SUBMISSION: Modernizing Manitoba's Financial Accountability Legislation

The Manitoba Chambers of Commerce

Entrepreneurial Spirit ● Community Values

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INTRODUCTION:

The Manitoba Chambers of Commerce is the umbrella organization for Manitoba's Chamber movement. With a membership comprised of 75 local chambers and 350 direct corporate members, in total we represent over 10,000 businesses across Manitoba.

Our membership is not confined to any specific region within Manitoba. Nor do we represent only one size of business. In fact, the Manitoba Chambers represents the entire spectrum of business, from sole proprietorships to some of the largest companies in Manitoba. Nor do we represent only one particular sector of the economy. To cite but a few examples, our membership includes representatives within services industries, manufacturing, transportation, mining, information communication technologies, and agriculture.

The Vision of the Manitoba Chambers is as follows:

- Policy development that brings together businesses of all sizes, from all sectors, and communities across Manitoba;

- Non-partisan public debates of integrity, that criticize government where necessary, praise government where warranted, and disdain personal attacks and exaggeration;

- A business community that demonstrates high ethical standards in all it does;

- Businesses dedicated to the vitality of their communities, the prosperity of their employees and the sustainability of the environment;

- A province that understands the nature and value of entrepreneurship and promotes the competitive enterprise system;

- A provincial government with sound, long-term economic strategies that are focused without ignoring opportunity, flexibility and diversity;

- Government policies and spending that are efficient and effective, delivering the programs that Manitobans need and helping the disadvantaged; and

- A Manitoba that promotes the progress of all its citizens toward individual freedom, dignity and prosperity, and opposes any form of negative discrimination or needless control.

The Manitoba Chambers thanks the Government of Manitoba for the opportunity to present its views in relation to modernizing Manitoba's financial accountability legislation. The government is to be commended for its continuing efforts to enhance fiscal transparency and accountability and, in particular, in responding to the concerns of

Manitoba's Auditor General.[1] As well, the government deserves high praise for embarking on a process that includes commissioning reports, making them public and then inviting Manitobans to provide their views.

How a government accounts for and manages its finances will have a profound impact upon both present and future generations of its citizens. These issues are often complex and challenging. Accordingly, in preparing this submission the Chambers conducted extensive research including a review of Manitoba's Provincial Budgets since the creation of Manitoba's Balanced Budget Legislation in 1995; a review of the current budget, budget speech, budget day news releases, and balanced budget legislation (if any) of each province; the last two audits of the provincial accounts by Manitoba's Auditor General; PowerPoint presentations made by the Auditor General of Manitoba to the Manitoba Chambers on April 21, 2004, March 15, 2005 and March 14, 2006; and, of course, the two recent reports prepared by Deloitte.

Some preliminary comments are warranted in relation to Deloitte's report, "Modernizing Manitoba's Financial Accountability Legislation" (hereinafter 'Deloitte's report'). While this submission will express some concerns in relation to the recommendations put forward by Deloitte's report, it is important to note that the Chambers endorses the recommendations save and except for one major proviso.

Grappling with the issues entailed by the move to Generally Accepted Accounting Principles (GAAP) is a difficult task, involving a veritable Gordian knot of intricate and often competing policy judgments. Deloitte's report tackles these matters in a way that is accessible, informed and principled. In fact, the Chambers strongly endorses the key principles identified by Deloitte, in particular the objectives of:

- Transparency: "Access by financial statement users to full, complete and understandable information."[2]

- Accountability: "Those accountable for a particular financial outcome should be held responsible, through the monitoring of measurable financial targets, to achieve the performance objective."[3]

- Consistency: "Measurement of financial matters, including performance measures, should be prepared in the same way each time. A consistent framework or approach to measurement should be used."[4]

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[1] Jon Singleton was Manitoba's Auditor General from 1996 until July 2006. Manitoba's current Auditor General is Carol Bellringer, who was appointed to the position in July 5, 2006. All the comments attributed to the Auditor General's office in this submission were made during Mr. Singleton's tenure.

[2] Deloitte, "Modernizing Manitoba's Financial Accountability Legislation", June 2006, p.15. http://www.gov.mb.ca/finance/reports/pdf/balanced_june9.pdf

[3] Deloitte, p. 16.

[4] Deloitte, p. 16.

- Simplicity: "The Province's reporting on financial matters should be readily understandable to citizens, without regard for their level of financial literacy."[5]

Deloitte should be commended for its work in this regard.

BACKGROUND:[6]

The Manitoba Government's fiscal reporting/accounting has three key elements:

- **The Balanced Budget Legislation (BBL)**[7]: Created in 1995, this legislation reflects certain policy decisions in relation to the way the government should handle its finances. For example, except in certain special circumstances, it requires the government to balance the budget each year or suffer penalties. It also requires a referendum if tax increases are contemplated and mandates payment on the government debt.

- **The Operating Fund:** This fund "… is comprised of the revenues and expenses of the **Government departments** that are accountable to the legislature."[8] (Emphasis added) When the BBL talks about a balanced budget it focuses on the Operating Fund.

- **The Summary Statements**: Of course, the provincial government is much more than the sum of its departments; it includes a wide array of crown entities, agencies and enterprises all with varying degrees of independence from the operations of the Premier and the Cabinet. The Summary Statements provide a broad cross-section of these entities and include the Operating Fund.

For a number of years Manitoba's Auditor General has been expressing concern that the fiscal accounting/reporting of the Manitoba Government does not comply with GAAP.[9]

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[5] Deloitte, p. 16.

[6] Those familiar with the terms and issues involved in the government's move to GAAP and Deloitte's recommendations in this regard may wish to skip to the next section.

[7] The actual name of this legislation is The Balanced Budget, Debt Repayment and Taxpayer Accountability Act, but it is more commonly known as the Balanced Budget Legislation.

[8] Deloitte p. 6

[9] GAAP for the federal and provincial governments is established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

GAAP places a number of demands on a government's fiscal system:

- *It tells government what to count:* GAAP says the government's financial statements must include all entities 'controlled' by government. GAAP defines 'control' very broadly and would include universities, colleges, pubic schools, special operating agencies, and crown organizations like Hydro and the Manitoba Public Insurance Corporation. The Operating Fund falls well short of this standard and even the much broader Summary Statements will have to be expanded to be GAAP compliant.

- *It tells government how to count:* For example, expenses must be recorded when the cost is incurred, not when it is paid.

- *It is opposed to inter-fund transfers:* The BBL allows the use of the Rainy Day Fund to balance the budget. This is simply one government account (the Rainy Day Fund) transferring to another, and accordingly is not GAAP compliant.

There are huge advantages in moving towards GAAP. It has the integrity of formally being sanctioned by the PSAB and gives citizens the 'total picture' on government finances. However, for all its benefits, GAAP poses at least three fundamental challenges:

- If one includes an extremely broad definition of the public sector in the government's fiscal picture, how do you still manage to keep track of the departmental revenue and expenditures that are directly under the control of the government? In other words, how do we make sure we do not lose the forest for the trees?

- Many of the entities included in the expanded definition of the public sector make day-to-day decisions through their own management and answer to their own Board. As a result, while the government can influence the long-term policy direction of these entities, its ability to impose immediate 'hands on' decisions is very limited. Further, these entities can have rapid income swings from year to year that do not necessarily reflect the quality of management. For example, Hydro can have huge revenue swings due to the level of precipitation Manitoba may receive in any given year. Given the government's relative lack of control over these entities and their financial volatility, is it still appropriate to expect the government to balance the budget each year?

- If expenses have to be listed before they are actually paid, is it fair or even beneficial to expect the government to balance its budget each year?

Deloitte's report makes twelve recommendations designed to help the government address these issues (and many more) while honouring the goals of transparency, accountability, consistency and simplicity.[10] The Manitoba Chambers endorses the bulk of those recommendations, in particular the recommendation to maintain the Debt Repayment Fund. The concerns of the Manitoba Chambers centre on the following recommendations:

> Recommendation 5. A single BBL measure should be developed to assess compliance with the new legislation. We suggest that this BBL measure be developed based on three principles:
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> a) It should be based on the surplus or deficit information reported in the Statement of Revenues and Expenses within the summary financial statements.
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> b) The measure of BBL compliance should be a multi-year measure.
>
> c) The measure should provide some flexibility to provide the Government with an opportunity to respond to extraordinary circumstances.
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> Recommendation 7. There should continue to be accountability of the Government for the spending of revenues directly within its control. Therefore:
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> a) It would be desirable for the government's annual financial management strategy to establish targets for spending through the Legislature's approved estimates.
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> b) The Government's post year end annual report should then contain a specific comparison of the actual revenues and expenses incurred during the fiscal year with the departmental estimates included in that year's budget. This comparison would be outside of the audited GAAP financial statements, as it is a non-GAAP measure.
>
> c) The government could retain the Fiscal Stabilization Fund (in concept and in practice) to enable transfers to and from this fund to be available, as permitted under the current BBL, to balance the Operating Fund revenues and expenses.

[10] The recommendations in their entirety are attached as Appendix 1 to this submission.

FISCAL ACCOUNTING VS. FISCAL MANAGEMENT; AND WHERE THE BBL FITS IN

There is a fundamental difference between reporting on finances (i.e. fiscal accounting) and reporting on fiscal management. Deloitte recognized this distinction when it identified the separate principles of 'financial management objectives' and 'financial reporting objectives' on page 15 of its report.

A report on fiscal accounting tries to provide a complete and objective picture so that the reader can make his or her own judgment on what is important. Fiscal management is about making policy judgments, and such judgments are subjective and help define what is important. As a result, reporting on fiscal management provides the information needed so that the reader can determine whether the entity involved is living up to policy judgments that have already been made.

There is often an underlying tension between the objective/complete picture of fiscal accounting and subjective/nuanced world of fiscal management. It is similar to the friction between the cattlemen and the sheepherders of the old west, only here the battle over grazing rights involves the field of public perception. Is the public better off knowing the whole picture, risking information overload and confusion, but having the chance to come to its own conclusions? Or is the public better off seeing a more focused picture that reports on the government's efforts to live up to previous policy commitments, with the risk that it doesn't see the complete picture?

It is important to note that the public policy world of fiscal management is outside of the purview of the Auditor General. Consider these comments made by the Auditor General during a presentation to the Manitoba Chambers:

> "No role for AG [Auditor General] in public **policy debates** on the following:
> - Taxation policies
> - **Spending choices**."[11] [Emphasis added]

The BBL involves a 'spending choice', a fiscal management commitment by government to live within its means. As such, it involves aspects that are outside the purview of the Auditor General and, by and large, even GAAP. In the words of Deloitte:

> "Manitoba's Balanced Budget legislation is intended to enhance the accountability of the Government to Manitobans for its financial management practices. Therefore, information contained in GAAP compliant reports will be used to make this assessment. However, GAAP, itself, does not contain or dictate a particular measure as the preferred or primary means of assessing financial management performance."[12]

[11] Auditor General, presentation to the Manitoba Chambers of Commerce, March 15, 2005, slide 27. Available at www.mbchamber.mb.ca.
[12] Deloitte, p. 3.

This is a crucial point and therefore bears repeating: the fiscal accounting of GAAP does not dictate the nature of our BBL, a fiscal management tool. Therefore, before we consider a new BBL, it is important to remind ourselves of the policy reasons for our current BBL and what it has accomplished.

Introduced in 1995, Manitoba's BBL was hailed by the Canada West Foundation and the International Centre for the Study of Public Debt as the best balanced budget law in Canada.[13] At the time, servicing the public debt cost $592 Million, consuming 11.7% of all government revenue. This was 'good' enough to make debt servicing the government's fourth biggest department, behind only health, education, and family services.

According to the 2006 Budget, public debt costs now consume 3.2% of revenue, or $282 Million. Granted, improvements in the economy since 1995 and increased federal funding have helped matters, but make no mistake; the BBL played a key role in helping lower those debt costs.

The role of the BBL in this regard was acknowledged in the Deloitte report: "We believe that the most important element of the existing BBL is that it imposes a level of fiscal discipline upon the Government. This discipline is achieved through the legislated constraints on spending and the requirements to provide funding for the debt repayment and pension plan contributions."[14]

Indeed, the high regard for the value of the BBL was such that preserving it was one of the five key commitments when the current government was elected to its first term.[15]

The question then becomes, 'Will Deloitte's recommendations, in particular the move to a four-year window for balancing the budget, adequately maintain fiscal discipline and the need for transparency, accountability, consistency and simplicity in relation to the government's fiscal reporting?'

CONCERNS REGARDING GAAP & A FOUR-YEAR BALANCED BUDGET:

1) Rapid & Extreme Changes in the State of the Summary Statements Will Diminish Accountability

Manitoba's Auditor General has long made the point that focusing on the limited areas of the Operating Fund creates a 'misleading by omission' picture of the state of the Province's finances.

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[13] Budget Address, The 1996 Manitoba Budget, p. 24.
[14] Deloitte, p. 7.
[15] Budget Address, The 2000 Manitoba Budget, p. 1.

For example, while the 2004 Operating Fund suggested a surplus of $13M, he wondered how many Manitobans were aware that the Summary Financial Statements, the more complete picture, revealed a deficit of $604M. He emphasized the significance of this issue by pointing out that deficit was the second largest since the inception of the Summary Financial Statements in 1988.[16] This would seem to be a troubling number indeed, except for the fact that in the following year the Summary Financial Statements reported a surplus of $600M – a $1.2B turnaround.

This swing was the direct result of the state of Hydro's finances. However, the volatility introduced to the Summary Statements will not stop there. In addition to Hydro, GAAP would include the following in the Summary Statements: the Manitoba Public Insurance Corporation, the Manitoba Crop Insurance Corporation (since amalgamated with Manitoba Agricultural Credit Corporation to create Manitoba Agricultural Services Corporation), the Manitoba Lotteries Corporation and the University of Manitoba. Deloitte had this to say about the fiscal swings experienced by those entities:

> "The extent of the volatility of their operations is significant. When assessed over the most recent ten year period, Manitoba Hydro is the most volatile. The absolute value of the variance between its best and worst financial result over that decade is almost $900 million. For the remaining four organizations, this same measure was $60 million for the least volatile (University of Manitoba) and $175 million for the most volatile (Manitoba Public Insurance Corporation)."[17]

The point here is not to suggest that we abandon the Auditor General's call for an all-inclusive financial report. However, there is a concern that the wild swings in the summary financial statements could reduce the alarm that is normally warranted in relation to significant deficits. Why worry about a near-record deficit of $600M when the next year can bring a surplus in the same amount? This, in turn, could reduce the pressure on the government to live within its means.

2) Lack Of Control Will Diminish Accountability

While the volatility of the Summary Financial Statements in and of itself could dampen the public's concern over deficits, that affect will be made all the worse when the public learns those swings often have nothing to do with the quality of the government's fiscal management. Indeed, conveying how little control the government has over its finances was one of the reasons the Auditor General recommended the expansion of the Summary Statements:

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[16] Office of the Auditor General, Audit of the Public Accounts for the year ended march 31, 2004, p. 5.
[17] Deloitte, p. 13.

“A primary driver of the 2003/04 results were the losses incurred by Manitoba Hydro (a well run company) because of a severe drought in Manitoba. By failing to discuss the negative financial results in its press release, **the government missed an opportunity to demonstrate how events beyond the government’s control can dramatically change results from those planned**.” [Emphasis added][18]

Again, while it is important to include the entire picture, it seems counterintuitive to expect real accountability for fiscal management when you set up a system that highlights the government’s lack of control.

3) Confusion Over the Quality of Fiscal Management Will Undermine Accountability

To calculate whether a budget is balanced, Deloitte recommended a four year system where the government would use the current year that is being reported on plus each of the three preceding fiscal years (hereafter referred to as the “rolling four year calculation”).[19]

Deloitte offered the following hypothetical as an example of how the rolling system would work (the highlighted row is the BBL calculation):[20]

Table 1 (All figures are in millions of dollars)

	2x01	2x02	2x03	2x04	2x05	2x06	2x07	2x08	2x09	2x10
Surplus (deficit) in the Annual summary financial statements	$(135)	$ 425	$ (25)	$(100)	$ 150	$ 450	$ 175	$(100)	$125	$(225)
Balanced Budget Measure				**$ 165**	**$ 450**	**$ 475**	**$ 675**	**$ 675**	**$ 650**	**$ (25)**
Compliant with BBL?				Yes	Yes	Yes	Yes	Yes	Yes	No

Note: The Balanced Budget Measure is calculated as the aggregate surplus (deficit) for the current year and the three preceding years. [Emphasis added]

Using Deloitte’s hypothetical in Table 1, consider how the public would wrap its mind around the following:

- In 2007, there would be an annual surplus of $175M and the rolling total would be $675M;
- Then, in 2008 there would be an annual deficit of $100M, but the rolling total would stay at $675M;

[18] Office of the Auditor General, Audit of the Public Accounts for the year ended March 31, 2004, pp. 19-20.
[19] Deloitte, p. 28.
[20] Deloitte, p. 28.

- In 2009 there would be annual surplus of $125M, but the rolling total would drop to $650M;

- In 2010 there would be an annual deficit of $225M, but the rolling total would drop by $675M to a rolling deficit of $25M.

Note the disconnect between the current year's results and the change to the rolling fund. The reason for that disconnect is in the nature of a rolling system. As indicated, a four year rolling total includes the current year and the preceding three years. As such, when it moves to the next year it adds the new year and drops off the oldest year from the previous tally. We have the above disconnect because for each year in our hypothetical the new year made less of an impact than the 'old' year that dropped off the tally.

When a measure turns more on the arbitrary dropping off of a number from five years ago as opposed to current management per se, government will blame the fiscal picture on the arbitrariness of the system, not its own management. Indeed, the government's argument would have some merit. As a result, the credibility of the four-year measure would suffer. Consider how a government's comments would likely play out in the hypothetical in Table 1:

- In 2007, there would be an annual surplus of $175M and the rolling total would be $675M. *Hypothetical Government statement: "The annual surplus of $175M and a rolling surplus totaling $675M means that the finances are well-managed and Manitoba's fiscal situation is sound."*

- Then, in 2008 the annual deficit would be $100M, but the rolling total would stay at $675M. *Hypothetical Government statement: "Times were hard this year, necessitating an annual deficit, but the rolling surplus of $675M confirms that our overall fiscal management is sound and, in fact, demonstrates how we have put Manitoba in a position to brace fiscal shocks."*

  Note that this situation does not require a fiscal emergency (a severe drop in revenue or an environmental disaster) for the government to be able to argue for a annual deficit when the rolling fund is in a surplus: *Alternative Hypothetical Government statement: "We ran an annual deficit because of increased spending, but we chose to do so to meet the needs of Manitobans in health care, education and infrastructure. A rolling surplus of $675M confirms that our fiscal management remains sound – our history of prudent fiscal management means we can run an annual deficit to help meet the needs of Manitobans today."*

- In 2009 the annual surplus would be $125M, but the rolling total drops to $650M. *Hypothetical Government statement: "We ran a deficit last year but today's annual surplus of $125M confirms that we remain committed to long-term fiscal management. The rolling surplus dropped by $25M, but* *that is largely due to the four-year tally dropping off a particularly good year in 2005 when we ran a surplus of $150M. The fact of the matter is the rolling total is at a healthy $650M, confirming our finances are well-managed and Manitoba's fiscal situation is sound."*

- In 2010 the annual deficit is $225M but the rolling total would drop by $675M to a deficit of $25M. *Hypothetical Government statement: "Times were hard this year, necessitating an annual deficit. Yes, the rolling account is in a deficit of $25M, but that is largely due to the fact that a surplus of $450 in 2006 came off the rolling four year calculation. This was a perfect storm where we were hit with some bad times and a really good year came off the rolling tally."*

In response to this point one could say that we are dealing with hypothetical numbers and they could just as easily be neutral in the dropping off of the fourth year. For example say that for the last six years the government ran an annual surplus of $50M, then you would not have a huge impact from year to year as the four year calculation is adjusted. While this is true, the hypothetical numbers suggested by Deloitte could happen, therefore the concern remains valid.

Secondly, even the six-year string of $50M surpluses raises a concern about a rolling four calculation. In a four year calculation the three years will most likely predominate over the status of the current year. This, in turn, creates a false impression of fiscal flexibility that can quickly turn into a situation that ties the government's hands. To demonstrate this possibility, consider Table 2, a hypothetical that builds on the six-year string of annual surpluses of $50M and then has the government enter into a fiscal emergency:

Table 2 (All figures are in millions of dollars)

	2x01	2x02	2x03	2x04	2x05	2x06	2x07	2x08	2x09
Surplus (deficit) in the Annual summary financial statements	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$(100)	$ 0	$ 0
Balanced Budget Measure				**$ 200**	**$ 200**	**$ 200**	**$ 50**	**$ 0**	**$ (50)**
Compliant with BBL?				Yes	Yes	Yes	Yes	Yes	Yes

Note: The Balanced Budget Measure is calculated as the aggregate surplus (deficit) for the current year and the three preceding years.

Note how year 2006 has a rolling surplus of $200M which would seem to attest to the fact that the government's finances are well managed and it has some flexibility to deal with fiscal challenges. Such a fiscal challenge hits in 2007 causing an annual deficit of $100M. However, that doesn't reduce the rolling fund by $100M, it reduces the rolling fund by $150 because in addition to having to deal with the 2007 annual deficit the rolling fund cuts off the $50M year surplus in 2003. The government tries to weather the reverberations of the crisis of 2007 and valiantly balances the annual budgets in 2008 and 2009. Despite this effort, the rolling fund would drop to $0 in 2008 and to a deficit in 2009.

In this situation the government will again try to minimize the import of the four year tally by highlighting its arbitrary nature.

This illustration also demonstrates how the rolling fund can put the government in fiscal 'double jeopardy' when hard times hit because not only will it have to deal with the immediate impact of those fiscal troubles, it may well have to cope with a previous surplus dropping off the books. This can quickly tie the hands of government as it seeks to respond to a crisis. This leads to the next concern.

4) Lack of Control (part 2)

The rolling four year calculation is designed to provide an "… opportunity for the Government to manage the GRE ['GRE' stands for government reporting entity and essentially means the Summary Fiscal Statements] broadly **to ensure that any deficits which are incurred are 'made up' over the following three years**."[21] [Emphasis added]

However, there is a challenge insofar as the rolling four years look more to the past than the future. In other words, in the event of a substantial deficit in the current year the government will not have three years to resolve it; instead, the previous three years determine what flexibility the government will have. This may limit rather than enhance the government's flexibility to respond to these challenges, and yet 'enhanced flexibility' is one of the key reasons for suggesting the rolling four years.

To see just how debilitating this can be, Table 3 returns to the last four years of Deloitte's original hypothetical and adds an additional year where the government was able to balance the annual budget after a fiscal crisis in 2010:

Table 3 (All figures are in millions of dollars)

	2x07	2x08	2x09	2x10	2x11
Surplus (deficit) in the Annual summary financial statements	$ 175	$(100)	$125	$(225)	$ 0
Balanced Budget Measure	**$ 675**	**$ 675**	**$ 650**	**$ (25)**	**$(200)**
Compliant with BBL?	Yes	Yes	Yes	No	No

Note: The Balanced Budget Measure is calculated as the aggregate surplus (deficit) for the current year and the three preceding years.

For starters, the public would have to grapple with the idea that the rolling deficit was only $25M in 2010 (while the annual deficit was $225), and then ballooned to a rolling deficit of $200 even though the annual budget was balanced the next year. But the key here is 2010 still ran a rolling deficit as opposed to "having three years to make up the deficit". As well, 2011 will be particularly hard hit as a) there was an annual deficit of

[21] Deloitte, p. 28.

$225 in the previous year; b) the $175 annual surplus of 2007 drops off the four year running tally and c) it still has an annual deficit of $100 from 2008 in the tally. 2011 would have to run an annual surplus of $200M to meet Deloitte's proposed BBL.

The misperception over 'control' does not stop there. The Summary Financial Statements can convey a misleading impression about the funds under the control of (i.e. available to) the Government of Manitoba. Consider the year 2007 in Table 3: an annual surplus of $175M and a rolling surplus of $675M. While it sounds like the government has significant fiscal flexibility, all of that money may be due to a surplus in entities like Hydro, Manitoba Public Insurance Corporation, the University of Manitoba and the Manitoba Agricultural Services Corporation. In such a situation the government may have difficulty (actually or from a public perception point of view) accessing those funds.

Consider those circumstances and add a crisis that is made worse by a lack of government spending. Imagine the government trying to explain to the public why it did not spend more even though there is an annual surplus of $175M and a rolling surplus of $675M.

There is a fundamental disconnect between the impressions created by the rolling BBL and the government's actual ability to manage a fiscal crisis.

Each time government is compelled to quell criticism by pointing out the lack of control it has, the arbitrary nature of the calculation, or the false impression created by the rolling four year tally it will undermine the system's credibility and, in the process, the government's accountability.

5**) Confusion Over Fiscal Management Will Undermine Accountability (Part 2)**

As indicated, the fiscal swings and lack of control involved in moving to GAAP-compliant Summary Financial Statements prompted Deloitte to recommend a four-year rolling calculation for the balanced budget. This submission has suggested the rolling four year tally could diminish the quality of the government's fiscal management by causing confusion over the actual state of the finances and, ironically enough, reducing the government's flexibility in responding to a crisis. These concerns are confirmed and then amplified when the logic of what Deloitte is proposing requires it to make a further recommendation.

Noting the extreme revenue swings that are possible when an entity like Hydro is involved, Deloitte proposes that the new four-year BBL also allow the exclusion of certain losses from the calculation when those losses are substantial and due to uncontrollable factors.[22] Deloitte provides the following example where the hypothetical loss is $625M in 2005:[23]

Table 3 (All figures are in millions of dollars)

	2x01	2x02	2x03	2x04	2x05	2x06	2x07	2x08	2x09	2x10
Surplus (deficit) in the Annual summary financial statements	$(135)	$ 425	$ (25)	$(100)	$(475)	$ 450	$ 175	$(100)	$125	$(225)
Loss designated for exclusion					**$ 625**					
Adjusted Surplus (deficit) used for BBL purposes	$(135)	$ 425	$ (25)	$(100)	$ 150	$ 450	$ 175	$(100)	$ 125	$(225)
Balanced Budget Measure				**$ 165**	**$ 450**	**$ 475**	**$ 675**	**$ 675**	**$ 650**	**$ (25)**
Compliant with BBL?				Yes	Yes	Yes	Yes	Yes	Yes	No

Note: The Balanced Budget Measure is calculated as the aggregate surplus (deficit) for the current year and the three preceding years. [Emphasis added]

Note the following concerns:

- The amount of the excluded loss in 2005 is $625M even though the annual deficit ($475M) was considerably less.
- If the rolling calculation occurred without excluding the $625M it would only produce a rolling deficit of $175M, yet it is suggested all of the $625M be excluded.
- There is an annual surplus of $450 the next year, the highest annual surplus in the hypothetical, yet there is no indication that any part of the excluded loss in 2005 should be added back to the calculation.

Each of the above concerns relate to a level of arbitrariness in the how the government can choose the ultimate ‘bottom line’. Ironically, this type of arbitrariness prompted the Auditor General to criticize the original Rainy Day Fund:

[22] Section 3(2) of the current BBL allows for three exceptions to the requirement to balance the budget: a natural or other disaster, war or apprehension of war and a reduction in revenue of more than 5% that is not due to tax relief. The move to GAAP has compelled Deloitte to recommend a new category, “Regulatory decisions” for example, “… the Public Utilities Board could require Manitoba Public Insurance Corporation to control or lower rates so as to ‘use up’ a surplus generated by previous operations. Such a decision would implicitly preclude future profits from ‘making up’ the resultant losses.” Deloitte, pp. 23-24. Further, while Deloitte leaves it to the government to define the nature of the emergencies that would warrant exclusion from the BBL calculation, the government may wish to consider the definition of “extraordinary items” in the Accounting Handbook of the Accounting Standards Board.

[23] Deloitte, p. 29.

> "This allows government to choose its bottom line (rather than reflect real changes in economic circumstances in its Operating Fund Financial Statements)."[24]

The recommended system of exclusion would also fail to 'reflect real changes in economic circumstances' and would not comply with GAAP. This arbitrariness could cause confusion over the government's 'real' fiscal management and further undermine accountability.

6) New Territory

As noted by Deloitte, BBL provisions vary significantly across Canada.[25] Seven of the ten provinces have some manner of BBL. Of those, only Quebec, Saskatchewan and New Brunswick look at a calculation that goes beyond a year.

Quebec allows that if the government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus.[26] Saskatchewan and New Brunswick look at a four year horizon for their balanced budget calculations. Interestingly, both systems begin the calculation with a forward looking approach as opposed to Deloitte's proposal which always ties the government to the immediately proceeding three years.[27]

This does not mean Deloitte's approach is necessarily invalid, being unique is no crime. However, it does suggest that Manitoba should proceed cautiously.

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[24] Manitoba's Auditor General, April 21, 2004 Presentation to MCC, Slide 17. Available at www.mbchamber.mb.ca. The Auditor General did acknowledge that emergencies/severe drops in revenue as a result of the move to GAAP would pose policy challenges for government and even went so far as to suggest the a multi-year time horizon as a possibility to deal with these challenges. However, to date we have found no indication that the Auditor would endorse a system that excludes emergencies as proposed by Deloitte.

[25] Deloitte, p. 8.

[26] Balanced Budget Act, R.S.Q., chapter E-12.00001, Section 9.

[27] In Saskatchewan, after each general election the government must prepare a four-year plan that is balanced. The Balanced Budget Act, Chapter B-0.01, Section 3. New Brunswick's Fiscal Responsibility and Balanced Budget Act requires the government to balance the budget from April 1, 2004 to March 31, 2007, from April 1, 2007 to March 31, 2011 and for each four year period thereafter. Chapter F-14.03, Sections 1(1) and 2.

THE NEED FOR FISCAL ACCOUNTABILITY & TRANSPARENCY IN RELATION TO THE GOVERNMENT'S DIRECT FINANCES (I.E. THE OPERATING FUND):

As we have seen, for all of its advantages moving to GAAP and a four-year BBL poses real challenges in relation to the accountability of the government's fiscal management. However, so far we have focused on fiscal management in the context of the 'big picture' required by GAAP – i.e. the distorted impressions that can arise when we expand the list of public sector entities included in the government's financial statements.

GAAP also poses challenges in relation to the 'little picture', the public's interest in how the government is managing the finances over which it has direct control (i.e. the revenue and spending that are currently monitored through the Operating Fund). In a classic case of 'losing the forest for the trees', there is a need to ensure the 'little picture' doesn't get lost in the 'big picture'.

To its credit, the government identified the need to preserve transparency regarding its direct operations while making the move to GAAP:

> "While the Government understands that Manitobans and other interested parties may have a significant interest in the financial position of the provincial public sector as a whole, it is believed that Manitobans also expect to continue being informed about the spending of Government departments, the revenue derived from taxes, fees, transfers from other Governments and other elements of the present Consolidated Fund."[28]

Deloitte also acknowledged the validity of this concern:

> "The inclusion of additional entities in the BBL compliance measure reduces the measurement of the Government's stewardship of the taxation and other revenues that are directly within the Government's day-to-day control."[29]

Indeed, this issue prompted Deloitte to make recommendation seven, a system for the yearly reporting of these funds.[30]

While recommendation seven may go a long way in preserving transparency, it does not address the fiscal management obligation that the government live within its means. The importance of this additional obligation was acknowledged by both the government and Deloitte:

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[28] Comments of the Government of Manitoba, as contained in the Office of the Auditor General, Audit of the Public Accounts for the year ended March 31, 2005, pp. 27-8.
[29] Deloitte, p, 21.
[30] Recommendation 7, Deloitte p. 24.

- *The government:* Listed the following as one of the key challenges in moving to GAAP:

  "… developing an appropriate test that imposes the same level of fiscal responsibility and discipline as the present balanced budget legislation (BBL)."[31]

- *Deloitte:* Acknowledged that any new BBL must have "sound financial reporting requirements **and credible financial management measures**".[32] and stated "… the move to GAAP-based summary reporting and a related BBL compliance measure does not invalidate interest which the electorate and the users of financial statements have in how the Government **manages** the spending of revenues which are directly within its control."[33] [Emphasis added] As well, it acknowledged that the "most important" element of the existing BBL was the level of fiscal discipline (a matter of fiscal management) it imposed upon the government.[34]

Some may suggest the move to GAAP has diminished the capacity of the Operating Fund to show whether the government is truly living within its means, and therefore the Operating Fund is no longer an effective tool for fiscal management. Indeed, Deloitte made this very point. The argument goes like this:[35]

- The original BBL made balancing the Operating Fund mandatory because running a deficit was indicative of the need to increase the general purpose debt (a growing debt load is to be avoided because it means increased debt payments, diverting funds away from government programs and reducing the government's fiscal flexibility);

- GAAP requires that certain items be listed as expenses even though they are not paid within the fiscal year. For example:

  - Amortization of capital assets, which is a non-cash expense.

  - Accruals for employee future benefits such as pensions – while these amounts clearly represent the cost of employee service rendered during the period, the amounts are not paid until a substantially later date.

[31] The 2005 Manitoba Budget, p. B2.
[32] Deloitte, p. 1.
[33] Deloitte, p. 25.
[34] Deloitte, p. 7.
[35] Deloitte, p. 7.

- Certain commitments to provide funding in the future result in the requirement that the total amount of all future funding be recorded as an expense of the current period.

- The discovery of an environmental liability cleanup obligation results in the recording of an expense, even though it may not be paid for quite some time.[36]

- As a result, when the government's fiscal statements become GAAP compliant its indication that expenses surpass revenue will no longer be a clear sign as to whether the government needs to increase the general purpose debt.

- Therefore, an Operating Fund deficit would no longer be a sign of poor fiscal management.

There are a number of answers to this argument. Firstly, while it is true evaluating fiscal management becomes a challenge when reported expenses do not reflect actual expenses, a similar problem exists for the rolling four-year fund suggested by Deloitte.

Secondly, this challenge does not change the fact that both the government and Deloitte recognized a need for credible fiscal management in relation to the funds directly in the government's control. With respect, this need has not been fulfilled.

As well, and this is perhaps the key point, fiscal management of the Operating Fund remains important. Indeed, Deloitte acknowledged that the most important element of the BBL was its ability to impose fiscal discipline on the government.[37] While GAAP requires many items to be listed as expenses that do not add to the general debt, failure to balance the Operating Fund as defined in the current legislation <u>and</u> Deloitte's recommendation seven always will.

The need to maintain fiscal transparency in relation to the funds immediately within the government's control compelled Deloitte to recommend the continuation of a non-GAAP compliant Operating Fund.[38] What is not explained is, if policy considerations deem it necessary to maintain the fiscal transparency of the Operating Fund, why do they not warrant the continuation of the fiscal restraint requirements regarding that fund? It is akin to being told the horse is still important, but removing the barn door.[39]

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[36] The first three examples are found on Deloitte p. 7, the fourth example is from p.1.
[37] Deloitte, p. 7.
[38] Recommendation 7, Deloitte p. 25. In fact, Deloitte even goes so far as to suggest the Rainy Day Fund be maintained to balance the Operating Fund when appropriate. Recommendation 7 c), p. 25.
[39] Deloitte even went so far as to recommend yearly spending targets [Recommendation 7 b)], but removes the annual BBL requirement.

THE GENIUS OF 'AND'

1) The Context

The move to fully compliant GAAP summary accounting raises a number of complex policy issues. Possible answers invariably involve trade-offs between transparency, accountability, consistency and simplicity. As such it is important to carefully weigh our options. In the words of Deloitte, "… moving from analysis to formulating reasoned recommendations requires thoughtful consideration of alternatives and the principles that will govern the development of the recommendations."[40]

In fact, the ultimate answer may not be one single solution, but a number of elements. Again, in the words of Deloitte, "… some variation or combination of multiple measures, could be put forward as the new standard for BBL compliance."[41]

This begs the question. 'Is there a combination of measures, not included in Deloitte's recommendations, that would better serve the public's need for both high accountability and disciplined management in relation to the government's finances?'

2) The Proposal

We have seen a 'push and pull' between the GAAP approach which emphasizes fiscal accounting but has challenges regarding fiscal management, and the current BBL Operating Fund which emphasizes fiscal management but has challenges regarding fiscal accounting. Perhaps the real mistake is picking one over the other?

Deloitte correctly pointed out a fundamental principle in relation to accountability: "Those who are held responsible for performance must have an ability to control and/or respond on a timely basis to the factors that affect the measurement of performance."[42]

If a key to effective accountability is having a level of responsibility commensurate with the level of control, would it not make sense to have different BBL timeframes that reflect different levels of control? Specifically:

- a wider time frame to balance the budget (for example, a four-year target) for the entire government entity over which government lacks direct control; and

- a more limited time-frame (for example, an annual balanced budget requirement) for the revenue and expense streams over which the government has more direct control.

[40] Deloitte, p. 2.
[41] Deloitte, p. 17.
[42] Deloitte, p. 16.

To judge the effectiveness of this proposal, let us see how it stands up to some of the objections leveled at the current BBL.

3) Addressing the Objections to the Current BBL

- **The Operating Fund and the BBL are not GAAP Compliant**

The Operating Fund and the current BBL violate GAAP in two ways – they exclude certain items (expenses that are not cash expenses and entities like Hydro over which the government does not have direct control) and they permit inter-fund transfers (e.g. from the Rainy Day Fund and the Debt Retirement Fund).[43]

While this problem will continue with our proposal, it should be noted that even Deloitte's recommendations would run afoul of GAAP as they allow for a version of the Operating Fund, sanction the continuance of the Rainy Day Fund, allow the exclusion of significant emergencies in the four-year rolling calculation and endorse the continuance of the debt repayment fund (a system of inter-fund transfers).

As well, it is important to remember there are legitimate policy reasons for these exceptions and as long as GAAP compliant financial statements are also made available the public is served by an optimal level of both fiscal accounting and fiscal management.

- **The Operating Fund Paints An Incomplete Picture**

Manitoba's Auditor General has expressed concerns that the Operating Fund can present a "misleading by omission" picture. This issue is resolved by also presenting a GAAP compliant version of the Summary Statements.

- **Two Sets of Financial Statements/Balanced Budgets Would Be Confusing**

In the words of the Auditor General, "Which statements are the real ones? Which one shows a real and complete picture of the results of government activities?"[44]

Firstly, it is not as if GAAP itself avoids confusion:

> "It is expected that readers of Manitoba's financial statements will say that PSAB GAAP financial statements are more complicated and more difficult to understand

[43] Office of the Auditor General, Audit of the Public Accounts for the year ended March 31, 2005, pp. 42-3.
[44] Manitoba's Auditor General, presentation to the MCC, April 21, 2004, Slide 26.

> than the financial statements prepared today. It is expected that this observation will be made even by those who have significant training in GAAP."[45]

As well, even Deloitte's recommendations will provide a multiple set of numbers for the public to grapple with: the four-year rolling tally, the annual balance, the adjusted rolling balance after emergencies are removed, the state of the government's finances (impact on debt etc if any) given the emergency[46], and the Operating Fund.

But the key point is the public will understand that two balanced budget systems are required to bring accountability and management to bear on two distinct sets of fiscal circumstances. Certainly, the public has some experience in this regard as Manitoba has had both Operating Fund and Summary Statements since 1988[47], and the government has been highlighting both in news releases and Budget addresses for the last 2 years.

- **Fear That The Numbers Will Be Manipulated**

In the words of Deloitte, "The principles of consistency, transparency and simplicity point to the need for a measure that is straight-forward and which is subject to minimal, if any, influence by the preparer of the BBL compliance measure calculation."[48]

In the wake of some significant corporate accounting scandals, concern over 'cooking the books' is understandable. However, when it comes to 'influencing a measure' there is a huge difference between dishonest manipulation and flexibility. The former is immoral, often a crime, while the latter is a virtue. Indeed, flexibility was one key financial management objectives identified by Deloitte.[49]

The current BBL allows the government flexibility to use the Rainy Day Fund to balance the Budget. From the perspective of fiscal management it makes sense to set aside some money to be used when times are hard so as to avoid increasing the debt or cutting spending. If the use of the fund is also transparent and there is a GAAP compliant Summary Statement that looks at the total picture, fiscal accounting is also served.

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[45] Deloitte, p. 12.

[46] Even though the costs of the emergency are eliminated for the purpose of calculating the proposed BBL measure, those costs will still have to actually be borne by government in some fashion.

[47] Office of the Auditor General, Audit of the Public Accounts for the year ended March 31, 2004, p. 14.

[48] Deloitte, p. 21.

[49] Deloitte, p. 15.

- **'Made in Manitoba' Accounting**

The Auditor expressed concern that no one else used a BBL system similar to Manitoba: "Will citizens be able to properly interpret financial statements prepared with 'made in Manitoba' accounting rules that no one else in the world uses?"[50]

This is not meant to invalidate GAAP, it does have the benefit of being part of a PSAB standard, but even GAAP is not uniformly adopted across Canada. Indeed, Manitoba is only the fifth province to adopt GAAP. As well, Deloitte warns that not only will updates/revisions to GAAP continue, they will undoubtedly be more frequent.[51] As such, the divergence among the provinces will continue as different jurisdictions incorporate the changes in different ways and at a different pace.

That said, it is true that Manitoba's BBL does involve some 'made in Manitoba' accounting. Balanced budget legislation involves policy decisions and Manitoba's BBL reflects Manitoba's fiscal management priorities. But that is not unusual - as Deloitte noted, BBL provisions vary significantly across Canada.

The BBL does involve 'made in Manitoba' accounting, but if it reflects policy decisions that are important to our province and is set against a GAAP compliant process, then both fiscal accountability and fiscal management are served.

4) Additional Benefits to the Two BBL System:

- **The Prudent Path**

Deloitte's is a singular proposal, unique in Canada. Further, it will take a while to be ready. Given that the government hopes to have the GAAP compliant accounting to cover the year ending March 31, 2007, a four-year rolling tally for the proposed new BBL will not be possible until 2010.[52]

Manitoba has a history of a BBL that has worked relatively well. Given the above uncertainty and the importance of effective fiscal management we should proceed cautiously. The best way to do this is to preserve the current system while implementing a parallel GAAP system with a four-year rolling BBL.

- **Consistent With The Government's Commitment**

In its 2005 Budget Papers the Government of Manitoba pledged the following:

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[50] Office of the Auditor General, Audit of the Public Accounts for the year ended March 31, 2004, p. 14.
[51] Deloitte, p. 14.
[52] To its credit, Deloitte recognizes the need for an interim BBL measure. Deloitte p. 27.

> "We will continue to work with the Auditor General to fully implement Generally Accepted Accounting Principles (GAAP). In the 2007/08 fiscal year, the Summary Budget will become Manitoba's **primary** financial reporting tool."[53] [Emphasis added]

As an aside, it is interesting to note that the Auditor General seemed to echo this position in his second last report:

> "Recommendation 1: That the Government make the Summary Budget its **primary** tool for explaining its financial plans to the citizens of Manitoba. This would be consistent with the decision to make the Summary Financial Statements its **primary** financial reporting tool. In essence, this would mean framing the annual budget documents around the Summary Budget, with the Operating Fund budget being shown in a subsidiary context to demonstrate how the government plans to comply with the Balanced Budget legislation and to highlight those expenditures that will require legislative approval."[54] [Emphasis added]

"Primary" does not mean only, therefore maintain the Operating Fund and two BBL's is consistent with the Government's commitment. It also more effectively honours its commitment to make sure the new BBL regime has the "same" level of accountability and discipline as the old BBL.[55]

5) Appoint an Independent Committee To Monitor the Transition and Make Recommendations For Improvements

As has been indicated many times, the transition to GAAP and any new BBL regime is a complex undertaking. Again, to its immense credit the government has sought a wide range of input in making this transition, including: the Deloitte report; a public consultation in relation to that report; working with the Auditor General; and instituting a working group comprised of affected public entities including Universities and Colleges, Health, Special Operating Agencies, Public Schools, Government Business Enterprises, Crown Organizations, and Family Services and Housing.[56]

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[53] Budget Speech, The 2005 Manitoba Budget, pp. 1-2.
[54] Audit of the Public Accounts for the year ended March 31, 2004, Office of the Auditor General p. 21.
[55] Budget 2005 included this among the key challenges in moving to GAAP compliant budgets: "… developing an appropriate test that imposes the **same** level of fiscal responsibility and discipline as the present balanced budget legislation (BBL)." [Emphasis added] The 2005 Manitoba Budget, p. B2.
[56] Deloitte, "Province of Manitoba: report on Summary Financial Reporting Project, Executive Summary", p. 2.

However, once a specific plan is adopted, it may be wise to appoint some form of committee to gauge and evaluate the new system against the measures of transparency, accountability, consistency and simplicity. This is particularly so if a four-year BBL system is included, for this would be untested ground in terms of its workability from both a public and government point of view.

Here the model of Ontario's Economic Forecast Council may be useful. The Ontario Finance minister is required to appoint this advisory council and the selection is based on each appointee's "… knowledge of Ontario's economy and for their expertise in economic analysis and forecasting."[57]

For Manitoba, we are suggesting appointees based on their knowledge of the finances of the Manitoba Government and expertise in fiscal accountability and management.

The committee would report to both the Finance Minister and the public in relation to the transparency, accountability, consistency and simplicity of the new system.

The committee could also be tasked with analyzing some specific issues in relation to both Deloitte's proposed BBL system and the current BBL system. For example:

- Should restrictions be placed on when the government can draw on the Rainy Day Fund?

- Are the BBL provisions effective/being honoured? For example, Section 3.1 of The Fiscal Stabilization Fund Act states that the Minister of Finance must make "every effort" to make sure the amount in the Fund is at least 5% of the expenditure of the operating fund of the Consolidated Fund, but this requirement is rarely mentioned in the government's fiscal reporting.

- Should there be a difference between when a government can draw on the Fiscal Stabilization Fund and when it can draw on emergency funding?

- Is the definition of 'emergency' too broad or too narrow?

- Is the four-year rolling tally too confusing or too restrictive?

- Does the public fully appreciate the difference between the two BBLs? If confusion is developing, what could be done to alleviate it?

CONCLUSION:

The conceptual friction between GAAP and the Operating Fund/BBL has been well documented by Manitoba's Auditor General. Deloitte tries valiantly to reconcile the two

[57] Fiscal Transparency and Accountability Act, S.O. 2004, Chapter 27, s. 12.

by suggesting a new BBL, but in the end it had to propose initiatives that do not comply with GAAP (e.g. the elimination of high emergency costs in the BBL calculation). This is no slight on Deloitte, complete reconciliation is impossible for GAAP and the BBL ultimately serve two different masters.

GAAP serves fiscal accounting; it is the world of the 'full picture', of objectivity. It is true some policy decisions can be deeply imbedded even in accounting rules, but GAAP's main goal is an objective mathematical certainty so as to allow the reader to come to his or her own conclusions. The BBL on the other hand serves fiscal management, the world of policy. It is true the BBL involves calculations, but the main objective of such accounting is to hold the government to previous policy decisions.

Neither holds up particularly well when placed under the light of the other's key objective. Disciples of GAAP cringe at the ability of the BBL to use inter-fund transfers from the Rainy Day Fund to arrive at a balanced budget. Fiscal managers trying to balance their budgets rail at being told GAAP has listed something as an expense even though it hasn't been paid.

Because they serve different ends, we have considerable freedom in determining the BBL that suits our fiscal management purposes. The result cannot be dictated by GAAP, the choice is ours.

From a fiscal management perspective the BBL proposed by Deloitte has some challenges. It can be confusing, create a false impression of the government's fiscal management, arbitrarily hamper the government's fiscal flexibility, and create a false impression of fiscal flexibility. What's more, it appears to be a unique proposal that has not been tested in other jurisdictions. None of these issues invalidate the recommendations, but they do add up to a call for caution, and a call for something more.

Our current BBL is a fiscal management system with which we are familiar. What's more, it has served its purpose well.

Having both a one year BBL measure for the finances directly within the government's control and a four-year rolling fund for the larger public sector per GAAP serves the public's need for optimal fiscal accounting and fiscal management. Certainly we have not been given a good policy reason for not having both.

We would do well to remember the era that gave rise to the BBL. Government had been living beyond its means, necessitating substantial debt payments that were reducing the government's fiscal flexibly and eating up funding that could otherwise have gone to programs or tax relief.

While balanced budget legislation has since helped shrink the debt in a number of Canadian jurisdictions the need for government to live within its means is as important as ever. In the words of Bob Rae, former NDP Premier of Ontario and one-time leadership candidate for the federal Liberals:

> "Since my time as premier of Ontario, Canada has developed a collective allergy to deficits, and that is a good thing. In some ways that has become as much a part of our political identity as quality health care. We must continue to keep our fiscal house in order."[58]

Indeed, one could argue the fiscal flexibility that comes with living within one's means is now more important than ever. We live in a time where crises are happening more frequently. An interconnected world transmits problems as well as opportunities. During this last decade the Government of Manitoba has faced the impacts of a near recession, Sept 11, a dotcom crash, the rapid rise in the Canadian dollar, BSE, and the growing threat of pandemics and natural catastrophes.

How a government should manage its finances is a topic that is as complex as it is dry - hardly a recipe for engaging the public. And yet, if Manitobans do not get this issue right it is our future generations that will pay. Generations we are working so hard to grow and retain with promises of an engaging and rewarding future. Generations that will be saddled with a demographic crunch where less workers will support an aging population with growing medical needs, and therefore can ill-afford a growing amount of government revenue going towards spiraling debt costs.

We must choose carefully. The greatest mistake we could make is to be lulled into believing we must pick either GAAP or the current BBL, or blur the distinctions between the two. Instead, we should focus on preserving both as together they can provide the optimal level of fiscal accounting and fiscal management Manitobans need and deserve.

[58] Bob Rae, "Why I Left the Left Behind: The Liberal candidate on his defection, and his vision for Canada", MacLean's Magazine, October 30, 2006, p. 23.

Appendix 1
Deloitte's Recommendations
Guide to Acronyms:
GRE = Government Reporting Entity
GAAP = Generally Accepted Accounting Principles
CICA = Canadian Institute of Chartered Accountants
PSAB = Public Sector Accounting Board
BBL = Balanced Budget Legislation

1. The tabling of the Province's annual summary budget each Spring should be accompanied by the tabling of a summary of the Government's long term financial management strategy for the GRE. This strategy should include the objectives for several measurable financial outcomes. The outcomes to be measured should be selected by the Government to reflect its own financial management priorities. Long-term objectives should be set together with measures that outline what would constitute meaningful progress within the current budget year.

2. The tabling of the Province's annual summary financial statements should be accompanied by a comparison of actual financial achievements with the measurable financial outcomes that were highlighted in the government's financial management strategy. The comparison should principally consider the actual results achieved versus the one-year objectives set out in that year's financial management strategy and budget. The comparative analysis should be accompanied by analysis and commentary on the relationship between the reported results and the financial management strategies in place for the current year and that have been set for the upcoming years.

3. A target timetable for the tabling of each year's budget, financial management strategy, financial statements and year end annual report should be established. There should be adherence to this schedule except in the event of an election or an extraordinary set of circumstances.

4. The use of GAAP, as established by CICA's PSAB, should be prescribed as the Province's financial reporting standard.

5. A single BBL measure should be developed to assess compliance with the new legislation. We suggest that this BBL measure be developed based on three principles:

    a. It should be based on the surplus or deficit information reported in the Statement of Revenues and Expenses within the summary financial statements.

b. The measure of BBL compliance should be a multi-year measure.

c. The measure should provide some flexibility to provide the Government with an opportunity to respond to extraordinary circumstances.

6. The Auditor General should be required to provide an audit report on the calculation of the annual BBL compliance measure, as described in Recommendation 5.

7. There should continue to be accountability of the Government for the spending of revenues directly within its control. Therefore:

   a. It would be desirable for the government's annual financial management strategy to establish targets for spending through the Legislature's approved estimates.

   b. The Government's post year end annual report should then contain a specific comparison of the actual revenues and expenses incurred during the fiscal year with the departmental estimates included in that year's budget. This comparison would be outside of the audited GAAP financial statements, as it is a non-GAAP measure.

   c. The government could retain the Fiscal Stabilization Fund (in concept and in practice) to enable transfers to and from this fund to be available, as permitted under the current BBL, to balance the Operating Fund revenues and expenses.

8. The following features of the existing BBL could be retained in the context of new legislation:

   a. The requirement for a referendum to increase taxes.

   b. Provisions for penalties on the Executive Council if BBL compliance is not attained (consideration should be given to not applying penalties in the first year of a newly elected government).

   c. The requirement to annually deposit funds into the Debt Retirement Fund to be used to reduce general purpose debt.

9. The following features of the existing BBL should be eliminated as they would no longer be applicable:

   a. The exemption from penalties for non-adherence to BBL compliance in the event of a significant revenue decrease.

b. The exemption from BBL compliance in the event of a change in government.

10. The name of the existing BBL should be altered to reflect the expanded nature of its requirements.

11. The new BBL should contain provisions that provide for the consistent measurement of surplus or deficit over the four year compliance period by including provisions on how changes in accounting policies should be treated.

12. The legislation should include transitional provisions to take into account the Province's staged plan for implementing GAAP reporting and the facilitation of a multi-year measure. The transitional provisions are required because the earliest comparative period for which full GAAP financial statements will be available will be the year ended March 31, 2007. These comparative statements will only be prepared in 2007/08 for inclusion in the summary financial statements for that fiscal year.