driver. This is a press report out of the San Francisco Examiner of January 27, 1988, and the headline is: "No mechanical problems found in Samtrans bus in fatal crash."

"Mechanical failure played no part in last week's fatal pileup of a runaway Samtrans commuter bus in San Francisco's financial district, according to the National Transportation Safety Board. Their spokesman said that the National Transport Safety Board had withdrawn its investigative team from the probe of the Samtrans accident because" - and this is a quote from them - "they didn't find any mechanical problems in their examination of the wrecked bus." And there's a further quote that says that their investigators and the highway traffic patrol, and collectively it says those investigators didn't find any mechanical problems so we have withdrawn from the investigation. So that's the report as it is.

The Manitoba Development Corporation has engaged counsel in that area just to monitor the situation in case there is any further action that may come from it, but this is from a press report and the Manitoba Development Corporation has asked for the report from the National Transportation Safety Board in the United States.

The other issue was related to the pension and I indicated I would provide a date when we expect to have those reports available. We'd expect them late this spring or the early part of the summer, somewhere within the next six months.

MR. CHAIRMAN: Thank you, Mr. Kostyra.
Mr. Manness.

MR. C. MANNES: Mr. Chairman, on the last point first. Will they be made public at that time, the study that is to be done?

HON. E. KOSTYRA: Yes, we would be willing to have that information made public. We are also waiting, as you recall, for the report from the National Chartered Accountants Committee and I think those things will, hopefully, happen concurrently and we can also get some sense of how other governments intend to reveal those issues.

MR. C. MANNES: On the first point, Mr. Chairman, and I'm glad to hear, in a liability sense, that it appears as if the Flyer bus that was involved in the accident in San Francisco was not the reason for that particular accident.

Mr. Chairman, what page are you on?

MR. CHAIRMAN: 57.

MR. C. MANNESS: Pass that page.

MR. CHAIRMAN: Pass. Page 58—pass.
Page 59 - Mr. Manness

MR. C. MANNESS: Mr. Chairman, Mr. Jackson said, towards the bottom of the page, "We consider departmental overexpenditure of legislative authority to be a serious matter."

My question to the Minister of Finance: Does he consider this overexpenditure a serious matter?

HON. E. KOSTYRA: We consider it a matter that requires attention and we have given direction to the departments that they have to ensure to the greatest extent possible that these things don't take place. We have also had staff meet directly with, I guess, the more significant areas. Some of them, as you can see, are relatively small amounts, but there are a couple of areas that are of a larger amount.

Staff have been working with them, so we're hoping to have an improvement in this area during this current fiscal year that we're in right now, and I have issued directives to all Ministers at a ministerial level to ensure that this is taking place.

MR. C. MANNESS: Mr. Chairman, those are almost exactly the same words that the Minister used last year when I believe there were one or two fewer departments that were overexpended.

I'm wondering how seriously the department heads or the deputies of these various departments are taking that edict of the Minister of Finance. I know some of these overruns in themselves are not large.

Mr. Chairman, what appears to me as being the case is that very, very rarely do we see a surplus and it appears as if senior financial people in some of these departments are almost deliberately overexpending funds outside of their authority. I can see maybe in a couple of department areas where there's reason, but certainly not all of these, Mr. Chairman, and I again wonder whether the Minister of Finance might share the directive he sent to the various departments as to how he wants them to better maintain, within the legislative authority, their level of spending in this coming year.

HON. E. KOSTYRA: I don't particularly like the term that the member is using in describing the action of the government officials in deliberately doing this. I don't believe that's the case. I don't believe that's the view of our staff who monitor this area and I don't know what the Auditor's view is but you may ask him whether he thinks it's deliberate action by senior civil servants or financial people in the department.

I don't believe that's the case, but that's not to suggest we shouldn't be dealing with it because we are. The directive that I sent basically indicated that there is this problem. I was bringing it to the Minister's attention prior to this fiscal year end so that we can minimize or hopefully eliminate the problem. So that was the extent of the directive pointing out that this is in the report, and it is at these levels the fiscal year ending March 31, 1987 and as we are now approaching fiscal year end '88, that we should be ensuring that

departmental staff are sensitive to this area and attempt to deal with it.

MR. C. MANNESS: Mr. Chairman, I wouldn't have used the word "deliberate" either three years ago, two years ago, or indeed last year when there were a few. I feel, though, I have the right to begin to use that because it seems to me that whoever is in control of the finances in these various departments is not doing their job.

I mean, why would there be so many departments that are over - and I know there are specific reasons that are footnoted somewhere else in other reports, but still, when I see such a large number of government departments, it tells me that financial people who are in control really do not feel, in all cases, as if they have to come in at budget or below.

To me, it does show a lack of discipline.

HON. E. KOSTYRA: I guess I'd ask the question to the Provincial Auditor, if he feels this is a deliberate action by staff of those departments to not budget properly, not deal with this properly, or it's a problem of the system.

MR. CHAIRMAN: Mr. Jackson.

MR. F. JACKSON: My own personal feelings, Mr. Chairman, in response to this question, is that what's been happening is the commitment control function hasn't been receiving the attention that it warrants towards the end of the fiscal year, and that I can comment further, I've reviewed that directive that went from the Minister of Finance to the department, and my reading of that direction was that the government did consider this to be a serious matter and was supplying some stern direction for the departments to take this in hand.

MR. C. MANNESS: Mr. Chairman, that's why I originally began this discussion, by asking the Minister whether he considered this a serious matter. His reply indicated to me he did not consider it a serious matter because he did not give the affirmative to that question.

I've asked him why this would continue to happen, whether he considered it a serious matter, and at the end he ended up deferring the question to the Auditor.

Mr. Chairman, obviously, the departments of government have to take their directions from the Minister of Finance, whose responsibility it is to put this into proper order. The Auditor, from report, has told us that he is not happy and considers this a serious matter of overexpenditure.

I can see why it continues to happen. The attitude of the Minister of Finance tells me why it continues to happen because, in essence, what he's saying to department heads is this is not a terribly important issue. Mr. Chairman, I just want to leave on the record it is an important issue, such that if we were in government - and I'll make this promise and I'll put it on the record - that any Minister, past or present, in our government who has overruns will be expected and will be able to be called to this committee and explain fully why.

Mr. Chairman, there should be nothing less expected by the taxpayers of this province through the legislative

procedure granting authority for certain levels of expenditure. Mr. Chairman, that legislation cannot be surpassed and, if it is, by all means, those people should be held accountable. We deem it to be a serious matter even though this present Minister does not.

HON. E. KOSTYRA: I don't know how the member can continue to make those kind of allegations when I've given a response to him directly and he's heard the comments of the Provincial Auditor and then he chooses not to hear or doesn't hear or doesn't understand and makes a statement that said that isn't a problem that requires attention. But let's put it into some kind of perspective.

You're talking about 1 percent of the total expenditures of the government that shouldn't be in this position, but reality is that sometimes these things do take place, but you have to look at the extent of the problem. Is it something that has taken place on a wide scale, on a significant scale? No, overall it isn't; it's 1 percent of the overall government expenditures - No. 1.

No. 2, the majority of it is in one area this year. In fact, I guess that's about 85 percent of the total figure it's in one department, not spread out in a number of departments, and that relates, as I understand it, basically to costs associated with Child and Family Services, and there has been discussion on that. There's been public discussion, as the member is aware, where the government is taking action with respect to those agencies that, along with the government, are the cause for this overrun. So it's one department making up 85 percent.

So to somehow suggest that we don't take this issue as one that has to be dealt with is not accepting what I said. It's not accepting what even the Provincial Auditor said here, Mr. Chairman.

MR. C. MANNESS: Mr. Chairman, I asked the Minister whether it was a serious matter in his mind. He did not indicate to me that it was. Yes, he said, he was going to take some action. Mr. Chairman, that's exactly what the Minister of Finance said last year, and now a year later we have an additional, one more department, that it is overexpended.

Mr. Chairman, if the Minister wants to argue in degree that this isn't a serious matter, because if one looks at it, it represents only 1 percent of expenditures, well then so let it. The fact is it's against the law and the fact is that the departments have no right to do so.

My main reason for bringing it up is that there has to be a great degree of discipline within all areas of government when people are given an opportunity to be in control of expenditures accounts. And, Mr. Chairman, if discipline isn't there, whether it's 1 percent - and I would in essence say the Minister means that he figures that's a small, maybe almost trivial amount - it soon can lead to bigger problems in other areas and other agencies where all of a sudden it becomes \$60 million.

Mr. Chairman, that's what's at issue here. It's a serious matter. I had no indication from the Minister that he takes it as a serious matter and I just want to go on the record as saying that when we're in government we will cause those people that are responsible for

overrunning expenditures to come here and answer to the committee.

HON. E. KOSTYRA: I just want to correct the record. It's actually one-tenth of 1 percent.

MR. CHAIRMAN: Page 59—pass.
Page 60 - Mr. Manness.

MR. C. MANNESS: Under Brandon University, Mr. Chairman, I'd like to ask Mr. Jackson - and we're talking specifically about, I believe, the School of Music.

Mr. Jackson, are you able to in any way trace back as to the reason why the University of Brandon is having difficulty in securing capital or the removal of the debt associated with the building of the School of Music?

MR. F. JACKSON: Mr. Chairman, I'll ask the Assistant Provincial Auditor to respond to that question initially.

MR. CHAIRMAN: Mr. Singleton.

MR. J. SINGLETON: Mr. Chairperson, the bank loan goes back approximately three years now. It's not exactly easy to determine what exactly caused the need for this bridge financing other than to say that the fund raising activities of the university over time did not generate the amounts of funds which the university had hoped would be generated towards financing the School of Music.

As we're indicating now, the university has confirmed the raising of these funds as one of its top priorities and we understand that it is making, at the present time, quite significant progress in finding new funds towards the repayment of this debt.

MR. C. MANNESS: Mr. Chairman, I would like the Auditor or the Assistant Auditor to go a little step further than that, if they can, and tell us whether it's within their mandate to explain fully, within a report like this, to Manitobans how it is all of a sudden that fund raising efforts three or three-and-a-half years ago all of a sudden hit a brick wall because it was going well before that, Mr. Chairman. The community was responding, the alumni was responding and the whole effort was going well, and all of a sudden it dried up.

I would submit, Mr. Chairman, that was because of a political decision made by the NDP Government to change around a certain Board of Governors.

Mr. Chairman, to what degree does the Provincial Auditor feel he has license to delve into political decisions by government which have caused now a major indebtedness to the School of Music, and specifically Brandon University is having difficulty in coping with it?

MR. J. SINGLETON: Perhaps I could answer that question best by talking in general terms what we perceive the role of the Provincial Auditor to be.

When we look at Crown agencies or departments, basically what we're doing is examining the appropriateness of management practices and administrative policies for carrying out the goals and objectives of the organizations involved.

We do not believe it's appropriate for us to be acting in a role to question policy that's established by the

government. That's part of the political process. What we're more concerned with is assessing whether or not the administrators who are charged with carrying out this policy do so in an efficient and effective manner.

MR. C. MANNESS: Mr. Chairman, I accept that answer. I just want to leave on the record at this time that in my view and the view of my party, and indeed many Manitobans and many people specifically located in the Brandon area, the prime reason that this is an item at all in this Public Accounts Report or in this Auditor's Report, is because of political interference in the NDP Government back four years ago in the matters of Brandon University.

MR. CHAIRMAN: Page 60 - Mr. Orchard.

MR. D. ORCHARD: Mr. Chairman, as we move into the Communities Economic Development Fund, there are a number of issues I wish to question the Auditor on.

In your opening statement on Communities Economic Development Fund where you indicate that "for the last two years, we have reported that there were deficiencies in the Fund's documentation and monitoring policies and procedures with respect to the loans it makes," and you go on further to say that it's necessary because this is not - if I can paraphrase the paragraph - this is not a private sector financial institution wherein the depositors can take their monies out if they're not satisfied with the security of the loans made by that institution. This is taxpayers' dollars and we don't have the option, as taxpayers, to pull our money out of CEDF.

Because of that, you indicate that there needs to be more accountability or at least certainly a high standard of accountability to protect the taxpayer.

At the top of page 61 you make four basic points which, to anyone involved even marginally in business or anyone who's even asked for a loan from any financial institution, those are pretty basic requirements that one would expect, that you get all the pertinent facts and data before recommending or approving a loan. I don't think too many of us could go in and ask for a \$10,000 loan at a bank to buy a car without providing them some indication of whether you could afford the monthly payments.

Secondly, that the loans should be made on the basis of a business case. Now this business case runs rampant throughout the current administration, that there are seldom business cases even in the Crown corporations for a lot of their ventures, and if they are, they're peripheral and not followed and not responded to; and that the Fund should monitor the loans on a regular and timely basis; and lastly, maintain eye documentation - I mean, rather fundamental requirements.

By the fact you've put those fundamental requirements in your report, Mr. Auditor, is that an indication to us that those four requirements, by and large, have not been met by CEDF when they've been approving loans on behalf of taxpayers?

MR. F. JACKSON: Mr. Chairman, we put those four fundamentals there to indicate the standards that we

were expecting to find in this organization. There were certain loans made that met all of the criteria. There were other loans that fell short of some of the criteria and there were some loans that we felt missed out on most of the criteria, and that's why this matter is in our report.

We felt that there was room for significant improvement and we felt, after being in our report for two years, the improvements that we were expecting weren't in place. So what you're seeing here is the Provincial Auditor's office bringing this issue to the legislators' attention because we felt that it needed more attention than what it was getting.

MR. D. ORCHARD: Mr. Chairman, it would appear from the Auditor's comment that in some loans all criterion were met and, in effect, I would assume that the loan would have been given a stamp of lending approval by the Provincial Auditor's office.

How did variations in that process enter? Was it a given loan officer within CEDF? Or was it the same loan officer varying the criterion between loan applications? Like, I'm trying to determine how some loans out of the same department of government could vary so widely in following a fairly straightforward lending procedure.

MR. F. JACKSON: Mr. Chairman, one of the things that should be appreciated is that they have a number of loan officers with different degrees of business experience and different degrees of practical experience as loan officers. We think that's a contributing factor to the divergencies that we were noting in the documentation, etc., and it's one of the areas that led us to suggest that there be further training for these individuals so that there would be a higher standard and standard expectations.

MR. D. ORCHARD: Thank you, Mr. Chairman, that answer adds a lot of light to it. So, in effect, one could probably attach the less documented or less formally approved loans to individual loan officers as a result of their inabilities or their lack of experience and knowledge in how to undertake loans.

Now I guess that begs the question: Are those individuals still working for CEDF in approving loans, No. 1? No. 2, if they are, have they taken any training to improve their business acumen in order to make loans properly?

MR. F. JACKSON: Mr. Chairman, I would ask again the Assistant Provincial Auditor to respond to that question.

MR. J. SINGLETON: Well, Mr. Chairperson, in answer to the first part of your question, all of the loans officers are still in place at CEDF.

In answer to the second part of your question, the Fund has engaged a firm of private consultants to assist them in carrying out the action plan they've identified to address the deficiencies we've noted in our report. A part of the engagement by that firm of private consultants is to, in fact, identify an appropriate training program for the staff of the Fund, including all of the loans officers, which hopefully will take into account

the different background each loan officer has at the present time.

MR. D. ORCHARD: Mr. Chairman, a question to the Minister of Finance: Who is the firm of private consultants so engaged and what is their projected cost of doing this work?

HON. E. KOSTYRA: Touche Ross are the consultants that have been engaged, and I'm afraid I do not know the cost.

MR. D. ORCHARD: Mr. Chairman, is there a time frame in which they will be reporting or have they already indeed reported?

HON. E. KOSTYRA: They haven't reported, and I don't know the time frame.

MR. D. ORCHARD: We can pursue that later on.

Mr. Chairman, I have some questions specifically to the bottom of page 61, the first column where specifically there are three loans which are singled out.

Can the Provincial Auditor indicate the individual or corporation to whom the first loan was made, where one of the principles was relocation to Manitoba, which wasn't met?

MR. J. SINGLETON: That loan was made to a company known as Yellow Thunder Incorporated.

MR. D. ORCHARD: Mr. Chairman, can the Assistant Provincial Auditor indicate the current status of that loan?

MR. J. SINGLETON: My understanding is that the Fund is attempting to collect the loan.

MR. D. ORCHARD: The circumstance as identified, a failure to relocate to Manitoba, still has not been met, and presumably collection of this loan is an out-of-province undertaking?

MR. J. SINGLETON: The person has not as yet relocated to Manitoba but, I'm sorry, I'm not aware of the extent to which assets which could be used to collect on the loan may be in Manitoba or in Saskatchewan.

MR. D. ORCHARD: And a ballpark figure on the size of the loan?

MR. J. SINGLETON: Approximately \$150,000.00.

MR. D. ORCHARD: Mr. Chairman, and probably this is to Mr. Singleton again, the second loan where the loan was made even though it was not within the usual purview of the Fund, to whom was the loan made and size of the loan and status of the loan?

MR. J. SINGLETON: Mr. Chairperson, that loan was made to a company known as Faroex Limited.

MR. D. ORCHARD: And spelling?

MR. J. SINGLETON: F-A-R-O-E-X, in the amount of approximately \$100,000.00. And, to anticipate your next question, that loan has been repaid.

MR. D. ORCHARD: Maybe I'm not reading correctly on the third loan, but it would seem to me that when you're talking about a loan it obviously had to be made but, if I read correctly when we follow loan three through, it indicates that three basic researching criteria had not been met. Completion of these basic researching criteria were identified as a condition still to be met when the loan was forwarded to the Minister for approval presumably, and subsequently the required researching criteria was completed, and a decision was taken not to proceed, but yet we're talking about a loan. Now that, to me, is confusing. Was the loan made?

MR. F. JACKSON: It was processed, and the loan did not proceed to completion. So, in effect, the loan was finally not made so that it did not become a loan.

MR. D. ORCHARD: Now, Mr. Chairman, I'm curious to know on page 62 . . .

MR. CHAIRMAN: Do you want to pass page 60?

MR. D. ORCHARD: It would not matter to me, but we could pass CEDF and . . .

MR. CHAIRMAN: All right, go ahead, and we'll pass the three of them.

MR. D. ORCHARD: Page 62, you indicate that a wholly-owned subsidiary was incorporated by CEDF. Can you give us the background on that? Like, what was the nature of the original loan which required the creation of the wholly owned subsidiary to assist in the process of protecting the Fund's position with respect to one of its loans?

MR. F. JACKSON: Mr. Chairman, again I would ask the Assistant Provincial Auditor to respond to that question.

MR. J. SINGLETON: Mr. Chairperson, I'll answer that as precisely as I can. The nature of the loan was such that there were specific assets available in the form of an operating unit. The Fund felt that it could protect its investment best by creating a corporation which could take over control of those assets and manage them until effective disposal of the assets could take place.

MR. D. ORCHARD: Okay. So what in effect we had then, if I can understand the answer correctly, is a loan made to a given company in the province presumably, which was viewed to be in economic difficulty. To protect the loan, the company was taken over by the government through creation of a subsidiary. So we now have a company owning the assets of the company to which the loan was made. Is that fair?

MR. J. SINGLETON: Yes, that is correct.

MR. D. ORCHARD: Who was this loan originally made to? What's the name of the subsidiary that has been formed, and what is the status of collection on the assets?

MR. J. SINGLETON: Mr. Chairperson, I'm sorry. I don't have that information here with me. We could undertake to provide that to the committee later.

MR. D. ORCHARD: That will be fine, Mr. Singleton.

HON. E. KOSTYRA: Just one small point, the issue cited here has been corrected. The necessary Order-in-Council has been processed. That's just an update to work through the report.

MR. D. ORCHARD: That was the next question. Now, Mr. Chairman, if I can just sum up on CEDF and then I'll leave the matter, but this became a subject of fairly substantive debate by my colleague, Mr. Downey, in the Legislature over a loan to N.D. Gunn and Associates was the prominent one, and there were other loans.

If I can offer the comment that, based on what the Provincial Auditor is saying, there needs to be a tremendous amount of tightening up of this Fund in terms of its use and application. It would be fair for the public of Manitoba to assess that the Communities Economic Development Fund has currently run the risk of being yet another slush fund for the current governing party, the NDP, to treat their friends to taxpayer money. That was clearly demonstrated in the N.D. Gunn affair where there was a very close association with the Minister of Northern Affairs during the election campaign, and the subsequent loan which was very questionable didn't meet the criterion that were laid out by the Provincial Auditor.

If there is to be any credibility that this government deserves in the public eye, they can't be using funds like this to simply pay out to their political friends upwards of \$150,000 and more for companies that have not met the basic criteria for loan-making that any financial institution, regardless of its private or public sector involvement, would require. This will cause continued political problems for a government that abuses the taxpayers' money in this fashion to reward their political friends.

HON. E. KOSTYRA: Well, the member is again wrong in his assertions. CEDF is a fund that's in place for a mandated purpose, and I would suggest to the member and to all committee members and indeed to the public that it is a fund that has served the overall interests of the taxpayers well in this province. It has provided the necessary incentive to help establish, maintain and expand, in some cases, some businesses in areas of the province where unfortunately the other financial institutions have not been all that willing to assist with.

As an example, in the Town of Churchill, it's virtually impossible to get any traditional bank financing because of the way the banks view the temporary nature of that community. Well, I think it's the responsibility of government to ensure that the economic needs of those communities are being met, if the traditional banking institutions are failing in our province generally, or particular parts.

So to suggest that this fund has not been used for those purposes is doing damage to the truth. It's not to suggest that given the high-risk nature of the area that CEDF is dealing with that there shouldn't be improved accountability. We've taken to heart the concerns that the Auditor has expressed in the past, and there's been some work done, some improvement and we've certainly taken to heart the concerns that have been expressed in this year's report. As indicated

in the response that was provided to committee, we have established a project with outside management consultants to further work to improve the operations of that fund.

MR. J. SINGLETON: Mr. Chairperson, we have now got that information on the names of the companies Mr. Orchard asked for a few minutes ago.

The company incorporated is known as 74949 Manitoba Limited, and it was incorporated in connection with H and R Towing.

MR. D. ORCHARD: Is it safe to assume that we own a towing company now?

A MEMBER: Next Crown corp.

MR. D. ORCHARD: Mr. Chairman, before you leave I'd just like to indicate to Mr. Kostyra that I appreciate his public pronouncements before committee on the record of how they're desirous of cleaning up the accountability of CEDF and making it more responsible as a lending institution, but that does not leave his government without the responsibility that they must take for the political decisions they've made in the past and will continue to make despite the Touche Ross Report, whatever it may recommend, to reward their political friends as they have done in the past. That is one of the flaws in CEDF. It will continue to be as long as we have an NDP Government wishing to reward their political friends who provide campaign space for candidates that become Minister of Northern Affairs and whatever.

MR. CHAIRMAN: Mr. Connery.

MR. E. CONNERY: To the Auditor, Mr. Jackson.

What percentage of the loans over the past, well since the inception of CEDF, have been successfully repaid or on a successful or on the proper schedule of repayment?

MR. F. JACKSON: Again, I'd refer that question to the Assistant Provincial Auditor.

MR. J. SINGLETON: Mr. Chairperson, approximately 80 percent of the loans have been repaid or are in a current position.

MR. E. CONNERY: What percentage of the money, or how much money has been lent out by the government in this particular fund, and how many dollars have we lost, actually lost, written off or lost or are potentially to be written off?

MR. J. SINGLETON: Mr. Chairperson, \$24.6 million has been loaned since inception by the Fund, and of that amount approximately \$5.2 million is either considered uncollectible or it's been written off.

MR. E. CONNERY: Mr. Chairman, I'm sure the Auditor must be just shaking his head when he goes through the CEDF, and to see how the government has operated this particular Crown corporation. He tells us after two years of recommendation he finds it necessary to put

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it into the Auditor's Report, that things are not going well.

Mr. Jackson, would this sort of poor management function last long in the private sector?

MR. F. JACKSON: Mr. Chairman, again, it would be just pure speculation on my part to be able to respond to what the situation is in the private sector, but I do know from reading our newspapers that several of our major banks are having significant losses reported because of their involvement in high-risk ventures in Third World countries.

I think, in all fairness, one has to recognize that the mandate for this entity is as a lender of last resort to entities entering business with a high risk. Very often the people that are involved in the loans are not experienced businessmen. Then the loans are really intended to assist with the development of the North and one of the criteria is that there be a Native involvement for certain of the loan activities. So we have to regard this as being slightly different than the usual loan that's made by a regular banking institution in one of the downtown urban areas.

My understanding is that the loss expectations in an urban area by one of our major banks is significantly less than the experience here, but there are contributing factors for that to be significantly less.

MR. E. CONNERY: Is it normal for loan officers to be hired without any training and then to put them on a training program after they've been hired and after a lot of problems have developed through their inexperience? Wouldn't it be appropriate to hire trained loan officers, or hire them and train them before putting them on the job?

MR. F. JACKSON: If it was my business, Mr. Chairman, that's what my approach would be.

MR. E. CONNERY: It's quite obvious, Mr. Chairman, that this government is not aware of proper business management or business functions.

Mr. Chairman, to the Auditor, there are two functions that I would like to know if he has questioned. Is the hotel at Thompson - I think it was the Rainbow - have you analyzed that particular operation? It came under the CEDF, did it not?

MR. F. JACKSON: Mr. Chairman, I'm sorry I don't have that information with me. I'm not sure that we have it here at all. I'm advised that we don't.

If that's something that you would like to have followed up, I could undertake to have that followed up.

MR. E. CONNERY: Mr. Chairman, I would like to know what the circumstances were and who the hotel was sold to, and if that was still under CEDF, which I think maybe it was, and the status of that loan.

Also, I would like to ask the Auditor: Was the pickle onion plant at Teulon in your review of this year or is that going to be in next year's review?

MR. F. JACKSON: Mr. Chairman, I understand that the Canadian Pickles loan was reviewed this year.

MR. E. CONNERY: Were you satisfied with the investigation that the CEDF did to make sure that this was a viable company?

MR. F. JACKSON: Perhaps I could ask Mr. Mayer of our office to sit in my place for a moment. He may be able to provide the information you're looking for.

MR. CHAIRMAN: Mr. Mayer.

MR. R. MAYER: I'm sorry. Could I ask that the question be repeated again, please?

MR. CHAIRMAN: Repeat the question, Mr. Connery.

MR. E. CONNERY: Well, there was a pickle plant established in Teulon and the headlines were "Government in a Pickle" as I remember. The condemnation was that the government had done very little analysis of the experience of this company and the people involved, their previous experiences, and the ability or the willingness to repay loans, and I just wonder what investigations were taking place and were they adequate to ensure that the loan was a viable loan.

MR. R. MAYER: The Canadian Pickles, Mr. Chairperson, the Canadian Pickles Corporation, the one we looked at, was in Stony Mountain, Manitoba - I believe that's the same company we're talking about - and what had happened is that the CEDF combined with Canadian Pickles Corporation, undertook a study, a private accountant undertook a study of the operations. When we reviewed that, we felt that the analysis that was done was appropriate.

MR. E. CONNERY: What was the outcome of this company? Is it still in operation or did it go bankrupt?

MR. R. MAYER: The loan has been called and we believe the company is bankrupt.

MR. E. CONNERY: Has there been any payment at all on the loan?

MR. R. MAYER: I'm sorry, we don't have that information with us.

MR. E. CONNERY: Do you have the names of the original people involved in the establishment of the company?

MR. R. MAYER: I'm sorry, we don't.

MR. E. CONNERY: Did a Robin O'Donnell surface as being one of the principals later in the operation of the company?

MR. R. MAYER: I'm sorry, I don't have that information.

MR. E. CONNERY: Could that information be brought forth, Mr. Chairman?

The history of Mr. Robin O'Donnell in Manitoba is well known long before Canadian Pickle Company was established. He had a bad track record, and if you

would follow it up, and if CEDF had followed up the track record, we would have found that this would not have been a suitable loan, and it's just another indication that this government, with its Crown corporations, is not capable of analyzing the loans.

We agree that there has to be the opportunity to develop the North, but we also want to make sure that there's a reasonable chance of it succeeding, and if they don't do the proper analysis before they make the loan, we're going to see a high percentage of losses and we'll see greater public condemnation of the CEDF, which would be unfortunate for those businesses that really need their assistance and could progress with it.

MR. J. SINGLETON: Mr. Chairman, perhaps I could ask the committee for a conclusion on this.

We can provide this information to the committee if we like. However, a lot of it appears to be details that the company officials would have and perhaps the Minister of Finance would undertake to provide this information to the committee.

MR. CHAIRMAN: Would that information be available, Mr. Kostyra?

HON. E. KOSTYRA: I'll undertake to see what information is available to CEDF in terms of the company itself. There may not be certain information available, and obviously CEDF will be before a legislative committee where the officials there can be asked for any detail, but we'll ask CEDF for whatever information on the range of questions that were put on the record vis-a-vis the company, vis-a-vis some individual. We'll direct them all there.

MR. E. CONNERY: My concern, Mr. Chairman, is to know who the original principals were and who the principals were at the wind-up or who became principals - if they did - and how they became that way and if it was through the concurrence of the CEDF. So it's the transformation of the original principals and through.

MR. CHAIRMAN: We'll see whatever information we can obtain.

HON. E. KOSTYRA: I just want to make a couple of comments because the kind of comments that have been made by the Member for Portage cannot stay on the record without some challenge to them.

He again, like other members from the party opposite, do damage to the facts. He talks about the total mismanagement of this fund and said this wouldn't be allowed in the private sector, and you know, when is the government going to act more responsibly. Then he hears the facts where the track record of this fund, in an area that is high risk, is 80 percent. He heard that information but he totally ignored it and then went to talk about how this is all mismanagement and it would never be allowed in the private sector, when he knows himself the kind of things that go on in the private sector, that yes, sometimes loans don't go the way they should be; yes, sometimes there may not be the proper judgment used in analyzing something, or all the information isn't available.

We've had the horrendous cases of what the good old private sector fiscally conservative banks have done with some of their investments, whether it's in the Third World, whether it's things like principal, and you could go on and on and on, and yet somehow he suggests that the actions of this particular fund or the government in general is so much different, so much worse than what goes on in the private sector.

I believe that we should be doing better. I believe that we should excel to do better than the private sector does. But to somehow suggest that we are doing things are so much differently or so much worse than the private sector does nothing to reality, and he knows better.

MR. E. CONNERY: Mr. Chairman, just to the Auditor.

If I recall the figures, he said there was, I think, \$24 million has been lent through the CEDF and some \$5 million is uncollectible or has been written off. But that doesn't mean that there couldn't be more money of that remainder that would be written off, because all of these loans aren't processed. So there is a danger of significant additional dollars being written off, is there not?

MR. J. SINGLETON: Mr. Chairperson, those were the figures as at the end of March 1987. Of course, in future years there may be more loans made and more loans written off.

MR. CHAIRMAN: Pages 60 to 66, inclusive, were each read and passed.

Page 67 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, I have one question under the Manitoba Public Insurance Corporation and the discussion on this agency covers the best part of two pages.

Mr. Jackson, I find it rather incredible that your department, after having looked at a number of issues within the agency of MPIC - and I'll just bring out some of the things that you were able to uncover: You disclosed practices and benefits to employees that were of some concern to you; senior executives at MPIC who had cash advances for several years which you felt was not beyond a certain policy; thirdly, staff Christmas parties; fourthly, the policy of honouring retiring employees, and so on.

Yet, as I'm well aware, Mr. Jackson, a private company audits the operations of MPIC and your shop basically does an overview on it.

How is it that our Provincial Auditor's Department, even in doing an overview audit, could not have found, or was not cognizant of the fact that there were major financial difficulties associated with the operations of the Auto Division within MPIC over the past year?

MR. F. JACKSON: Perhaps Mr. Singleton, Mr. Chairman, could answer that in the first instance.

MR. J. SINGLETON: Mr. Chairperson, one of the important points to keep in mind is that this report is a report as at the end of March 1987 and a considerable period of time has elapsed since then.

During the past year we carried out a special audit at MPIC, specifically directed toward the reinsurance

area of the General Insurance Branch and while we're conducting our overview audit we certainly review financial statistics as such and attempt to understand the reasoning behind, or understand the variances that are occurring, but those do not in themselves require inclusion in this report. What they do to us is act as a bit of a signal as to perhaps we need to take a closer look at other areas of management.

Of course, doing the kind of limited overview that we do, we can't examine all areas of the company in any one year, and so our focus for the past year has been in the general insurance and reinsurance areas.

Certainly we are concerned as well about the extent of losses that have apparently occurred in the Auto Division and plan to take a much closer look at that area during our current overview on it.

MR. C. MANNES: Mr. Chairman, I have to accept that, but I still have to again ask the question in a little greater detail.

Mr. Chairman, as Mr. Singleton has said, there was a Special Audit done into the reinsurance losses associated with MPIC. Obviously, officers or auditors within the Provincial Auditor's Department have had several occasions to be involved in the activities, or at least reviewing the financial activities of MPIC, and as you say, Mr. Singleton, that when you did the Special Audit, obviously you had an opportunity to have at least a casual perusal of many of the finances of that company.

How could it be that nothing would come to light at all that there were serious problems beginning to develop with respect to the financial operations of that corporation?

MR. J. SINGLETON: I think I take a bit of exception to an assumption that's implicit in that question.

As a result of our Special Audit of the reinsurance area, we identified what we considered very serious deficiencies in the management practices, particularly in that area of the corporation. We brought those forward through our Special Audit Report which I believe has been made available to all members of the Legislative Assembly, and we refer to that as well in this report to the Legislature.

One of the things that I think Mr. Jackson referred to on Tuesday was that in a lot of cases with agencies like this we're shooting at a bit of a moving target, that the identification of concerns in one area immediately raises questions in terms of planning for the next ground. Perhaps we should extend that, look to other areas of the company as well. So at this point in time I would think there are a number of significant management practices that require improvement at the corporation, which we've already identified in this report and in our Special Audit Report.

MR. C. MANNES: Mr. Chairman, I ask Mr. Singleton for a moment to put himself into our position.

We do not have any other opportunity really to have an active involvement in the activities of MPIC, other than through the Provincial Auditor during that process of a financial year. We don't even have the annual report yet laid before us, so I would make the claim, Mr. Chairman, as close as we can come, during the fiscal

year of any corporation, as people in Opposition, to try and identify where there may be problems; and hopefully, seeing an objective observer, i.e., the Auditor's Department, drawing it to public attention so that we can cause the government to try and do something. Because, quite frankly, we don't believe that the government, if they had known how serious the problem was within the fiscal year of MPIC, would want to do anything. They would hope to ride it out as long as they could.

So, Mr. Singleton, the question I ask, knowing that within the act that governs your activities, that you have the opportunity to cause, once you find major financial weaknesses in any agency of government, or indeed within any department of government, that you have the right to call, to go to the Speaker and ask that the Legislature be called.

Taking all that into account, I guess I question firstly, have you known, does your department know as recently as four or five months ago, or even indeed in the summer of 1987, what was the potential loss associated with Autopac? If you did, why would that be not made public through the opportunity that the Auditor's department has?

MR. F. JACKSON: Mr. Chairman, one of the things that we're privy to, as the member indicated, is information that is internal to the entities that we review.

However, there are certain times in the year that the operations of any entity look reasonable and don't cause us to say, hey, this looks like it's going to get serious or as serious as it may seem to be at this point in time. My understanding is that, when we were looking at the operations of the corporation at the time of our Special Audit, there weren't indications that the Auto Division was going to come out with the kind of results that appear apparent at this point in time.

My understanding is that, even today, the financial statements may not have been complete and finalized by the Attest Auditors. My understanding is that, just as there have been some problems with the determination of the reserves that are required for the reinsurance operations, there's been some similar difficulty in arriving by the actuary with what is an appropriate reserve for the auto side of things. That plays a significant factor in what the overall operating results are at each of the operating entities' divisions, and there can be significant ranges in those figures. Until that's finalized, the operations of the corporation in final form aren't known, and there can be significant swings as a result of those actuarial figures.

MR. C. MANNES: I would ask Mr. Jackson then, Mr. Chairman, whether or not there is a role for the Provincial Auditor then on behalf of all the taxpayers of this province to become very knowledgeable with the financial situation and standing, even though the financial statements may not have been fully completed, and to report immediately to the Legislature, for instance, in a situation where there may be potentially horrendous losses.

MR. F. JACKSON: We consider that we have that mandate and we consider that, in the main, we carry out that mandate.

As I indicated previously, when we were carrying out our special review of the reinsurance operations, the area that seemed most likely to have greater potential for problems for the current year was really the General Insurance Division, as opposed to the Autopac Division.

MR. D. ORCHARD: Mr. Chairman, some of the questions that I would have of MPIC flow from some of the observations made in MTX, and I wonder if I might deal with the two Crown corporations in tandem and then pass the works on.

MR. CHAIRMAN: With the agreement of the committee, it's fine with the Chair.

MR. D. ORCHARD: Thank you. Mr. Chairman, to the Provincial Auditor:

In reporting on MTX Telecom Services, one of the rather alarming revelations that you've made in here - it's the first time to my knowledge that it's been in print, but it points out a problem that strikes this committee, members of the Opposition - and I'll be fair - I'll even say Ministers responsible and the external auditors hired to look after the verifying of financial statements for Crown corporations in that you are at the mercy, if I can put it that way, of the numbers that you are analyzing and presumably checking to see whether they are technically correct. How those numbers were allocated to given areas of expenditure requires much more detailed examination.

Now in MTX, as the example for a number of years before the whole scandal broke, I was of the opinion, based on information coming from sources within the Telephone System, that they were not properly accounting costs to MTX and that really the staffing costs - there was one example that always came up in '82, '83, '84, as we sat before the Public Utilities Committee dealing with MTS, that the proper salary costs weren't allocated to MTX, and therefore the losses were much bigger. The corporation was in trouble from Day One.

You've confirmed that this year, on pages 69 and 70, and you've indicated that there was unreported cross-subsidization of the operations. I simply point out for the benefit of the committee that those questions were always posed to the senior management of the Telephone System and, because I don't have an accounting background, I was unable to maybe pose them correctly. If you don't ask the exact correct question, as is the case with Ministers of the Crown even, you don't get the answer.

One of our members asked the now Minister of Finance if he met with the Saudi Arabian sheik in August of 1984, and he said no, because he'd met with him in July of 1984. Like, he didn't mislead the House, but he certainly wasn't honest with the people of Manitoba. That was the kind of circumstance we ran into, I'm afraid, with MTS.

Now what needs to be fleshed out here this morning - and I want to do it briefly, because there are many other questions to be asked - but how, Mr. Jackson, did your staff become aware that there was this unallocated salary cost that was paid by MTS and not properly charged to MTX as its subsidiary? Was it something that you specifically looked for? Was it an

employee who indicated this was not properly done? How did you come to this conclusion?

MR. F. JACKSON: Mr. Chairman, as our report indicates, when new management was put in place at MTX and to some extent at MTS, one of their undertakings was to clarify as soon as possible and as well as possible, in the wind-down of the operations, what was involved in the wind-down and where in fact the MTX operations fully reflected the results of those operations.

It was basically that new management that, when they came on the scene, said there's something here that needs further work. They did an analysis and deduced that, in fact, there were some significant undercharges in earlier years for staff. That was a question though that you asked, we asked, and the external auditors all asked and did some work in that area. We were misled.

MR. D. ORCHARD: Mr. Jackson, now that obviously is past history that that took place, but I guess I'm curious to know what depth of analysis was required to uncover that. I ask that question from the standpoint - and that's why I want to go back to MPIC, because how is it - well, obviously it had to be some deliberate effort to do this. I mean, this just didn't happen. Someone, presumably in a position of authority, deliberately did not charge proper salary allocations.

I'm curious to know the kind of analysis, the depth of analysis that's required to uncover that, because the next time I pose the question to other Crown corporations, I and you and the Minister responsible presumably will want to know whether they're being misled again, very important because, as you note, although there weren't big numbers, they certainly would have changed the bottom line on MTX and maybe had the public and the committee focusing on the losses. We could have avoided a majority of the loss.

How do we pose the questions? How much analysis does it take to uncover any of these potential cross-subsidizations or improper reporting?

MR. F. JACKSON: Well, from our perspective, Mr. Chairman, when we were doing the overview, we not only appreciated that there could be cross-subsidization but asked, as auditors do, senior officials as to whether or not in their view there was any.

But beyond that, we work with the staff that we see working on subsidiary operations and we bother to find out, are those people being properly charged. If they are, as a result of our audit work on a verification basis, on a test basis, and in response to the answers that the officials give us, we have some credibility with the answers that they have given us because of the tests we ourselves have carried out.

But what became, I guess, obvious later was that some of the people who weren't so obvious, who we wouldn't see in the course of our everyday work, weren't being charged properly.

MR. D. ORCHARD: So basically, if I interpret the answer, you were relying on some obvious examples which would have to have a portion or all of their salary charged to MTX in the case of the Telephone System

and, because you do not an in-depth but a peripheral analysis, if that was properly accounted, the natural flow-through assumption would be that all else was in order?

MR. F. JACKSON: Yes, based on assertions made by responsible senior officials.

MR. D. ORCHARD: I guess then that brings up the question - and maybe I draw a conclusion that is too harsh in its analysis, but there was some duplicity by not only the senior staff on which you made the test and came to the conclusion that all was well, but indeed there would have to be some duplicity - and correct me if I'm wrong - of staff below that to make the records appear as they did without proper accounting of salaried and other costs. Would that be a fair conclusion?

MR. F. JACKSON: Yes, I would say that would be a fair conclusion.

MR. D. ORCHARD: Well then, I guess the next question that has to be posed in this specific instance is: Would you conclude, as the Provincial Auditor, that duplicity was a deliberate action by those individuals?

MR. F. JACKSON: I'll come back to this, Mr. Chairman, but I would ask Mr. Singleton to answer this question in the first instance.

MR. J. SINGLETON: Mr. Chairperson, I think it's extremely difficult to get into the head of the people who may have been involved with these transactions and understand whether they were doing it on a deliberate basis or not.

Many times, staff at different levels in the organization don't have full information as to the nature of the transactions that they're recording, and they're recording them based on other documentation or directions from their supervisors or managers. So I don't think I could really speculate on exactly how much they knew or why they would be recording certain transactions in certain ways.

MR. F. JACKSON: I think that's a fair summary. One of the things that was, in a sense, unfortunate was that certain of the senior people who were there at the time that these events took place weren't there during part of the time that we were doing part of our follow-up work. We attempted to contact those officials to get a better understanding of what their various roles were. We were unsuccessful in that.

MR. D. ORCHARD: I realize that it's probably difficult to make a judgment as to what the mindset was of those individuals who had to be involved in the understating of the revenues, but I guess the more important question is: In the accounting sense - not in what they were thinking about or what their motivation was, but in the accounting sense - would it be recognizable to those people that indeed they were inappropriately charging salary allocations from a pure accounting standpoint? I'm talking professional conduct here.

MR. J. SINGLETON: Well, once again it is difficult to generalize on that. In many cases, projects can be

carried out that overlap responsibilities between the head office company and a subsidiary company, so it's often not as black and white as it might be in other cases as to whether or not where the costs belong and a certain amount of judgment needs to be taken into account on that.

So it's quite conceivable that staff at lower levels, at least in the organization, wouldn't have as broad an understanding as more senior officials would and wouldn't have the knowledge necessary to question exactly where a particular project or a particular kind of cost is being charged.

MR. F. JACKSON: Perhaps maybe, from my perspective, one of the things that with hindsight was a real concern was that the chief financial officer of the telephone company was charged with operating responsibility for the subsidiary. With hindsight, that looks like a conflict of interest, or at least a perceived conflict of interest, because he had two different types of responsibilities, one of which was the overall financial controls and protection of the parent company's assets to the best of his abilities, and then secondly - quite converse to that - he had a role for the successful operation of the subsidiary, and the two sometimes weren't working along a parallel path at all.

MR. D. ORCHARD: Okay, I appreciate that analysis. I'm still troubled with, of course, the how and the why from the standpoint of learning for the future. I guess the question I'd like to pose now, and this could be to the Provincial Auditor and certainly to Mr. Doer, who is now Minister responsible for MTS, if he would have any additional comments: The staff that were involved in the misallocation or the improper accounting of staffing costs, are they still in the employ of the system?

MR. F. JACKSON: My understanding is that the main players are no longer involved in the system.

MR. D. ORCHARD: Of course, that stems the next question of where I was getting into the lower levels. We can go right down to presumably, and I'm probably using the wrong job description, but you could get into a bookkeeper who is simply physically entering information that's given to him and hardly would be in a position to question the validity of those figures, but certainly with five officers dismissed and none others, are we saying that in the accounting function alone, one person masterminded it - if that's a proper word - or was responsible for it and no one under him had any knowledge whatsoever? Would that be a conclusion?

MR. F. JACKSON: It could be. I'm not sure that it's a fair conclusion or an unfair conclusion. I know that there's been a significant staff turnover and that staff have vacated positions in the subsidiary that were involved in the recording of costs, so they are no longer there.

MR. D. ORCHARD: Then, Mr. Chairman, could I ask the question of the Minister responsible, Mr. Doer? Is that proper in this committee?

HON. E. KOSTYRA: No, it isn't.

MR. D. ORCHARD: Well, then I'll ask the Minister of Finance who is all knowledgeable on all departments of government.

Can the Minister indicate whether, in the vacating of those positions in MTX where there may well be some responsibility for the very serious circumstance identified by Mr. Jackson in the Auditor's Report, in vacating their positions at MTX, are they simply now working for MTS and still in the employ of the system?

In other words, what I'm trying to find out is whether we have employees who were responsible for improper information reporting over a number of years to their auditors, their outside auditors, to the committee of this Legislature, to the government. Are those people still in the employ of the Telephone System?

HON. E. KOSTYRA: I'll ask Mr. Curtis.

MR. CHAIRMAN: Mr. Curtis.

MR. C. CURTIS: Mr. Chairman, it seems to me that the main players in the operation that would have had the control and the direction are no longer there. I can't think of any individual staff persons that would have had sufficient control to be able to make or influence the decisions.

MR. D. ORCHARD: In other words, \$27 million and the accounting costs, etc., can be solely laid on the backs of the five dismissed individuals and everybody was completely unaware of what was going on would be the conclusion I would have to take from that answer, Mr. Curtis.

MR. C. CURTIS: I'm not saying they might not have had some concerns perhaps about the allocations, but I think the direction for the allocations would have been made by the individuals who have left the corporation.

MR. D. ORCHARD: Mr. Chairman, then you see, from this information, and to me the information on pages 69-70 is reading for every elected official whether he's in or out of government, when it comes to dealing with Crown corporations because I tell you this MTX issue plagued me for three years prior to the election. I was getting the information and I can't accept that all of the players are now no longer with the Telephone System from the diversity of phone calls I received over a three-year period prior to this becoming public. There are other individuals who knew and because of intimidation within the system, or for whatever reason, could not come forward other than in an unidentified way to provide information.

But we were misled consistently in a Crown corporation. In the Manitoba Public Insurance Corporation we are being asked to accept that \$60-some-odd-million loss in the Auto Division is completely acceptable, that it can be justified, and that it is a reasonable loss to be accounted for.

And where I'm coming from at the committee today, are there the kind of questions being asked to determine whether we have cross-subsidization within streams of insurance? Because if you go through the Public Insurance Corporation, and we've never taken it to this kind of depth of analysis, but it would seem to me that

there would be something similar to the enterprise accounting that Manitoba Telephone System had always told us existed and which turned out not to exist wherein their phone stores would be enterprise accounted as separate profit centres and thereby provide net revenues to subsidize the black telephone monthly charges.

But in the Public Insurance Corporation in the Auto Division, it seems to me there would be a logical stream for cars, a logical stream for heavy trucks, a logical stream for farm trucks, and a logical stream for motorcycles. Is there any in-depth analysis that's available to assure the drivers of those various categories of vehicles that we're not in the process now with these massive rate increases of having one group of drivers significantly cross-subsidizing another group of drivers, i.e., the motorist in the family car subsidizing other groups? Is this a possibility and has this been analyzed?

It seems like Mr. Scott and Mr. Doer have all the answers. If they'd like to provide them maybe the corporation wouldn't be \$61 million in the hole.

MR. F. JACKSON: My understanding, Mr. Chairman, under the Autopac insurance is that there may well be a cross-subsidization between one class of vehicle and another class of vehicles. But generally the Autopac insurance is supposed to be standing alone and it's supposed to be completely divorced from a cost system from the general insurance program, and that's by law.

We have acted as auditors of the corporation in years past, and when we were the auditors we were very conscious of that cross-subsidization issue and that there not be any cross-subsidization between the General Insurance Division and the Autopac Division.

On an ongoing basis, that is of a concern to us, and in our risk analysis for our audit approach, we identify that as one of our continuing concerns. That is looked at from time to time. When we come away, we're satisfied that there isn't significant cross subsidization or it would reflect an issue of significant noncompliance with the law, and you would see that being reported. We haven't found that to be a problem to date.

However, as we indicated in our special report that was conveyed to the members of the Legislative Assembly on the Reinsurance Division, that rears its ugly head, because if those significant reinsurance losses can't be carried by the General Insurance Division, the only other source is the public revenues of the province because it can't be Autopac.

So that's why that was raised in our report to the Legislature in that way, because it was a concern that there was that potential somewhere down the road.

MR. CHAIRMAN: Pages 67 to 70, inclusive, were each read and passed.

Page 71 - Mr. Connery. Sorry, Mr. Kostyra.

HON. E. KOSTYRA: Before Mr. Connery speaks, I do have further responses to the letter that I received from Mr. Manness. We've tabled the one set of responses, the other committee hearing will have the other in case people want to look at this before we conclude today.

So I'll formally table those.

MR. E. CONNERY: To the Auditor to do with Workers Comp, and I appreciate once again his indicating that

some of the actions of this government are not fair to future generations, that it's an unfair burden on employers and on the general public in future years, the losses that are being incorporated by the Workers Compensation.

Once again, he reiterates that they're working illegally under section 66(1), that they're not supposed to work with a loss. So I think those two issues have been with us for a long time, except the burden on future generations. I think the Auditor is now recognizing that the actions of this government are going to have a significant impact on future generations as far as the fiscal cost. So I appreciate that being in the recommendations or in his report.

The concerns that I have with the Workers Compensation, of course, are with what is called the unfunded liability, the deficit, of course, that the Class 6 has.

Today I was reading in the paper from the City of Winnipeg Mr. Diakiw saying that he was very concerned that the government might want to include the City of Winnipeg into the Class G and their costs have been going up roughly 5 percent where the increase of the Class G has been going up - well, we don't know for sure the cost, the government has been adding 20 percent increase.

Can the Auditor explain why the City of Winnipeg increases would be in the area of 5 percent and the general Class G run by the government would be so much higher?

MR. F. JACKSON: Gee, I'm awfully sorry, Mr. Chairman, I really haven't undertaken any kind of an analysis of the City of Winnipeg situation, so I really just couldn't comment. It would be just speculation.

MR. E. CONNERY: Okay. I've got several areas of - now the Workers Compensation, as it is now, basically all of the costs come out of the current year, so the assessment is to cover all of the costs for the current year. There is no amount in there to pay for the cost of future years, whether it be through an injury or through pensions. Of course this is where the great concern is. — (Interjection) — Yes, maybe there's a correction.

MR. F. JACKSON: That is not quite correct.

What's intended by the legislation is that the costs associated with any year's operation of the Workers Compensation are to be fully covered by the levies that are made that year, so that if an accident occurs this year and payments are required for some considerable period into the future, that cost of those future year payments on today's basis are supposed to be paid by this year's premiums. It's very similar to an insurance concept here in that if you have an accident this year, this year's premiums are intended to pay for the cost of the accidents that occur this year whether or not the claims are settled this year.

Now there can be factors that come into play that vary that concept, such as inflation, such as increased awards that take place in future years in comparison to the award that might be made if the claim was settled this year, but the basic facts are that this year's premiums are intended to cover the costs of accidents that take place this year.

MR. E. CONNERY: Is this in fact taking place?

MR. F. JACKSON: Mr. Chairman, no.

MR. E. CONNERY: To what extent is that a shortfall?

MR. F. JACKSON: The figures that are included in our report this year indicate the significant deficiencies that have occurred to date so that at the end of December, in the Class G fund, there's \$84.3 million deficiency that's accumulated to date.

MR. E. CONNERY: Pensions are one of the areas which I believe that we have not been collecting - and correct me if I'm wrong - I don't think we've been collecting sufficient premiums to pay for pensions in the future. Is this correct?

MR. F. JACKSON: Mr. Chairman, yes, that's my understanding.

MR. E. CONNERY: The policy of increasing pensions, or indexing pensions, has not been by legislation. There is no legislation indicating that pensions must be indexed but, by practice, pensions are being indexed and, basically or roughly, on the average of every two years. Is there any accounting for future costs of these pensions because the indexing is not by legislation, it's just by practice, has the cost of this indexing been taken into account, the shortfall of the Workers Compensation?

MR. F. JACKSON: Mr. Chairman, I'll ask Mr. Singleton to comment on that if he's in a situation to be able to.

MR. J. SINGLETON: Mr. Chairperson, it's my understanding that because the indexing is not required by law it is not included in the actuarial calculations, not in the pension liabilities.

MR. E. CONNERY: But the fact that it is being done on a regular basis, and this is going back for some period of time, I think there was once it went three years but, basically it's every two years, the fact that it is being done, and the costs are going to be there if it continues in this manner, should those costs not be reflected in the obligations of the Workers Compensation?

MR. F. JACKSON: It would be my understanding that this is an area similar to what's being addressed re the pension situation for governments in Canada as a whole, and the recognition of actuarial liabilities for pensions. The Workers Compensation isn't the same as a pension plan, per se, because it arises through incidence of accidents. So it's not dependent on service the same way pensions are, but the general parameters that would be applicable to pension funds could be applied here once they're generally accepted.

We understand that if there was the kind of indexing into the future that the \$84 million would increase very, very significantly, and further, to the extent that you are able to adopt a policy for indexing, and if that becomes part of the ongoing policy, it would be prudent

accounting policy to include that in the determination of your rates and your costs.

MR. E. CONNERY: In the light of the fact that pensions are being indexed basically every two years, would it be appropriate that this be formalized through legislation?

MR. F. JACKSON: If it was the confirmed policy to have this done into the future it would be appropriate to recognize that through the form of legislation.

MR. E. CONNERY: Many workers that have been injured and are scheduled to go to the Rehab. There is in many cases a significant time lag by the time they are approved to go to Rehab and they actually go to Rehab.

In most cases of course there is no improvement in the health of the injured person until they go to Rehab. Have you diagnosed the cost to Workers Comp because of the delay of implementing rehabilitation?

MR. F. JACKSON: Mr. Chairman, the simple answer is no.

MR. E. CONNERY: Would there be sufficient justification to look at that, Mr. Jackson?

MR. F. JACKSON: Mr. Chairman, we think that all the costs associated with a program should be analyzed and clearly understood so that where effective, corrective action is required, it can be taken on a timely basis.

MR. E. CONNERY: The cost of administration of the Workers Compensation Board has risen dramatically, and of course this is a cost to the employers.

In your estimation, is the escalation of the cost of administration appropriate in light of other costs of administration a proper increase?

MR. F. JACKSON: Mr. Chairman, perhaps I can only answer that question very indirectly.

We do an overview audit of the entity and we have not concluded that there were too many staff in any particular area of operation. One of the things that has to be appreciated is that the programs of the corporation and the types of individuals who can be covered have been changing over the years, and that's reflected through increased administrative costs.

MR. E. CONNERY: Between the various categories of Workers Comp - I know you mentioned in MPIC that there can be no cross-subsidization between Autopac and the general insurance - but between categories of the Workers Comp, is it proper to cross-subsidize from one category to another? Because I think in some areas there's a large surplus and in other areas there's a large deficit. Is it appropriate to cross-subsidize between categories?

MR. F. JACKSON: My understanding is that there is a rather significant review undertaken of the Workers Compensation Board and there were a number of recommendations made.

One of the factors that has to be considered is, is really Workers Compensation an insurance program? And if it is, one approach might be appropriate; if it's considered not to be, another approach might be appropriate.

In insurance, generally what you're looking for is that each type of coverage stand on its own over time. One of the aspects that's possible in the insurance thing is a premium relief for those employers that exhibit above average performance. Likewise, there's a demerit, or an increased premium situation for those that have below standard performance. My understanding is that that's not in place in the Workers Compensation Board.

MR. E. CONNERY: No, if I'm correct, I think it's the only one that isn't, and the Minister of Autopac said that they were going to continue to penalize the poor drivers. I feel that the poor businesses that don't have a good work habit should also be penalized, but this isn't being done.

The cost of the Rehab is also not in legislation. Is there a significant cost in the future to the cost of rehabilitation that is indicated in the losses of the Workers Compensation Board?

MR. F. JACKSON: Mr. Chairman, I'm awfully sorry, I really don't have that information.

MR. E. CONNERY: Is it available? Can it be produced later or is this not part of your perusal?

MR. F. JACKSON: It's not part of my perusal. That may be a question that you might ask the Minister of Finance to see if that information is available.

MR. E. CONNERY: My last question, Mr. Chairman, and I haven't really gone in-depth into the legislation of the Workers Compensation, but has the government exceeded its legislative mandate in paying out some of the complainant claims, i.e., pre-existing conditions, heart conditions and obesity and smoking? Has the government exceeded its mandate in paying out claims in that manner?

MR. F. JACKSON: I'm not aware that it has exceeded its mandate. That may be a legal question, but I'm not aware that it has.

MR. E. CONNERY: Thank you.

MR. C. MANNES: Mr. Chairman, one question in this area to Mr. Jackson.

Is this considered a Crown corporation in a sense - it's an agency I know - that could be considered in a sense, such as its losses, could be reflected in the appropriation in some manner without a change in legislation?

MR. F. JACKSON: Mr. Chairman, the question that's been asked really relates in a general way to what is the government entity for financial reporting purposes? That's one of the studies that's currently under way and it's one of the more difficult studies that seems to be fraught with a wide range of opinions.

It's my personal view that all of the entities over which the government has control should be put

together in some way on a meaningful financial statement so that the operations in their entirety are available to be reviewed on a single piece of paper, so that one can really get a flavour for what is the total impact on government operations in this province year over year.

HON. E. KOSTYRA: I was actually expecting a similar question when we were dealing with the Crown corporation losses and I thought the question was going to be asked how it relates to other agencies that are not covered in terms of any outstanding loans or guarantees, and there are a number of agencies that at the present time will not come under the policy with respect to Crown losses because there is no present loan outstanding share involvement or guarantee from the Provincial Government to those agencies.

The two that come to mind, and one is what we're talking about right now, the Workers Compensation. There's no direct provincial involvement in their financial affairs, and the same is true with respect to MPIC. There may be some other that fall into that category but those are two that are not covered by any loans outstanding from the government to the agency, nor do we guarantee any of their debt, as we do in the case of some other agencies.

MR. C. MANNES: Mr. Chairman, given that most of the indebtedness of the Workers Compensation Board is sometime in the future, could somebody bring a class action? Could the future beneficiaries bring a class action against the government to secure those benefits if some future government didn't stand behind the Workers Compensation? And therefore is it a government entity in terms as Mr. Jackson has related?

HON. E. KOSTYRA: I don't know the answer to that. I would presume that it would not be, but I guess that doesn't stop anyone from taking action against whomever.

As I understand it, it is in essence a free standing agency that is not guaranteed in any way by the province. So obviously it does have an involvement with the province in the fact that we govern the legislation collectively as legislators. The government makes the appointments to the Board of Directors but the costs of running that agency are borne directly by those businesses that are covered by the insurance, which is mandated by legislation.

So I don't believe that to be the case, but I'm not giving you a legal opinion because I'm not in a position to do that. That's my opinion in terms of how I understand the operations of the agency, but I can't give you a definitive answer to that.

MR. C. MANNES: Mr. Chairman, I take it that the Workers Compensation Board is still in a positive cash-flow position. What happens were it to fall into a negative cash flow? Who would guarantee the borrowing of funds in support of it?

HON. E. KOSTYRA: It's a hypothetical question, and I presume that they would. If they were not able to, then they would turn to the government for some guarantee, but I'm not aware of any such situation like

that that has caused them to do that, nor am I aware of them turning to the government. You know, that's where they would come if they would not be able to do it in the traditional manner within the ability of that corporation to take on a cash debt.

MR. CHAIRMAN: Mr. Scott.

MR. D. SCOTT: Just further on that, and I'm not sure if I'm misunderstanding or whatever, but the whole formation of a Workers Compensation agency was to protect the individual employers from legal liability for individual accidents at their place of work. They set up these compensation boards to provide a general insurance program for the employees. Certainly government, obviously through the act, conferred the arrangement. Am I wrong in understanding that the liability and responsibility for meeting the valid claims, the claims that are by the board confirmed, rests on the employers as a group and not upon the government? Am I incorrect as far as that understanding?

MR. F. JACKSON: My understanding, Mr. Chairman, is that what Mr. Scott is advancing is the general philosophy. However, that philosophy fails if, in fact, significant deficits are carried forward to the point that the cash flow changes or that, to meet the kind of commitments that are required, the premiums could be such that they couldn't be met by a significant portion of the business community, or that they could be so detrimental to the business community that it could be a reason to change physical locations of the head office of those agencies.

MR. C. MANNES: Mr. Chairman . . .

MR. D. SCOTT: Yes, if I could just follow on that. So in that case it would be in the employer's interest to fight against any kinds of increases in premiums assessed to them for the risk of the coverage that they were getting under the Workers Compensation, drive the fund into essential insolvency, and turn it over and say now it's the province's responsibility to pick up and to carry their earlier responsibility?

I mean, right now from my understanding, there have been consultations - and I don't think this is the first year this has happened - of the board going to employers and showing them the status of the fund and trying to develop some consensus as to appropriate rate increases to make the fund soluble, not that it's insoluble now but to make sure that it doesn't become insoluble in the future.

I think, obviously, something has to be far clearer not only in our minds, but in the general public's minds and in the employers' minds in particular, that this is an obligation or that the insurance arrangement that has been established, the obligation is on the employers to fund the "G" fund, I guess as noted here, appropriately to meet their obligations. Otherwise, they have the best of both worlds.

MR. C. MANNES: Well, Mr. Chairman . . .

MR. CHAIRMAN: Did you find a question there, Mr. Jackson? Was there a question attached to that, Mr. Scott?

MR. D. SCOTT: Well, I guess maybe the Provincial Auditor isn't the correct person to be putting it to, but I think someone has to be able to define clearly and give a clear explanation as to whose responsibility the operations of the fund are. Is it the province's or is it the employers who are insured?

It is my understanding, and I would hope at least, that it is the employers and that they don't pass on the liabilities that they've built up over the years in the fund to the province. I don't know if people have tried to soft-pedal it or whatever in the past from the industry side or from the board's side or whatever, but I would like to get an answer as to whose responsibility this is. Who is responsible for paying for the insured claims that are before the board?

HON. E. KOSTYRA: The Workers Compensation, and the Workers Compensation raises its revenues by levies on employers.

MR. C. MANNES: Mr. Chairman, this isn't the place to debate with Mr. Scott, but there's a classic example of where socialist theory and reality separate very quickly. What Mr. Scott is talking about, of course, is right in a given year, and that is why the rule was put in that every year there should never be a deficit. What Mr. Scott is asking now is the employer should pay the costs, and so they should. That's the way that organization was mandated. But it was never said that the employer, 10 years up the road hence, should pay for the cost of the employer 10 years back. That's the situation we're finding ourselves in exactly, because there are many businesses today that, once this ever comes out of debt, are going to end up paying the cost of businesses that no longer exist, Mr. Chairman. That's why I asked the question in the first place of the Auditor, who was going to pay now the additional cost associated with an \$84 million or, by some cases, \$184 million unfunded liability.

Mr. Scott would say, well, the employers should look after that. Well, Mr. Chairman, many of the employers who should be looking after that are just coming into business today and have no responsibility to those debts incurred years past. That's why the legislation says that there should never be a deficit. That's why Mr. Jackson, from year to year to year to year, reminds all of us that the Workers Compensation Board has contravened the law, because that's the net outflow of breaking that particular law, Mr. Chairman.

So I think that we are moving into a little bit of a philosophical debate, but I still say that . . .

MR. CHAIRMAN: You can do that in the Legislature when it reconvenes.

MR. C. MANNES: That's right, correct.

MR. D. SCOTT: Just a second, if I could . . .

MR. CHAIRMAN: Do you have a question to the Provincial Auditor, Mr. Scott.

MR. D. SCOTT: Yes. Well, in response, I suppose, to Mr. Mannes's points, is he saying that a company does not have an extended liability when a person has

a long-term disability, that their obligation is only for one year? I think that the board has a responsibility to provide, via their fee structure and the charges to the companies, to ensure that is met and that those firms - I don't know the details of how it is exactly structured, whether individual companies pay additional penalties because of high rates of claims or what. But surely there is a legal liability to the injured worker to maintain in the future a cash flow dependent upon his claim.

MR. C. MANNES: On a new company that isn't in existence yet?

MR. D. SCOTT: On the overall fund.

MR. F. JACKSON: Mr. Chairman, perhaps I could attempt to answer that. It is my understanding that's why that legislation is in place is that each year's costs should stand by their own. Part of the package that's in place is to relieve employers from personal suits so that they can pay their premium on an annual basis and feel that's the extent of their liability, and that is the extent of the liability. A company can cease to operate, wind up its operations and, if it has paid its Workers Compensation premiums due that year, it has no further responsibility. It should have paid sufficient that year so that there is no deficit.

MR. CHAIRMAN: Page 71 - Mr. Mannes.

MR. C. MANNES: Mr. Chairman, can we pass right up to page 92 inclusive, or 91 inclusive?

MR. CHAIRMAN: Yes. Mr. Kostyra.

HON. E. KOSTYRA: Sorry, I'd like to ask a question that I think the Opposition in the past has asked the Provincial Auditor, and that's whether or not in terms of the organization and activities of his department, if he does receive sufficient funds from General Appropriations for those activities?

MR. F. JACKSON: Mr. Chairman, in response to that question, I can say that we undertake to budget for our operations. We undertake to review our potential and future operations so that we are staffed adequately and we have sufficient resources to meet what we consider are necessary to meet our obligations.

We haven't had any difficulty to this point in meeting our obligations because we've been provided with sufficient resources.

HON. E. KOSTYRA: One further question in that regard. You have not been given any direction or any requests by the government like that which took place, the Conservative Government in Saskatchewan, to arbitrarily reduce your activities or funding? For the record.

MR. C. MANNES: Well, not from me at least.

MR. CHAIRMAN: We're passing to page 92, is it, Mr. Mannes?

MR. C. MANNES: Up to 92.

MR. CHAIRMAN: Up to 92. Agreed? (Agreed).
Page 92 - Mr. Manness.

MR. C. MANNESS: Mr. Chairman, what share of the trust fund have we borrowed, has the province borrowed, and is using as cash in its cash resources?

MR. F. JACKSON: I would ask the Director of Public Accounts Audit to answer that question.

MR. CHAIRMAN: Mr. Bothe.

MR. J. BOTHE: If we look at page 112 of our report, Mr. Chairman, you will note that there is a little over \$1.15 billion there, of which \$569 million has been borrowed by the trust fund to the operating fund of the accounts.

MR. C. MANNESS: Mr. Chairman, I can't help but notice that our accounts payable year-end are increasing. Is this reflected in the present deficit estimates fully, Mr. Jackson? Is this fully reflected?

The item, Provision for Unrealized Foreign Currency Losses, I've tried to do some calculations, Mr. Chairman, and look at our total borrowings and I come to, in adding the 4.858 and the 1223 and the 123 and the 325 million, that total comes to approximately 6.529 billion, and yet - would that be right? - just give me a second here - oh, and yet Note 1 says that the total value as of March 31, I believe is 8.622 billion.

If one subtracts the sum of the four numbers shown here as Total Borrowings, in other words the 6.529 from what Note 1 says, the net difference comes to 2.093 which, by my very rudimentary analysis would say represents the foreign currency loss, or the paper loss foreign currencywise at this point in time. Is that a fair statement?

MR. F. JACKSON: Perhaps Mr. Curtis would care to answer that question.

MR. CHAIRMAN: Mr. Kostyra.

HON. E. KOSTYRA: Yes, have Mr. Curtis respond to that.

MR. C. CURTIS: If I understand Mr. Manness' question, we have reflected, in our Public Accounts, the total amount that we show as the net unamortized foreign exchange loss. That's on page 35 of Volume 1.

MR. C. MANNESS: Mr. Chairman, I guess I really appreciate this financial statement page because it seems to boil it down, distill all the numbers. So I was just trying to work with them.

I was looking at the total borrowing, and as I add up those four items of borrowing, in terms of Canadian funds, I come out to roughly \$6.529 billion, including Treasury bills - \$6.529 billion. Yet, as I go to Note 1, I'm told that the total value of borrowing is \$8.622 billion; and I guess I'm trying to determine the difference in whether sinking funds come in there or not or whether it's clearly foreign exchange loss. I'm just trying to rationalize those two differences.

MR. C. CURTIS: Mr. Chairman, the figures that I referred to in the Auditor's statement are in fact net

of sinking funds, so you have to add those into the calculations to bring it up to that figure.

MR. C. MANNESS: What I'm trying to get to is the provision for unrealized foreign currency losses is plugged in at 278 million. What share is that of the March 31 foreign currency loss position?

MR. C. CURTIS: It's roughly a fifth.

MR. C. MANNESS: Roughly a fifth. Thank you.

MR. CHAIRMAN: Pass. Page 93.

MR. C. MANNESS: Mr. Chairman, I only have one question on this page.

When one looks at the actual revenues and expenditures and compares them against the budget, and similarly last year, one would have a hard time putting much faith in the statement, particularly of the Minister, when he says that forecasting is a tough science - which I know it is - and using that as the base argument for being against a three or a five-year forecast. Mr. Chairman, if you want to go through the numbers, the governments, the people in the Department of Finance who are in charge of forecasting have done a remarkable job.

HON. E. KOSTYRA: That's not what you said last year when those figures first came out. You said it was horrendous and what did the Minister do. Now you're saying the opposite, that it's pretty good.

MR. C. MANNESS: Mr. Chairman, I may say that again this time, but I wish the Minister would let me finish my statement.

MR. CHAIRMAN: The Chair recognizes Mr. Manness.

MR. C. MANNESS: Mr. Chairman, on the revenue side, and again I put my emphasis on the revenue side, the department has done a remarkable job of bringing the numbers in as to the forecast, and yet that was the base argument for being afraid to be involved in this exercise.

Mr. Chairman, if one wants to see the specific reason why we are over budget or the net budgetary requirement is so much beyond forecast, it falls specifically into two areas; and they are, as they can be seen, in the area of public debt and also within the area of hydro rates stabilization, which of course again is within the area of borrowing in foreign currencies.

Mr. Chairman, if the Minister wants to look specifically on the expenditure side, the increase in expenditures, on percentage terms in the health area - he points health out - is up somewhat, but within the education area it's more or less right on, the tax credit program is right on, and of course the government did make a cut within the economic area. I think that was probably done within the fiscal year once they could see that the cost of borrowing was going far beyond their expectations. Similarly, in the area of consumer services and public protection, i.e., rural RCMP and those types of services, there was an additional cut made there.

So, Mr. Chairman, the government within its own shop, I think, has to receive some credit for trying to

bring expenditures under its control. But what has happened now, and as we have been saying for years, is that the areas outside of government discretionary spending, the public debt, is increasing out of control and, secondly, without any opportunity for this government to react, other than cutting back into other areas.

I'm wondering, Mr. Chairman, if the Minister of Finance is prepared to admit now that his flexibility in dealing with the needs and the services that Manitobans want is severely, severely curtailed by way of increased debt-servicing costs brought about as a result of deficits over the last number of years.

HON. E. KOSTYRA: First of all just to explain, when the variance, because he's suggesting that it was not all related in the way that he has suggested. One of the major variances within the ERSA account that year was the result of a decision where we called early a debt in order to get the costs reduced related to the ongoing servicing costs of that particular debt. That was reported at the time. That was a decision made where we had to show some additional costs in this current fiscal year in order to have ongoing reduced interest payments, which I think is a prudent decision but one which could not be budgeted for or contemplated.

But the basic question is one that I think we've dealt with before in this committee. We are providing, as can be evidenced by these figures when you look at the major area of where funding is going, \$1.6 million, a slight rise. The member didn't mention the fact that was the highest increase in terms of anything, budget over budget, was the \$32 million increase in health and community services spending. The majority of our money is going there, and a larger and increasing amount. Yes, there is more money going to interest costs related to the public debt but, as I indicated, it is our intention and we'll continue to meet our intention in bringing about an orderly reduction.

The only way to deal with the problem that the member is suggesting exists in a dramatic way would be to bring about a total reduction one year, which would mean one or two things or a combination of both which would be very drastic in both sides of it or in combination, that of a severe reduction in expenditures which would hit those areas that members opposite continue to criticize us for, for not providing sufficient funds, or having significantly higher revenue increases which would be by way of, in the main, taxation, which members opposite also don't seem to support. The reality is that, during the more difficult economic times, we made deliberate decisions to maintain services and are paying the costs associated with that with higher interest costs now, higher public debt costs.

I think that was the right decision at that time, as it is the right decision now during times of economic growth to bring about a reduction in that. Hopefully, we won't be in a situation where we see another economic downturn where similar situations will exist in the future as existed in 1982 but, given the nature of the world economy, there is obviously no guarantee of that. In fact, if you review history, the opposite is probably true, that we'll probably see that kind of thing.

So we're working on that planned approach and will continue to work that way, and continue to see improvements that are not only improvements that I'm suggesting have been taking place, but others are noting.

MR. C. MANNES: Mr. Chairman, the Minister and I will have an opportunity to debate his response on many occasions over the next few months.

I'm prepared to pass the Auditor's Report at this time.

HON. E. KOSTYRA: Before passing it, I would just like to thank the Provincial Auditor and his staff for their very forthright nature in terms of their report and in their responses to the committee, and the ongoing work that they and all their staff do in working with all departments of government to ensure that we continue to improve the accountability, the efficiency and the value for taxpayers' dollars that the public service is providing in this province.

MR. C. MANNES: Mr. Chairman, not only do I wish to associate myself with those sentiments, but I'd also like to thank the Auditor and his staff for providing a major expansion in a lot of their comments in a whole host of government areas. Certainly, I, for one, appreciate it.

Thank you.

MR. CHAIRMAN: Okay. That completes the review of the Provincial Auditor's Report. There seems to be a general consensus that the committee will now rise and consider the Public Accounts, Volumes 1 and 11, at our next sitting.

Mr. Mannes.

MR. C. MANNES: Mr. Chairman, if it's the will of the committee, I personally would like to rise at this time. I'd like, though, to also thank most sincerely the Minister of Finance and his department for so expeditiously providing a response to the inquiries we had with respect to certain items within Volume 11 of the Public Accounts.

It was my hope that we were able to move along a little bit more quickly, that we would find ourselves discussing some of these items, but as per the agreement, Mr. Chairman, we will, at another sitting of this committee, deal in more detail with the items so raised.

MR. CHAIRMAN: Thank you, Mr. Mannes.

Committee rise.

Mr. Kostyra.

HON. E. KOSTYRA: There is a further series of questions that have not been responded to and that is in the works. I'll provide it through you, Mr. Chairman, to committee members once they're available.

MR. CHAIRMAN: Thank you very much.

Committee rise.

COMMITTEE ROSE AT: 12:12 p.m.