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Manitoba Fiscal Performance Review

Phase 2 Report

Summary

January 2017

Notice

This Phase 2 report (the “Report”) by KPMG LLP (“KPMG”) is provided to The Province of Manitoba’s Treasury Board represented by the Minister of Finance (“Manitoba”) pursuant to the consulting service agreement dated July 14, 2016 to conduct an independent fiscal performance review (the “Review”) of Core Government spending (except the Department of Health) for Manitoba.

If this Report is received by anyone other than Manitoba, the recipient is placed on notice that the attached Report has been prepared solely for Manitoba for its own internal use and this Report and its contents may not be shared with or disclosed to anyone by the recipient without the express written consent of KPMG and Manitoba. KPMG does not accept any liability or responsibility to any third party who may use or place reliance on our Report.

Our scope was limited to a review and observations over a relatively short timeframe. The intention of the Report is to develop business cases for select areas of opportunity. The procedures we performed were limited in nature and extent, and those procedures will not necessarily disclose all matters about departmental functions, policies and operations, or reveal errors in the underlying information.

Our procedures consisted of inquiry, observation, comparison and analysis of Manitoba-provided information. In addition, we considered leading practices. Readers are cautioned that the potential cost improvements outlined in this Report are order of magnitude estimates only. Actual results achieved as a result of implementing opportunities are dependent upon Manitoba and department actions and variations may be material.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the Chartered Professional Accountants of Canada, and we have not otherwise verified the information we obtained or presented in this Report. We express no opinion or any form of assurance on the information presented in our Report, and make no representations concerning its accuracy or completeness. We also express no opinion or any form of assurance on potential cost improvements that Manitoba may realize should it decide to implement the options and considerations contained within this Report. Manitoba is responsible for the decisions to implement any options and for considering their impact. Implementation will require Manitoba to plan and test any changes to ensure that Manitoba will realize satisfactory results.

Project Objectives and Scope

"Manitobans have a right to expect that their government uses public revenues effectively and efficiently to deliver high quality government programs and services at a reasonable and sustainable cost. Manitoba's New Government is working to fulfill that expectation by restoring fiscal discipline with a common sense approach to financial management. Common sense respects the value of taxpayers' money."

"A large part of restoring fiscal discipline is restraining the growth of spending – bending the cost curve – to ensure that spending does not outpace revenue growth. Manitoba's New Government is committed to ensuring that government programs and services become more effective and efficient."

Manitoba Budget 2016

Manitoba's objective:

To gain better control over the growth in Core Government spending, Manitoba requires the services of an independent Advisor to design and execute a comprehensive Fiscal Performance Review to identify opportunities to eliminate waste and inefficiency and improve the effectiveness with which government delivers results for Manitobans.

The 2016/17 Budget for Core Government is $13.3 billion (excluding debt servicing costs). Removing Health from this spending leaves $7.3 billion in program spending for this Review. We understand that Manitoba's intent is reducing the growth of Core Government spending, with better value for money and allocation of fiscal resources without adversely impacting front line services. This is a Review, not an audit, to provide confidential advice to Manitoba in identifying potential opportunities for Manitoba's consideration in its fiscal decision-making.

Phase 1 Scoping Report completed in early October provided several areas of opportunity for cost improvement. Phase 2 is further investigation into selected areas.

Our approach is based on collaboration between the KPMG team and the Manitoba team. We bring leading practices and lessons learned elsewhere, and are working with you in building a practical, made-in-Manitoba framework and identifying transformational cost improvement opportunities.

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Fiscal Performance Review - Overview of Timelines

Phase 1 Scoping Report – Timeline		
Key Milestones and Timing	Steering Committee review and confirm work plan	July 18 (kick-off)
	Current State – data collection, analysis, interviews	Mid-July through August
	Fiscal Performance Review Framework	Delivered September 1
	Future State – areas of opportunity	Through September
	Delivery of Phase 1 Scoping Report	Delivered October 3

Phase 2 Timeline Targets		
Key Milestones and Timing	Steering Committee review and confirm work plan	October 14 (kick-off)
	Data collection and analysis	Mid-October through November
	Business case development	November to Mid-December
	Draft Business Cases	Mid-December (with Phase 2 Draft Report)
	Final Business Cases	End of December/January*

* Subject to adjustment due to holiday season availability and timing of feedback received.

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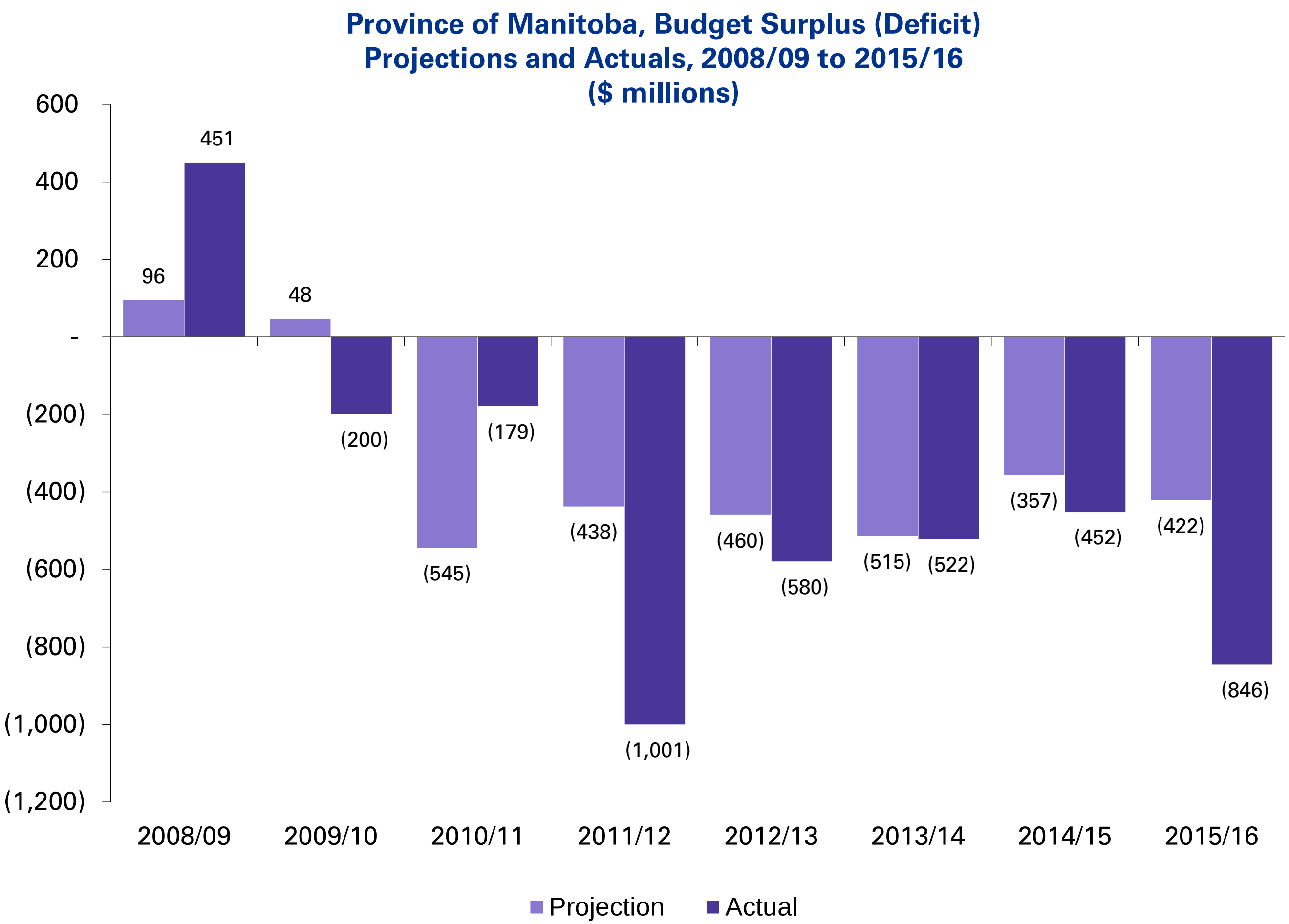
Context



Source: Province of Manitoba Public Accounts.

The following table compares the Province of Manitoba's budget projections and actual net results.

The Province of Manitoba has consistently missed its projected deficit in each budget from 2011/12 to 2015/16, with exceptionally large deficits in 2011/12 and 2015/16.

In the 2013 Budget, the previous government outlined a Deficit Reduction Plan towards a balanced budget in 2016/17. The 2013 Budget projected a deficit of $164 million in 2015/16.

The Province of Manitoba's net debt position was relatively steady through the 2000s, and has doubled since 2007/08 as a result of significant annual deficits and increased borrowings.

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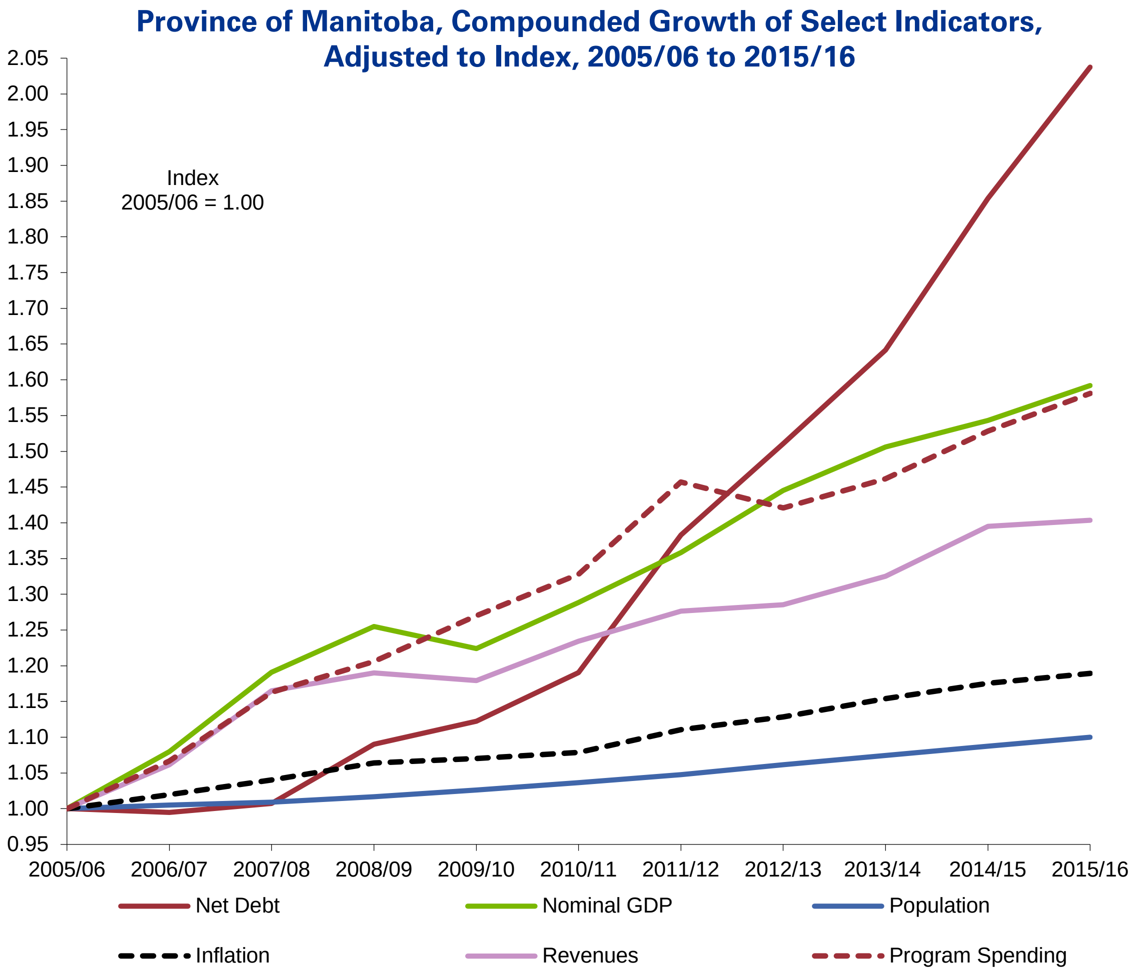
Context



Source: Derived from Province of Manitoba Public Accounts. Population, GDP and inflation derived from Statistics Canada.

The following chart illustrates the growth of net debt, nominal GDP growth, growth in revenues and program expenditures, and growth in population and inflation, for the Province of Manitoba in the past 10 years.

In Manitoba, net debt has increased sharply since the global recession and growth in net debt has far outpaced growth in other measures.

Up to 2008/09, revenues and program spending were generally correlated with nominal GDP growth. Program spending diverged away from nominal GDP growth in 2009/10 albeit in more recent years it has generally began to keep pace with nominal GDP growth again. Since 2005/06, revenues have grown slower than program spending and nominal GDP growth.

Over this time period, inflation has grown by approximately 19%, population by 10%, nominal GDP by approximately 60%, while net debt grew by over 100% with effectively all of that growth since 2007/08.

Context

These trends of high deficits and rapidly growing debt are clearly not sustainable.

Governments moving toward balanced budgets require a combination of development and action.

- **Revenue growth** is key and driven by economic growth. Taxation and fee initiatives also impact revenues. As experienced in the late 1990s and early 2000s, strong economic growth in the Province was key towards balanced budgets.
- **Asset management and rationalization** is another factor.
- **Prudent management of operational and capital spending** is a very important part of a fiscal management plan. In this context, the focus of the Review is to scope and identify notable areas for spending reductions and control with an immediate focus for the next fiscal year, 2017/18, and also sustained cost improvements through transformational change.

In addressing spend control, bending the cost curve will require program and operational decisions in the large-spend departments. The largest six departments (Health, Education and Training, Families, Infrastructure, Justice, and Indigenous and Municipal Relations) collectively represent nearly $12.4 billion or 93% of Core Government expenditures in the 2016/17 Budget.

- The five largest departments under this Review accounted for all of the increase in expenditures from 2012/13 to Budget 2016/17 for the 11 departments (excluding Health), with Families and Education and Training accounting for 45% and 27% of this increase, respectively.
- **Cost drivers** (11 Departments excluding Health) were:
  - **Programs and grants** increased by $639.8M over 5 years (12.8%)
  - **Salaries and benefits** increased by $89.8M over 5 years (9.6%)
  - **Costs related to capital assets** increased by $151.6M over 5 years (42.9%) related to amortization and interest, which is growing at over $30M per year (approximately 10% per year).

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Context

Controls on the growth of Core Government expenditures are necessary as the Government works to improve Manitoba's finances. The Fiscal Performance Review Framework provides principles and guidelines to place attention and fiscal discipline on all spending and on the provision of efficient and effective programs and services as well as value for money of taxpayer dollars. The Fiscal Performance Review Framework further guides a process of providing better information and evidence on performance and results for decision-makers.

The Fiscal Performance Review Framework provides a consistent, system-wide framework, considering leading practices, for looking at spending and evaluating programs and services across departments and branches. This is an evolving process that can have a transformative impact on the Government of Manitoba. It will require a fundamental change in the behaviours, the culture, and the approach to fiscal decision-making across Government.

The following **principles** form the foundation for the Fiscal Performance Review Framework:

Results-based	Fiscal performance is centred on the intended outcomes to be achieved, that is, fiscal performance should be results-based.
Alignment	Manitoba's services and programs relate to and support the achievement of intended outcomes.
Transparency	Manitoba is transparent and accountable in its intended outcomes, Government's role, policies, programs, services and results.
Transformative	The changes need to be real and sustaining in a way that creates value for Manitoba and delivers value for taxpayer dollars.
All Encompassing	Manitoba needs to recognize the interdependencies across programs and services and remove the barriers that exist in and across processes that span department and program boundaries, and organizational functions.

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Summary of Phase 1 Advice for Consideration

- KPMG's Phase 1 Scoping Report identified 12 key areas of opportunity for material cost improvement.
- A number of areas of opportunity have immediate cost improvement opportunities for 2017/18 and that can be sustained in future years beyond 2017/18. A number of other areas of opportunity are medium-term and transformational.
- The immediate areas of opportunity represent potentially significant cost improvements in 2017/18, in an "order of magnitude" range of $50 million to $100 million, depending on further investigation, and resulting Manitoba decisions and actions.
- We also outlined six areas of opportunity that have medium-term, material cost improvement opportunities. Government may consider a target in the general range of $50 million to $100 million for the second wave of medium-term, transformational cost improvement opportunities in 2018/19 and beyond. Significant transformation in departments of large spend is necessary to meet Government commitments.
- From the Phase 1 Scoping Report, six key areas of opportunity were selected for further investigation by KPMG in Phase 2 (four were areas of immediate opportunity and two were medium-term transformational opportunities). Some of the key areas of opportunity for immediate cost improvements are being investigated internally by the Department of Finance, including property and other generally-available tax credits and rationalization of real estate assets.
- The following chart summarizes the target for key areas of opportunity identified in Phase 1.

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Summary of Phase 1 Advice for Consideration

Targeting Key Areas for Potential Cost Improvement

$ Cost Improvements

"First Wave"

Major Areas of Opportunity for Cost Improvement:

1. Reduction of Select Tax Credits
2. Rationalization from Reorganization (18 to 12 departments)
3. Procurement Modernization (incl. reduced communications)
4. Real Estate Rationalization (including disposals)
5. Reducing Direct Support to Businesses

6a. Post-Secondary Funding

Total Potential Cost Improvement*: $50M - $100M

$50 - $100 Million

Cost improvement through execution of major areas in "first wave"

Sustaining

"Second Wave"

$50 - $100 Million

Government considers a target of another $50 - $100 million collectively for major areas in "second wave"

Sustaining

Major Areas of Opportunity for Cost Improvement:**

6. School and Post-Secondary Funding
7. Families: Organizational and Process Transformation
8. Asset Management Planning and Rationalization
9. Justice System Reform
10. Capital Project Management and Delivery
11. Review of Agencies, Boards and Commissions

2017/18 | **2018/19 and Beyond** | **Time**

*Requires further investigation as part of business case development. Actual results may vary materially depending on Manitoba decisions and actions.

**The areas of opportunity are more medium-term, transformational and difficult to estimate potential cost impacts. These represent areas of large spend (e.g., Education and Training, Families, Justice, Infrastructure) where a collective target could be set to contain costs and bend the cost curve. Note business case development in some specific parts of these areas can start in 2017/18. Manitoba may wish to consider phased-in implementation and targets, where possible, to achieve initial progress.

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Phase 2 - Business Cases for 6 Areas of Opportunity

The Steering Committee selected six areas of opportunity for further investigation in Phase 2. Business cases are intended to provide a deeper dive into each specific area, providing information, analysis, and options for Government to consider in its decision-making for 2017/18 and beyond. These six areas represent potential areas of immediate and sustained opportunity for efficiencies and cost containment; and a phased-in start in select areas of medium-term transformational opportunities.

1. **Rationalization from Reorganization**
   — Focused on options for flattening management, a multi-year adjustment strategy and estimated cost savings associated with certain targets, looking at cost drivers such as management layers, overtime and other factors, eliminating redundancies, and reducing overlap in shared services across departments.
2. **Reducing Direct Support to Businesses**
   — Focused on the range of government programs that provide direct support to business, and options for streamlining, consolidating and reducing direct support programs to business.
3. **Procurement Modernization**
   — Focused on investigating procurement spending, identifying options for cost savings including reduced communication costs, and options for modernizing the organization of procurement.
4. **Post-Secondary Funding**
   — Focused on investigating various components of post-secondary funding and options to control costs.
5. **Social Housing**
   — Focused on the area of social housing and investigating policy and program options for cost improvement.
6. **Capital Project Management and Delivery**
   — Focused on a business case of options to develop a better corporate-wide approach and delivery mechanisms.

In addition, we developed a Change Management Approach/Plan to provide general guidelines and some templates to assist Departments in change management related to the Government's implementation of cost improvement initiatives.

A summary of preferred options and considerations for Government's decision-making with respect to each business case is outlined in the following pages. The business case for each of the six areas of opportunity is contained in the Phase 2 Report.

Business Case Considerations - Rationalization from Reorganization

Consider a multi-year Workforce Strategy to reduce the size of the civil service by 8%, phased-in over 4 years.

- This may be a prudent starting point given the degree of changes underway in the Manitoba Government, and requirements for cost improvements across Core Government departments.
- Targets can be revisited once the Government develops its overall approach and/or Labour Relations Strategy.
- Implementing the following specific considerations presented will directly help to achieve annual Workforce Strategy targets:
  - Utilizing Span of Control and prevalence of common positions analysis presented in this business case to further flatten management and achieve savings from reorganization.
  - Undertake Span of Control baseline analysis for other departments; identify benchmarks for key public sector functions and utilize Span of Control as an ongoing management tool.
  - Direct departments with large overtime payouts and liability to develop and submit an overtime reduction strategy, identifying specific, annual reduction targets and strategies for achieving targets.
  - Consider opportunities to eliminate distinct offices/secretariats within departments, and merge responsibilities within existing divisions.
  - Develop a strategy/policy around the approach to centralized services being represented in departments (i.e., IT, finance functions like accounts receivable and accounts payable) with a goal of progressing further towards true centralization and consolidation of finance and IT positions.

The extent of immediate and longer term cost improvements that can be achieved from the above considerations will depend on the specific decisions that are taken with respect to the opportunities presented.

The Workforce Strategy presents an additional opportunity for potentially significant immediate and multi-year cost improvements, starting with approximately $15M in 2017/18 (including the Government's commitment subsequent to Phase 1 analysis to reduce senior and middle management, with savings of at least $10M), and increasing to approximately $20 million in 2018/19 and subsequent years. Actual FTE reductions and savings would be net of any transition costs and program/FTE additions.

Business Case Considerations - Reducing Direct Support to Business

The preferred delivery option model for the Department of Growth, Enterprise and Trade (GET) is consolidating its existing programs with a "single window" approach, as GET is currently moving towards its reorganization. GET coordinates business deals, and draws on other support within Government as necessary, such as Workforce Training and Infrastructure.

- Manitoba should proceed with an immediate reduction in direct support to business. At the same time, begin to take measures both to reduce the number of business support programs and the number of channels delivering similar programs. Utilize the Fiscal Performance Review Framework to review larger programs for further cost improvements.
- Reduce GET funding to grant-based business support programs by 10%. This excludes tourism grants which have been identified as a strategic priority. The main grant-based programs in GET are Research Manitoba and Commercialization Support for Business.
- Reduce funding to economic development agencies, where there is overlap, by 10%. This can also lead to agencies making concerted efforts to eliminate activities that overlap with GET efforts, find efficiencies and eliminate activities that do not add value. There also needs to be an accountability framework for provincial funding to all third-party intermediaries.
- Boutique tax credits that are narrowly focused and directed at a small group of companies should be reduced, and in some cases, eliminated. Consider eliminating or phasing-out the long-standing Cultural Industries Printing Tax Credit and the Book Publishing Tax Credit (combined cost of $1.8 million). The Film and Video Tax Credit has been enriched over the years without demonstrated evidence of significant growth in the sector. Consider adjusting back the level of support to levels in other western provinces, i.e., from 45% of eligible Manitoba labour to 35%, and simplifying other requirements.
- Within GET, an estimated 70 FTEs with salaries and benefits of over $6 million are involved in the delivery and administration of direct business support programs. Through streamlining and reductions, a corresponding level of resource adjustments should be made.
- Workforce Training programs are components of Canada-Manitoba agreements and funding levels should be maintained. Consider re-allocating dollars to encourage more support to small and medium-sized enterprises and strategic sectors, and less to multinational corporations with relatively little investment in Manitoba.
- The overall impact of these considerations is an estimated $5 to $9 million annually in cost improvements, starting in 2017/18.

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Business Case Considerations - Procurement Modernization

- Manitoba has a decentralized, fragmented procurement model. We recommend moving to a hybrid model – agency led (Procurement Services Branch), centrally controlled, and coordinating strategic sourcing and category management, with departments retaining ability and resources to conduct unique procurement and contracts.
- The ability to transition from an operational procurement role to supply chain management and a more strategic sourcing role for PSB requires a shift in how requisitions and purchases are currently being done, i.e., evolving from the current purchasing office service delivery model offered by PSB to a self-serve service delivery model, where other departments and branches handle some of the operational procurement activities. This may require technology investments in e-Procurement solutions or functionalities.
- The transition plan will require leadership and execution and a change in culture with an organization focused on delivering results and performance. Transition to the target operating model will likely require a dedicated category management unit within PSB. This can be done by filling current branch vacancies and hiring the right profiles for these new roles.
- It will be critical to bring more spend under centrally-coordinated management in order to achieve targeted savings. This will also:
  - allow disciplined category management and strategic sourcing activities;
  - fully leverage the bargaining power of Government as a whole; and
  - likely require “re-mandating,” i.e., clearly establishing PSB’s authority over a transition period and which categories are to be mandatory, centrally and exclusively sourced by PSB, or by a relevant central unit.
- A number of key performance indicators are outlined at the Executive and Operational level. At a dashboard level for Executive, key performance measures would include: cost reduction savings as a $ amount and % of total sourceable spend, average cost reduction per sourcing project, share of spend under category management, as well as productivity measures.
- Visibility over spend requires requisition and purchase order approval process to be adhered to in the system, i.e., SAP is not optional but mandatory. This is necessary to profile spend patterns for strategic sourcing.
- With a focus on select key categories in 2017/18, and actions to drive savings such as policies to substantially reduce advertising or limit volumes that are discretionary, cost improvements can start to materialize in 2017/18 and a target of at least $5 million could be set for 2017/18. Once the transition is well under way, Government should target annualized savings of over $10M from strategic procurement, which can be expanded to other categories/areas over time.

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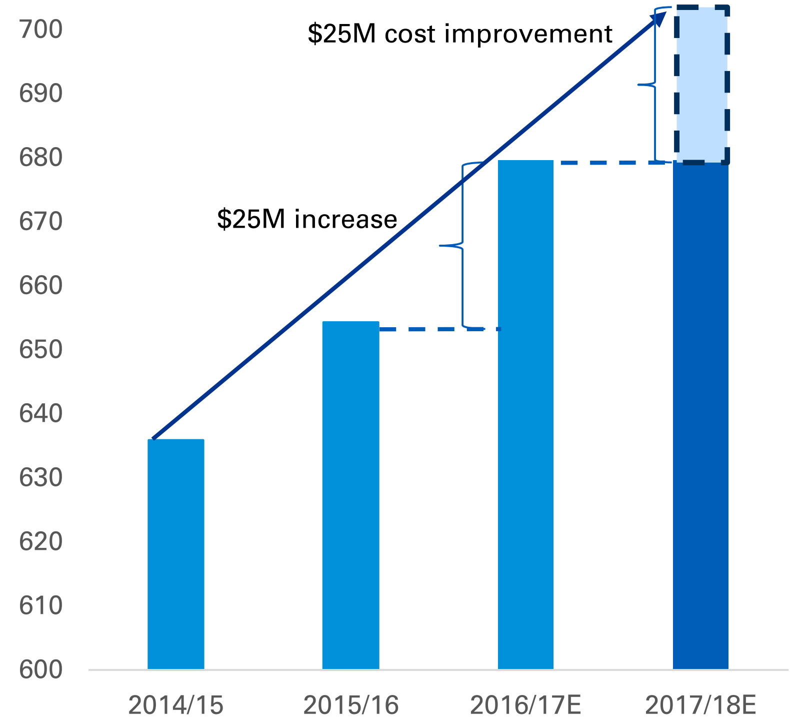
Business Case Considerations - Post-Secondary Funding

The Department of Education and Training has proposed and made a number of positive changes that are underway to improve access and leverage more private sector dollars for bursaries.

Looking at the post-secondary system, there are a number of opportunities for cost improvement that involve key trade-offs:

- Eliminate the Tuition Fee Income Tax Rebate program, generating immediate cost improvements (through enhanced revenues), and reallocate Department of Education and Training expenditures related to the Tax Rebate Advance into increased Department funding for bursaries and student aid for those students in need as tuition fees rise. Government may also consider re-investment of some portion of the increased revenues from the elimination of the larger Tuition Fee Income Tax Rebate for specific initiatives in alignment with Government priorities.
- Freeze operating grants for universities and colleges (and consider providing stable multi-year funding), in return for enabling universities and colleges to increase tuition fees (phased-in towards a benchmark that would still represent affordable tuition significantly below the national average). A freeze in funding has occurred in other provinces.
- Governments are concerned that allowing universities and colleges to significantly increase tuition will in turn be directed to salaries. A better performance reporting and accountability framework can help resolve these issues. Government should expect annual performance reporting focused on educational outcomes from post-secondary institutions that directly receive funding from the Provincial Government. At the same time, post-secondary institutions should also be expected to control salary costs, find efficiencies and improve their value for money. Fiscal constraints should promote greater collaboration between universities and colleges to remove duplication and ineffective programs from the system and encourage innovation in their programs and practices.

Provincial Operating Grant to Universities and Colleges ($ millions)



Source: Derived from information provided by Manitoba.

Under this scenario, this represents a $25M cost improvement to provincial expenditures (bending the cost curve). Universities and colleges could be enabled to partially offset the impact of a freeze by increasing tuition fees.

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Business Case Considerations - Post-Secondary Funding

The following table outlines potential cost savings/cost improvements in post-secondary expenditures and through enhanced revenue from eliminating the Tuition Fee Income Tax Rebate.

($ 000s)	Status Quo Budget (2016/17)	Incremental Change	
		2017/18	2018/19
Operating Grants to post-secondary institutions	679,645	-	-
Student Aid and Loans	12,555	1,223	1,240 (1,240)
Bursaries	20,604	4,300	-
Tax Rebate Advance (Expense)	5,523	(5,523)	-
Total, Education	**718,327**	**-**	**-**
Tuition Fee Income Tax Rebate (Revenue Cost)	51,300	(27,600 to 51,300)*	(27,600 to 51,300)
Tuition Fees	-	3,000**	10,000**

* Dependent upon effective date of elimination, and if carry-forward amounts are eliminated at the same time or capped to $500 annually and phased-out over a short period.
** New Legislation is required in time for 2017/18, under current legislation maximum tuition fee increases are inflation only. Subsequent tuition fee increases depend upon extent of increase allowed, $10 million represents current inflation plus 3%. At inflation plus 5%, tuition fee increases may yield close to $15 million.

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Business Case Considerations - Social Housing

Based on our analysis of the current state, and our review of leading practices in select jurisdictions, KPMG suggests that Manitoba consider over the long-term a hybrid option:

- Where tenants requiring the least supports receive a voucher towards renting from a private landlord; and
- The most vulnerable tenants are allocated to a social house which is provided by MHRC directly, or under contract between government and a private or community provider.

This decision is made based on the needs of the tenant, the preferences of the tenant and the availability of contracted houses. Significant transformation is required in the system, and completion of various actions (outlined in the implementation plan framework at a high-level) will be required to bend the cost curve.

- In the interim, we have identified a number of shorter term measures to help contain escalating costs in Social Housing and Rent Assist.
- In the 2016/17 Budget, social housing costs (in the form of the transfer payment to MHRC) grew by $46M due to increase in debt service costs, delivery of new social and affordable rental housing units and a decrease in one-time funding sources and Federal funding under the Social Housing Agreement.
- Rent assistance grew by $29M due to the annual impact of increasing the maximum benefit to 75% of Median Market Rent (MMR) and indexing the benefit to the MMR beginning in 2016/17.
- The cost curve for social housing is forecasted to increase over $10M per year if the status quo is maintained. Rent Assist is forecasted to increase $7.5M per year annually excluding caseload growth (which is increasing).
- In order to bend the cost curve, a number of shorter measures are proposed for consideration. These include: increase the percent of gross income for tenants in rent-geared-to-income (RGI) units to 30% from the current rate of 25-27%; consider putting on hold the indexing of maximum rent assist benefit; and implement the reduction in MHRC positions and operating costs identified in the Preliminary Estimates. These effectively improve costs by approximately $13.9M annually from the 2016/17 Budget, plus there may be an opportunity for one-time revenue of $14.7M from the sale of five MHRC buildings and the sale of chronically vacant units.

Business Case Considerations - Capital Project Management and Delivery

Manitoba lacks a whole of Government coordinated approach to the planning, management and delivery of capital projects. This business case focuses on a long-term coordinated approach to improve capital project planning, management and delivery. This area of opportunity involves better coordination and cost containment/avoidance, rather than short-term cost savings. Consideration should be given to the following improvements, with a central focus:

1. Asset rationalization (as outlined in the Phase 1 Report)
2. Reconsidering previous approved, but not yet committed, capital projects
3. Ensuring projects are ready for decision (Business Casing Framework)
   - Standardizing and formalizing business casing requirements, and screening out projects that are still in the conceptual stages of planning, will provide decision-makers with more confidence in the credibility and reliability of information.
   - Incorporating consideration of potential alternative financing and delivery strategies within the business case for a project may help to ensure critical large-scale projects get funded in a timely manner.
4. Focusing investment (Value-based Budgeting)
   - Long-term capital planning and project prioritization will improve the alignment of spending with key Government objectives, such as: addressing the infrastructure deficit, stimulating the economy, containing escalating amortization and interest costs, and ensuring long-term fiscal sustainability. It will also provide greater transparency.
   - Only projects ready for decision (i.e., supported by a business case) should be evaluated and prioritized based on a combination of pre-defined quantitative and qualitative criteria, for example: alignment with government priorities; facilitation of trade and commerce; affordability; value/ROI; risks; health and safety.
5. Improving oversight and control (Effectiveness Review and Stage Gating)
   - Expanding project review and rationalization throughout the project lifecycle by implementing Stage Gating oversight will allow decisions to be revisited as projects progress through key stages.
6. Standardizing and formalizing approach and centralizing specialized expertise (Project Management Framework and Centralized Project Management Office)
   - Standardizing and formalizing project management activities and establishing a centralized centre of excellence will improve the effectiveness of project delivery, improve spending certainty, and reduce project-related risks.

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Potential Cost Improvements, 2017/18 and Sustaining from Business Cases

A summary of potential cost improvements from the business cases is outlined below. These are options for the Government's consideration in its decision-making for 2017/18 and beyond. Four of the business cases cover areas of opportunity where cost improvement should be targeted immediately for 2017/18. Two areas, Social Housing and Capital Project Management and Delivery, are medium-term, transformational opportunities where efforts can start in 2017/18, but cost improvements and transformation require significant time and effort.

In terms of bending the cost curve, in areas such as Post-Secondary Funding, operating grants to universities and colleges have been growing at an unsustainable rate of over $25 million annually. Amortization and interest charges on capital have been growing by over $30 million annually. Social Housing and Rent Assist costs combined are increasing by some $20 million annually. Salaries and benefits of Core Government departments are growing at $20 million per year. Changes are required to bend the cost curve.

Business Case	Potential Cost Improvement, 2017/18 (from 2016/17 Estimates)	Potential Cost Improvement 2018/19 (from 2016/17 Estimates)
Rationalization from Reorganization (18 to 12 departments)	$15M	$20M
Reducing Direct Support to Business	$5 – $9M	$5 – $9M
Procurement Modernization	$5 – $9M	$10 – $15M
Post-Secondary Funding	$25 – $51M	$25 – $51M
Social Housing	$5 – $10M	$5 – $15M
Capital Project Management and Delivery	-	-
Total, Potential Cost Improvements	**$55M - $94M**	**$65 – $110M**

Key Communication Points

- The Government has committed to undertake a Fiscal Performance Review to gain better control over the growth in Core Government spending, with better value for money and allocation of fiscal resources without adversely impacting front line services. Through a competitive procurement process, KPMG has been engaged to conduct a Fiscal Performance Review to identify potential areas of opportunity for efficiency and cost improvement.
- The 2016/17 Budget for Core Government Expenditures is $13.3 billion (excluding debt servicing costs). Removing the Department of Health from this spending leaves $7.3 billion of in-scope spending for this review.
- This is a Fiscal Performance Review, not an audit.
- The Review is a collaborative process with KPMG, Treasury Board Secretariat and Priorities and Planning Secretariat, with input from departments.
- With a short timeframe for the scoping assessment, the immediate focus is on identifying significant short-term cost improvement opportunities, as well as other material long term opportunities which should be considered going forward.
- As part of the project, KPMG has developed a Fiscal Performance Review Framework. The intention of a Fiscal Performance Review Framework is a consistent, systemic framework (principles, guidelines, criteria) for looking at spending and evaluating initiatives and programs across departments and branches. Manitoba needs a results-based approach with a better focus on results and value for taxpayer dollars.
- Working collaboratively, KPMG has identified several areas of opportunity, collectively in the range of $50 - $100 million in potential cost improvement opportunities in 2017/18.
- In addition, there are other medium-term transformational areas of opportunities that collectively represent $50 - $100 million in potential cost improvements in the medium-term, as part of a second wave of cost improvement initiatives in 2018/19 and beyond.
- With the Steering Committee and Manitoba's Treasury Board, six key areas of opportunity were targeted for the development of business cases and options for Government's consideration in proceeding with key cost improvement initiatives.
- These business cases confirm opportunities for potential cost improvements in excess of $50 million for 2017/18, and provide further support and analysis for consideration of Manitoba.
- In addition, a number of other areas of opportunity are being investigated internally by the Department of Finance.

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