



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

Chairperson
Mr. Conrad Santos
Constituency of Broadway



MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Sixth Legislature

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ASHTON, Steve	Thompson	N.D.P.
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CERILLI, Marianne	Radisson	N.D.P.
CHOMIAK, Dave	Kildonan	N.D.P.
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EVANS, Clif	Interlake	N.D.P.
EVANS, Leonard S.	Brandon East	N.D.P.
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GAUDRY, Neil	St. Boniface	Lib.
GILLESHAMMER, Harold, Hon.	Minnedosa	P.C.
HELWER, Edward	Gimli	P.C.
HICKES, George	Point Douglas	N.D.P.
JENNISSEN, 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.
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McALPINE, Gerry	Sturgeon Creek	P.C.
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NEWMAN, David, Hon.	Riel	P.C.
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PENNER, Jack	Emerson	P.C.
PITURA, Frank, Hon.	Morris	P.C.
PRAZNIK, Darren, Hon.	Lac du Bonnet	P.C.
RADCLIFFE, Mike, Hon.	River Heights	P.C.
REID, Daryl	Transcona	N.D.P.
REIMER, Jack, Hon.	Niakwa	P.C.
RENDER, Shirley	St. Vital	P.C.
ROBINSON, Eric	Rupert's Land	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.
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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, April 17, 1997

TIME – 10 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Conrad Santos (Broadway)

VICE-CHAIRPERSON – Mr. Edward Helwer (Gimli)

ATTENDANCE - 9 – QUORUM - 6

Members of the Committee present:

Hon. Mr. Stefanson

Ms. Cerilli, Messrs. Helwer, McAlpine, Mrs. Render, Messrs. Rocan, Sale, Santos, Tweed

APPEARING:

Mr. Jon Singleton, Provincial Auditor
Mr. Norman Ricard, Executive Director, Office of the Provincial Auditor

MATTERS UNDER DISCUSSION:

Volumes 1, 2, 3 and 4 of the March 31, 1995, Public Accounts

Volumes 1, 2, 3 and 4 of the March 31, 1996, Public Accounts

Volumes 1, 2, 3 and 4 of the March 31, 1995, Report of the Provincial Auditor

Volume 1 of the March 31, 1996, Report of the Provincial Auditor

The Provincial Auditor's Report on Public Accounts and the Operations of the Office of the Provincial Auditor for the year ended March 31, 1996

Mr. Chairperson: Good morning. Will the Standing Committee on Public Accounts please come to order. This morning in particular we will be considering the following Public Accounts, Volumes 1, 2, 3 and 4 for

the year ended March 31, 1995; Public Accounts, Volumes 1, 2, 3 and 4 for the year ended March 31, 1996; The Report of the Provincial Auditor, Volumes 1, 2, 3 and 4 for the year ended March 31, 1995; and the Report of the Provincial Auditor, Volume 1 for the year ended March 31, 1996, and the Report on Public Accounts and the Operations of the Office of the Provincial Auditor for the year ended March 31, 1996.

As Chairperson, I had circulated a letter to the committee members requesting that the members submit to me items or questions requiring detailed answers at the committee meeting. I have received a letter and a proposed list of agenda items from Mr. Sale. It is my understanding that this letter and proposed agenda has been provided to all members of the committee as well as to Provincial Auditor Mr. Singleton.

For any committee members who do not have a copy of the proposed agenda items and the covering letter, there are extra copies available. Please indicate by raising your hands and the page will provide them to you.

Prior to the opening statements, perhaps the committee at this time should consider the proposed agenda before it. Does the committee wish to adopt the proposed agenda submitted by Mr. Sale?

Hon. Eric Stefanson (Minister of Finance): Mr. Chairman, I will save my opening remarks until you move to that section but, yes, we are prepared to accept that as an agenda. The only point I would make, and I would hope the committee would agree with, is in the past we have dealt with reports sequentially in terms of the years. The agenda is basically laid out starting with questions relating to the fiscal year '94-95 whether it is the Auditor's Reports or Public Accounts. I would hope when we reach a point that we have finished with the questions relating to 1994-95 that we would then deal with those reports and pass those reports before we move on to questions relating to '95-96 and subsequent years.

So with that agreement of the committee, then I think the agenda submitted makes some sense. Otherwise, I am not sure it does. [agreed]

Mr. Chairperson: That being agreed, we thank the minister. The minister would like to add some more to his opening statement.

Mr. Stefanson: Just very, very briefly, first of all I would like to welcome our Provincial Auditor, Mr. Jon Singleton, to his first meeting of this committee. Jon was appointed, as we all know, last year and comes with excellent background qualifications. I am sure he will do a very good job. On behalf of all Manitobans and on behalf of myself and I am sure this entire committee, I wish him well with his challenges and so on as we move forward.

Since this is the second committee meeting that will be devoted to—

An Honourable Member: He has got good staff, you know. He has got good staff working with him.

Mr. Stefanson: Yes, he does. Since this is the second committee meeting that will be devoted to reviewing reports for the fiscal year ending March 31, 1995, I do not really have any new comments to add to the opening remarks that I made last year. I do, however, have a short comment to make on the operation of the committee. In my opinion, the adoption of a working agenda for the committee has been a very worthwhile change.

The member for Crescentwood, Mr. Sale, was diligent in submitting agenda questions for today's meeting a full week in advance. This does allow staff the time to research the areas being questioned, so that more specific information can be included in my response and the responses of the Provincial Auditor. I believe this will go a long way towards expediting the discussion on the matters at hand. However, I do continue to have a bit of a concern with questions that are too generally stated. These questions cannot be dealt with as effectively as the others because obviously we are unable to do any specific research in advance of the meeting. But on an overall basis, I think certainly the approach being taken is a definite improvement in terms of the functioning of this committee.

We are all working to improve the process of this committee. I thought those comments might be helpful. I had some other comments on how we move forward this morning, but we have already dealt with those in terms of the agenda and dealing with '94-95 reports first. Thank you.

Mr. Chairperson: We thank the minister. Does the representative from the official opposition wish to make an opening statement?

Mr. Tim Sale (Crescentwood): No, I think that the minister's comments I would echo. I think that we have lots of things we can do to strengthen the operation of Public Accounts. I know that both the new Auditor and the Acting Auditor, Warren Johnson, had strong suggestions to make based on best practices in other jurisdictions. I hope we can get to that kind of discussion some time in the not-too-distant future, and I think we should just get into the agenda.

Mr. Chairperson: As a caution, did the officials in attendance from the Provincial Auditor's office wish to make any preliminary statement to the committee?

Mr. Jon Singleton (Provincial Auditor): Yes, I would just like to make a couple of very brief remarks, Mr. Chairman.

I am very proud to be in the position of Provincial Auditor's office, and I look forward to working with this committee because I see the members of the Legislature as the primary client that we have that represent the taxpayers and citizens of the province, and anything I can do to make your jobs easier or help you do a more effective job as legislators, I will be only too happy to do.

I would also like just to take a moment to introduce the people with me. Unfortunately, one person has yet to arrive, and I will introduce her when she arrives. I guess everyone knows Mr. Johnson, the Assistant Provincial Auditor. In a recent reorganization of the office, we have restructured things, and Warren is primarily responsible now for the audit of financial statements within the office and for looking at compliance of legislative authority. On my right is Mr. Norm Ricard, who is the director of our Value-for-Money audit division, and seated behind me is Mr.

Greg MacBeth who is the audit manager for the Public Accounts. The woman who will be joining us shortly is Dr. Isobel Garvie whom I hired shortly after joining the office, and she is looking after our Business Planning & Performance Measurement activities, which is a major initiative that we plan to be working with officials in government over the next three to five years to strengthen the accountability mechanisms of government departments and Crown agencies to the citizens of Manitoba. So, when you see her walk in, that is who she is. That will conclude my remarks, Mr. Chairman.

* (1010)

Mr. Chairperson: Thank you. At this point, I would like to inquire as to whether the committee would like to indicate how late—before we start—we wish to sit this morning. Should we revisit the issue at 12 noon?

Mr. Stefanson: My understanding from some members on our side of the committee whether they have commitments over the lunch hour, 12 noon was the time, I think, that they were expecting to adjourn based on past practices.

Mr. Mervin Tweed (Turtle Mountain): I think for me 12 is as late as I can go, I guess, whether that changes the opinion of committee or not, but I do have some commitments past 12.

Mrs. Shirley Render (St. Vital): I would very much appreciate at 12. I, too, have commitments which were set up quite a long time ago.

Mr. Chairperson: What is the wish of the committee? [interjection] Is that agreed?

Mr. Sale: Obviously, the committee has the right to determine its time of adjournment, Mr. Chairperson. My concern continues to be that we need to be in a regular process of meeting with sufficient time to do the work that the committee needs to do and we have had difficulty getting meetings scheduled. I understand, we have two scheduled at this point, and I just think that with the length of this agenda that we are not going to get through it in an hour and 45 minutes unless we are very expeditious.

Mr. Stefanson: We probably should get started, Mr. Chairman. I think today it should be noon, but we should discuss probably in advance, well in advance of the next meeting, if we are going to move it to 12:30 so that everybody can plan their agenda around it.

Mr. Chairperson: There is only one thing we can do, do the best we can. We will now proceed to the consideration of the reports, the agenda items. Shall the reports be considered separately or together? What is the agreement of the committee? We agree that it will be by sequential.

Mr. Sale: Mr. Chairperson, I gave an undertaking to the Finance minister, actually I guess really to the chair of Treasury Board and to the deputy minister, that we would get through '94-95 today and that is why I am concerned about the time. I trust that we will have an expeditious process so I think they can be considered together as far as I am concerned in terms of all the '94-95s and then all the '95-96s because we will go back and forth by nature of the way the Public Accounts are structured from one volume to another.

Mr. Chairperson: We will give priority in terms of timing to the earlier reports. Thank you. To have an expeditious consideration, I would ask all members of the committee to keep their questions relevant to the business at hand.

Shall Public Accounts Volumes 1, 2, 3 and 4 for the year ended March 31, 1995, be considered now?

Mr. Sale: Mr. Chairperson, the first question that we are attempting to get some clarification on is in regard to the role of the Manitoba Trading Corporation and the Manitoba Telephone System, now Manitoba Telecom, and the Manitoba Trading Corporation, a Faneuil agreement. If I can just put the puzzle and ask the minister and the Provincial Auditor if they could shed some light on the puzzle.

Essentially, Mr. Chairperson, there is a triangular arrangement in which a payment of facility fees which are—I should, for the minister and for the committee, indicate that I am working from the report with executive summaries of material agreements, the Manitoba Telephone System, Faneuil ISG Inc., Manitoba Trading Corporation, September 30, 1994,

Pitblado & Hoskin. It is the summary provided by the lead solicitor for the Manitoba Telephone System, Peter Falk, of the many agreements running some 50 pages in summary. You can imagine what the original arrangements must have run, so that is the document I am working from.

There is a payment of facility service fees, which are not represented as anything other than a payment in recognition of the value of having this corporation establish itself in Manitoba under the conditions agreed to. There is no quid pro quo, other than the establishment of the corporation Faneuil ISG here in Manitoba. There is no indication of service to be provided for those facility-service fees in the summary agreement. So, in effect, this is a payment, appears at least to be a payment, set out by schedule on page 2, totalling some \$19 million over a five-year period at \$6 million, \$5 million, \$4 million, \$3 million and \$1 million in those five years. There do not appear to be any services being provided in any clear way for that \$19-million payment. That is one piece of the triangle.

The second leg of the triangle is that the Manitoba Telephone System grants to Faneuil corporation a database licence for the sum of \$10 a year for five years. It is actually \$10.70. I really like that; the GST and the PST make it \$10.70, so that licence is essentially a nominal fee. It is transferred to Manitoba Trading Corporation. The licence is then sublicensed by Manitoba Trading Corporation, on page 52, I believe it is, of this agreement. It is sublicensed to Faneuil for \$16 million. Now, in any normal situation, if Trading was a taxable corporation, this would be certainly, in effect, a capital gain on the value of an asset that has been received and then transferred, but since Trading is a Crown corporation, it is not subject to that kind of tax.

There is no mention in the agreements that the \$19 million of service facility fees are in any way related to the \$16 million of database licence. However, there is also a subordinated debenture being issued back to Trading by Faneuil for \$16 million, and there are certain interest rate payments. I think, as the minister has said in the past, the net effect of the various interest rates is that the interest costs will be offset, and the Provincial Auditor has pointed out in the past that there is still a \$3-million capital item which is, in effect, a

grant or a subsidy or it is a form of payment which is being made to Faneuil and which is not being recovered through the interest offsets. The assumption might be that taxes on the corporation are revenue from the employment generated is an offset, but in mathematical terms, there is a \$3-million shortfall between these many payments.

We have talked about this issue before. My question is: Was this structured in this complex way in order to enable the Faneuil corporation to treat the database licence as a cost, thereby deducting it from its income as a taxable expenditure and at the same time to treat the revenue from the provincial government via the Manitoba Telephone System as a loan, thereby not taxable because it is repayable through the debentures? In effect, was this deal structured to provide a significant tax advantage to the Faneuil corporation?

Mr. Stefanson: As the member for Crescentwood has mentioned, the agreements with Faneuil were discussed in quite a bit of detail at our last committee meeting. Subsequently, Mr. Sale wrote me requesting further information on July 15, 1996, and as he himself has indicated, the agreements are fairly complex. I did respond to Mr. Sale. I guess I responded on July 15, 1996, so the request might have come a few days earlier. In fact it was June 14, 1996, that the request came.

I certainly outlined the transaction in a great deal of detail. I know Mr. Sale has the letter, and I can certainly provide it to other members of the committee. I am assuming the Provincial Auditor has a copy of the letter, so I think that does a good job of outlining the entire transaction.

* (1020)

This whole issue of the tax treatment by Faneuil, I can assure the member for Crescentwood that our side of the transaction was not structured in any way around Faneuil's tax treatment. They will obviously have to abide by The Income Tax Act and deal with the entire transaction accordingly. The fact that they might set up the original acquisition as an asset and amortize it would not be uncommon. They would show the offsetting liability of preferred shares back to the province. How they are then recording the fees being

paid by MTS, they will have to do it in compliance with The Income Tax Act and obviously be subject to audit by Revenue Canada and all of those kinds of things.

So the transaction from the government of Manitoba's perspective was not structured around Faneuil's taxation situation, tax treatment, no concessions, discussions that I am aware of related to particular tax issues and structuring the deal to meet certain tax requirements of Faneuil.

The focus of our government throughout was on issues like the jobs, the 1,000 jobs that they are committed to provide. Ultimately the debt will be repaid, and in terms of the entire transaction, again, I am told that Faneuil is on track in terms of the jobs they are creating. They are current with their payments back to Manitoba Trading and, on an overall basis, the transaction is serving Manitobans very well.

Mr. Sale: If the deal were not structured, and I am not suggesting there is anything illegal about the structuring, obviously they do have to comply with The Income Tax Act, but if the deal were not structured for taxation purposes, why was the database licence created for \$16 million? We have had this discussion, but why would something that is clearly required for them to do their jobs as telemarketers be put on the books as being worth \$16 million? I have used the analogy before. You do not charge a house painter to have a key to get into your house.

That is what the database, at least officially, is. It is simply the key to allow Faneuil to do its job on behalf of MTS, however we might be critical or supportive of that job. The database is the key to do that. There is no logical reason why you would charge \$16 million for something which you require to do the job and which, in fact, you are paying more for than the job is yielding you. You would be going broke. So why would you do that if it were not for purposes of taxation treatment?

Mr. Stefanson: As I say in the letter that I sent to Mr. Sale on July 15, to quote from it on page 2, we say that we find that there has been some confusion in terminology with respect to explanations on the \$16-million net present value, sometimes referred to as facility service fee and, for lack of a better word, sometimes termed loan. From an accounting

perspective the facility service fee is like a line of credit that is exchanged for preferred shares and includes the right of access to the database only for MTS telemarketing purposes. The database remains the property of MTS. No title to or ownership in a database in whole or in part is granted to Faneuil. From the perspective of others it is most often referred to as a repayable loan. While the terminologies used may differ, the main point remains consistent in that the \$16 million is repayable and it is interest bearing.

Mr. Sale: I think the minister is essentially saying that he is not prepared to enter into a discussion about this item in terms of the reasons for structuring the deal in the way that it has been structured. I would just note again that Mr. Falk is not a junior partner and not a junior lawyer and that he uses language very carefully in this entire summary and he is very clear that the facility service fee has no service attached to it. It is a recognition of the company coming here. He is equally clear that the database licence is not related to the preferred shares. There is no reference that links these at all in the summary agreement.

I think that Mr. Falk is an extremely competent and careful lawyer, and I do not believe that he would use language carelessly in terms of what the meaning of the various terms in his summary are. I just invite the minister to perhaps be a little more forthright in terms of the rationale for charging \$16 million for something required to do the job in the first place, for which you are going to be paid \$5 million in the first year. Why would you ever buy a database for \$16 million that you are only going to get \$5 million revenue on in the first year of the agreement, and the company had no cashflow at that time? Now, why would it ever do that?

Mr. Stefanson: I am being totally forthright, and I do agree that Mr. Falk is a very competent lawyer and everything I am saying is not inconsistent with anything that he has said on this issue. As I read into the record from the letter I sent Mr. Sale, that is why it is sometimes referred to as a loan. If Mr. Sale has some more very specific questions he can certainly provide them to me and I will do exactly what I did last time. I will in very short order respond to him in writing and answer all of his questions. I am more than pleased to do that if he has some specific question. He seems to be confused, I think, on this entire issue.

Mr. Sale: Well, I think we will leave this and I will attempt to ask more very specific questions, but I would note for the record that nowhere does Mr. Falk use the word "loan" in describing the facility fee or the database licences. He certainly does identify the preferred shares which can be converted into a debenture, subordinated debenture, but in no place in the 52 pages of legalese is the term "loan" used to connect these items together so that there is a clear pathway. They are connected mathematically by virtue of their similarity in size, which is why the question arises in the first place as to whether a very favourable tax treatment is being allowed here which, in effect, is a subsidy of approximately 50 percent of the value of both sides of those transactions. The province takes some percentage of that 50 percent, perhaps as much as half. So it is an implied, potentially an implied, subsidy of significant numbers of millions of dollars by virtue of how the agreement is drafted. I will attempt to write to the minister and ask questions in a more specific fashion than I have been able to do so far.

Could we have a very brief—

Mr. Chairperson: No, no—to address a reply for the minister.

* (1030)

Mr. Stefanson: Mr. Chairman, I do not think I can leave it with an incorrect impression being left on the record by the member for Crescentwood (Mr. Sale). I am certainly prepared to respond to specific detailed questions. But when he talks about their ability to write off what they have capitalized, amortized what they have capitalized, he is choosing to ignore how they might be treating the other side of the transaction, and that is the payment of the service fee. Obviously, they have to do something with the service fee. They cannot ignore it. They have to be reporting it either as revenue or as an offset against that capital asset, one or the other. So to say that they are getting the benefit of writing off 50 percent of the capitalization and that affects our taxes is absolutely, totally incorrect, and I think he does a disservice to this transaction, to the credibility of this process and the questions to try and leave that kind of an impression.

I am certainly prepared if he asks very specific questions. I will provide him all of the data. This is an

agreement that has had all kinds of public discussion. We have provided all kinds of information, and I am prepared to do the same. But I think it is unfortunate to try and leave absolutely wrong impressions about a transaction on the record.

Mr. Sale: Mr. Chairperson, I do not believe I am attempting to leave a wrong impression on the record. It would not be the first time in history that a company had attempted to minimize its taxes and may or may not be found to be in compliance with the act as a result. That is every company's right. My question was whether the deal had been structured to facilitate that. The minister has said no. I take his answer.

In terms of moving along, the member for Radisson (Ms. Cerilli) has a couple of questions that she wanted to ask in regard to housing, and she has to leave at 11:30. So perhaps before that we could move to those questions at some point that gives her that opportunity. [interjection] Well, she has a question that she wants to ask, I believe, that is related to a question on the agenda.

Mr. Chairperson, briefly I would hope, and perhaps we could have this in writing, I do not know, but question two, the Hazardous Waste Corporation. The main question here—having accepted that it is gone, that it has been privatized, and we hope we will get good value for the privatization—that is not the issue here: Are there things that we learned from this that the Provincial Auditor or the Finance minister can illustrate for us that would change the way we go about these kinds of operations? I invite both parties to share their views on that question.

Mr. Stefanson: Mr. Chairman, perhaps I will just make some comments first, and I am sure the Provincial Auditor would want to make some comments.

The audit project summary published in the report to the Legislature comments on certain concerns raised over contract management. The Auditor's very detailed report, however, emphasizes that their work was not designed to express an opinion on the overall effectiveness of management. Rather, they conducted auditing procedures to provide members of the Legislature with independently verified information in response to concerns they raised. Therefore, it is

neither fair nor reasonable to draw the overall conclusions indicated in this question.

In any event, management has explained in the detailed report the reasons that public tender was not feasible or practical, and they are as follows. First, the corporation is contractually bound to utilize their resources within the R.M. of Montcalm when services are provided on a competitive basis. The electrical contract is an example of the corporation's effort to honour its commitment to the community, as the quotation received from the sole local supplier was deemed competitive based upon time and material. Secondly, the design and development of the soil remediation building involved the provision of proprietary technology that could not be efficiently or effectively tendered. Third, they did agree with the Provincial Auditor that whenever possible contracts should be tendered.

However, the transfer station was erected in response to unprecedented increases in business activities which were placing the corporation in noncompliance with government regulations and jeopardizing the health and safety of its staff. Weather conditions and timing necessitated the action taken.

Mr. Chairman, that detailed report was distributed to members of the Legislature by the minister responsible.

Mr. Chairperson: Any other expression of views?

Mr. Singleton: I guess what I might do is just make a couple of generic comments around the Manitoba Hazardous Waste Management Corporation.

As Mr. Sale has indicated, the corporation has been moved into the private sector now, so I do not think there is much need to go into a lot of details on some of the findings that we had at that time, but I do bring some additional experience with that corporation to the table through my role at the Crown Corporations Council, which also had an oversight role of Manitoba Hazard Waste Management Corporation. I guess I would quibble with two of the premises of the question that has been posed in writing, and maybe I can provide some further insight into at least my perspective on those.

My experience with the corporation was that poor management practices is not an accurate way to characterize the corporation. As with any corporation that was growing and working in a changing market, there were times when there were some difficulties encountered by management, and the types of skills that were required at one point in the project were different than the types of skills that might have been required at the beginning, so there were some natural hiccups as the company went along, but in general it would be my conclusion that the corporation was well managed, reasonably managed.

The other thing is that, in thinking about the amount of money that was spent on the project and the cost to Manitobans, I think it is important to go back in time to put the whole thing into a context of when the corporation was formed, and at that time there was I think a really overriding concern with the effects of pollution on the environment and what it might be doing to the quality of life for people in Manitoba. That was a bit of a farsighted approach to find a way to have the public sector encourage the development of needed services for Manitobans that at the time it seemed the private sector was not prepared to get into.

Some of the reasons for that could well have had to do with the risks and liabilities associated with getting into that business and the lack of insurance available for private sector companies that might want to get into the hazardous waste business. So there was an understandable reluctance for the private sector to get in there, and it was an occasion when the legislators of the day decided that they had to take some steps to launch the corporation.

So the costs, in my view, that arose out of its activities were very reasonable costs from the point of view that if you are going to do something as significant as this, you are going to have to do it effectively, involve the public, go through an extensive public consultation process, and do a lot of research and analysis of different sites. You cannot just assume that you can pick a place to locate such a plant the very first time you pick a place. You need to scour the province for suitable sites, and all that costs a significant amount of money, much of which you may or may not be able to recover at the end of the day, and

I think people understood that as they went along with the project.

So I do not think the money was ill spent, given the context of what was happening. Unfortunately for the company, the industry changed dramatically from the time it started until the time it was turned over to the private sector. The private sector became much more aggressive in the marketplace and willing to do a lot more things that they had not previously been able to do and, surprise, surprise, the technology that was used changed significantly as well to change the cost and benefit analysis.

There is another side to the story as well that options, I know, were on the table at one point for the province to build a very expensive plant that would be run as a Crown corporation, and ultimately a decision was taken not to go that route. I think there are lots of checks and balances in the process that led to what I perceive was a wise decision, was the role of the Crown Corporations Council in monitoring and assessing the proposals of the corporation and advising the government on that. There were debates going on in the Legislature as to the relative merits of different approaches. So one could also argue that many millions of dollars have been saved through the checks and balances that were in place to manage this particular project over time.

So I guess some of the lessons that I would take from that is for members of the Legislature to be very careful when creating new organizations to get into new lines of business for government. Our world seems to be moving so fast these days that it is extremely difficult for government to keep up with technological change in a new line of business that they might want to get into and need to carefully consider whether or not that is going to be in the best interests of the citizens.

* (1040)

It may well be. I am not saying that there are not occasions where that would be appropriate, but I think this is an example, from my point of view, of an attempt that was well and honourably undertaken and the costs were reasonably controlled and, at the end of the day, it just did not work out the way everyone had hoped that it would.

Mr. Sale: I appreciate both answers and I certainly take the Auditor's comments that he does not believe that it is appropriate to talk about poor management. I was identifying that in terms of the strategy questions and the tendering question that was raised, so I would certainly take those comments.

I would also really concur with his comment and flag, for all our concern, the idea of government being first off the mark in terms of the new technology. I think that both NDP governments and Conservative governments have learned some negative lessons in terms of attempts to use leading edge technology as a stimulus to economic development and that there is some danger inherent in that and that, as the Auditor points out, with the acceleration of technological change in the last decade, that becomes even more dicey as a strategy. So I think that is probably very timely advice from the Auditor. Could we move on to question three, Mr. Chairperson?

Mr. Chairperson: Yes, we could.

Mr. Sale: It is a very specific question, but the context is that in 1981, when I was director of the Social Planning Council of Winnipeg, we first reviewed the specs for a Child and Family Services information system. When the government, an NDP government, moved to decentralize, a project team was in place then to try and develop a system, and it indicated that it could not develop a system in time for decentralization, so we used a very incomplete, functional but incomplete, quickly developed system to cover the immediate need.

When the government moved to recentralize in June '90, I think it was, one of the promises was that there would be such a system in place and, in fact, one of the rationales for recentralization was the pressing need for this. So where are we at after spending some 16 years since I am aware of the project starting? What is the state of it today?

Mr. Stefanson: Just briefly, the Child and Family Services Information System, which the member for Crescentwood (Mr. Sale) refers to, as he knows, is a case management information system that has been fully operational now since September 1, 1994. There has been some discussion regarding the development of

a financial component to the system, but this at this stage has been deferred as the entire Child and Family Services Information System is now scheduled to be reviewed as part of the Service First Initiative, Better Methods, Better Systems project.

This will happen in three parts. There will be an examination of the current social Assistance Management Information Network System. Secondly, there will be the establishment, as we all know, of a one-tier alignment with the City of Winnipeg welfare system, and thirdly, there will be an examination of the rest of Family Services in conjunction with training and advanced education, as they share common clients and action.

So progress has been made on the management information system, and we certainly are moving forward in terms of making improvements to the financial information system. I expect that to be occurring, obviously, over the next one to two years.

Mr. Sale: Mr. Chairperson, I would certainly take the minister's statement that it has been operational since 1994. My contacts with Child and Family Services workers would not indicate that it is in place in all agencies, and that 1994 was the date of a pilot start-up in, I think, either one or, at best, two portions of the system.

Now I am quite prepared to be corrected on that, but my understanding was that the system was not in fact fully functional and fully operational, certainly not in 1994. So I just ask the minister perhaps for our next meeting, maybe rather than debating it today, maybe we can put that over and clarify whether my information is incorrect, and it may well be.

The second piece is of some concern. Is the minister saying that the intention under the Service First Initiative is to have one generic case-management system for all social service and social assistance functions and that child welfare would be a subset or a component of this overall case management system? Is that what his answer intended?

Mr. Stefanson: Mr. Chairman, on the first point about the issue of whether or not the information system is in place at all agencies, rather than even wait until the

next meeting, I will certainly provide that information to the member in fairly short order. I can certainly undertake to do that, and the second question, probably the best way to describe it is that the goal is to have an integrated case-management system. I am sure he understands the difference from one system, but an integrated system. Obviously in many aspects there has to be a sharing of information, and the ability to access that information to provide the right service and make the right decisions.

Mr. Sale: An integrated case-management system to me means perhaps something different than we are talking about in terms of an information system. Integrated case management has always meant to me that there is a case manager who takes responsibility for ensuring the co-ordination of all of the services required for a particular situation, a case or a family or an individual person, and that case manager is, at least in the best case management systems, has the power to actually deliver the services.

In other words, it is not a voluntary co-ordination situation, it is an empowered case-management situation. That is what I understand a case manager to be, but a case management information system implies, at least what I am hearing from the minister is that there would be one presumably on-line system in which all people receiving any form of social assistance counselling, child welfare, child development, mental retardation, mental health, et cetera, services would be part of that generic, integrated, as the minister is saying, case-management computer system and that the information would then be accessible by any legitimate deliverer of services to that family or case.

I think there is a very big difference between integrated case management in a social work sense and an integrated computer system in the sense in which I believe the minister is speaking.

Mr. Stefanson: Mr. Chairman, there does seem to be a little bit of confusion. I think the best way to describe it is, the case managers will not be accessing any different or any more information than they currently access. What this system will allow them to do is to access it in a much more efficient way, and I guess the best example is probably the financial information,

which right now is very cumbersome and archaic in terms of accessing.

* (1050)

So if we are going to move on to a discussion of privacy, I want to make it abundantly clear that case managers will not have access to any information other than what they currently have. This will just improve their ability to access the information they should have so that they can have the most current information and make the best decisions on a timely basis. I want to make that absolutely, abundantly clear.

It is not changing or allowing them access to information that they do not have today that might be information that they have no need to have. So that is not what is being done and is certainly not the intention under the changes, but I think as the member knows, there are some aspects of our system that are outdated. Some of our financial reporting in various areas of government are outdated. I can certainly go into a debate as to why that occurred, but the reality is, we are taking the steps to adjust that and that is what is being done here.

Again, I want to make it clear that these case managers will only have access to the kinds of information that they currently have access to, only it will make it much more efficient.

Mr. Sale: Mr. Chairperson, I do not think this is the time to get into a long debate on privacy issues, but I want to express a really deep concern that I have, not relating to my role here, but my previous life in the social welfare system and social policy system. There is an inherent difficulty in dealing with human needs in a completely integrated way, because we know from all kinds of studies that people form impressions and opinions of other people on the basis of information, and those impressions and opinions are enormously powerful in structuring how we then respond to those people.

The simplest example is there are many, many studies in which teachers are given information about the children in their classroom, and other teachers are not given the same information and are invited to form their own notion of how these kids could perform. Where

teachers are told they have got a very difficult class with difficult kids, those kids inevitably turn out to be difficult and they perform badly. Where the expectations are that these children are bright normal kids and you will have a great year with them, son of a gun, they have a great year with them and they turn out to be bright normal kids. Expectations and information powerfully condition how we interact with people. That is one problem.

The second problem is that there are many things in our human service system which ought not to be shared with other parts of the human service system. The right to know and the need to know is a really difficult process of defining, particularly where you are dealing with human lives. I hope that the minister will support, through his government, a much fuller, careful discussion with the public about these issues because when we talk about having information that they now have, the difficulty, of course, is many case managers do not have information they need. On the other hand, if we are talking about giving them all the information that the province has about a given family or individual, I think that is a very difficult concept.

I do not want to debate the issue, but I just want to raise a very deep concern that I have, having worked in human services and in a variety of settings. There is a temptation, and Premier Schreyer had this temptation and maybe this government has this temptation, to think that if we can only get all these services integrated and working together, a good deal of our problems will go away. Unfortunately, that just has not turned out to be the case.

The Auditor just finished cautioning us about moving into leading-edge technology to solve problems. The government is into leading-edge technology with its SmartHealth program, and it has talked about it as leading edge. I think the Service First Initiative, that I have read about at least, is another attempt to use leading-edge information technology to apply to very real problems. I am concerned about the public policy implications not having been thought through and certainly not having been debated in public about the implications of that strategy.

Mr. Stefanson: I do not think I disagree with very much of what the member for Crescentwood said; that

is, the responsibility that we have is to be sure that the case managers, the users of information only receive the information that they should be receiving, and that certainly is the direction this system is heading, and that is the full intention of this system. We are being very cautious.

The member himself pointed out that this first started back in 1981, and we made some changes, had some further reviews in '89, and we implemented some changes in '94. So I think the points he makes are valid ones. They are concerns that we share, and I think our responsibility is to have a system in place that provides the information that the users need so that they can get it on a timely basis and make the responsible timely decisions. So we recognize the issues he has raised, and I assure him that those are uppermost in our minds as we move forward with the changes in the system, but we do have a responsibility to be sure that the people who need the information get all of the information they need, and they get it on a timely basis and in an efficient way. Those are my comments, Mr. Chairman.

Mr Sale: Mr. Chairperson, the member for Radisson has a question here.

Ms. Marianne Cerilli (Radisson): It is related to this whole area of social services system delivery, particularly with Child and Family Services and the mandate of the Children and Youth Secretariat. This is another area that has been mandated to them, and their basic reason for being is to try to fill the gaps between the different departments and agencies that deal with children and families in crisis, that need government services and agency services even in the community and try to close those gaps so we do not have so many people falling through to try and, I think, see that the necessary information between different jurisdictions is shared in an efficient way keeping the best interests of the families and the children in mind. Initially in documents prepared by the government, the Children and Youth Secretariat was to work with five or six government departments to identify 2 percent of their existing funding to undertake this activity, and that was going to amount to approximately \$10 million of government that would be allocated from these different departments to be reallocated through this co-ordinated system with the Children and Youth Secretariat.

My first question is: If that at all occurred, this identifying of the 2 percent, if the Auditor's office was involved at all in looking at the Children and Youth Secretariat's approach to this and, if this did not occur, what happened? It does not seem to have occurred when we look at the budget for this year with the Children and Youth Secretariat. They still have only about \$141,000 for their operations plus another \$500,000 for this ChildrenFirst fund. So I am wondering if the minister and his staff could clarify what is happening there.

Mr. Stefanson: Mr. Chairman, we are deviating from what we agreed to at the outset of the meeting, and I think if we want to continue to improve how this committee functions we should follow the rules that we agreed to at the very outset. This question obviously moves into 1995-96 and moves into '96-97. We are dealing with 1994-95 at this particular point in time. I am certainly prepared to respond to these questions at a subsequent meeting with the detailed questions being provided to the committee at least four days in advance as we have agreed to at previous meetings. But to be totally forthright, I think many of the questions being asked, particularly the current ones, would be very appropriate questions to ask as part of our detailed Estimates process. We have 240 hours of Estimates process. The minister responsible will be before the committee within the next few weeks, and that provides an excellent opportunity for the member for Radisson to ask these kinds of questions. But we made progress in terms of how we are going to move forward as a committee, and this obviously is not in keeping with what we have agreed to whatsoever.

Mr. Chairperson: We are considering Volumes 1, 2, 3 and 4 for the year ended March 31, 1995.

Ms. Cerilli: I will have to check the documents that I have from the Children and Youth Secretariat, because I am sure they come from this year, but I can appreciate what the minister is saying. So maybe instead I will just ask for a clarification on this area of the Child and Family Services information system to see if what is proposed here is to have similar to a program that is being used in Brandon, and I am not sure if the minister is familiar with this, where they do have standardized forms that are used by all departments that are dealing

with children and youth. They have a standardized format on the computer so that staff in schools, for example, will be able to access information on young offenders who are in that school dealing with their probation requirements, if that information is going to be standard and be accessible to agencies whether they are through Health or Education or Family Services or Corrections. Is that what we are dealing with here?

Mr. Stefanson: Mr. Chairman, I believe the earliest year that is affected by these questions is '95-96. In keeping with the approach of the member for Radisson's colleague Mr. Sale, he did provide a number of questions in advance of this meeting, provided us the opportunity to comment whether they were '94-95, '95-96, and I think everybody made a genuine effort to have the questions go in sequence to deal with reports—'94-95 reports first. That is what the committee agreed to at the outset. That is what we are attempting to do, and I do not believe that these questions fall within that time frame at all.

Mr. Chairperson: This committee agreed to consider the fiscal year ended March 31, 1995. Those questions relating to more recent ones can be deferred to subsequent meetings. Otherwise, we will never be able to comply with the agreement that will pass the earlier report, 1995.

Ms. Cerilli: I do not know if the minister is suggesting that my question is out of order, but what I am asking for is clarification on the wording that is in question 4 that we have submitted to you. I am just wanting to get a better understanding if the Child and Family Services Information System is what I have described, if that is the key objective that has been set out by the government in recentralizing CFS.

Mr. Chairperson: So the question is apparently perceived by the member as related to question 4, Child and Family Services Information System.

Mr. Stefanson: Well, Mr. Chairman, the way I interpreted the member's question, unless I misunderstood it, is relating more to the issue of the current development work that is being undertaken within the department. We have discussed that. We

have discussed the three areas of work that they are proceeding with and have indicated we will provide additional information in that area.

Mr. Sale: Could we ask the Auditor to comment on question 4?

Mr. Chairperson: Is there any comment from the Auditor? Question 4, Child and Family Services Information System—

Mr. Sale: No, no, Accountability Reporting.

Mr. Chairperson: Accountability Reporting. This is relating to question 4, Accountability Reporting, Volume I, pages 145 and following.

Mr. Singleton: I would be pleased to make some comments on Accountability Reporting. This is a theme that we have been working with for several years in our reports, and it is one of those themes that crosses particular fiscal years. I think, to be most useful in my comments, I guess I will refer specifically to what is in the question, but I have the sense that you would like to know what I am thinking about where we should be going with Accountability Reporting, and so I will proceed to put some comments on the record along those lines.

On just the two points that are mentioned, specifically in the question on annual reports and Estimates supplements, let us deal with annual reports first. I think it is safe to say that we have been very impressed with the efforts the government has made to bring about more timely tabling and release of annual reports. We have noted in our reports a very significant improvement in that.

An Honourable Member: I am having some difficulty hearing the Auditor.

Mr. Chairperson: Could the Auditor please hold the mike a little bit towards him?

Mr. Singleton: Does that help now? Is that clearer? Testing 1-2-3. Have you got me now? Okay.

Mr. Chairperson: Maybe a little bit closer.

Mr. Singleton: A little bit closer. I am going to swallow this thing, right? That seems to be helping.

Okay, I was talking about annual reports then. As I was saying, we have been quite impressed with the improvements that the government has made in the timing of completion of annual reports, and we have noted that in our last couple of annual reports, and I think that is significant, because timely information is useful information. When you are dealing with numbers and issues that are too old I think the effectiveness of the legislative review process is compromised.

On the Estimates supplements I guess I would make a couple of points there. My understanding is that both sides of the House are working to try to co-ordinate the timing of meetings so that the Estimates supplements can be produced in time for members to have an opportunity to review them prior to going into a debate on the Supply.

I would also comment though that Manitoba is fortunate to have those Estimates supplements. There are not that many jurisdictions in Canada that prepare that kind of information for their legislators, and I think it is very helpful and appropriate that they exist, in fact. From my understanding, everyone is working to try to make them available as timely as possible to support the debate.

On a broader scale in terms of accountability reporting I would like to just take a quick opportunity to note that Dr. Garvie has joined me at the table here now. She is our director of business planning and performance measurement and will be helping lead a number of initiatives that we will be taking to support and encourage the initiatives being undertaken by government to strengthen accountability reporting.

* (1110)

The primary initiative I guess that everyone is aware of is Manitoba Measures, which was announced by the Premier last fall. Up until the end of March, Isobel Garvie from our office had been working a significant amount of her time with the Treasury Board Secretariat to help three pilot departments work through developing business plans for '97-98, and I think this is

a really significant initiative, and the preliminary indication that I have received from that is that the departments have done an absolutely outstanding job in developing those business plans. It is my hope that over time, when that extends to the rest of government and a little more comfort can be developed over the measures of performance that are planned to help communicate whether or not these programs and government departments are actually meeting their objectives, are fully in place, that we will be able to move ahead with a more public discussion and analysis of these business plans and performance measures.

I think there is a potential there to enhance the ability of members of the Legislature to have informed discussions with the public and with each other as to the goals and objectives of various government programs, and the extent to which the planned objectives are in fact being achieved.

So I think this is an important initiative. We intend to continue to support it in any way we can over the next three to five years and to work with government to develop an approach where there can be that public consultation and reporting on business plans and the resulting outcomes of the projects.

Mr. Sale: Mr. Chairperson, I appreciate the comments, and I am glad that progress is being made. I know it is always a challenge to get reports out on time, having worked in the departments.

Two areas concern me. One is that the Auditor has made comments at several points about the disappearance in effect from Estimates of SOAs' plans and the difficulty then to have the complete entity seen through the process of Estimates. I am not questioning the value or appropriateness of SOAs, but could the Auditor comment on how we might regain the sense of the whole entity without losing the potential value of the SOA approach in terms of the concerns that the Auditor has raised about that in the past?

Mr. Stefanson: Mr. Chairman, I think what might be helpful is to point out that the opportunity to discuss SOAs is certainly there within all of the departments that have responsibility. They continue to be reflected in the Estimates. There are individual reports. There is a summary of all of the SOAs. So, in terms of the

opportunity for members of the Legislature to ask questions about SOAs, that is definitely there with each individual department that has the responsibility. So there is no change in terms of the member wanting to ask questions about Fleet Vehicles or any of the SOAs that we have in place. Definitely that opportunity is there, and an annual report is also provided in terms of SOAs.

Mr. Chairperson: For the benefit of those reading the reports, the Hansard, SOAs are never defined—special operating agencies, I believe.

Mr. Singleton: Mr. Chairman, I guess I will just make a couple of general comments because I will confess I have not thought very deeply about the specifics of the reporting on special operating agencies. But my understanding is in the past that we have been encouraging a broadening of the amount of information provided on special operating agencies in the Estimates supplements. I guess in general terms, we have been making a couple of recommendations that might be related to this. One is, we have been encouraging the development of summary budgets which would incorporate all the various agencies of government and Crown corporations into one budget that would receive debate and where you could see the entire effect of the operations of the government-reporting entity. The other is that, as special operating agencies develop and as the accountability reporting framework is further developed by government for departments, I would hope that the same kinds of principles for the reporting of performance measures and goals and objectives would be put in place with special operating agencies.

Mr. Sale: Mr. Chairperson, I appreciate the comments. Perhaps I am mistaken, but my reading of the Estimates is that what we see now in Estimates is the net, but only the net, figure for SOAs. We do not see the full budgets anymore, and so in cases where the SOA is actually perhaps a zero net cost or even provides a net revenue flow to government we are not, in fact, seeing in Estimates the full details of those operations anymore, and are not in a position, because the information is not there, to debate those.

Mr. Stefanson: Mr. Chairman, my recollection of the Estimates shows the revenue expenditures and the net in the Estimates document. I do not have one here

before me, but there definitely is an opportunity at each department that is responsible for SOAs to ask any question, any and all questions, related to their performance. We will certainly look—and we also publish an annual report on SOAs—at the whole process to our Estimates, whether or not there should be any additional information that we should be providing as part of that process as it relates to SOAs. But the opportunity to ask any questions, to ask for information, to ask for revenue information, ask for expenditure information, that is definitely there through the Estimates process with every department that has responsibility for SOAs, and the SOAs are reflected in the Estimates.

Mr. Sale: Mr. Chairperson, unless the Auditor has any further comments on this, I propose that we skip the next two questions, and in the interests of time, move along to the next page.

I just would also say, Mr. Chairperson, if I may, that we will be raising the Grow Bond questions in the next meeting, so we will simply ask the question of how bondholders are getting their information at that time, and that can be put into that next agenda.

We have had this discussion before, and the minister committed to coming back on the question of fixed capital flows in stocks, the StatsCan report. Does the minister have any further comment on whether we would begin to see some of the asset side of the operation instead of only the debit side?

Mr. Stefanson: Mr. Chairman, the member for Crescentwood is right. I did indicate at the last committee meeting that a change in our accounting practices at this time would be premature since the standards are still being developed by PSAAB, PSAAB being the Public Sector Accounting and Auditing Board. However, the Provincial Auditor's 1995-96 report, when we do receive it, I believe, will include recommendation that the government adopt a phased-in approach to gathering data and getting ready for the changes. We have accepted this recommendation and accordingly have requested that departments initiate the required process to capture the needed data.

As well, during a recent evaluation process covering available computer software for replacement of the

government's central financial systems, we have focused directly on the subsystems available for recording and amortizing capital assets. Consequently, when the software is acquired, we will possess the ability to record these assets and do the required calculation. So we are making progress as it relates to this issue.

Mr. Sale: Mr. Chairperson, I thank the minister. I am glad to know that. Does he have a time line?

Mr. Stefanson: There are really the two issues. There is when the PSAAB will report, and I am not sure anybody around this table could be precise, but I think the expectation is six months to a year is probably the best information we have in terms of when we expect that report. Our system development will be unfolding, as I said earlier, over the next one to two years, so certainly within that kind of a time frame I would expect us to see some changes.

Mr. Sale: I am also going to suggest, because we have done this in a previous year and we can also do the same issue in our next meeting, that we just clarify in question 8, the second part of that question, rather than do the reconciliation walk-through, if we could just explain the accrual of accounts receivable and deferred revenue of \$171 million compared to zero in the previous year and move along.

Mr. Chairperson: The second part of question 8, namely, could he explain the accrual accounts receivable and deferred revenue item of \$171 million compared to zero in the previous year.

* (1120)

Mr. Stefanson: It will only take a minute, and I will respond just very quickly to point 1. We have prepared a reconciliation statement that will explain the difference between the accumulated deficit in Volume 1 and the accumulated deficit in Volume 3. I will certainly provide a copy. As you know, at a conceptual level, Volume 1 reports on the operating fund whereas Volume 3 covers the entire government reporting entity defined in accordance with public sector standards. This reconciliation will help understand how the accumulated deficit in the operating fund is combined

with the other organizations included in Volume 3. So we will provide that summary.

The second item, the item shown for Accrual of Accounts Receivable and Deferred Revenue is indeed an accounting change that occurred in 1994-95. During the last period of years we have endeavoured to make changes to the provinces accounts in order to be more consistent with the standards established by the Public Sector Accounting and Auditing Board of the CICA. A significant change related to the way we handle revenues collected through accounts receivable occurred in 1994-95 and, as a result, accounts receivable for monies owing to the province are now reflected in the Public Accounts.

The majority of the amount recorded on March 31, 1995 is the corporation income taxes and the personal income taxes that are due to the province through tax collections made by the federal government. This change was recommended by the Provincial Auditor in her 1994-95 report to the Legislature, Volume 2. Included in the accounting changes is an adjustment of the deferred revenue related to vehicle registration fees collected by the Motor Vehicle branch. These fees were previously recorded as revenue on a cash basis, however most of the revenue was received in February and the majority of the fee, eleven-twelfths of it, is applicable to the following fiscal year.

The introduction of staggered renewals made it imperative to accrue revenues to the period in which they are actually earned. The Public Accounts now shows the deferred revenue at March 31, 1995 of \$24.9 million. I can certainly, at some subsequent date, provide the details reflecting the opening accruals for accounts receivable vehicle registration, and so on, to the member for Crescentwood if he is interested, but I think that explains the issues.

Mr. Sale: Unless the Auditor has any comment on that, we could move along.

Mr. Chairperson: There being no comment, Mr. Sale.

Mr. Sale: Could we move to question 10, the Integrated Management Information Strategy issue on page 114. I gather that the Service First Initiative and the development of the new GL system is an outgrowth

of this process, and I am not suggesting that we get out of sequence in terms of what we are doing, but if there is simply a progress report, I guess, is what we are looking for here and the relationship between the Service First and the new GL.

Mr. Stefanson: I am just assuming, the fact we are bypassing some of these items, that we will be in agreement to bring them forward to our subsequent meeting, but we are also making our best efforts to, at this end of this meeting, passing the '94-95 reports from the Auditor in the Public Accounts. We have now bypassed three. I am assuming that is the basis of where we are functioning within.

Having said that, this particular question, question 10, the Integrated Management Information Strategy mentioned in the report was superseded by the Service First Initiative Better Methods project. Better Methods has currently undertaken a comprehensive review and re-engineering initiative involving the government's corporate financial and management systems.

At this date, the Better Systems project is reviewing vendor proposals which, when a successful vendor is selected, will ultimately result in replacement of the government's legacy financial and management systems. The new systems will be implemented on a schedule to fulfill compliance obviously, as well, with the whole year 2000 requirements.

Mr. Sale: Is the office of the Provincial Auditor involved in this process in terms of system requirements deliverables, well, not so much deliverables, but the integration of the PSAAC, the Public Sector Accounting and Auditing Committee. Is the Auditor's office involved in this process so that we are not in the situation where after the fact the Auditor is commenting, perhaps positively, perhaps negatively on something that he could have affected in its development stage?

Mr. Singleton: I will comment on that question in two ways. One, this is of course a major initiative for the government and has very significant implications for how well services can be delivered, so it is one of the initiatives that we are building into our own business plan right now to take a closer look at that project.

I have asked the officials in charge of Better Methods and Better Systems to provide briefing to me on where they are with the project and the kinds of initiatives that are being undertaken. From what I can see, on an anecdotal basis, the people that are managing this program are taking all the prudent steps they can to make sure that the project is delivered on time and within budget. However, it is a very large and complex project, and any project of that magnitude will have some risks associated with it. So it is one of the initiatives I want to do over the next few months is to satisfy myself that those risks are being appropriately managed.

Mr. Sale: Mr. Chairperson, to the minister: Would it not make sense to formally involve the Provincial Auditor's office in this project? I do not think this contradicts the notion of an arm's-length relationship that needs to be maintained. It seems to me it would just be prudent to engage the Provincial Auditor's office at some level, though he may run in horror from this because he does not have the staff time available, but I will take him out to lunch later or something to make up for it. But would it not simply make sense to formally involve the Auditor?

Mr. Stefanson: Mr. Chairman, my understanding is that in the first phase the Provincial Auditor's department has been involved, and we are now going through this vendor process, and it is certainly our intention to continue to have them a part of the process. As well, the Provincial Auditor has outlined that he might take or his department might take additional steps beyond being a part of the process, whatever steps they deem necessary in terms of assessing the project, the risks, and so on. So they have been involved, they do add value to the whole process and it is our intention to keep them involved.

Mr. Singleton: Just a comment that perhaps I can take the opportunity to make here. Since we have not yet had an opportunity to review our plans and our budget with the Legislative Assembly Management Commission, but one of the key issues that we have in our business plan is to strengthen our own use of technology and our ability to evaluate technology within government, and it is my sense that that has to be an important thrust for our office in the future. I guess I would like also to reassure Mr. Sale that we will

involve ourselves in the project to the extent we think is appropriate, whether or not we are invited.

Mr. Chairperson: It may depend on the resources available to the Provincial Auditor's office.

Mr. Sale: There are two very even-handed shots there, and they were both well made, scored at both ends of the court I think.

Obviously, the Auditor will involve himself. I just think that this is a very, very major project, and as public accounting standards are changing and the project is evolving, we get into this problem often in big computer systems of galloping specs and the slowness of the technology overtaking the changes in the requirements. So the Auditor has new requirements coming along because of changes in that whole field, and so I simply make that case, and I hope that there will be a formal involvement.

I would say in response to the initial comment about the Legislative Assembly committee, the committee is advisory to government. It has no power of its own account, and so, if the Auditor requires resources, I think the government has the capacity within its Estimates process to make those resources available, and I would encourage the government to do so.

*(1130)

Mr. Stefanson: Mr. Chairman, it is unfortunate that Mr. Sale chose to say that, because the information we have is he is absolutely wrong on that. The budget has to be set by LAMC and ultimately can be ratified by us. That is why our House leader wrote the NDP House leader on at least two occasions stressing the need for a meeting to deal with requests of the nature that came from the Provincial Auditor, amongst other organizations, and that is why it is really unfortunate that the NDP chose not to participate, because it is for that reason that the only adjustments we could make were the statutory adjustments. As a result, we did not have the opportunity to do the assessment of the legitimate requests coming forward from organizations like the Provincial Auditor and elsewhere.

So I think that has to be made perfectly clear. We did not have the ability as a government. We do not have

the ability to make the decisions to increase beyond the statutory adjustments to organizations like the Provincial Auditor, and it was solely and purely because the NDP refused to participate in LAMC that we were not able to make any adjustments or even do an assessment of the legitimacy of requests from organizations like the Provincial Auditor.

Mr. Sale: In the spirit of the meeting, I will take the minister's comments to our House leader and clarify the information that our caucus has been given in regard to the role of the committee, but I do not think we want to get into that particular debate here.

Perhaps the Auditor could just very briefly comment on the Department of Highways audit. I know we are now two years beyond that. Is that something that we could deal with in our next meeting regarding '95-96, or are there any comments there that need to be made.

Mr. Singleton: Mr. Chairman, I would like to have Mr. Ricard respond to that question.

Mr. Chairperson: Mr. Ricard will respond.

Mr. Norman Ricard (Executive Director, Office of the Provincial Auditor): Thank you, Mr. Chairman. With respect to that audit, we have completed phase 1, and we reported on that in our 1995-96 Volume I report.

Also, with respect to phases 2 and 3, we are on track to having those phases completed for the report that we intend to issue in a couple of months, so that complete audit will be available shortly.

Mr. Sale: Mr. Chairperson, question 12, the reservation continues in regard to vacation pay and pension liabilities for the Superannuation Fund. Could both the Auditor and the minister review for the committee their positions on the matter? Are there any plans to change the manner in which the issue is dealt with?

Mr. Chairperson: The honourable minister, first.

Mr. Stefanson: Mr. Chairman, insofar as vacation pay is concerned, first of all, the accounting policy in the Public Accounts relating to the accrual of vacation pay

was changed in '94-95 so that the liability in March 31, 1995, was in fact recorded. Accordingly, the Auditor's opinion on the 1994-95 Public Accounts did not have a reservation on vacation pay. As noted, the audit opinion did include a reservation because of the unrecorded pension liability estimated at \$1.913 billion, and I think, as we all know, this is comprised of \$801 million for the civil service plan, a billion and 88 million for the teachers' plan and \$24 million for the members of the Legislative Assembly plan.

The pay-as-you-go basis for recording the province's pensions cost was adopted in 1961 as a result of the consultant's recommendation which seemed to reflect the conventional wisdom at that time amongst the provinces. Prior to April 1, 1961, the province matched employee contributions for both the civil service plan and the teachers' plan. The change to the current funding approach was made at that time, based on the consultant's report which said in part, and I quote from the report: We believe it is fundamentally wrong for too much money to be invested in a fund today when it will be paid out sometime in the future when the purchasing power of the dollar will likely be less than at the time of investment.

I am still quoting: We feel that while partial funding is not to be recommended for most employers, a partially funded plan is entirely practicable for a provincial government because it is an organization of a permanent nature. If this change had not been made, obviously, we would not be facing the current dilemma. Nevertheless, the pay-as-you-go basis has been employed by many different administrations in this province, all of which have contributed to the current accumulated liability.

I think in concluding I should point out, as we all know, this issue is identified in a note to our financial statements. All of the readers of our financial statements are well aware of this liability. I was just in Toronto last week meeting with investment dealers, bond rating agencies and so on, and they certainly all are well aware. It is not that this is an issue that is not understood and is not identified. It is well understood by the users and the readers of our financial statements, and even on an all-in basis, when you add in our tax supported debt and this issue, Manitoba today has the second best borrowing rates in all of Canada. Only the

Province of Alberta is borrowing money cheaper than the Province of Manitoba. We are trading through British Columbia. We are trading through Ontario, and they both have higher credit rating agencies, but I think this issue of comparing financial statements across Canada is an interesting and an important one and, unfortunately, various provincial governments deal with different issues in different ways.

The whole handling of capital assets is not dealt with consistently across Canada. I think the government of British Columbia, unless they have changed recently, dealt with our capital assets outside of basically their Volume 1. The issue of the movement and the speed of moving to accrual accounting is at different stages. The issue of rolling in the revenues from other agencies, other Crown corporations and so on, is at different stages in different provinces, so when you start trying to compare financial statements of provinces right across Canada it is probably unfortunate for readers that there are many differences.

I would argue, that in Manitoba, ours are done amongst the most comprehensive basis, but I do acknowledge this concern expressed by the Auditor. I have had a discussion with him. It is certainly our intention to move towards ultimately including it in our balance sheet and starting to reflect it through our statements, so it is an issue that we take very seriously and we will be addressing in conjunction with the Provincial Auditor.

Mr. Singleton: I do not know how much I can add to that except, I guess, to support some of what the minister is saying in terms of our position on the issue of the pension accounting. Methods of accounting for government are an evolving thing, and as the minister rightly points out they are not necessarily consistent from jurisdiction to jurisdiction. I know when my brother and sister Auditors General and Provincial Auditors from across the country get together, we all tend to lament that we have not yet achieved the perfect world of consistent accounting amongst the provinces, but we all have it as a goal that we are encouraging our respective jurisdictions to undertake.

I guess with respect to pensions, particularly, I would have to say that it is an issue of increasing concern for me just because we are rapidly becoming the odd

province on that particular issue. I am very—as the minister has alluded, I met with him to discuss my concerns with him on a face-to-face basis. I am hopeful that we can find some means to begin working towards resolving this issue in the near future, but in the meantime I have asked my staff to go back and examine the guidelines and the significance of this matter and assess how we might proceed based on different scenarios that might be happening in the future with respect to this liability.

Mr. Sale: I thank both the minister and the Auditor for those answers.

I detected in the last two sentences of the minister's answer some movement on this issue, which I do not think we have had in the past in terms of a willingness to look at a change or an intention of looking at a change. I know it is difficult from a fiscal perspective. Although everyone, as the minister has said, everyone from the bond rating agencies to those of us on both sides of the House know that this money is being paid out. It is just that it is being reflected in Volume 3 and not Volume 1. So it does not really change the bottom line. It does change Volume 1.

Can the minister elaborate a little more on what he meant by his last couple of comments in terms of moving towards a change?

* (1140)

Mr. Stefanson: Somewhat. We are obviously looking at other jurisdictions in terms of how they have been dealing with the issue. As the Auditor pointed out, most provinces have now made various degrees of progress in terms of the reporting of this issue, but it is still not done consistently even between those provinces that have made adjustments. We are looking at how some of the provinces have moved forward with the issue. My officials are obviously doing work on the entire issue, as the Provincial Auditor mentioned his officials are. I am sure we will be meeting shortly to be sharing information and determining how we can start to move forward with reflecting this item.

I want to say again I am very proud of our system of reporting, how comprehensive our statements are on an overall basis and the quality of our information, the

quality of our reporting. That is acknowledged by the investment community, by people who invest in Manitoba bonds, and so on. But this is an outstanding matter that dates back to 1961, and it is one of those issues not unlike the Canada Pension Plan. Whoever gave the governments of the day the advice on the Canada Pension Plan, today we have a \$500-billion unfunded liability there and finally some steps being taken to try to address that. It is an issue that I and our government take very seriously, and we will be pursuing it with the Provincial Auditor and hopefully coming up with some ways of moving forward on the issue.

Mr. Sale: Mr. Chairperson, this is not specifically in this question. The minister may object if he wishes, but part of that whole discussion probably also involves some of the PSAAC suggestions around capital accounting because it appears that the objective there is to move towards some kind of depreciation approach on capital spending, if I am remembering correctly. That might offer an opportunity to make the changes without having the kind of impact that might seem to be a difficulty, although as we all know, the pension issue is there now; it is just a question of which volume it is in. Is there also consideration being given to the capital accounting framework?

Mr. Stefanson: I think we will wait for the PSAAB report, the Public Sector Accounting and Auditing Board. Some provinces have made some adjustments. I would argue that ours, by writing off all of our capital on an annual basis, is probably a more conservative approach in terms of our bottom line. Again, if we want to go back to this whole issue of comparability and which way your surplus swings as a result of transactions, that would be one that would actually add to our surpluses by changing that approach. But we are going to wait for the PSAAB. We obviously will have discussions with the Provincial Auditor and are obviously looking at other jurisdictions.

I know some jurisdictions have made some adjustments, so it goes back to the same concern that I have, and the Provincial Auditor has, is in an ideal world it would be nice to have every provincial government do their statements identically. I am not so sure we will ever get to that stage, but I think the more issues we get that we deal the same I think it does make

all of our statements more user friendly and more readily understandable to all the people who use our statements. We will be waiting for the PSAAB report on capital assets.

Mr. Singleton: I did not have anything specific to add. Well, a couple of things on the capital asset thing. Recently, the Manitoba Liquor Control Commission decided to adopt a policy for capitalizing its fixed assets. One of the interesting things that came out of that was that the actual effect on the annual bottom line was not all that significant. It changes the accumulated surplus, but once you capitalize things you have to start taking depreciation. The depreciation can be either greater or less than the amount that is being spent in any particular year so that it is not immediately obvious. You know, you have to do an analysis in order to assess what the actual effect might be on a given year's bottom line of different depreciation policies.

The other thing, I just wanted to correct what I think may be a misperception on the part of Mr. Sale, and that is that you have indicated I think a couple of times that the pension is recorded in Volume 3. In fact, it is not recorded there either. We also qualify our opinion on that set of financial statements for the same issue.

Mr. Sale: Mr. Chairperson, I believe there is a note which gives the amount of the liability. That is not in Volume 3; it is simply in your reservation? Is that the only place it occurs?

Mr. Stefanson: Mr. Chairman, it is the same note in both. There is a note in Volume 1 and Volume 3, and that is why I say, in terms of any user of our financial statements the information is readily apparent, but it is reflected in both Volume 1 and Volume 3.

Mr. Sale: I appreciate the Auditor's comments. It was the note to which I was referring that occurs in both. I understand what your point is.

Can we move on to 13. It should be a very simple question. Are the recommendations that the Auditor made in regard to requiring audited statements from mineral exploration companies being adhered to now?

Mr. Stefanson: Mr. Chairman, the MEIP program or the Mineral Exploration Incentive Program, as reported

on by the Provincial Auditor, no longer exists and has been replaced by two new programs, as the member knows; namely, the Mineral Exploration Assistance Program and the Petroleum Exploration Assistance Program. The three junior exploration companies originally involved in the MEIP program have since submitted their audited financial statements and all of the Auditor's suggestions, particularly with respect to program administration, have been taken into account for the two new programs.

Mr. Sale: Mr. Chairperson, I am keeping my eye on the clock here. The special audit of health issues raised a number of issues but, in particular, there is this question of outstanding claims. In some cases, those claims go back a number of years. Now that we have moved into a new world, we still have urban hospitals with claims, I am sure. The rural ones probably have been superseded by the issue of regionalization.

Is there some process by which this long wrangle over claims is going to be dealt with in a more expeditious way rather than having outstanding claims affecting hospitals for years at a time?

Mr. Stefanson: Mr. Chairman, I am told that all outstanding year-end reviews of the financial positions of the facilities up to and including fiscal year '93-94 have been completed and the accounts settled. All 1994-95 facility reviews are also complete and settled with the exception of some facilities in the Westman and Central regions. Some facility reviews have been completed for the year ending '95-96, and I guess the other questions raised are really not related to the '94-95 Provincial Auditor's Report. I believe the Department of Health has indicated they would be better able to address them during the Estimates debate and are certainly prepared to do so.

I think my review of these next questions is that they pertain to periods beyond '94-95, and we might be at an appropriate stage to pass the '94-95 Volumes and then move into these questions and then whatever stage we get to at noon, they can carry over to a subsequent meeting.

Mr. Sale: I think that is a reasonable suggestion, Mr. Chairperson.

Mr. Chairperson: Public Accounts, Volumes 1, 2, 3 and 4 for the year ended March 31, 1995–pass. Report of the Provincial Auditor, Volumes 1, 2, 3 and 4 for the year ended March 31, 1995–pass. The committee has lived up to its commitment and passed these two old reports.

Mr. Sale: Mr. Chairperson, if it would be possible to have an agreement that we would go till 12:30 in our next meeting, I would propose that we call it twelve o'clock and adjourn. I think that it has been a useful meeting and make that progress rather than starting on the next series of questions, because I would propose to

submit a different agenda that would contain these questions but would have some additional items in them as well.

Mr. Stefanson: Mr. Chairman, I think we can agree to that.

* (1150)

Mr. Chairperson: If it is agreeable to all the committee members, twelve o'clock. Committee rise.

COMMITTEE ROSE AT: 11:50 a.m.