



Second Session - Thirty-Sixth Legislature  
of the  
**Legislative Assembly of Manitoba**  
**Standing Committee**  
on  
**Public Accounts**

*Chairperson*  
*The Honourable Conrad Santos*  
*Constituency of Broadway*



**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Sixth Legislature**

**Members, Constituencies and Political Affiliation**

<b>Name</b>	<b>Constituency</b>	<b>Party</b>
ASHTON, Steve	Thompson	N.D.P.
BARRETT, Becky	Wellington	N.D.P.
CERILLI, Marianne	Radisson	N.D.P.
CHOMIAK, Dave	Kildonan	N.D.P.
CUMMINGS, Glen, Hon.	Ste. Rose	P.C.
DACQUAY, Louise, Hon.	Seine River	P.C.
DERKACH, Leonard, Hon.	Roblin-Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary	Concordia	N.D.P.
DOWNEY, James, Hon.	Arthur-Virden	P.C.
DRIEDGER, Albert, Hon.	Steinbach	P.C.
DYCK, Peter	Pembina	P.C.
ENNS, Harry, Hon.	Lakeside	P.C.
ERNST, Jim, Hon.	Charleswood	P.C.
EVANS, Clif	Interlake	N.D.P.
EVANS, Leonard S.	Brandon East	N.D.P.
FILMON, Gary, Hon.	Tuxedo	P.C.
FINDLAY, Glen, Hon.	Springfield	P.C.
FRIESEN, Jean	Wolseley	N.D.P.
GAUDRY, Neil	St. Boniface	Lib.
GILLESHAMMER, Harold, Hon.	Minnedosa	P.C.
HELWER, Edward	Gimli	P.C.
HICKES, George	Point Douglas	N.D.P.
JENNISEN, Gerard	Flin Flon	N.D.P.
KOWALSKI, Gary	The Maples	Lib.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar	The Pas	N.D.P.
LAURENDEAU, Marcel	St. Norbert	P.C.
MACKINTOSH, Gord	St. Johns	N.D.P.
MALOWAY, Jim	Elmwood	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McALPINE, Gerry	Sturgeon Creek	P.C.
McCRAE, James, Hon.	Brandon West	P.C.
McGIFFORD, Diane	Osborne	N.D.P.
McINTOSH, Linda, Hon.	Assiniboia	P.C.
MIHYCHUK, MaryAnn	St. James	N.D.P.
MITCHELSON, Bonnie, Hon.	River East	P.C.
NEWMAN, David	Riel	P.C.
PALLISTER, Brian, Hon.	Portage la Prairie	P.C.
PENNER, Jack	Emerson	P.C.
PITURA, Frank	Morris	P.C.
PRAZNIK, Darren, Hon.	Lac du Bonnet	P.C.
RADCLIFFE, Mike	River Heights	P.C.
REID, Daryl	Transcona	N.D.P.
REIMER, Jack, Hon.	Niakwa	P.C.
RENDER, Shirley	St. Vital	P.C.
ROBINSON, Eric	Rupertsland	N.D.P.
ROCAN, Denis	Gladstone	P.C.
SALE, Tim	Crescentwood	N.D.P.
SANTOS, Conrad	Broadway	N.D.P.
STEFANSON, Eric, Hon.	Kirkfield Park	P.C.
STRUTHERS, Stan	Dauphin	N.D.P.
SVEINSON, Ben	La Verendrye	P.C.
TOEWS, Vic, Hon.	Rossmere	P.C.
TWEED, Mervin	Turtle Mountain	P.C.
VODREY, Rosemary, Hon.	Fort Garry	P.C.
WOWCHUK, Rosann	Swan River	N.D.P.

**LEGISLATIVE ASSEMBLY OF MANITOBA  
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS  
Friday, May 10, 1996**

**TIME** – 9:30 a.m.

**LOCATION** – Winnipeg, Manitoba

**CHAIRPERSON** – Mr. Conrad Santos (Broadway)

**ATTENDANCE** - 11 – **QUORUM** - 6

*Members of the Committee present:*

Hon. Mr. Stefanson

Messrs. Helwer, Lamoureux, McAlpine, Maloway,  
Newman, Pitura, Radcliffe, Rocan, Sale, Santos

**APPEARING:**

Warren Johnson, Acting Provincial Auditor  
Norman Ricard, Director of Value for Audits

**MATTERS UNDER DISCUSSION:**

Public Accounts, Volumes 1, 2, 3 and 4 for the fiscal year ending March 31, 1995.  
Provincial Auditors' Report for fiscal year ending March 31, 1995, Volumes 1, 2, 3, and 4.

\*\*\*

**Mr. Chairperson:** Will the Standing Committee on Public Accounts please come to order. The business referred to the committee for consideration this morning is the following reports: the Public Accounts, Volumes 1, 2, 3 and 4 for the fiscal year ending March 31, 1995; and the Provincial Auditors' Report for the fiscal year ending March 31, 1995, Volumes 1, 2, 3 and 4. If members do not have copies of these reports, there are extra copies available. If you need them, please indicate, and the Page will provide you with them.

Further, as Chairperson, I had circulated a letter to committee members this past Monday requesting that members submit to me items or questions requiring detailed answers at the committee meeting. I had already received a letter from Mr. Sale with a proposed list of

agenda items which I also circulated to all committee members. For any committee members who do not have a copy of this agenda item, please indicate, and the Page will provide you with a list.

Therefore, prior to the opening statement, perhaps the committee at this point should consider the proposed agenda before it. Did the committee wish to adopt this proposed agenda submitted by Mr. Sale? [agreed]

Now I would like to ask if the honourable Minister of Finance (Mr. Stefanson) wishes to make any opening remarks, and also the Auditor afterwards.

\* (0940)

**Hon. Eric Stefanson (Minister of Finance):** Yes, I do, Mr. Chairman. I will be fairly brief. I have no problem, as already agreed by committee, with the agenda as submitted. I think the other part of our agreement last time we met was we will see how today goes and either attend to this meeting, or with House leaders, determine whether or not we have one more meeting prior to our House adjourning in early June. There were two or three outstanding matters that I took as notice that I said I would get back to committee on, and probably the best way is for me to respond to them in my opening remarks. There are about three or four items.

Very briefly, Mr. Chairman, the first one was that I get back to committee on the issue of the American Practice Management, APM, amount that was held in trust to March 31, 1994, a sum of \$726,411. A question was asked regarding the reason that \$726,411 was held in trust for American Practice and Management as shown in the Public Accounts for March 31, 1994. We were able to determine that the contract with APM required a holdback of 20 percent of all APM invoiced fees to be held in an interest bearing trust account and released upon certification that the consultant had met all of the performance standards stated in the contract. There were five separate projects resulting in five separate accounts. All these funds were subsequently paid to APM in 1994-95.

The second issue I said I would respond back to committee on was the issue of transfer of properties to the province from Manitoba Properties Inc., MPI. A question was asked regarding the transfer of properties to the province from MPI and why these properties are being returned over a number of years. As indicated at the meeting, the return of properties to the province from MPI results from an agreement with Revenue Canada to wind up its operations prior to December 31, 1995. Properties are being returned over a period of years so that the appropriate tax status of MPI is maintained for purposes of the corporation income tax.

The original structure of MPI was designed so that the company operated on a break even basis and was not subject to additional taxation while at the same time maintaining a sufficient cash flow to cover its dividend and debt servicing obligation. An issue regarding the valuation of the properties transferred arose during a Revenue Canada audit of the corporation in 1988. The settlement negotiated with Revenue Canada required the payment of income taxes in the taxation years January 31, 1993, 1994 and 1995 and for the period ending December 31, 1995. The timing of the property transfers was set to create sufficient taxable income in MPI in order to satisfy the agreement with Revenue Canada.

Another issue I said I would respond to was the issue of the interaction between the trust fund assets and liabilities and the operating fund, and Mr. Chairman, a request was made for information on the interaction between trust fund assets and liabilities and the operating fund. I would be pleased to provide some information that I hope will give committee members a better understanding of the trust operation.

The trust fund and the operating fund together constitute the province's Consolidated Fund. The trust fund is made up of four basic types of trust accounts. I will describe each type and also indicate the approximate percentage of each kind to the total. The following categorization of accounts is consistent with the approach followed in the summary financial statements, Volume 3 of the Public Accounts.

1) Funds held on behalf of government enterprises: 75 percent of total funds held. These are operations which do not receive the majority of their funding from the

provincial government and whose activity is carried out on a business-type basis

2) Funds held on behalf of Crown organizations: 5 percent of total funds held. These are funds which, for purposes of the summary financial statements, are not considered to be on a business basis, but rather delivering special programs on behalf of government.

3) Special funds: 15 percent of total funds held. These are government funds held for special purposes, such as the Fiscal Stabilization Fund; and

4) Fiduciary trust arrangements: 5 percent of total funds held. These are funds which belong to third parties outside the government, reporting entity being held and administered by the government.

Each of these four types of accounts may deposit with the government any available cash for investment, or they may deposit funds in trust to be administered by government on their behalf. These requirements are usually set out in their respective legislation. The kind of administration provided ranges from simply providing a banking facility to full control over receipts and disbursements within the trust's defined purposes. In addition, government enterprises and Crown organizations may have sinking funds being held in trust and invested by the minister.

In responding to this question, we felt it might be meaningful and helpful to reorganize the presentation of the 1994-95 trust accounts to be more consistent with the above categorizations. I have for distribution and will circulate to committee a schedule which is intended to be an illustration of the trust accounts within these classifications. If it is agreed that this presentation is more meaningful than the current format, we will certainly endeavour to change the Public Accounts presentation for 1995-96 fiscal year.

In the Public Accounts, the government also discloses custodial trust funds. These consist of bonds and securities held in safekeeping on behalf of organizations or enterprises, as well as trust money held outside of the Consolidated Fund by various departments. These assets are not deposited in the Consolidated Fund and are, therefore, not considered to be part of the trust fund

They are simply reporting for accountability and disclosure purposes.

With respect to the relationship between the operating fund and the trust fund, deposits in the trust funds are pooled with other available funds in the operating fund for investment purposes. They are accorded a market rate of interest. Some of the funds invested in this way may, at some future date, be transferred to the operating fund in accordance with the special purpose for which they are being held, an example being the Fiscal Stabilization Fund. However, ownership of these funds does not change until the event occurs and a formal transfer takes place. We will circulate copies of that revised summary that I referred to, Mr. Chairman.

The last issue that I said I would respond to was the whole issue raised of tax expenditure accounting. At our last meeting, the member for Crescentwood (Mr. Sale) asked that my department begin to provide tax expenditure accounts. I agreed to explore the issue more in order to establish what is involved in such an undertaking and would now like to make the following comments on this matter.

A tax expenditure account attempts to provide information on the amount of revenue foregone from a select tax preference. Finance departments across Canada routinely estimate and evaluate the cost of areas' tax incentives as part of the annual budget process; however, only the Saskatchewan government and the federal and British Columbia governments of late published relatively comprehensive lists of tax expenditures on a regular basis. Other provinces have published similar accounts only occasionally, and it is generally understood that a tax expenditure account does not address the desirability or effectiveness of tax provision. In order to determine the cost of a selected tax measure, it is necessary to begin by establishing a benchmark tax structure.

Such an exercise is, by no means, as straightforward as one may at first think. There are a number of gray areas where one person's interpretation may not conform to another's understanding of the intent and applicability of a particular tax measure. I will provide members with an example: The income tax deductibility of entertainment and meal expenses is considered by some as a legitimate

business expense incurred to earn income, while others view it as a personal benefit. This ambivalence is recognized in the system by allowing only 50 percent of the expenses to be deducted. Should the deductibility of the remaining half of these expenses be considered a tax expenditure anymore than a deductibility of the cost of renting office space or salaries to employees or for a business telephone line, for example, or recognized as a legitimate business expense and not generally viewed as a tax expenditure? This is the type of question that must be addressed.

I would also like to point out that every tax expenditure item is estimated separately with no consideration given to the effect, negative or positive, that a change in one tax expenditure could have on another tax expenditure. Removing one tax expenditure may have a consequential impact on other exemptions, deductions or tax credits. These second-order effects highlight one reason why a tax expenditure account is fundamentally different from an ordinary income and expenditure account. A tax expenditure account can only provide an approximate estimate of the revenue foregone by any one measure. The individual items cannot be added together for an overall total in any meaningful way.

Most of the tax expenditures associated with income taxation in Manitoba are federal measures that apply automatically to reduce provincial taxes, otherwise payable by Manitoba taxpayers. Though the province does provide some targeted incentives, such as the temporary manufacturing investment tax credit, most of the common income tax expenditures are federal measures. Estimating the cost associated with various personal and corporate tax expenditures is not as difficult as it is for other provincial taxes such as the payroll tax, sales tax, capital tax, land transfer tax, gasoline and motor fuel tax.

\* (0950)

Manitoba Finance receives individual and corporate tax filer information tapes from Revenue Canada on an annual basis. The income tax tapes are, however, dated to a degree. We have only recently received the 1993 taxation year data. Collecting data to estimate other provincial taxes, however, is a considerably more complex and time-consuming task.

Tax expenditure accounting is more of an art than a scientific undertaking. In addition to the philosophical pitfalls associated with identifying the benchmark tax structure and genuine tax expenditures, there are the difficulties with databases available to produce reliable estimates. Nevertheless, as I indicated at the last meeting, we are prepared to do more work on this entire issue as we work towards our 1997 budget to determine whether or not there is merit in providing some kind of a listing under a provincial tax expenditure account.

Mr. Chairman, those I think are responses to the outstanding issues that I had undertaken to get back to committee on, and just in terms of our process for this morning, I understand from talking to our House leader that he announced the committee would run from 9:30 until noon. That is certainly my understanding, in fact, again, my day and agenda are built around that, and I am assuming that is the case with all the committee members, and that we would be agreeing that we would be adjourning the committee by noon. So with those comments, I am prepared to deal with the agenda.

**Mr. Chairperson:** I thank the honourable minister. Did the Provincial Auditor wish to make any opening remarks?

**Mr. Warren Johnson (Acting Provincial Auditor):** Thank you, Mr. Chairman. Yes, I have a response to a question that was taken as notice at the last Public Accounts committee meeting. It relates to the process of appointment of independent auditors in each jurisdiction. I have a one-page response here, which I will have distributed to all of the members.

Overall, Saskatchewan appears to have the most extensive legislative audit framework. The Provincial Auditor is responsible to audit and report on all government entities every year. The government, however, may choose to appoint a second auditor whose work is co-ordinated with that of the Provincial Auditor for reporting to the Legislative Assembly.

In Alberta, their legislation is also very extensive. Virtually all government entities except for regional housing and health boards are under the control of the Auditor General. The Workers' Compensation further allows a separate auditor, but only at the direction of the Auditor General. Where allowed by legislation such

separate appointments are made by the government, but the appointed auditors are required to report to the Auditor General who can direct additional audit work be undertaken. The Auditor General also has authority to hire agents for the conduct of government audits

Canada and Ontario both have specific and similar guidelines that establish audit responsibilities based on the mandate of each government entity. The Auditor General or Provincial Auditor, as the case may be, is responsible for auditing all entities that are primarily funded from central appropriations, those entities that contribute significantly to central government revenues and those entities that have significant public policy roles. Legislation allows alternative auditor appointments only for those entities that operate in a somewhat self-sufficient or competitive environment. Where independent auditors are appointed by the government, the Auditor General or Provincial Auditor may be consulted.

In British Columbia, the Auditor General is directly involved in the approval process for appointing independent auditors where such is allowed by legislation, and there are four provinces where there is no involvement in the appointment process for auditors by the respective Provincial Auditors. These are New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. I was not able to determine the process in Quebec for the appointment of independent auditors.

**Mr. Chairperson:** I would like to thank the Provincial Auditor.

We will now proceed to the consideration of the reports, and the first item on the agenda.

**Mr. Tim Sale (Crescentwood):** I want to thank both the minister and the Auditor for those helpful responses. Just as a matter of, I guess, efficiency, I recognize the need to put some things on the record, but it might be equally helpful if those kinds of written responses, which I think are very helpful, were tabled and simply provided to the members as tabled documents. I think, in particular, when we have a limited amount of time and a long agenda, it would be very helpful.

My first very cursory response to the trust fund balances presentation is that this would be a great improvement. I would make the same comment I made

last time, that if the page references were included in terms of Volume 4—well, most of these would be Volume 4, although not all of them, I guess, and if they were in sequential order as they are found so we just keep working towards ease of use of the documents, I think that would be very helpful. We will look at these and get back to the minister directly and to the Auditor about this presentation. It certainly looks easier to understand when you are categorizing them in the four categories the minister referred to.

Very briefly, we raised the issue again in terms of information of the points 1 and 2-1, sorry, in the proposed agenda. Perhaps the minister and the Auditor might briefly respond, particularly the minister—the explanatory glossaries question.

**Mr. Stefanson:** The comments about sort of blending, tabling, and reading a few things into the record are certainly well taken, and we tried to minimize using as little time as possible, but there were certain things we wanted to get on the record. In the future, I think that is a helpful suggestion.

On the first issue, explanatory glossaries, as I indicated at our last meeting, April 19, of the Public Accounts committee, we are considering the inclusion of this type of information in Public Accounts, and the definitions included in Volume 2 of the Auditor's Report can serve as a useful starting point. We have also asked the members to consider which accounts they feel need further explanatory notes so we can make the glossary as useful as possible. I would merely, Mr. Chairman, encourage committee members, if they have any suggestions, any accounts that they think further explanation would be helpful, to provide that information to us and we will certainly follow up on it.

**Mr. Sale:** The second item on the agenda—the untendered contract system. It has a number of inadequacies that the Auditor has pointed out. Just from a very functional point of view, it is a very antiquated data banishment system with very little information in it. It is often well behind, I know, some departments were six, nine months behind, and it is supposed to be minimally quarterly data entry.

I wonder if the Auditor could comment on the problems in this system, and from a very important perspective,

from the public's point of view, how will SOAs be treated from the perspective of the untendered contract system and normal disclosure government departments are required to adhere to? What will be the regulations or approaches in regard to SOAs?

**Mr. Stefanson:** I will make a brief comment first. Based on our recent review of financial administration acts in Canada, it is my understanding that Manitoba is the only province that has this reporting requirement for untendered contracts, and the Provincial Auditor's March 31, 1993, report, page 74, provides an update of the recommendations made earlier by the Provincial Auditor for improvement of the untendered contract system. Two of the recommendations deal with clarification of the provisions of The Financial Administration Act, the Auditor's request that the term "public tender" be clarified, as well as a reference to which government agencies are to be included. Both of these areas will be clarified when the new Financial Administration Act is passed, hopefully during this session of the Legislature.

The last two recommendations were concerned with the process for reporting untendered contract information. The Auditor has indicated they were satisfied with the new computerized reporting system which is situated within the Legislative Building Information System, LBIS. The reporting of untendered contracts is not woefully behind. The reporting system requires that the information be reported on a bi-weekly basis and that contracts be reported within one month of awarding the contract. The computer system automatically reminds departments to report. At this date, all departments except one are reasonably up to date in their reporting. SOAs function similar to agencies separate from the department and, therefore, would be reported as such. Just some brief comments, Mr. Chairman.

\* (1000)

**Mr. Johnson:** The problems that we had referred to in our prior reports related to things like the definition of what is a public tender—it was difficult to know when a contract achieved public tendering or did not—the definition around agencies for inclusion of the reporting responsibilities and also the definition of what was meant by public reporting. Subsequent to that report in, I believe it was '89-90, we provided follow-up comments in '92-93 and we had indicated that the system had been

amended and we were satisfied with the process of reporting, except for one element, and that is the scope of the agencies that are included, or that report through the system. Our belief is that all agencies should be required to report untendered contracts.

**Mr. Sale:** My discussion with people maintaining that system and my attempts to use it in the last month or so, prior to the last month or so, there were departments which were well behind. I believe that a reminder went to departments and a great deal of data entry was done to bring the system much closer to current status, and that is a good thing, but we should not have to send out those kind of reminders in a sort of ad hoc way.

I believe that the untendered contract system should be very clearly mandatory for departments to keep up to and not semivoluntary, as it appears to be now. I wonder if the new act is going to clarify the mandatory nature of that reporting system.

**Mr. Stefanson:** Mr. Chairman, I would be interested in specifics, whether we want to get into them today or if the member wants to provide them to me at a later date, but through my department we do follow up on these every two weeks, and, as I indicated, I said at this date all departments except one are up to date, and I was informed that as of this morning that department is now up to date. So everybody is current with it, we do follow up on it, and we will follow up on it, but if the member has some specific examples and wants to share them with me, by all means.

**Mr. Sale:** I would just give one example, and my understanding is that the contract that was entered into with the Exchange Group and Mr. Goldie did not show up for some considerable period of time. When I could not find that contract, I took the opportunity to review the dates of several other departments most recent entries into that system, and at that time, numbers of them were six, nine months behind, and recently some of those have been entered. I looked at Labour, Rural Development, Health, Industry, Trade and Tourism and I do not believe they were current at the time, but I do not want to take more time to go into that at this point.

I would like to move on to the question of the Manitoba Trading Corporation annual statements, which

are in Volume 4, page 507. The Manitoba Telephone System is also page 491, as obviously everybody knows.

I want to just first of all explore the issue of the transaction involving the Trading Corporation. In very general terms, just in conceptual or theory terms, could the minister indicate why it was seen to be useful or necessary to involve the Trading Corporation in the agreements between MTS, Faneuil and the government? What was the reason for having to bring MTC in, which, so far as I know, has never done this kind of thing before, maybe the intention that it will do it in the future, but it has not done it before that I know of? I wonder if the minister could respond in broad terms. Why did the MTC need to be involved in this issue?

**Mr. Stefanson:** Mr. Chairman, I will respond to that, but I guess, of all the agenda items, this would be the only one that I would want to point out that, firstly, I think, very specific questions in this whole area, the opportunity is there to pose them to the minister responsible, obviously either through Question Period, but more importantly through his Estimates process, which I am sure will be coming up shortly. Secondly, our agreement was to provide agenda and questions, and it is not very helpful to merely say there is some concern around the Trading Corporation and then not provide the detailed questions as agreed to when we started our last meeting.

So I will make both of those points and I guess obviously determine how we move forward with dealing with this whole area. On that question, my understanding is the government cannot hold directly the kind of investment that is being held here in Faneuil and therefore a government entity needs to be utilized and Manitoba Trading Corporation was determined to be the most appropriate entity.

**Mr. Sale:** Could the Auditor, Mr. Chairperson, through you to the Auditor, could the Auditor confirm that there is essentially a \$3 million difference between the \$16 million in Faneuil preferred shares indicated in the notes to MTC's annual statement and the \$19 million of MTS debentures that will be assumed by MTC over a period of several years, that essentially there is a \$3 million capital subsidy to this agreement? The Auditor simply confirmed that, as I believe they already have in other forums



**Mr. Johnson:** Yes, that is correct. There is a \$3 million subsidy, I guess. It has been reflected in '94-95 Public Accounts through a provision against that account, and I think it went through the Department of Industry, Trade and Tourism.

**Mr. Sale:** Can the Auditor indicate what the Auditor's understanding is of the purpose of the exchange of debentures and shares in this arrangement? What is the value for money here? What was the purpose of this exchange?

**Mr. Johnson:** I think, just to clarify the question, are you trying to understand what value the Trading Corporation is receiving, specifically for their part in the transaction?

**Mr. Sale:** My understanding of the transaction is that Trading was the vehicle through which the MTS database was provided to Faneuil through a licence and sub-licence agreement, and that the shares and the debenture interaction, the provision of shares and the writing down of debentures was primarily related to the role of MTC in providing the licence to use MTS's database. Is that the Auditor's understanding of what happened here?

\* (1010)

**Mr. Chairperson:** Does the Auditor wish to defer to the Minister of Finance?

**Mr. Johnson:** Yes, thank you.

**Mr. Stefanson:** Mr. Chairman, I think if the Auditor performed an audit of this area and has a report or some element to it, I think some questions would be appropriate. I do not know that it is fair to the Auditor to be asking them questions about an entity that they have not necessarily done an extensive audit of. Again, I would only suggest that the opportunity is there to ask the minister responsible all the questions that the member feels he needs to ask as part of the Estimates process, and again, I would also remind him that I do not think any of this is in keeping with our initial agreement at the outset of our first committee meeting, that if there are these kinds of questions, as agreed to, he should have outlined them to me and then we could have come here prepared to respond to them. So I would suggest that specific questions be dealt with the minister responsible, and that is the most appropriate route.

**Mr. Sale:** To the minister first of all, Mr. Chairperson, the agreement that we have is that we will outline an agenda. There is nothing in our agreement, and in fact, quite explicitly to the contrary, there is provision in our agreement for things which are not on the agenda. I believe that I have more than fulfilled our agreement in that I indicated the general area. The minister is well aware that there are some 90 agreements in this complex undertaking with Faneuil, and I would say most fundamentally, and this, I think, the minister is simply wrong in this case. We are considering Public Accounts. Page 507 of Public Accounts is the audit of the Manitoba Trading Corporation, and this is the only opportunity that members have to ask the Provincial Auditor the questions involved.

The Provincial Auditor does not attend Estimates, nor should the Auditor do so. The Auditor comes to one committee of the Legislature, and that is to this one. The Auditor signed this account, Carol Bellringer, CA, page 507, so it is entirely appropriate that we should ask any questions that we wish in regard to the function of the Manitoba Trading Corporation, and quite explicitly on page 512, there are quite extensive notes dealing with the issue of the cumulative preferred shares, the debentures, the issues of the complex agreement. It is not only in order, it would be out of order to suggest that we could not ask or should not ask such questions of the Provincial Auditor. So I believe the minister's comments are not to the point, and I believe the Auditor has a question which I think the Auditor is prepared to answer, and I believe that we have every right to ask the Auditor for his understanding of this transaction, on which he has reported at some length.

**Mr. Johnson:** My understanding of the transaction is that the Manitoba Trading Corporation acquired a licence to use the MTS database for seven years at a nominal fee of \$10. Trading then sub-licensed the use of the databases to Faneuil for seven years at a one-time fee of \$16 million. Payment was made by a debt debenture which was then exchanged for \$16 million of Faneuil's preferred shares.

MTS will pay to Faneuil \$19 million in facility service fees over a five-year period and the province has agreed to relieve MTS of an equivalent amount of debt, which will be transferred to the Manitoba Trading Corporation in amounts equivalent to the facility service fees paid.

The net effect of the \$19-million debt assumed by the Trading Corporation from MTS and the \$16 million preferred shares received from Faneuil has already been accounted for in the '94-95 public accounts. The \$3-million difference has been handled by evaluation allowance which will be allocated to the Manitoba Trading Corporation over a five-year period.

**Mr. Chairperson:** The Minister of Finance signified first, so he wants to intervene.

**Mr. Stefanson:** Mr. Chairman, I think I need to remind the member for Crescentwood, and if he needs another copy I can circulate another copy, when we agreed to our process I sent him a revised second paragraph from the letter. We circulated it here at the start of our last meeting, and it says: We have further agreed that committee members will provide a list of agenda items and questions at least four days prior to the meeting which will be addressed by the committee.

So the member is wrong. We agreed on, not only an agenda, we agreed on questions. That is my point, that here, if he has these kinds of questions, it would be very helpful if he would have lived up to and fulfilled the agreement and provided all of the questions to us in advance and then we would gladly sit here and provide all of the information. He did not do that, and I am suggesting in many cases it is more appropriate to be asking the minister responsible.

I also would remind him that what the Provincial Auditor has done for the Manitoba Trading Corporation is an attest audit. He has not done a special audit, he has not done a value for money audit; he has done an attest function as to the accuracy of the financial reporting of the Manitoba Trading Corporation. So while there would be some questions that would be appropriate around the accounting and the financial reporting, other questions of a detailed nature as they relate to the entire transaction, the reason for the transaction, the valuations, the jobs being created and so on, are more appropriately addressed either to me, through the agreement on advance questions, or to the minister responsible through the detailed Estimates process, Mr. Chairman.

**Mr. Chairperson:** Without entering into the issue, I would like to remind all members that the Provincial

Auditor's office is an independent office, responsible to the Legislature

**Mr. Sale:** I thank the minister for his comments. I have already indicated that I do not agree that that was the full reflection of the agreement we entered into, but I would simply restate for the record that page 512, in some detail, deals with this issue. An attempt to suggest that we should not ask the Provincial Auditor to explain the implications of the notes on page 512, in an audit done by the Provincial Auditor at the only committee at which the Provincial Auditor attends, is simply inappropriate for the Finance minister to suggest.

However, I am quite prepared now to move on to item No. 4, and that is the issue of Grow Bonds. Do you have that letter? The issue of the Grow Bonds process was raised and reviewed in Volume I, page 136 and following, in the Provincial Auditor's report. I thought that the audit was helpful and raised some useful issues.

The Auditor is currently undertaking a special audit, the Woodstone company, and I appreciate the Minister of Finance having referred this issue to the auditor for a special audit. Could the Auditor tell the committee when he expects this special audit to be completed and delivered?

**Mr. Johnson:** Mr. Chairman, our original plan was to have a report issued by the end of May. We have now revised our plans, and it will be late in June before we get the report released.

**Mr. Sale:** I thank the Auditor for the response. I have some understanding of the complexity, and I appreciate that it is likely appropriate to extend the time and to do a thorough job, so I appreciate that response.

Could the minister indicate that he will table this report for consideration at a special meeting of this committee as soon as is feasible following the receipt of the report by his department and in any case no later than a month after he has received the report, Mr. Chairperson?

**Mr. Stefanson:** Mr. Chairman, if it is appropriate, I will respond to all aspects of the question and then, if it leads to further questions, obviously deal with those, and one of them is the question just asked by the member for Crescentwood. It has been the government's practice to

table special audit reports done by the Provincial Auditor in the Legislature, not at the committee level, and I expect that that practice will be continued for the Woodstone audit.

As well, a statement in the prospectus that no government department has passed upon the merits of the securities offered is intended to make it clearer to potential investors that they should undertake their own review of the investment opportunity and not simply rely on government. The government is not a promoter of the security, and based on continuing reviews by the Grow Bonds office, the province makes annual provision for potential losses on the guarantees.

On March 31, 1995, provision had been made for losses of up to \$810,600, Volume 1, page 3-3, against outstanding Grow Bonds of \$5,705,600.

In addition to Woodstone, there are two other bonds with interest that is past due, however both are expected to bring their interest payments current, and no loss is anticipated on those Grow Bonds. Eligible businesses are required to submit, at minimum, annual financial statements. Some must submit quarterly statements to both the bond corporation and the bond office. The latter communicates with the businesses as required, usually at least quarterly. The purpose of this communication is to keep informed on business progress and to provide the business with any information which might be of use to them in making their venture a success.

Bond corporations receive financial statements, according to the specific agreement, either quarterly or annually. The corporation is responsible for communication to bondholders through annual meetings or more frequently as required. Ongoing communication occurs as required and as information is available. The Grow Bond office will often attend bond corporation meetings at the request of the corporations in order to provide the bond office's perspective on matters or to give the province's position on certain issues. The bond office uses these meetings as an opportunity to monitor performance.

\* (1020)

I should remind members that the Provincial Auditor recently reviewed the approval process for the issuance of

Grow Bonds and found it to be satisfactory. The process starts when an eligible business submits an application to the Grow Bonds office to issue Grow Bonds. The Grow Bonds office evaluates the application and presents it to the Rural Development Bonds review committee for approval. This committee is established under the act to review applications and approve them as appropriate. The committee is composed of representatives appointed by the Lieutenant-Governor-in-Council with the majority of the representatives coming from outside the government of Manitoba. After making the decision to approve the applications for Grow Bonds, the committee forwards the approved application to the Minister of Rural Development (Mr. Derkach) for submission to the Economic Development Board of Cabinet for final approval.

Once the Grow Bond issue is approved, the community incorporates a bond corporation to manage and control the Grow Bond offering and investment in the eligible business. The bond corporation sells their Grow Bonds to members of the community. A Grow Bond is an investment in the bond corporation. The bond corporation invests the money it receives from the sale of the Grow Bonds in the eligible business with the approval of the Grow Bonds office.

So I hope, Mr. Chairman, that is helpful in terms of the questions that were provided in advance.

**Mr. Sale:** That is helpful. I think that it has been clear that our side of the House has been supportive of Grow Bonds as a concept and as a theory of putting forward development and getting local community capital involved in the development of their own community. The principle, I think, is excellent, and I believe that we have been supportive of that principle.

Could the Auditor indicate whether the special audit that is being undertaken will be included in volume whatever of his report, as has been the case of all the other special audits that you have undertaken?

**Mr. Johnson:** Depending on the completion date of the special report—the special report is actually being conducted as part of our '96-97 audit activities. The report that we are currently working on the conclusion on relates to the year ended March '96. If our special report on Grow Bonds is completed prior to completing our

March '96 report to the Legislative Assembly, we likely will include it.

**Mr. Sale:** I wonder if the minister could indicate other than Woodstone, how many other Grow Bonds are in default at the present time, and what is the amount of the default?

**Mr. Stefanson:** Mr. Chairman, as I mentioned, there are two other bonds with interest that is past due, but all information I have received, Rural Development working with the Grow Bonds office and with these companies, is that they are expected to be brought current, and there is no anticipation of any loss as it relates to them. One has an outstanding interest payment of \$57,000, approximately, and one has an outstanding interest payment of approximately \$54,000.

**Mr. Sale:** Would the minister indicate the identities of the companies in question, the bonds?

**Mr. Stefanson:** Mr. Chairman, I will take that question as notice. I am certainly not being cute on the issue, but I think I want to be absolutely certain in terms of any third-party confidentiality on any issues that relates to these companies and so on because I believe this issue has or is being addressed, and they will be brought current. I am not sure what would be served then by necessarily naming them here today, but I will certainly follow up on the issue and get back to the member for Crescentwood.

**Mr. Sale:** I understand the sensitivity of the question.

My reason for asking it, Mr. Chairperson, is that at least in the area of Woodstone and Woodstone's bond, which I understand the cash flow presentation made to the federal bankruptcy office indicates an intention to bring the interest current on that bond over the next five or six weeks, I believe is the operating period that has been approved by the federal bankruptcy folks, though I understand the intention to bring it current, and I hope the company is successful in doing so, the problem there is that several of the Grow Bondholders with whom I have had contact had absolutely no information about the company over the year since the first issue of the bond and the first payment of interest.

They did not receive financial statements. They received their interest cheque the first year with a letter

from one of the company's officers which had no financial information in it at all. The letter simply said, all is well, here is your interest. This does not constitute reporting to bondholders, in my understanding of that kind of a concept.

My understanding, as well, is that no information was sent from the Grow Bonds corporation itself, which, as the committee members know, there is a separate corporation for each Grow Bond that is issued, and it is the Grow Bonds corporation that is supposed to report to bondholders, not the company for which the monies were made available for whatever purposes.

So my question, in the light of my information from Grow Bond holders in the Woodstone case is, are all Grow Bond holders in current possession of relevant financial information about the company in which they have invested, and is the minister satisfied that all of the provisions of the current Grow Bonds Act, relative to informing bondholders adequately, accurately and in a timely manner are being followed?

**Mr. Stefanson:** Mr. Chairman, that is my understanding but I will certainly be following up on the issue

**Mr. Sale:** The fifth question, Mr. Chairperson, SOAs. The Auditor did what I think was an exceptional job in providing an initial framework response, a report on SOAs and on the issues involved in SOAs, and I would like to commend the Auditor's office on just an exceptionally helpful overview of the issues. I think this is the kind of work that is immensely helpful to Manitobans and to the Legislature, when the Auditor's office does this kind of work on behalf of us all. So my questions are in relation to a couple of the Auditor's comments.

There have been a number of new SOAs, Mr. Chairperson, and I would like to ask the Auditor whether his office is aware of whether his recommendations have been built into the initial planning for the new SOAs, six or so, that have recently been approved, and if the Auditor could respond to how this was done, and the minister, of course, may also want to respond to this question, as well. Specifically, the Auditor recommended that objectives be specific, measurable, et cetera, and there are a number of good recommendations there

**Mr. Chairperson:** Does the Provincial Auditor wish to answer on the Special Operating Agency item?

**Mr. Johnson:** We have not followed up specifically. My understanding is that the new SOAs have adopted our suggestions, but we have not followed up to determine that specifically.

**Mr. Stefanson:** Mr. Chairman, just a couple of comments. The recommendations have been incorporated into the planning process, along with the experiences of the established SOAs. As we can all appreciate, this is a relatively new initiative. Continual efforts are being made to improve the information available to agencies contemplating SOA status, and this has resulted in a focus on performance indicators and related baseline data at the commencement of operations as an SOA. As well, training seminars have been developed incorporating the lessons learned to date under the SOA initiative. Seminars offered, some examples are: developing your business plan; making the transition: the challenge of becoming a special operating agency; and as well, accounting, special operating agency-style. The management of existing SOAs, together with central agencies, assist new agencies.

This has been a learning process and, as a result, recently converted SOAs have a greater appreciation of the importance of developing performance indicators and related baseline data at the inception of their operation as SOAs. Over the past few years, there has been added emphasis regarding the importance of developing sound performance and measurable criteria.

**Mr. Sale:** The Auditor suggested that SOA annual reports be submitted to and reviewed by this committee. Could the Auditor expand on the reason for this recommendation and the response that the Auditor had from the government in regard to their recommendation?

**Mr. Johnson:** That recommendation was consistent with another recommendation included in our report. On page 159, we recommend that all annual reports should be submitted and reviewed at a standing committee. Our rationale was that we believe that type of process would facilitate debate and allow question and answer period around annual reports.

**Mr. Stefanson:** Mr. Chairman, we are basically on question 6, or agenda item 6, and I guess I would point

out, I am sure committee is aware that information regarding SOA operations is available in a number of ways. There are the annual reports, which are tabled in the Legislature for each SOA. There are the financial statements of the Special Operating Agencies Financing Authority, which are included in the Public Accounts, Volume 4. There are the actual results and projected results along with narrative descriptions, including key objectives, vision, mission, and critical success factors are included in the Estimates supplement of the relevant department. So it is our view that SOAs are best dealt with at a departmental level, where the responsible minister can be asked, obviously, any questions, providing any information that is required or whatever.

\* (1030)

I guess part of that same question, just to conclude on it—the following Department of Finance response included in the Provincial Auditor's report, Volume 1, page 58, will help to explain why Treasury Board continues to maintain a lead role, and I quote: "As indicated by the Provincial Auditor earlier in this report, the development of the Special Operating Agency concept is intended to be incremental and experimental. A cautious approach is being taken to the implementation of SOAs so that each new approval can benefit from the valuable experience gained from SOAs already in operation. The Provincial Auditor's suggestions regarding the first SOA are appreciated and will be pursued."

**Mr. Sale:** Mr. Chairperson, is it the Finance minister's understanding that it would be entirely appropriate to consider the annual reports of SOAs in the annual Estimates process as a formal component of that, if it his belief that is the best place for them?

Is that his understanding that that would be where they should be considered? The reason for the question, obviously, is that there is no place at this point where annual reports are considered as annual reports. There are no committees that hear them. They are not on the Estimates list in a formal way, and there is no committee of the Legislature that I know of that hears SOA annual reports.

I think the Auditor has made a very good point, and that is that here is a very important piece of government

that is reporting in an annual report but the annual report goes into the ether, and there is no place where that annual report then comes to the table where the appropriate officials are present to explore the strengths and weaknesses of the SOA and to provide reaction on the part of the public through elected officials to the operation of the SOA. It is essentially a gap, I think, not a deliberate gap. I am not imputing any motives here, but it is a gap that has arisen because the SOA is a relatively new entity and a concept. There is simply no place that has been designated yet.

I think the Auditor has made a good suggestion. There may be other ways of handling the question, but at this point the question is open because there is no place to which the annual report is directed.

**Mr. Stefanson:** Mr. Chairman, the annual report, when the departments are preparing their Estimates, is certainly one part of the resource in terms of their planning and dealing with the results of the previous year as they move forward into their next set of Estimates. Having sat through my own Estimates and several other departments and knowing how wide-ranging and all encompassing the questions are and can be, literally everything that is included in an annual report either is or can be dealt with through that Estimates process. So that opportunity is certainly there for all members of the Legislature to ask questions from those annual reports as they deal with that department and as they deal with the preparation of Estimates of that department. I feel that that opportunity is certainly there to members of the Legislature.

**Mr. Sale:** I would like to ask the Auditor if he could respond to the minister's comments. In the Auditor's view, Mr. Chairman, does the minister's comment meet the requirement of adequacy in terms of where annual reports are addressed?

**Mr. Johnson:** The Estimates process, I believe, can facilitate debate around future plans. I think it is an opportune time to also introduce past performance. Part of the problem is the timing of when the reporting of prior year results is available; it is often not available at the time Estimates are being proposed. I believe in Canada they are moving towards a two-step type of process where they review the Estimates prior to the start of the fiscal year, and then once they have the actual results, they move to review the performance and actual

results for the past period subsequent to that reporting being available.

**Mr. Stefanson:** I just think as part of this discussion it is important to point out, and I am assuming the Auditor would agree, that our detailed Estimates supplement, if they are not the most comprehensive in all of Canada, they are amongst the most comprehensive and certainly provide an awful lot of information to members of the Legislature as we deal with our Estimates and debate our Estimates over the course of many, many hours.

If the issue is one of providing information to members, I think our system of the detailed Estimates supplement along with our annual reports along with other information certainly compares well with any jurisdiction in Canada.

**Mr. Sale:** Mr. Chairperson, I am inclined in some ways, and this may come as a great surprise, but I am inclined to agree with the minister that the difficulty of having SOAs at Public Accounts is that the expertise and level of detail in an SOA is more appropriate to the department. I am inclined to agree with that comment.

The difficulty is that there is no time line that works very well. It seems to me that this is something that we ought to refer to the minister and to the Auditor and ask for both to explore how we might deal with this anomaly that annual reports of virtually everything else that there is in government go somewhere, but annual reports of SOAs do not yet.

An SOA is not terribly different from a Crown corporation in that regard. It is an important operating entity of government and it delivers important services. I think the public has a right to know where the annual report is being considered. As a matter of formal, legal accountability for that SOA, I take the minister's point that these reports are tabled in the House, and that is appropriate, but as the minister I am sure will acknowledge, the tabling of the report in the House in virtually every other case leads somewhere. In the case of annual reports of SOAs, it does not. I would ask that the minister's staff and the Auditor reflect further on how we might deal with this evolving question of how SOAs' results can get fed into some sort of reasonable process of public review. I do accept the minister's overall sense that the appropriate place for this is where departments

are considered in detail; nevertheless, I think we still have a problem here.

**Mr. Stefanson:** Mr. Chairman, not to belabour it, but I think it is worth repeating that the SOAs are dealt with at the individual departments, as we know, and can be dealt with through the Estimates process and as part of the Estimates supplement of that relevant department. Information that is provided is the actual results and projected results, narrative descriptions including key objectives, vision, mission, critical success factors and so on are all included with the Estimates supplement of the SOA for the relevant department. So that is, from my perspective, pretty comprehensive information that should assist members in terms of understanding and asking any questions about SOAs within the individual departments.

**Mr. Sale:** Mr. Chairperson, could the minister and the Auditor respond to my specific request that in spite of all the comments that have been put on the record today, would both offices undertake to further review and report back to the committee on the appropriate disposition of annual reports of SOAs in light of the fact that every other annual report of which I am aware goes somewhere in government? These do not quite yet have a clear home and a clear accountability. I am simply asking that some further thought be given to this question and that a report back come at a subsequent meeting of the committee.

\* (1040)

**Mr. Johnson:** Mr. Chairman, our understanding is that tabled annual reports for departmental appropriations are not referred to any standing committee of the Assembly for review. They are tabled, but they are not referred to a standing committee; and SOA's annual reports, they are also tabled but they are not referred, as well. So SOAs are not treated differently. Our recommendation in 159 was that all departmental and service appropriation annual reports be referred to a standing committee of the Legislative Assembly.

**Mr. Stefanson:** Mr. Chairman, we have discussed this at length and as the Auditor has pointed out, the annual reports of SOAs are not treated any differently than the annual reports of departments. We have indicated at this point in time we think there is ample opportunity to discuss all matters that are raised in annual reports as

part of the detailed Estimates process. But I will certainly do some additional follow-up and look into that entire matter and come back to committee with some future comments.

**Mr. Sale:** Mr. Chairperson, there is just one further piece of item 6. The Auditor indicated that Treasury Board continues to maintain a lead role, and the minister commented briefly on this. Having had some discussion with some SOAs, there is a sense that some of the apparent flexibility of SOAs is compromised by a heavy hand of Treasury Board in terms of specific issues.

I wonder if the Auditor could comment on whether this issue that he has raised here, the quotes: the Treasury Board has continued to maintain a lead role, et cetera, is this, in his view, an area of tension and difficulty, or is the Auditor making this comment as a positive accountability comment?

**Mr. Johnson:** Mr. Chairman, the context of that comment was in relation to the legislation that created the Special Operating Agency Financing Authority, and our review of that legislation, we were expecting that they will play a greater role in the administrative process of the SOAs. The comments that have been included in our report here is that Treasury Board secretariat officials indicate that the financing authority was never intended to be more than a legal entity within which assets could be held, with ultimate responsibility and accountability for management of financial assets resting with the minister responsible. So it is operating kind of like a shell and we were expecting them to play a greater role, so that is the nature of our comment. We are not judging whether it was good or bad.

**Mr. Sale:** Mr. Chairperson, the question I have is in the light of this special audit, which is a very thorough report. Is the Auditor concerned that some of the apparent efficiencies and flexibilities that are potentially within the development of an SOA are being undercut by the traditional control function of Treasury Board which has often been given as one of the key reasons why groups wish to become SOAs in the first place was to escape the minutiae of Treasury Board's oversight?

**Mr. Stefanson:** Mr. Chairman, interesting where the member for Crescentwood is coming from. I think my view would be that the SOAs are functioning very well,

are functioning with the right balance of independence and autonomy but also recognizing that they are part of an overall government. So the process of Treasury Board is a review of the annual business plans, obviously approval of financial requirements as it might come to any loan act authority, but basically beyond that the SOAs are functioning on an independent basis.

At some point in time it would be interesting to spend a little bit of time running through the performance of these SOAs which can be done at individual departments because certainly they all are serving government well. The early ones, the Fleet Vehicles management, are serving us very well with 25 percent fewer vehicles, saving us some \$3 million a year and so on. So I think my perspective would be we have struck the right blend of having them on an annual basis be reporting to Treasury Board and government on an overall basis, but given a fair degree of autonomy to then function on an entrepreneurial basis as we want them to and expect them to.

**Mr. Johnson:** Mr. Chairman, our review did not focus on the effectiveness of Treasury Board Secretariat. We noted the role that they were playing. To us it seemed to be inconsistent with the legislation that created the SOAFA entity, and our recommendation around this was that we encourage Treasury Board Secretariat to continue to strengthen their focus towards performance reviews of SOAs.

**Mr. Sale:** The Auditor's response is very helpful because that is exactly the whole point that the purpose of SOAs was to move from the audit control and the kind of minutia of which I had numbers of experiences as a civil servant when I had some responsibility for a department with a billion dollars of budget expenditures, but I could not spend \$50 without a Treasury Board submission. The levels of control were so high that managers were completely unable to manage efficiently or effectively. I would simply say, as an example of that, that in the years I worked for the department I was never ever successful in travelling on a reduced fare in spite of my numbers of attempts to do so because we could never get approval from the minister in sufficient time to qualify for a reduced fare. Many, many, many other examples of where civil servants attempted very hard to gain efficiencies but were frustrated in doing so by the Treasury Board processes.

So my comments are both I guess out of some personal experience as well as out of understanding that the way private sector and public sector management is evolving, and I know the minister is well aware of this, is towards clarifying expectations and deliverables and then holding managers accountable for those but giving them the ability in the meantime to actually manage towards those objectives. That was one of the key reasons for SOAs I was concerned to read in the special report that the style of Treasury Board's function in regard to SOAs seemed to be not completely unchanged obviously but still stuck in the old model of counting pennies and sometimes missing substantial dollars that were being wasted as a result of the focus on the pennies.

I would be prepared to just go on to No. 7. There was an item the minister responded to, and I thank him for that, as to why these particular contracts showed up. It is a little surprising that no other government contracts have holdback requirements, but that may be something the Auditor or the minister wishes to respond to. Could the minister or the Auditor provide the sum total in, I suppose it would be, then-current Canadian dollars of the contracts plus disbursements for all of the APM contracts?

**Mr. Stefanson:** I want to clarify for the member there are other holdbacks within government. The contracts with APM had a specific provision for a 20 percent holdback and a deposit of this money to an interest-bearing account. Although this provision is a little different, other holdbacks would also be held in trust, and these can be seen on pages 2-7 of the 1994-95 Public Accounts, examples being Builders' Lien Act and contractual holdbacks. It is not as common, as the member I am sure can appreciate, to have holdbacks for service contracts, but it is done occasionally, and it was done in this particular instance. But they certainly are common in construction contracts and so on.

The Canadian dollar value of the payments from the province to APM including the interest paid on holdbacks held in trust is disclosed in Volume 2 of the Public Accounts for 1993-94 and 1994-95 as follows: 1993-94, Health is on page 139; 1994-95 for Health is on page 133 and 1994-95 for Finance, which are the holdbacks, are on page 122. So that is where the information that the member is requesting is provided



\* (1050)

**Mr. Sale:** I thank the minister for that information. Could I ask the minister if that includes all of the monies that were provided through the department to St. Boniface Hospital and to Health Sciences Centre? The contracts were actually, as he knows, we all know, entered into with the hospitals in question and a great amount of the money paid to APM was paid through the hospitals, not directly by government, it is my understanding. There were also some other contracts, and I am wondering whether the three references that he has made include the gross amounts which APM received from provincial or provincially funded sources, that is, hospitals, special groups such as the Urban Partnership that I think we are looking at, central services, the Home Care contract and any other work that APM did. Is this the full amount?

**Mr. Stefanson:** I hope this is helpful. These reflect only the direct payments of government, not any additional payments that would have or might have been made by individual health care facilities. These are the direct contractual payments of government.

**Mr. Sale:** Mr. Chairperson, I find that answer unhelpful. I certainly accept it, but I find it unhelpful.

The APM organization entered into contracts with hospitals at the explicit direction of government. This was a partnership which the Minister of Health has often referred to as a partnership of government attempting to do whatever it is attempting to do in our health care system. APM was a critical component of the attempts to find savings or efficiencies or whatever the deliverables were.

I would also note that the minister earlier in this meeting indicated that the trust holdback of 20 percent was released on the basis that the APM contracts were fully met and that all the deliverables were provided to government and to the hospitals in question. So I think that I want to ask again, what was the total amount of money provided to APM from Manitoba sources for which the government has responsibility? I would just say again, we do not want to play games with this. Hospitals are funded by the government. The monies that were provided to APM for the work they did were explicitly provided by government to the hospitals for that work. What was the total amount, please?

**Mr. Chairperson:** Does the minister wish to respond to the American Practice Management question?

**Mr. Stefanson:** Yes, I do, Mr. Chairman. I have pointed out to the member that this is the direct contractual arrangement with the provincial government. I believe he is correct that there were some payments, as well, for various aspects made directly by the facilities that we do not—I mean we fund the facilities, but we do not earmark that separately as part of our funding arrangement, so I would have to take that part of his question as notice and get back to him with the quantification of the total dollar amount. He is suggesting amounts paid directly by government and amounts paid by individual health care facilities, so I will certainly undertake to provide that information.

**Mr. Sale:** I appreciate the minister's undertaking. Could he indicate when that information might be provided, Mr. Chairperson? It is readily available. It is a question of how quickly it might be provided. Could he indicate?

**Mr. Stefanson:** Mr. Chairman, I would expect, unless there is some reason that I am not aware of—at this point in time I am not aware of any reason that I should not be able to provide it for our next meeting, if there is one, in the next few weeks.

**Mr. Chairperson:** That is still an issue to be settled.

**Mr. Sale:** Mr. Chairperson, I appreciate the minister's response. I am sure that we will have a next meeting. If the minister goes back and reviews the record, I think that the last two meetings have been very constructive, and I am sure the minister is not suggesting otherwise.

The eighth item, could the Auditor comment on the recommendation on page 72 reflecting total actual lottery net revenues being transferred to government, page 72, Volume 1, of his report?

**Mr. Stefanson:** Mr. Chairman, again, I will do like I did on one other one, or a couple of other questions where again having the benefit of the question in advance, I will just make some comments. Obviously, it might lead to other questions of myself and/or the Auditor.

This question does deal with the Auditor's recommendation, as mentioned on page 72 of the report,

that the accounting policy in Volume 1 of the Public Accounts be changed to reflect the total actual lottery revenues as they are earned by the Manitoba Lotteries Corporation.

We had responded at the time they made the recommendation that there is nothing incorrect about Manitoba's method of handling lottery profits and that is it is an approach followed in other provinces. One example would be Saskatchewan which handles its liquor and gaming profits in the same way. The net income and transfers for 1993-94 and 1994-95 for the Saskatchewan Liquor and Gaming Authority were, and I have them outlined here to give an example of how they treat them—I will not read all the numbers into the record, but I can certainly provide it for committees—that they show the net income, the retained earnings and then the amount that they transfer to general revenue and then the retained earnings at the end of the year.

Basically, the same approach is followed here in Manitoba and elsewhere. So there has always been full disclosure of Manitoba's approach. The government's practice has been to transfer lottery proceeds to revenue in varying amounts and to relate revenues to Lotteries-Funded Programs. I think that is an important point to note.

Manitoba's 1995 budget indicated the government's intention to substantially draw down on the Lotteries fund by making a special Lotteries transfer of \$145 million. While this was done on our established basis of accounting, it was also intended to make the trust fund current so that in the future annual profits will flow to revenue in the year that they are earned in the same manner as the Liquor Control Commission.

The 1994-95 Annual Report for the Manitoba Lotteries Corporation was released on September 18, 1995. It is now the government's policy to release all annual reports within six months of the year-end.

**Mr. Johnson:** Mr. Chairman, the basis of our recommendation was to try and initiate a change in accounting policy to move the revenue recognition to full accrual basis as is consistent with generally accepted accounting principles and changes in other accounting principles adopted by the government. We feel that the accrual basis of accounting is the most appropriate. It

provides the most meaningful information. To record revenues on any other basis does not provide full disclosure within the operating fund. On a summary basis in Volume 3, all of the revenues are reflected in Volume 3. Our concern revolved around the completeness of the lottery revenue information and the operating fund only.

**Mr. Sale:** I thank both the Auditor and the minister for those responses. I want to ask a very specific question about lottery disbursements and perhaps the minister has an answer. He may need to take the question as notice. My understanding is that the Lotteries commission has been paying for advertisements that have been running on radio and television recently in regard to road safety and some other advertisements. Specifically CJOB is one station that has carried a number of them. If this is the case, I can see if the Lotteries commission wants to advertise its own operations, I am not sure I would want them to, but if they wished to, that could be a reasonable business expense and could be charged. But if it is undertaking advertising for other government purposes, then essentially we are looking here at net revenue again as opposed to full transfer and full identification. So could the minister respond to that and indicate whether this is also his understanding that Lotteries are funding some general purpose advertising?

**Mr. Stefanson:** In a general sense I would say no, they are not doing that, not funding general purpose advertising. If the member has any more information on this specific—I mean he has given some, and I will certainly follow up with the Lotteries Corporation on the specific example he has given, but as I say, in a general sense no, it is obviously not the intention or should it be the function. If there are things that directly relate to those Crowns, whether it is Lotteries or any other Crown, obviously it makes sense, but areas that fall outside of their jurisdiction or fall within government in general, or whatever, I would say are not appropriately funded by Crowns.

You get into some gray areas, I think, occasionally in terms of whether it is advertising or whether it is promotional support. Some of our Crowns occasionally support different events, those kinds of things. I think, like any good community corporate citizen, they do have a responsibility to do that to a certain extent, so I would say those kinds of things would make sense, but if it is an

example of taking something that should normally be a government advertising expenditure and saying you are going to fund it through some Crown corporation for whatever reason, I would say no, that is not an appropriate use, but the specific item I am not aware of and I will follow up and get back to the member.

\* (1100)

**Mr. Sale:** I thank the minister for that. I will attempt to provide him with more specific details on when the ads were running, but they were recent and the specific place where they were noted was on CJOB. I also take his point that Crowns and community organizations that are in the public sector legitimately take part in promoting the interests of Manitobans in a variety of areas, and that may be what is going on in this case and if that is, that is something I am sure the minister will tell us about, so I appreciate the response on that.

I want to ask a question about the accounting for the lottery revenues over the period of time during which the trust fund accrued and the \$145 million specifically accrued. Mr. Chairperson, the Dominion Bond Rating Service provided a report at one point in which it related the \$145 million back to the years in question so that essentially a full accrual approach was taken and their look at how these revenues were raised and in what years they ought to have been credited from DBRS's perspective. That, of course, changes the bottom line of the deficit both in the current year and in previous years. I am wondering whether the Provincial Auditor could comment on whether the \$145 million will be viewed as a cash one-time transfer that has the effect of being current year revenue or whether those revenues in the Auditor's view have already been accrued and already taken into account and therefore will not have the effect of producing the apparent surplus that the minister is speaking of for the current year.

**Mr. Johnson:** Mr. Chairman, my understanding is that the government intends to transfer the balance in trust into operating revenues of the '95-96 fiscal year. In my opinion, that revenue is attributable to prior periods, and it should be accounted for as a prior period adjustment, and it should not be included in revenues of the current year. That was the basis of the budget and the financial statements are not yet completed. We will wait and see how they evolve.

**Mr. Stefanson:** A couple of points—I think the reference the member for Crescentwood made to Dominion Bond Rating Service, and I know we have had some discussion about that in the past and certainly DBRS speaks very highly of the Province of Manitoba of what we have done from a fiscal perspective, and I had the opportunity to meet just recently with them and they confirmed that very point. I think the point they were making in their assessment is that any one-time-only payment, whether it is a draw from a trust account, whether it is a sale of a Crown corporation, is a one-time-only transaction, and to compare apples to apples, they were backing those out in various jurisdictions. They did not in any way suggest that Manitoba did not or does not have a surplus and acknowledged that Manitoba had a budgeted surplus at that time of \$48 million. I think it is important the member understand just what it was that DBRS was doing and what it was they were saying.

In fact, they sent a subsequent letter I think that the member has seen, the letter from DBRS saying that they in no way were suggesting that there was not a surplus being generated here in Manitoba. In fact, they confirmed that there was a budgeted \$48-million surplus. So theirs was purely an accounting treatment saying that they back out one-time-only revenue sources to compare apples to apples when they are doing interprovincial comparisons.

I think that is important to understand, particularly—I think it was DBRS, was it DBRS that adjusted the credit rating from negative to stable? I would have to confirm whether it was DBRS. I believe it was DBRS who not only made positive statements about Manitoba but obviously also reflected it in their credit rating of the province.

**Mr. Sale:** My point here is simply that this I believe will continue the long-standing debate between the Auditor and those who saw the \$145 million as a gradually accruing amount which had failed to be transferred and which was essentially piled up against either a rainy or an election day.

The opportunity to pull it out and move it into the current year of '95-96, or the just passed year, '95-96, in order to show a very positive budget picture for Manitobans was a temptation that the minister and his government just could not withstand. So they used it in

that way, and I expect that we may well see when the accounts for '95-96 come out that there will be a reservation in terms of a restatement of prior years to deal with the \$145 million and to allocate it properly to the years in which it was actually earned, and that will give Manitobans a much clearer picture of the true current budget reality for 1995-96.

I say to the minister that in no way would we suggest that he is not attempting to provide good stewardship of the resources of Manitoba, as I think all Finance ministers have always tried to do, but this is an accounting question, as he has properly identified, and those who believe that revenue should be credited to the period in which they were earned and not piled up for future credit hold one view, and Volume 1 of Public Accounts holds another view and will continue to have differences on this issue.

On this matter, Mr. Chairperson, we discussed at our last meeting a reconciliation from Volume 1 to Volume 3, and the minister provided a very helpful framework for that and agreed I think that that will be the practice in future years. Could we confirm that will indeed be the practice, and has the government any further comment on that reconciliation?

**Mr. Stefanson:** Yes, as I indicated last time, we would agree that that reconciliation is helpful. We will continue to provide it to members of the Legislature, members of this committee.

I think just before we leave this area of lotteries, and I do not want to get into a long debate, because we have debated this on and off over the last year or two at least, but I think a couple of points are very important. Without sort of belabouring the fact that, and pointing out there are various opinions on accounting treatment and differences across Canada, as I gave an example and I will provide the details, Saskatchewan with their liquor and gaming deal with that source of income identical to how we deal with our lotteries in Manitoba. Alberta I believe with some of their revenue sources have, again, a similar approach here to Manitoba. So it is not that Manitoba is doing something different than is being applied in other jurisdictions. I think part of it has been how the whole of gaming has evolved, how the sources of revenue has evolved over time and how governments have structured all of that.

\* (1110)

So the concept of any government saying that they are accumulating money for any particular purpose I think is just not true or accurate to be impugning motives around our government or Saskatchewan's or Alberta's or other governments that follow similar processes, but I think, as the member knows, when we were dealing with our 1995 budget and I had the opportunity to go out and hear from Manitobans through the budget consultation process, it was abundantly clear that if we had the opportunity to stop running deficits and stop the accumulation of debt, we should be doing that as soon as possible, and for the first time in over 20 years, with last year's budget we were to stop that accumulation of debt, and I guess I would argue that that is extremely important from the government's and the public's perspective, that both we stop that accumulation of adding to our debt and we stop the growth and debt servicing cost.

There was an opportunity to do that, knowing that we could balance our budget each and every year from that year forward, and that is exactly the track that we are on, but again I think members of this committee should be aware that deliberations over how to treat lottery profits are certainly not new. Lottery profits have been handled on a different basis as far back as I can remember and I am sure other committee members can remember.

In fact when this government came into power all the program expenditures were being made directly from the trust accounts, as the member for Crescentwood probably knows. I think that was not anywhere near the level of accountability that was increased with the changes that were put in place in 1991 so that appropriations were required for lottery funded programs to flow through government into individual departments.

But, coincidentally, at the same time, at the time of this change, Fred Jackson, who was still the Provincial Auditor, came to the conclusion that the accounting for both the Lotteries Fund and the Fiscal Stabilization Fund should be different. He did not agree with the transactions between these two funds and the Consolidated Fund, and in 1990-91 qualified it as opinion on the Public Accounts.

In '91-92, when Carol Bellringer became Provincial Auditor, she removed the qualification on the basis that

the statements of the Consolidated Fund were special purpose statements and that Volume 3 combined all of the separate funds into one reporting entity. So as you can see, there seems to have been a mixed view in the past on how these proceeds are best handled, and I probably should not be surprised, as the member has mentioned, to see this whole issue come up and be discussed at length some time again soon.

**Mr. Sale:** I propose, with the committee's permission, that we defer item 9 to a subsequent meeting of the committee. Given that the corporation has been wound up, I think there are more pressing issues at this point, and I still would like to have that on a future agenda, but I would like to defer that. I would also ask the committee's leave to enable the member for Inkster (Mr. Lamoureux) to ask a couple of questions, which he has asked me to enable him to do in his time between the debates in the House on Estimates and this committee meeting. So I agreed that I would facilitate that, if it is the committee's agreement. I believe he has a couple of questions.

**Mr. Chairperson:** Do we require unanimity for this, or what does the minister say?

**Mr. Stefanson:** Mr. Chairman, on the first point on item No. 9, I suggest that it drop to the bottom of the list, time permitting. So it would stay on the list but just go to the bottom, then, of the list, is what you are suggesting. I do not have a problem with that, if we get that far in the next 45 minutes. Other than that, fine, the member from Inkster, I always welcome your questions.

**Mr. Chairperson:** Is it agreed that we drop item 9 to the bottom of the list? [agreed].

**Mr. Kevin Lamoureux (Inkster):** I appreciate the opportunity and generosity from the member for Crescentwood and the Minister of Finance to be able to put on the record a couple of questions.

On Wednesday, it actually would have been late Tuesday night, Wednesday morning, we were given some information regarding Faneuil and potentially it was a company that was experiencing some problems. Not necessarily having any papers to go on, later that day in Question Period we just asked the straight, up-front question of the minister in terms of, was Faneuil having

problems paying its telephone bill? We never received any real response to that question, and that led to yesterday's question, again after conferring with an individual within MTS.

The individual was fairly clear in terms of indicating that Faneuil had owed MTS somewhere in the neighbourhood of a million dollars for toll charges. This million dollars, there was, from what I understand, some payment over the last few days of somewhere in the neighbourhood of \$300,000.

The reason why we were asking this question is, ultimately, we are concerned about Faneuil's ability to pay loans that have been given out from the province to this particular company, and I had somewhat anticipated a response to get it clarified.

There are a couple of things specifically that I would like actually to see. I understand, for example, that there was a letter that was sent to Faneuil from MTS, and to ask the minister if, in fact, he is aware of such a letter. The letter, in essence, had indicated that there is a considerable amount, somewhere in the neighbourhood of a million dollars owing to MTS for toll charges from Faneuil, if the minister is aware of this, and possibly if the Auditor's office, because I know that it has done some efforts on Faneuil, can give us some sort of indication on the current status of Faneuil?

**Mr. Stefanson:** I know the member has raised this in two Question Periods, and my understanding is, the minister responsible will be getting back to him. In terms of direct dealings with the government of Manitoba, the issue with the Manitoba Trading Corporation, again, my understanding is, Faneuil is current with all of their commitments to the government of Manitoba.

He is referring to dealings between Manitoba Telephone System, a Crown corporation, and Faneuil. They obviously have dealings going both ways. Faneuil has a telephone bill to be paying. Manitoba Telephone System is also utilizing services of Faneuil.

I am sure that they can sort out their direct business transactions that are taking place between those two entities, but I can indicate to him that the information that I have, in terms of dealings with us, that everything is in

fact current. So beyond that, the specifics of any outstanding phone bill and other issues between the Crown and Faneuil, I am sure the minister responsible will be getting back to the member for Inkster.

**Mr. Lamoureux:** Can the minister then, just for clarification, give us assurances that other obligations, in particular the millions of dollars of loans that have been given out, there is no concern on behalf of the government that there is any negligence whatsoever that is occurring?

**Mr. Stefanson:** I think I am being repetitive, that all the information I have is that Faneuil is current with the government. There were no problems with any of the arrangements with the government in terms of the conditions. They are meeting all of the conditions. They are exceeding some of the conditions on job performance in terms of the jobs they have created to date under the schedule of job creation.

Again, the minister responsible for the telephone system outlined the numbers of jobs, in excess of 200 jobs, I believe, that have been created and so on, so all the information I have in terms of all of those issues is that things are current, and there are no problems.

The issue that the member raised in the House, I believe, is an issue, if it exists to the magnitude and so on that he has outlined, to be resolved between the Manitoba Telephone System, the Crown corporation, and Faneuil.

\* (1120)

**Mr. Lamoureux:** Is the minister aware of any money outstanding from Faneuil to MTS?

**Mr. Stefanson:** Mr. Chairman, again, I think the best approach to get the answers to that question is the minister responsible. I have outlined in terms of issues dealing with our government, which I am one part of cabinet that has a responsibility for issues dealing with government, that all of the information I have sitting here today is that Faneuil is current in all aspects and meeting or exceeding condition.

In terms of their dealings, I gather the member is focusing on Faneuil's telephone bill with the Manitoba Telephone System. Again, that is a natural ongoing

business transaction. The Manitoba Telephone System deals with Faneuil as they should be dealing with all of their customers, and I know Manitoba Telephone System uses Faneuil services, so there are dollars flowing in both directions, and that is a business transaction that the telephone system should be addressing, and I am sure the minister responsible will get back to the member for Inkster.

**Mr. Lamoureux:** If Faneuil was negligent on MTS billings, would the ministry be made aware of that sort of thing, given the monies that we have guaranteed and, in fact, loaned out?

**Mr. Stefanson:** I am certainly not made aware nor feel I need to be made aware of Faneuil's monthly telephone bill, but I think if there were any problems with Manitoba Telephone System because of the nature of the original transaction, that that would definitely be brought to the attention of government, to the minister responsible and other members of our government.

**Mr. Lamoureux:** Mr. Chairperson, if there was a letter that was sent to Faneuil demanding payment for long distance toll charges, would information of that nature have been provided to his ministry?

**Mr. Stefanson:** The short answer is no. I would believe it would only be brought to my attention if there was something of major concern, even ongoing delinquent accounts with the Manitoba—if this is what the member is referring to. If somebody is a delinquent account, is that brought to the attention of the minister responsible. I am not sure that that is necessarily even the case nor should it be, but, obviously, as we all know, we have had a lot of debate around the old transaction with Faneuil. It is a major initiative. It involves our government. It involves the Manitoba Telephone System, and so on, and any issues of any significance would be brought to the attention of at least the minister responsible and potentially other members of our government.

**Mr. Lamoureux:** Mr. Chairperson, I would ask for the Provincial Auditor to comment in terms of what degree does the Provincial Auditors' office monitor or participate with Faneuil.

**Mr. Johnson:** We are currently involved in the audit of the management training corporation for the current fiscal

year. I am not aware of any financial problems around Faneuil. Nothing has been brought to my attention, but the audit is still ongoing.

**Mr. Sale:** If we could move to item 10 on the agenda, the issue here is the reporting approach used for independent schools.

By way of context, Mr. Chairperson, some of the larger independent schools are as large as some of our smaller school divisions, and a number of them, in fact, are larger than the Special Revenue School Districts such as Pinawa, Pine Falls, Sprague, for example, much larger in the case of Sprague. Some are larger than some of the small southern school divisions along the American border.

I think it was, again, one of these evolving questions about appropriateness of reporting that I wanted to ask the Auditor and the minister to respond to.

The FRAME system allows for clear accountability in terms of a variety of government funding grants, and I give one specific example. Level I special needs funding is now rolled into the basic per-pupil grant to give divisions flexibility in how they deal with children with low or low-moderate levels of special need. The assumption is all school divisions will do so but will do so in a flexible manner. The reporting framework for the public school system requires the identification of special needs initiatives. The simple provision of audits of private schools does not provide anything like that level of information. So I would like to ask both the Auditor and the minister to comment on the desirability of requiring that private or independent schools above some threshold enrollment, for example perhaps above a hundred or a hundred and fifty or some level that reflects approximately the level of the smallest operating districts in the province, should be required to use the FRAME system, so that we have some comprehensive accounting, reporting in a framework that is consistent for all of the schools for which significant public dollars are being expended. Could both respond to that, Mr. Chairperson?

**Mr. Stefanson:** My information on this issue, and, again, because some detail was provided I will give as much information as I have here this morning, but there is the opportunity to ask the Minister of Education (Mrs. McIntosh) in some more detail, but the information that

I have is that private or independent schools currently use the FRAME accounting structure which is slightly modified from the public school version as to level of detail. Categorical special needs funding provided to private schools is reported in the FRAME financial statements with related expenditures. This funding is student-specific and is only available to the extent expenditures are incurred. There is no noncategorical funding provided for special needs to private schools. There are, as the member mentioned, three levels of funding according to the level of needs of the students, but only public schools are funded for Level I, the lowest level of need, and both public and private schools are funded for Level II and Level III. I hope that clarifies the reporting information available.

**Mr. Johnson:** We have not audited the FRAME system itself, and my understanding is that it is basically a management tool. The private schools are part of the system. I also understand that the final report that is generated that becomes the public document does not include the private school elements, and if the private school elements were to be included in that financial package, it would provide a more comprehensive analysis.

**Mr. Sale:** I thank the minister for that correction, and I simply state I was not aware that they were on the partial FRAME system, and I appreciate that information. My confusion, I think, is that when you read the reports of the Department of Education, the FRAME reports, the individual schools are not included in that, and so I had not become aware that they were using it but were not being reported on it in the same way. So perhaps my question was wrongly conceptualized. Would the minister and the Auditor believe that the reporting ought to include the level of detail that private schools provide in the FRAME system in a framework that is similar to the public schools?

**Mr. Stefanson:** From my perspective, not having direct responsibility, I will have to take that as notice and report back either directly to the member or at our next meeting of Public Accounts.

**Mr. Johnson:** By including private schools in the information that is reported, it obviously would provide more comprehensive details. The need and desirability of that should be determined by the users I would think.

**Mr. Sale:** I thank the minister for that undertaking. We are moving up into the area of \$30 million a year in public funding to independent schools, so it is clearly a significant public outlay, and so I would just suggest that we need to think about ways of increasing the transparency. I know that steps have been taken in that regard. I think we just need to keep moving and keep that clarification coming.

I am sure this is a brief question, but I did not understand the implications of the valuation methodology of Superannuation Fund, item 11 in the agenda. If the Auditor or the minister simply wants to table information, that would be fine, but if they can explain it quickly, then I would ask that they might do so.

**Mr. Stefanson:** Mr. Chairman, I will give the quick explanation I have here. As noted, the Provincial Auditor recommended that the Superannuation Fund change its valuation methodology for investments from the cost basis to the market basis. The CSSF implemented the Auditor's recommendation for their fiscal year ending December 31, 1995. While the 1995 financial statements are not yet available, we are able to determine from the 1994 statements that the effect of this change will be to increase the fund's recorded value of investments at December 31, 1994, by approximately \$90 million from \$1.45 billion to \$1.54 billion. This has no impact on the province's disclosed unrecorded pension liability. The latter is based on an actuarial valuation of the employer's share of the liability. It is not related to the value of the employee's contribution which is what has been affected by the restatement.

\* (1130)

**Mr. Johnson:** I concur with those comments of the Minister of Finance (Mr. Stefanson). The motivation for converting to market values is to provide a better representation of the liquidity of the plan and to comply with generally accepted accounting principles.

**Mr. Sale:** Does the same comment apply to the teachers fund?

**Mr. Johnson:** The answer is yes.

**Mr. Sale:** Has the same change been undertaken in regard to that fund, Mr. Chairperson?

**Mr. Johnson:** Yes

**Mr. Sale:** Mr. Chairperson, if we could look at item 12. We all, I think, are saddened by the loss of a business and a business opportunity and a sport that provided many Manitobans with a lot of pleasure, and I do not want to reopen the debate about the wisdom or lack thereof in all the discussions that went on around attempts to make that hockey team commercially viable. Could the minister tell the committee when he expects the sale agreement to be signed and what the payment schedule is anticipated in the sale agreement? Let us see, he might as well respond to the other question here. We have asked for some months now that the government table a Take Along Offer, and perhaps he could respond to all parts of that question, Mr. Chairperson.

**Mr. Stefanson:** Mr. Chairman, I am interested and pleased to hear the member says he is saddened by the final outcome at times. Through the whole debate and questions and so on, I might have questioned that or wondered about that, but we will probably get other opportunities to discuss this issue, which has been going on for some time now.

The sales agreement is expected and, I am certain, will be completed by July 1 of this year, 1996, and full payment, other than a holdback for contingencies, is expected by that date, that there will probably be a holdback for contingencies. As the member knows, our share of the sales proceeds is 18 percent, and the holdback could be as much as \$5 million.

The question that has been on the Order Paper, there is not a Take Along Offer as such. The offer to purchase was for all of the partnership units. The Winnipeg Jets and the province have a proportionate interest in the total interest. So the whole concept, I think, as the member knows, of the Take Along, was that, if we were faced with the situation where the team had to be sold, the interest owned by government would roll in and form a part of that ultimate disposition so that they would get the equivalent of the total value of disposition of sales proceeds and be sold at the same time. We have been advised at this particular point in time that, for reasons of commercial confidentiality because the agreement has many parties to the transaction, the total offer to purchase is not a public document. However, it is certainly my



intention that there will be full disclosure of our share of the proceeds in due course after the transaction closes.

I think, as in keeping with many aspects of this issue, we will do our utmost to provide as much information that we can to members of the Legislature and the public, recognizing the need for third-party confidentiality. We did proceed with the audit by the Provincial Auditor's department in conjunction with the City of Winnipeg auditor. Obviously, there was the audit done by the auditing firm retained by the Spirit of Manitoba and so on. It is certainly our intention to make as much as information available as we possibly can as this transaction closes.

**Mr. Sale:** I would like to thank the minister for that response. I assume, just for clarification, that, as regards the holdback of \$5 million, is that a total holdback, Mr. Chairperson, or is it a holdback on each of the city and the province, so a total of \$10 million?

**Mr. Stefanson:** Mr. Chairman, I may not have been clear. It is a total amount of which our share is 18 percent of the \$5 million.

**Mr. Sale:** Mr. Chairperson, the minister indicates that there was no Take Along Offer. The interim operating agreement, the minister also refused to table, but most of us have had for a long time, because it was part of the minutes of City Council that approved the agreement and I think the minister knew that. So I suppose this has been one of those games we all take part in from time to time. In the interim operating agreement, I believe that it is section 9—and I am recalling from memory, but if it is not section 9, it is 4—has an explicit clause which says words like, quoting from memory, but approximately that at the same time as an offer is made to the majority owners, a Take Along Offer shall be made to the public-sector owners on the same terms and conditions as the private-sector request to purchase.

Now, I do not understand what third-party confidentiality is involved in an offer to purchase an asset that the province has an interest in, especially when, according to the interim operating agreement that the minister has said a number of times is being fully adhered to, there was a requirement that an offer to purchase be made to the province, at least in my reading of that agreement.

I understand that, from a practical point of view, the offer to purchase is the offer to purchase, but the interim agreement nevertheless requires that there be an explicit offer to purchase to the public sector, and it was that offer to purchase to which I referred in my request for tabling of papers.

I would also say that the minister has often defended not releasing the interim operating agreement on the basis of third-party confidentiality, and I would say to him that I would challenge him to show me anything in that interim operating agreement that in any way would even begin to intrude on third-party confidentiality. There are no data in that agreement that would prejudice anyone's interests, if the agreement were publicly released. The prejudice, if any, would come in an interpretation of some of the very generous clauses about the annual budgets and the methods by which annual budgets were set, but no way that one could claim that information about how a hockey team's budget is to be established in terms of various provisions for exceeding floors is prejudicial to someone's interest. It simply does not wash, Mr. Chairperson.

So I would ask again, would the minister make available the offer to purchase, the terms and conditions of the offer, and make available to Manitobans an understanding of how the various salaries, for example the salaries of marquee players such as Keith Tkachuk are being handled in the sale and purchase arrangement. The minister gave very, very categorical assurances to the House that certain portions of those salaries were being assumed by the new owners, that Manitobans were not going to be unfairly dinged by the large salary increases that the Jets incurred in the last year of their operation, very, very large salary increments.

\* (1140)

I think Manitobans have a right to see the terms and conditions of the purchase of an asset into which they will collectively have invested a fair amount of money and a great deal of emotional energy. In closing on this question I say that most of those who were opposed, the vast majority of those who were opposed to the arrangements that were being put forward to keep the Jets here, were hockey fans. They were not people who disliked hockey. They were people who were deeply concerned about the affordability of the arrangements that

were being put forward and the likelihood of substantial long-term losses. The reality, as the minister I am sure knows, is that 19 of the 26 teams in the National Hockey League at this point are losing money. These include some very large teams and very large franchises that one would be surprised to understand that they are losing money.

The concern of most of us who were deeply concerned about the proposals had nothing to do with hockey and everything to do with the viability of the economic arrangements that were being proposed. So I am glad that he is reassured that I was saddened by the loss of this asset, and I am saddened by it, as we all are, but the asset in our view was not one that could be maintained without ongoing public subsidies of an unacceptable level, so a hard choice had to be made. We are glad the hard choice was made. We are saddened by the choice and by the time and the energies involved that had to be taken to come to that, but nevertheless I think it was the right choice in the end. So I would appreciate the minister's response to those remarks.

**Mr. Stefanson:** I am certainly prepared at some point in time to set aside time to debate the entire issue and the attempt to keep the Winnipeg Jets in Manitoba; who did what and what different individuals tried to do and so on. As I say, at times I wondered what the objectives of members opposite were through this entire issue, but I do not think there is anything to be gained by us getting into a prolonged debate here today, and agreeing to disagree on many issues. In terms of the specific questions, the whole intent of Take-Along was just that, that we could not be faced with a situation where the private owners could dispose of their interest and have governments left owning an interest in a hockey team either here in Manitoba or obviously in any situation that they would be relocated outside of Manitoba. So that was the whole—[interjection]

**An Honourable Member:** I think the Alberta Treasury Branch owns in the Dallas Stars.

**Mr. Stefanson:** Yes, so that was the whole intent. I think we are all in agreement that that was the right intent and the right approach, and in this particular case, the Take-Along was achieved through one offer. I would have to go back to the interim operating agreement. I do not think it was necessarily the case that there had to be

two separate offers. It is the intent that when it is dealt with there is one offer that includes all of the interest in the hockey team, and that is exactly what has happened, that there is an offer to purchase all of the partnership interests or units, including those effectively owned by the City of Winnipeg and by the Province of Manitoba. That is exactly what we all wanted to see happen. It maximizes the value, maximizes the return to us on the disposition of the hockey team.

In terms of the whole issue of the budget of the hockey team, we have an interim steering committee in place that has a series of responsibilities in terms of reviewing and approving the budget. Again, as I have assured the House and assured the member, the particular contract he refers to of one hockey player that had a front-end additional increment as compared to levelling the contract over the five or six years, that has been dealt with, that only effectively the pro rata share will be allocated to this budget year. Any excess payment this year will be covered by the new owners of the hockey team.

The interim steering committee assures me that the hockey team will be well within the lower one-third of operating costs, as per the interim agreement. In fact, last year the Winnipeg Jets hockey team were No. 25 out of 26 in terms of operating costs. Only one team in the NHL had lower operating costs than the Winnipeg Jets last year. It is expected this year that they will be somewhere around 23rd, 22nd, 24th, so they will be well within that one-third framework, but that is all part of the review and responsibility of the interim steering committee.

As I mentioned, the offer is all-encompassing involving all of the partnership units. I am told that, because of third-party confidentiality, that agreement should not be released. It deals with financial matters relating to individuals and other private organizations and so on. but I will check into that matter one more time, if there is any opportunity to release that or any other information. but the information I have as of today is that it should not be released because of third-party confidentiality, but in light of the member's comments I will at least check into that issue one more time.

**Mr. Sale:** Mr. Chairperson, could the minister indicate how Mr. Shenkarow's legal fees are being handled in the proposed sale? By way of brief background, in the many.

many iterations of the attempts to save the Jets, lawyers were involved for MEC and Spirit whose costs are now publicly known through the helpful audits that were done by MEC-Spirit and by the Provincial Auditor, who essentially attested, I guess, to these audits.

The fees on the other side were likely of an equal magnitude and conceivably could have been greater. It would certainly be surprising if they were much less, because both parties were negotiating at a pretty frantic pace with a lot of high-priced help around the table. How are the expenses of the sale to Burke and Gluckstern and Colangelo and the expenses in regard to the various attempts to maintain the franchise here incurred by the Jets, the Jets hockey ventures or Mr. Shenkarow, how are these expenses being handled in regard to the province and the city's responsibility? Are they being treated as operating expenses for the year in which they were incurred, as part of the Jets' normal legal expenses, which were always significant because of the number of contracts involved, or are they being dealt with in some different way?

**Mr. Stefanson:** Mr. Chairman, this is another good example of where the question in advance would be helpful, and I would come prepared to respond to that.

I will indicate to the member that the interim steering committee has been going through a complete review of the operations of the Jets to basically deal with all of those kinds of issues, to define what are legitimate operating costs, whether it is in the realm of legal costs or whatever, what are costs related to disposition, which effectively then we would share an 18 percent. The costs of disposition might well be—a normal transaction might well be that legal costs relating to the sale are often treated as a cost of disposition, but that is part of the process the interim steering committee is going through, and then also going through if there are any costs that should be the direct responsibility of the unit holders. Ourselves, as a unit holder, if we have any costs that we are incurring directly, whether they are legal or whatever, are there any costs that should be the direct responsibility of the private sector unit holders and so on.

So that detailed review is being gone through by the interim steering committee, and again it would be my hope that I can release as much information around all of those transactions as possible. At the end of the day, we

are going to receive a share of the proceeds and I will have to outline what our gross share of the proceeds were, what deductions were made from those gross proceeds. We know of one obvious deduction that is going to come off our gross proceeds is the repayment of the private sector notes. It comes off the provincial and the city. There will be some other costs of closing the transaction that come off of that.

So that process, I guess, to put the member's mind at ease, certainly that issue is being addressed, clearly understood, by the interim steering committee. I think the final distribution of those items, I will have to try to provide to him and committee members at a subsequent date.

**Mr. Sale:** I thank the minister for that. I expect that probably this will not be reported until the fall, early September, sometime like that. Perhaps at a subsequent meeting of the committee, at that time we might look at that in more detail.

I do want to say, though, Mr. Chairperson, through you to the minister, on the process question, we did agree that we would attempt to provide questions, but we also said in the letter that items that came up in debate in regard to a particular area would not be precluded. I do not want the record to suggest that we are moving towards a scripted process in which there can be no elaboration on an item which was identified in here in regard to the sale. I think any question I have asked in regard to the sale and the sale proceeds is a perfectly reasonable question that could be anticipated, in fact, in terms of preparing for the meeting, but I want to be very clear that it was never our intention to suggest that each question would be sufficient and there would never be elaboration or extension of debate on the question.

I think that the letter, which I agree the minister amended, but the phrase in the second paragraph: Of course, the list cannot preclude debate on issues which arise, but the intent is the minister and staff have opportunity to prepare and to ensure that appropriate officials are present.

My understanding is that it is a very fruitful process to have an agenda—I agree with that—but I want to not have the record suggest that means that every question is scripted and there cannot be departures from questions

into areas of elaboration in a given area. I think it is very important that we not get off on misunderstanding the intent of at least our side and adequately reflected in our letter that this a guide. We will be as explicit as we can, and I think the minister must admit that we have been very clear in the questions we have raised. It has kept the debate reasonable and we have made good progress through the agenda, but I hope it is not being suggested that these are the only questions we can ask on an issue which we put on the table, Mr. Chairperson.

\* (1150)

**Mr. Stefanson:** Mr. Chairman, I read into the record earlier what it was that we agreed to at our first meeting, and it is a list of agenda items and questions at least four days prior to the meeting. But it does go on to say, the list is intended to form the basis of discussion but does not preclude debate on other issues which arise, as the member touches on.

But I would think very specific questions about an agreement, whether it is the Winnipeg Jets agreement or the Faneuil agreement, that when the issue is put down on the agenda, I would encourage the member to give some thought to specific questions. I think that would be very helpful. We have come prepared, where there are specific questions, to provide as much information as we can and rather than to put a generic topic and think that that covers off.

Having said that, I would agree, once we are into the issue, answering questions can lead to other questions and so on and that is all part of a healthy debate, but I think this issue that we are just looking at now, the Winnipeg Jets, there were a couple of very specific questions; we responded to them. I think the question that the member has asked if he wants to start getting into what are costs of disposition, what are operating costs and so on, I would encourage him to give thought to some of those very specific questions when he is working on the agenda and the question. I think that would be helpful.

I am just saying that the nature of some of the questions, to me, would appear to be ones that certainly the member would have thought of at the time the item was being put down as an item to be discussed. That is what I would encourage the member for Crescentwood

and all members to do. That is not saying that it cannot lead elsewhere, but my sense on both of those issues, as two examples, is they have just basically appear to have been put down as generic issues, but then we get into some highly technical, highly specific questions, and I think it would be helpful to put those in place.

Having said that, I think many of the questions are very direct, are very specific, and I would agree with the member that on an overall basis it is helpful for all of us and has been very constructive. So I am not sure we are necessarily entirely disagreeing here. It is a matter of I think the member could be a little more specific in some of these areas, and I am not sitting here suggesting that I will only respond to every question that is given to me in advance.

So even though it has worked reasonably well, I think it can still be improved, Mr. Chairman.

**Mr. Sale:** Mr. Chairperson, could we move on to question 13? I am interested in the actual timing of the sale of the company, when the proceeds were received, the closing date of the sale and the questions that are here.

**Mr. Stefanson:** Mr. Chairman, responding to the questions that are here, effective December 20, 1994, the net assets of A.E. McKenzie Co. Ltd. including its investment in subsidiaries McFayden Seed Company Limited and Pike and Company Limited, were sold to A.E. McKenzie Acquisition Company, a wholly owned subsidiary of Regal Greetings & Gifts Inc. Since the company name was sold as well, A.E. McKenzie was changed to a numbered company, effectively.

There were a number of transactions required to wind up the company. These transactions were completed during the province's 1995-96 fiscal year, and details will be disclosed in the 1995-96 Public Accounts

The Minister responsible for McKenzie Seeds (Mr Gilleshammer) will be tabling an annual report, and there will be full disclosure of the divestiture transaction

The revenue estimates for 1995-96 showed a revenue of \$4 million from A.E. McKenzie, and the actual proceeds will be slightly higher than that I am informed. So hopefully that information is helpful.

**Mr. Sale:** Can I ask both the minister and the Auditor their view on whether a sale that occurred three months before the fiscal year-end of the province should be properly recorded in the fiscal year in which the sale occurred or whether it should be properly recorded in some future financial period?

**Mr. Johnson:** The sale occurred after the prior fiscal period of A. E. McKenzie, and it was not reflected in their financial statements. Those financial statements are used as the basis for consolidating into Volume 3 of Public Accounts for March '95. At the time of consolidation, there is opportunity to recognize significant transactions and include them into the Public Accounts for that fiscal year.

The government chose not to do that, and I believe there was some discussion around it. Then the decision was it was agreed that it would show up in '95-96.

**Mr. Sale:** Mr. Chairperson, could the Auditor elaborate a bit on the nature of the discussion, particularly with reference to his basically consistent approach that this is the legal date at which the sale took place, closing, presumably there were monies exchanged at that point towards the closing subject to final tidying up of loose ends?

What was the nature of the discussions between the Auditor and the Department of Finance in regard to the recording of this sale and the appropriate dating of the recording of it from a provincial accounts perspective? To the Auditor, Mr. Chairperson.

**Mr. Johnson:** Mr. Chairman, I was not party to those discussions specifically. The date of the sale was December 20, 1994, as the minister had indicated.

**Mr. Sale:** Mr. Chairperson, I am sorry. I understand the date. I asked the Auditor if he could elaborate on the nature of the discussions and specifically I asked what his view was in terms of the appropriateness of when the proceeds ought to have been recognized from the perspective of Public Accounts and the Auditor's Report. I asked him for his view as Auditor on when these proceeds ought to have been recognized.

**Mr. Johnson:** Mr. Chairman, Carol Bellringer was the Provincial Auditor at the time of signing the audit

opinion for March '95. I believe this issue was discussed with herself and officials from the Department of Finance. I believe that Carol Bellringer was suggesting that the transaction be recorded in the '94 fiscal period. I would agree with that position. There was opportunity to do so. There was no qualification in the audit opinion because of the significance of the transaction.

**Mr. Stefanson:** Mr. Chairman, just before we adjourn, I think it is important that the member for Crescentwood understand, McKenzie has an October year-end, October '95, and there were a number of transactions included in the wind up, so in terms of their—[interjection] Not at all. In terms of their year-end financial statement, it falls within '95-96, the government's '95-96 fiscal year, and that is the year that we reported it.

I do want to point out to the member, as I am sure he is aware, if we want to look at accounting practices of governments, it is not all that long ago that previous governments back in the '80s were basically on a cash basis, and we have significantly improved and shifted that whole approach to a minimum, a modified accrual, very quickly moving to a full accrual system in terms of how we report all of our transactions.

So I think we will certainly welcome a debate on our performance in terms of how we deal with issues, how we accrue issues and so on. In terms of this particular item, the fact it was an October '95 year-end and there were issues to be dealt with, it was very appropriate to reflect it in the '95-96 fiscal year of government so that we knew exactly what our ultimate proceeds were and final net proceeds were from the transaction, Mr. Chairman, and they are suggesting I am saved by the bell. I would call it twelve o'clock because I do have a pressing engagement, as I am sure other members do, and perhaps—

**An Honourable Member:** Point of order, Mr. Chairperson.

**Mr. Chairperson:** Point of order being raised, but before we conclude, and let me say my piece first, before we conclude, the Chairperson wishes to indicate as a matter of routine proceeding every time a meeting of the Public Accounts committee is scheduled, regardless of whether or not the Chairperson circulates a letter of request for submission of items to be considered, it shall

be considered as implicitly made. That will save us time. It will be automatically made in the minds of all members, and the Chair will receive the item and circulate it to committee members as soon as possible. Thank you.

\* (1200)

#### **Point of Order**

**Mr. Sale:** I wonder, Mr. Chairperson, if we might agree to meet for another two or three minutes just to discuss the question of the next meeting. The minister wants maximum agenda, preparation time, and I am certainly prepared to work as hard at that as I did for this agenda, which I think was fruitful, but there are a number of items to which we did not get. Is it the minister's intention that we will conclude the agreement that we entered into and

have a third meeting prior to the end of the House sitting this spring?

**Mr. Stefanson:** Mr. Chairman, it is twelve o'clock. That is the time we agreed to. I do have a pressing engagement. I think in terms of whether or not we have a next meeting and when, the member for Crescentwood (Mr. Sale) and I can have that discussion and discuss it with our House leaders and leave that final decision up to them as to scheduling of any future meeting.

**Some Honourable Members:** Agreed.

\* \* \*

**Mr. Chairperson:** Meeting adjourned, committee rise.

**COMMITTEE ROSE AT:** 12:01 p.m.