# MOVING MANITOBA FORWARD

## BUDGET 2020

***FISCALLY RESPONSIBLE OUTCOMES AND ECONOMIC GROWTH STRATEGY***

Manitoba

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# FISCALLY RESPONSIBLE OUTCOMES AND ECONOMIC GROWTH STRATEGY

# INTRODUCTION

*We are now four years into the onerous task of putting Manitoba on the road to recovery.*

The previous government had left our province with a structural summary deficit approaching $1 billion annually, and on a trajectory to reach $2 billion by 2022. The Rainy Day Fund had been drained. The province had the worst education outcomes and longest health care wait times in Canada. Our social services were not serving those Manitobans who needed them. We led the nation in child poverty. Through all of this, government kept two separate sets of books in order to avoid the necessary difficult discussions.

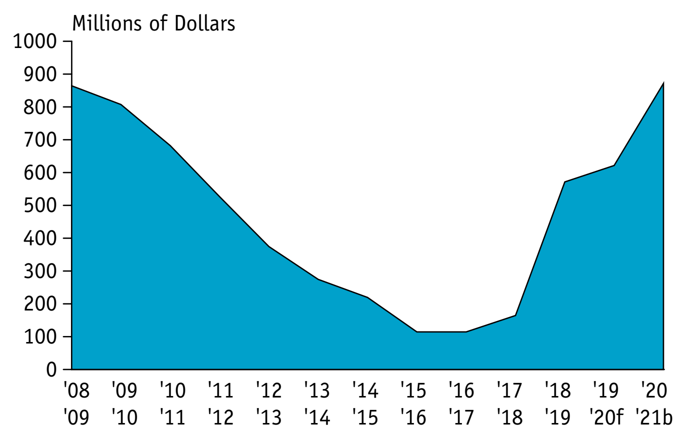
Numerous assets on the government's books were in many cases overvalued, while many liabilities were either understated or undisclosed. Savings were perennially budgeted for, but never realized, as deficits continued to grow.

In response, our government began the hard work of fixing Manitoba's finances, repairing the services that Manitobans rely upon, and rebuilding our economy. Over the past four years, we have made remarkable progress toward each of those objectives. We are pleased to announce that Budget 2020 projects a deficit of $(220) million, which remains slightly ahead of what we forecasted last fall.

Budget 2020 continues the work of making our finances more resilient, improving the quality of the services we provide, and building a stronger economy that ensures a brighter future for all Manitobans:

- We are delivering better health care sooner, and have cut ambulance fees that were the highest in Canada when we formed government.
- The percentage of children living in poverty has been dramatically reduced.
- We continue to make good progress in reducing our deficit while concurrently reducing taxes, and are on track to deliver a balanced budget during our current term of government.
- We have replenished the Rainy Day Fund. By the end of 2020/21, we expect to have contributed an additional $300 million, resulting in a balance of $872 million. The Rainy Day Fund will be fully funded. We have exceeded the target of five per cent of voted expenditures and will have a reserve equal to 5.8 per cent of forecasted expenses by the end of the year.

**Rainy Day Fund Balance**
**2008/09-2020/21b**




f - Forecast   b - Budget

- Budget 2020 is the most flood-resilient budget in Manitoba history. Going back to 2016, the $50 million emergency budget contained $36 million of "regular, recurring programming." We moved that spending into the departments, where it belonged. We have also increased our emergency budget to $100 million, which is actually $86 million higher than it was in 2016.
- By adopting a Made in Manitoba, $25 flat rate green levy, Manitoba continues to be Canada's greenest province. At the same time, we are returning over $200 million more than the amount we are raising through the green levy straight back to Manitobans through a second, consecutive reduction of the PST to six per cent, effective July 1, 2020. This is good for the environment and good for the economy. When factoring in both the green levy and the second cut to the PST to 6 per cent, it is estimated to result in an increase in nominal GDP of $108 million.
- By cutting the retail sales tax rate, indexing the basic personal amount and personal income tax brackets, and eliminating a number of other fees, we are making life more affordable for Manitobans. Thousands of our lowest-income citizens no longer pay Manitoba income tax.
- We are reducing the payroll tax benefiting an estimated 1,000 small business employers, including exempting 220 small business employers entirely.
- In both fiscal 2019/20 and Budget 2020, we are incurring hundreds of millions of dollars of one-time expenses in order to address a wide range of ignored liabilities and broken accounting. Manitobans were misled into thinking funds had been set aside, but they had not been. We are making things right. It is not glamorous to do so, but we promised Manitobans that we would fix the finances, and that is what we are doing.

We are focused on outcomes and are transparent about our goals. This year, we have taken the unprecedented step of adopting balanced scorecards at the Cabinet level, and have published all of our measures. We will continue to cascade these balanced scorecards through each and every department, with the goal of including these objectives and measures into future departmental reports. Once these scorecards are complete, Manitobans will for the first time have access to information on the results and outcomes of government expenditures.

This year's Estimates of Expenditures are also in a new format, representing the culmination of several years' of work to enhance transparency:

- Last year, we stopped keeping a second set of books, as had long been recommended by the Office of the Auditor General. We have made our financial disclosure far more accurate and transparent by moving to summary accounting, and by accurately valuing government assets and liabilities.
- We have also simplified our books. Previously, government had 173 reporting entities. We challenged ourselves to reduce this number to 150 during Manitoba's 150th anniversary celebrations. We have exceeded this challenge, with reporting entities now being reduced to 148.
- We have amended our presentation format to provide greater clarity as to which program expenses are salaries, as opposed to grants or other costs.
- For the first time, we include loans and guarantees, as well as capital spending by reporting entities. This has been a material expenditure line since we adopted new summary accounting standards in fiscal 2007/08, but budget documents were not updated to include the transparency of this material expense.

In just four years, Manitoba has moved a great distance toward a firm, sustainable foundation, but our journey on the road to recovery is not yet complete.

## Where is my Money Going?

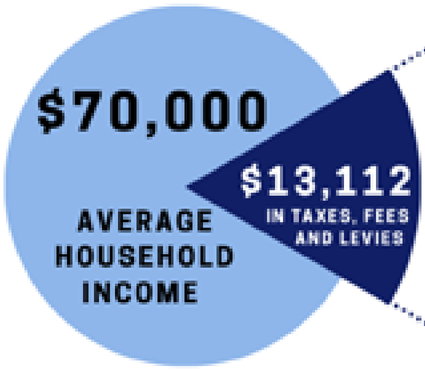
Manitobans have a right to know where $18 billion of their government's spending is going, and what outcomes these dollars are paying for.

Last year, we began to show how the taxes and fees paid by Manitobans are spent on a per household basis. We highlighted what a typical household would have paid in taxes and fees throughout the year, and how their government spent this money. We will continue to update this chart for future budgets and public accounts.

The following chart shows basic taxes and fees expected to be paid during fiscal 2020/21 by a household with two earners and a household income of $70,000, and the amount used to pay for various provincial government services. A typical household would expect to pay $13,112 in provincial taxes and fees this year, of which:

- Over $9,910 or 75% is used for Health, Education and providing support to vulnerable Manitobans.
- Nearly $731 or 6% goes to debt servicing – the 4th largest expense on a per household basis.
- $511 or 4% is spent on keeping our communities safe, including support for policing, corrections and the court system.
- $1,960 or 15% is used to maintain roads, provide flood protection, operate provincial parks and sustain all other government services.

# Your Provincial Taxes, Fees and Levies




### BREAKDOWN OF TAXES AND FEES

| | |
|---|---|
| Individual Income Tax | $5,498 |
| Automobile and Motor Carrier Licences and Fees | $2,692 |
| Retail Sales Tax | $1,300 |
| Fuel Tax | $ 400 |
| Green Levy | $ 210 |
| Parks, Forestry and Other Conservation Fees | $ 179 |
| Recycling Fees | $ 33 |
| Education and Property Tax | $1,825 |
| Service Fees and Other Misc. Charges | $1,675 |
| Education Tax Credit | -$ 700 |

## Where does my money go?

- $4,979 Health
- $3,353 Education
- $1,578 Supporting Vulnerable Manitobans
- $731 Debt Servicing
- $511 Community Safety
- $361 Roads, Infrastructure and Flood Protection
- $313 Investing in Farm and Food Industries
- $282 Supporting Communities
- $155 Parks and Protected Spaces
- $155 Procurement and Capital Assets
- $85 Building the Economy
- $73 Emergencies
- $60 Sport, Culture and Heritage
- $476 Running Government

### GOVERNMENT BORROWS AN ADDITIONAL $6,327 PER HOUSEHOLD

| | |
|---|---|
| Capital investments, loans and guarantees | $ 5,887 |
| To pay for the deficit | $ 440 |
| **TOTAL** | **$ 6,327** |

## Stronger Financial Projection

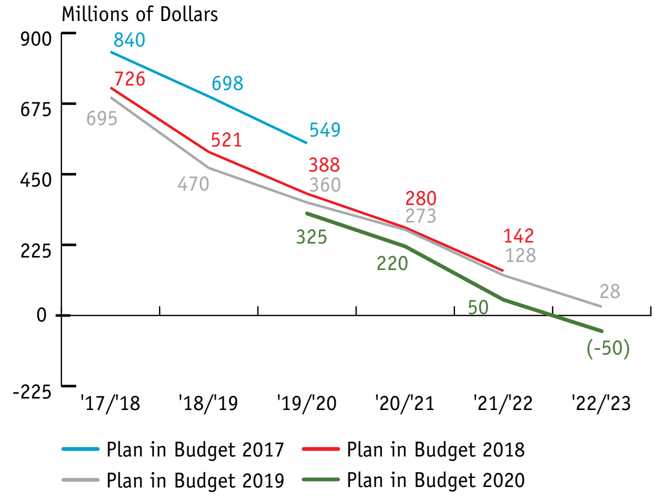
In 2016, we promised Manitobans we would balance the budget in our first two terms. We have modestly exceeded our plans each year and we are predicting, for the fourth year in a row, an improvement to our earlier forecasts. Supported by strong revenue growth and rigorous expenditure controls, we continue our progress towards delivering a balanced budget during the current term of government.

A year ago, we predicted that the budget deficit in fiscal 2019/20 would be $(360) million. We now anticipate that our deficit will be $(325) million, or an improvement of $35 million over the projected amount.

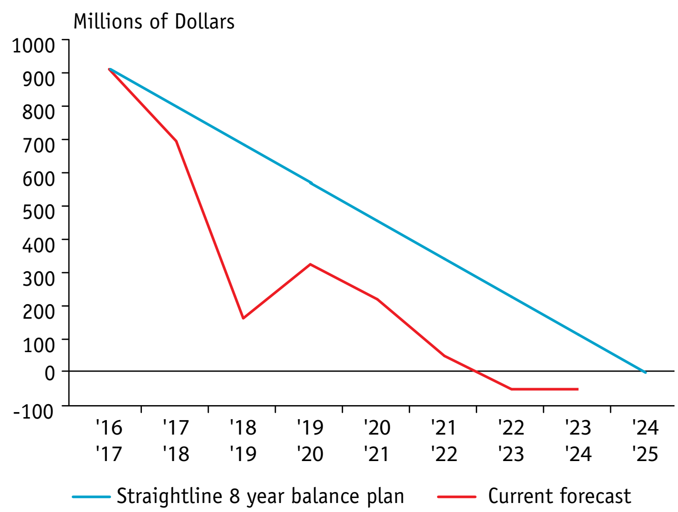
We are now one step closer to balance in Budget 2020, with an expected deficit of $(220) million in 2020/21, an improvement of $53 million over the 2019/20 plan, which forecast a $(273) million deficit.

Importantly, we are now continuing our trend of reducing our "net debt to GDP" ratio, which is one of the most important indicators of financial stability. We are making this progress notwithstanding the headwinds we continue to encounter.

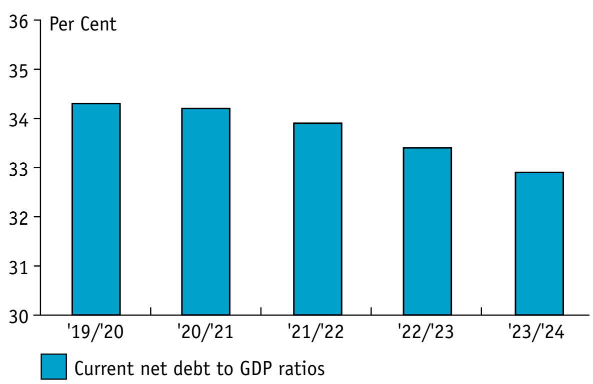
### Summary Budget Deficit
**2017/18–2022/23**




### Eight Year Deficit Trajectory vs Current Plan
**2016/17-2024/25**




### Net Debt to GDP 2019/20-2023/24




| | 2019/20f | 2020/21b | 2021/22p | 2022/23p | 2023/24p |
|---|---|---|---|---|---|
| Revenue | 17,273 | 17,737 | 18,018 | 18,360 | 18,625 |
| Expenditure | 17,598 | 17,957 | 18,068 | 18,310 | 18,575 |
| Net Surplus/(Deficit) | (325) | (220) | (50) | 50 | 50 |
| Net Debt to GDP | 34.3% | 34.2% | 33.9% | 33.4% | 32.9% |

f - Forecast b - Budget p - Projection

*We continue our progress towards delivering a balanced budget during the current term of government.*

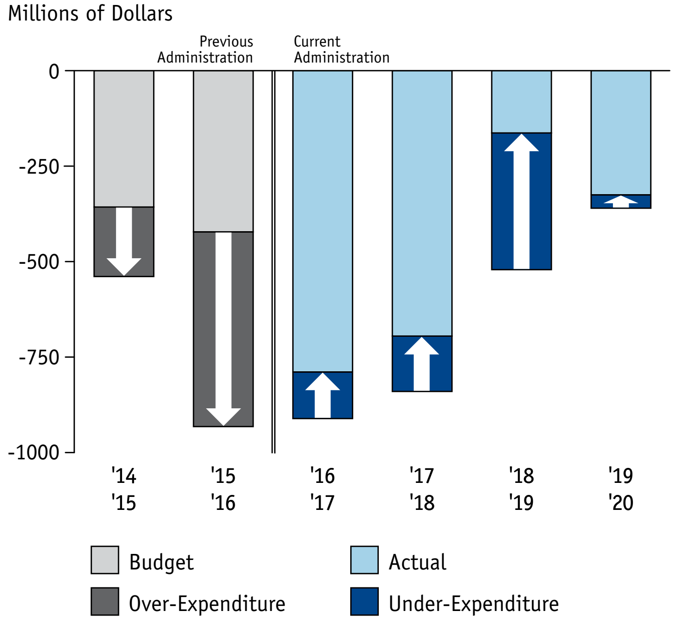
We are two years ahead of our initial plan: having made incremental progress ahead-of-plan each and every year.

## Promises Made, Promises Kept

Our government promised to restore financial discipline and we are keeping our promise. We committed to bend the cost curve and we have delivered on that commitment, by preventing nearly $10 billion of additional debt since forming government in 2016. Preventing this additional debt has saved Manitobans more than $200 million annually in avoided public debt servicing costs.

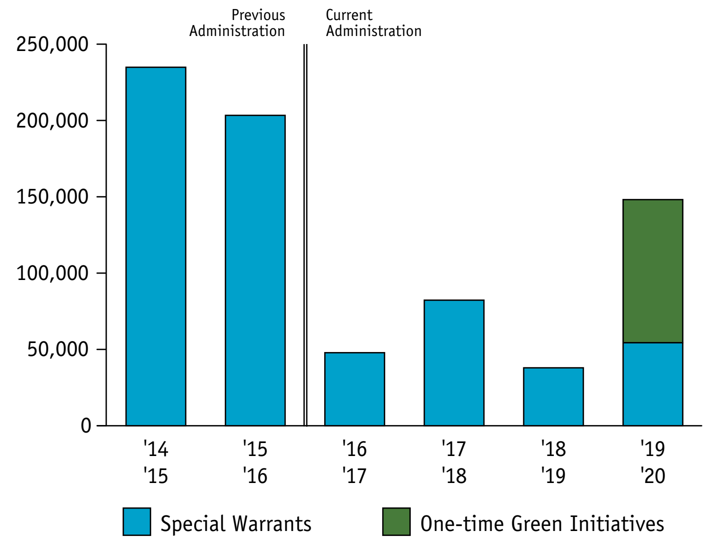
**Budget Plan vs Actual**

Millions of Dollars




**Special Warrants**

Thousands of Dollars




We have outperformed our budget targets every year since forming government in 2016. Through financial discipline and realistic budget assumptions, we have also reduced our reliance on Special Warrants - a measure of the total over-expenditures of individual financial sub-appropriations.

For 2019/20, our "baseline" of special warrant requirements was $55 million, continuing our progress of financial discipline. We also introduced special warrants totalling $93.8 million specifically for one-time environmental expenses that were not part of our base budget, but were considered affordable in light of our overall fiscal progress.

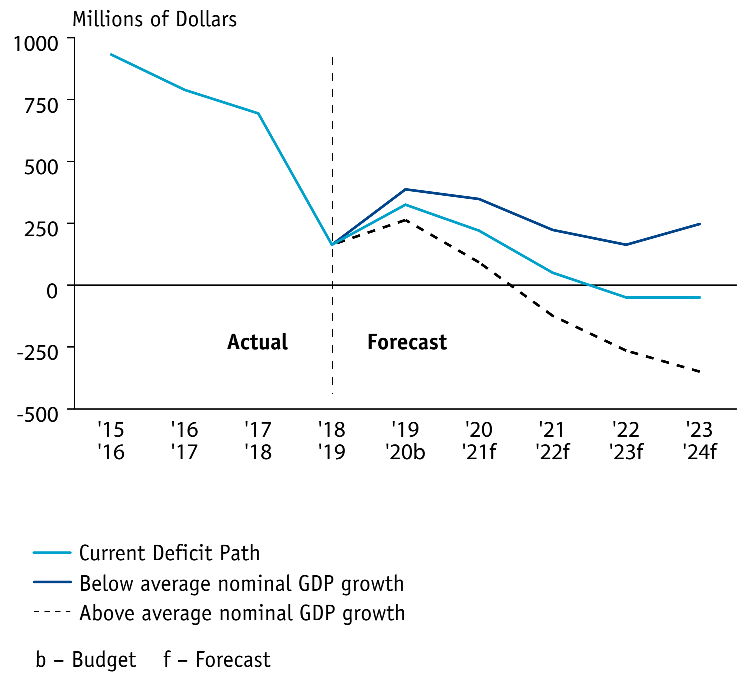
*We have prevented nearly $10 billion of additional debt since forming government in 2016.*

## What could change our Forecasts?

When forecasting economic growth, we collect the average of the private sector economists' growth projections, and we use that average number to build our financial forecasts. However, within that group of private sector economists forecasts are the most optimistic and the most pessimistic that create "bands" around the average.

We can also show our same forecasts using revenue scenarios that are based on the most optimistic and pessimistic that we track. While we have assumed the medium term (2020/21 to 2023/24) economic growth rate to be the average forecast of nominal GDP growth of 3.4 per cent, we can also model using the assumption of above average growth (3.7 per cent) and below average annual growth (3.2 per cent).

**Manitoba Summary Budget Deficit**
**Various Revenue Growth Scenarios**
**Summary Balance, 2015/16–2023/24p**




Notes: The Manitoba Budget 2020 revenue impact scenarios are based on the average private sector economists' projection for nominal GDP growth without any forecast adjustments. The above (below) average scenarios are based on the above (below) average projections for nominal GDP among the economists surveyed.

# IMPLEMENTING THE MANITOBA CLIMATE AND GREEN PLAN

*We continue to up our game to solidify our place as Canada's most green province. As outlined in our government's Climate and Green Plan, our vision is to make Manitoba, Canada's cleanest, greenest, and most climate resilient province. It is a vision based on strong foundations already put in place by Manitobans, and one that we can achieve with the strategic climate and green growth framework we established in 2017.*

## Our Made in Manitoba Green Levy and Second PST Rate Reduction

A key element of our Made-in-Manitoba Green Plan will be the re-introduced green levy of a low and flat $25 per tonne of carbon dioxide equivalent, effective on July 1, 2020.

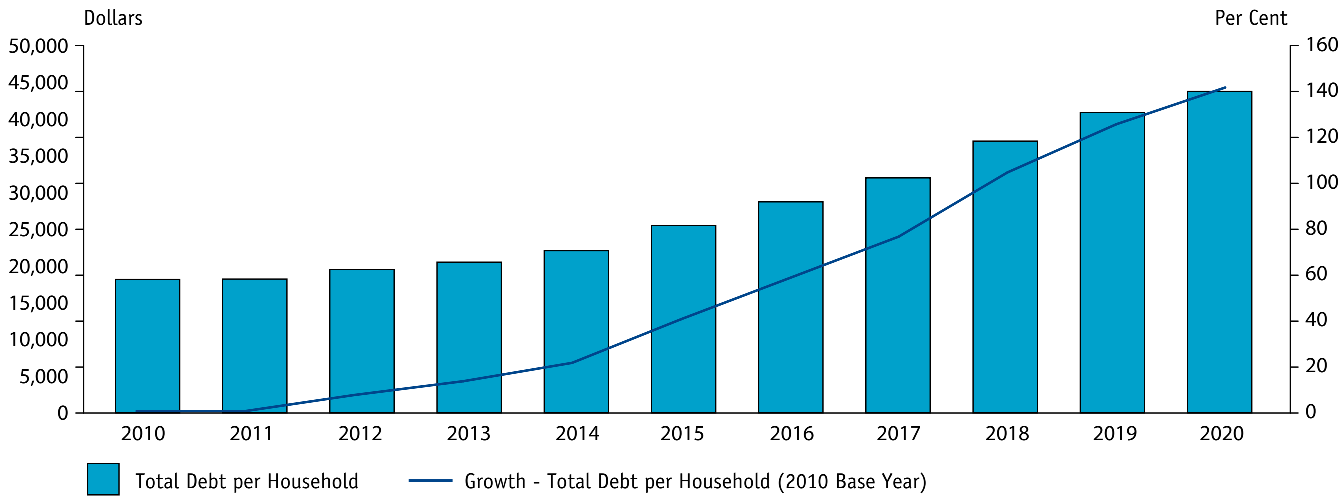
The federal government's carbon tax threatens jobs and economic growth in Manitoba. As a result of Manitoba's unique emissions profile, the opportunity to cost-effectively reduce carbon emissions is lower than in other provinces. As a result, the federal approach is punitive to Manitoba and increases costs, with fewer emissions reductions. The federal one-size-fits-all plan does not recognize Manitoba's green profile, including our:

- Clean electrical grid (which reflects investments already made to transition to low carbon electricity)
- Comparatively high proportion of agriculture emissions
- Comparatively small industrial sector

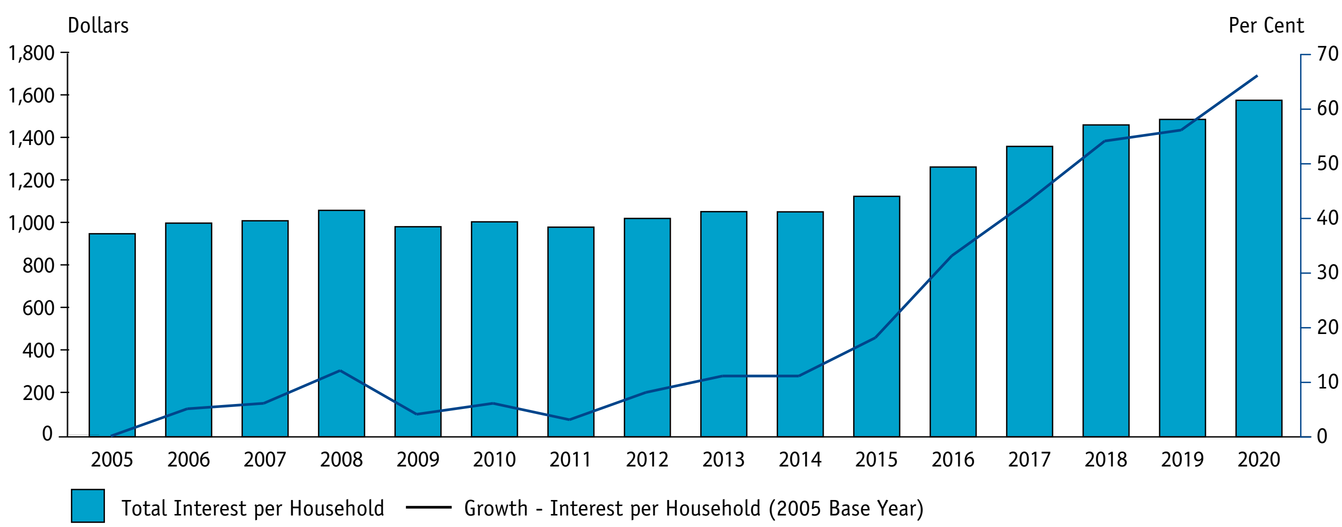
While we often speak of the imprudent over-investment and bad project cost controls at Manitoba Hydro, the reality is that Manitobans have made these investments, and they are paying for these investments. They deserve credit and respect for these investments.

Manitobans have already invested billions in low-carbon electricity through Manitoba Hydro that is not recognized by the federal government. Each and every Manitoban household owes nearly $44,000 of Hydro-specific debt, which comes with an annual cost of nearly $1,600 per household. To put this in perspective, the federal carbon tax plan at $50 per tonne would cost each Manitoba household approximately $400 per year – which is only around one quarter of the cost impact of the Hydro interest Manitobans are already paying!

## Hydro Debt Carry per Household




## Hydro Interest Cost Per Household



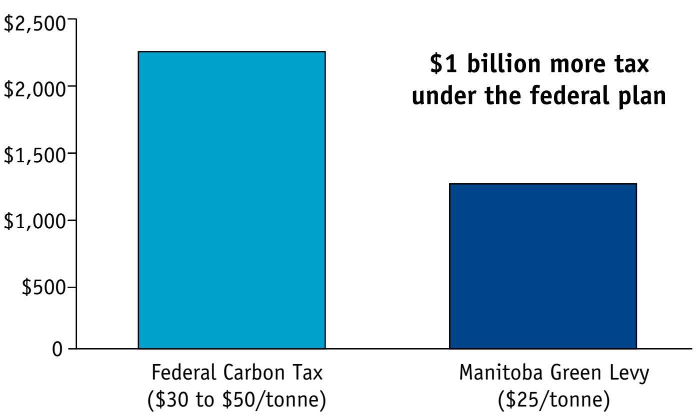
Our made in Manitoba green levy is good for the environment and better than the federal carbon tax. Our plan will also benefit all Manitobans and grow our economy when we return more than we collect through the green levy by a further reduction of our PST by one percentage point, effective July 1, 2020. This will be our second PST rate reduction in two years.

Both the green levy and PST are broad-based taxes that impact all Manitoba households and businesses regardless of income level. This ensures that all who pay the green levy will receive a benefit through the sales tax reduction.

PST relief is also a powerful economic development tool. Reducing taxes on capital, in particular, encourages capital investments which in turn improves productivity and generates greater economic growth.

Our Made in Manitoba green levy means that decisions on Manitoba taxes are being made in Manitoba, not Ottawa. Through the PST rate reduction we are returning $201 million more to Manitobans over four fiscal years than they will pay through the green levy. Further – our lower, flat green levy is more predictable than the escalating federal carbon tax.

**Comparison of Federal Carbon Tax vs. Manitoba Green Levy Revenues over 5 Years**




*Based on half-year, calendar year revenues for 2020 for both the federal carbon tax and the Manitoba green levy.

## Manitoba Green Levy Versus the Federal Carbon Tax

The Manitoba green levy saves Manitobans over $1 billion over five years compared to the federal carbon tax.

Our Made-in-Manitoba Climate and Green Plan is also more effective in reducing greenhouse gas emissions without impeding the growth of Manitoba's (GHG) economy.

For the 2020-2022 period, Manitoba's total combined GHG reductions from a flat $25 per tonne green levy and additional GHG reductions from Climate and Green Plan measures is projected to be over 60 per cent higher, relative to the projected GHG reductions from the federal carbon tax. During the same period, modelling shows that the average annual real economic growth rate in Manitoba under the flat $25 per tonne green levy is 1.88 per cent compared to only 1.8 per cent under the federal carbon tax.

***Our Made in Manitoba green levy means that decisions on Manitoba taxes are being made in Manitoba, not Ottawa.***

## Manitoba Green Levy Impact

The following compares green levy impacts to households over five years

| Average Household Direct Impacts ($)* | 2020* | 2021 | 2022 | 2023 | 2024 | 5-year Total |
|---|---|---|---|---|---|---|
| Federal carbon tax rate ($/t) | 30 | 40 | 50 | 50 | 50 | |
| Federal carbon tax impact | (126) | (329) | (400) | (391) | (371) | (1,617) |
| Manitoba green levy ($/t) | 25 | 25 | 25 | 25 | 25 | |
| Manitoba green levy impact | (105) | (206) | (202) | (193) | (188) | (894) |
| Difference | (21) | (123) | (198) | (198) | (183) | (723) |

* Only half-year, calendar year impact in 2020 given July 1, 2020 start of Manitoba's green levy
* Estimates do not include indirect costs
* Estimates do not include rebates and sales tax savings

## Municipal and Education Impact Comparison

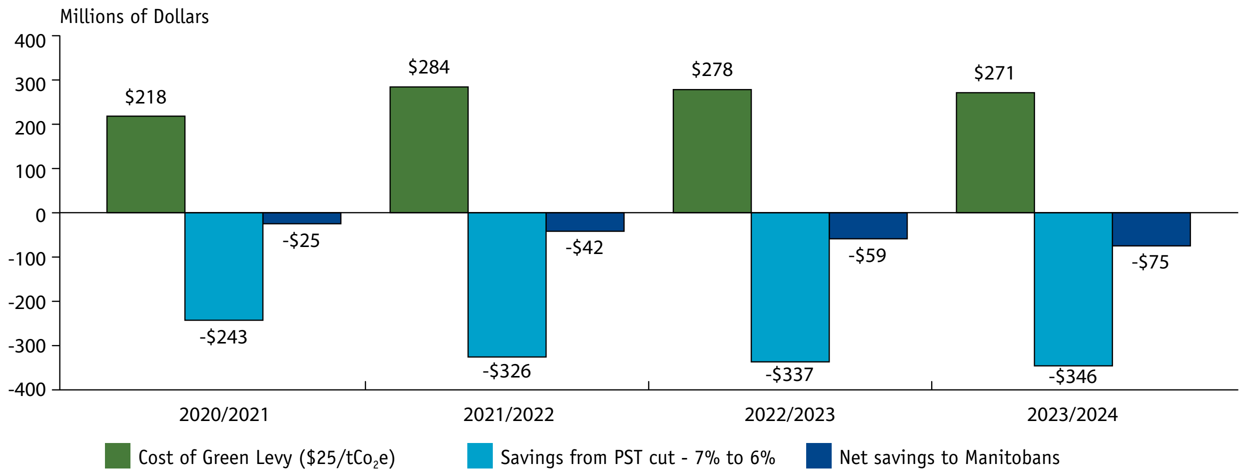
On a net basis, this will also save many important institutions, including municipalities, post secondary institutions and school divisions a lot of money.

| ($ millions) | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Sector | Green Levy Costs | Sales Tax Savings | Net Savings | Green Levy Costs | Sales Tax Savings | Net Savings |
| Municipalities (excluding Winnipeg) | 0.7 | 2.1 | 1.4 | 1.4 | 2.8 | 1.4 |
| City of Winnipeg | 0.85 | 2.6 | 1.75 | 1.7 | 3.4 | 1.7 |
| Post secondary institutions | 1.0 | 2.3 | 1.3 | 2.0 | 3.0 | 1.0 |
| K-12 | 0.6 | 1.5 | 0.9 | 1.2 | 2.0 | 0.8 |

## PST Reduction Exceeds Green Levy

The table below shows that the one percentage point reduction in the PST returns more money than the revenues collected from our flat $25 per tonne green levy:

**Fiscal Impact of Manitoba Green Levy and PST Cut**
**(Net Savings of $201M)**




In fact, over the four years, the introduction of the green levy, net of the PST rate reduction, will mean that Manitobans will keep over $200 million of their own money on their kitchen table.

## Economic Impact

Reducing the PST rate from 7 per cent to 6 per cent and implementing the $25 per tonne green levy results in a net positive impact on the provincial GDP. Combined with the PST cut in 2019 to 7 per cent, the further reduction in the PST and the implementation of the green levy are estimated to grow the provincial nominal GDP by $108 million per year. Labour income, including wages and salaries, will increase by an estimated $50 million per year, and will also generate an estimated 1,042 person-years of employment growth.

***Our plan is good for the economy, good for our environment, and good for Manitobans.***

**Two Year Economic Impact Estimates From the Savings of Sales Tax Cuts and Green Levy**

| Millions of Dollars | **First Year PST** cut to 7% | **Second Year PST** cut to 6% **net of Green Levy** | **Combined Savings** |
|---|---|---|---|
| Estimated PST Savings | 325 | 326 | 651 |
| Estimated Green Levy | n/a | 284 | 284 |
| **Net Saving** | **325** | **42** | **367** |
| GDP Growth | 97 | 11 | 108 |
| Labour Income | 47 | 3 | 50 |
| Employment (Person-Years) | 950 | 92 | 1,042 |

* Numbers may not add due to rounding.

# GREEN INVESTMENTS

*The Manitoba Climate and Green Plan set out four main pillars: climate, jobs, water and nature. Those pillars are integrated, and each includes comprehensive actions to achieve our environmental and conservation objectives. New actions can be added in order to ensure the Plan will always be dynamic and forward looking.*

There are many actions, in addition to our significant investments in clean and green hydroelectric power, which we have announced and are currently implementing.

## Conservation Trust & GROW Trust

In partnership with the Winnipeg Foundation and the Manitoba Habitat Heritage Corporation, two endowment funds - the Conservation Trust and the GROW Trust - have been established. The Conservation Trust has received a capital endowment of $99 million, plus $3 million for initial grants, while the GROW Trust has received a capital endowment of $50 million, plus $2 million for initial grants. To put the size of these trusts in perspective, we have put $154 million (or $204 million planned 19/20 amount) into the Trusts in the past year. Comparatively, if a Canada-wide trust were established on a per capita basis, this would result in environmental trusts totaling $4.2 billion.

Manitoba Habitat Heritage Corporation is responsible for the administration of a granting program and is reimbursed for eligible expenditures tied to those activities. For this reason, and in order to ensure that the purpose of these two trusts are continued into the future regardless of any elected government, Budget 2020 anticipates converting this Crown corporation into a non-for profit organization, which will enable it to operate independently from government and be more effective at soliciting private funding into these trusts.

In 2019, the following revenues were generated by the Trusts in the Winnipeg Foundation:

| Trust | Investment Income |
|---|---|
| Conservation Trust | $4.152 million |
| GROW Trust | $2.564 million |

## New Green Investments

We continue to make progress on our Made in Manitoba Climate and Green Plan, including the recent announcement of over $150 million in net new green investments. We will be rolling out further announcements in the weeks and months to come.

## Efficiency Manitoba

Efficiency Manitoba has been established as a new Crown Corporation in Manitoba with a start date of April 1, 2020, per The Efficiency Manitoba Act. Efficiency Manitoba's mandate is to reduce electricity and natural gas consumption by 1.5 per cent and 0.75 per cent annually, respectively, during the first 15 years of its operations. Efficiency Manitoba will continue to offer programs and services comparable to those offered by the previous Manitoba Hydro Power Smart program. The first three-year plan will also include program enhancements, as well as new and innovative programs and delivery methods. Energy efficiency programs will be available to residential, commercial, industrial, agricultural, Indigenous, and income qualifying customers.

## Winnipeg North End Wastewater Treatment Plant

The City of Winnipeg's North End Water Pollution Control Centre is the single-largest point source of nutrients (including phosphorus and nitrogen) to Lake Winnipeg. Upgrades to the facility will support efforts to reduce nutrients and improve water quality in Lake Winnipeg. Our government is committed to working collaboratively with the City of Winnipeg to address its licensing requirement to have an interim solution for phosphorus reduction, and to arrive at a realistic timeline to complete construction of the wastewater treatment facility. We will continue to work with the City, including our efforts to partner with the federal government to ensure funding is in place for this important project.

On January 31, 2020, the Province of Manitoba and City of Winnipeg released the *Interim Phosphorous Reduction and Nutrient Removal Implementation Plan*. The Project Technical Committee has reached consensus on the scope of work for 2020, which also includes testing for interim phosphorous removal to determine how much additional phosphorous can be removed from the city's wastewater.

The report was a collaborative work between the Province and City, along with advisory input from stakeholder groups Lake Winnipeg Foundation, International Institute of Sustainable Development, Lake Winnipeg Indigenous Collective and South Basin Mayors and Reeves. It includes an overview of all three phases of the City of Winnipeg's plan for the North End Pollution Control Centre project including cost estimates and preliminary timeframe for completion of the NEWPCC upgrade. Both the Province and City are committed to expediting the schedule, and will continue to identify opportunities to implement nutrient removal.

This year, we committed new funding of $21.8 million to the City of Winnipeg for the North End Wastewater Treatment Plant project. This increases the total amount of provincial funding towards this project to over $56 million. These funds are initial provincial contributions toward the multi-year wastewater treatment project that has been advanced by the City under the Investing in Canada Infrastructure Program. The longer term proposal is still under review. However, as a condition of any funding, the Government of Manitoba will ensure value for money in any investment by working with partners to engage necessary expertise and resources to ensure that the large water treatment project is implemented to proper scope and in a cost-effective manner.

***New funding of $21.8 million to the City of Winnipeg for the North End Wastewater Treatment Plant project.***

Interim and longer-term permanent nutrient removal toward established sewage treatment standards in Winnipeg will significantly reduce nutrient levels in Lake Winnipeg and build on outcomes currently being achieved throughout Manitoba. Through past investments in other wastewater treatment facilities, ongoing ecological goods and services programs through the perpetual Conservation and Grow Trust programs announced last year and improved land and watershed management practices being applied by responsible agriculture producers and others.

## Lead Mitigation

Protecting Manitoba families and communities from the negative health effects of environmental contaminants is critically important.

While a recent independent review regarding Winnipeg neighborhoods reconfirms that there is a low heath risk for Manitobans when it comes to lead in soil, Manitoba Health Seniors and Active Living (MHSAL) and Manitoba Conservation and Climate (MCC) undertook a third-party review to determine if there are any potential risks to human health, and how best to identify and manage areas with elevated lead concentrations.

We are moving quickly to review the report's findings and prioritize the recommendations coming out of this report. Our Government has put in place a $3 million contingency in Budget 2020 to address the recommendations contained in the report.

## Energy Policy Office

We are establishing a new Energy Policy Office to advance Manitoba's Climate and Green Plan. This new unit will be dedicated to providing strategic energy policy advice in such areas as renewables, efficiency, electrification and regulation. This new unit will assist with developing a renewed provincial energy strategy in concert with Manitoba Hydro's new renewed strategic plan and Efficiency Manitoba's emerging programs.

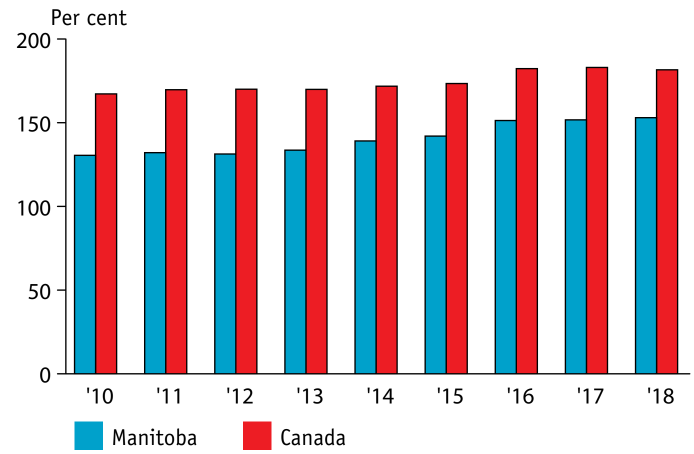
# MAKING LIFE MORE AFFORDABLE FOR MANITOBANS

*Many Canadian households are finding that they have less money each month and more than half are concerned about their ability to repay debts. It is reported that Canadians have, on average, less than $600 left at the end of the month after paying their bills, with nearly half having $200 left, or less.*

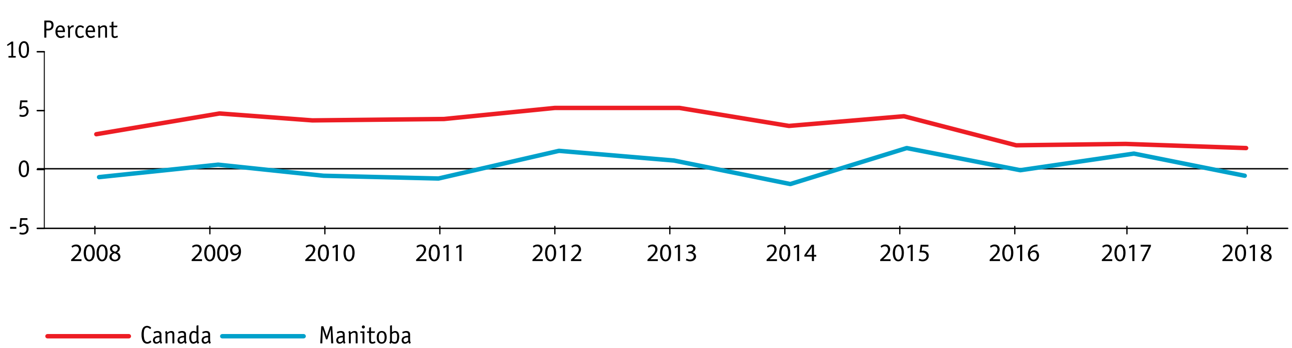
The Bank of Canada has raised concerns with respect to the rapidly growing household debt in Canada. Debt levels have climbed over the past decade, with Canadian household debt as a share of disposable income rising to 183 per cent in 2018. The average household owes $1.83 in debt for every dollar of disposable, after-tax income. Manitobans' household debt has been consistently below the national average, but it has also increased since 2010. Estimates show that Manitoba households owe $1.53 debt for every dollar of disposable income. The bulk of the increase reflects mortgage debt, but other sources of borrowing have also increased.

At the same time, Manitoba's household savings rate (the total amount of net savings as a percentage of net household disposable income) has been consistently below the national average over the past 10 years. In 2018, for example, Manitoba's household savings rate of -0.3 per cent was the third lowest over the 10-year period.

**Increase in the Manitoba and Canadian Household Debt to Disposable Income Ratios, (2010 to 2018)**




**Household Savings Rate, Manitoba vs. Canada**



*Our last two budgets represent the largest tax reduction in Manitoba's history.*

## Meeting our $2,020 Tax Rollback Guarantee

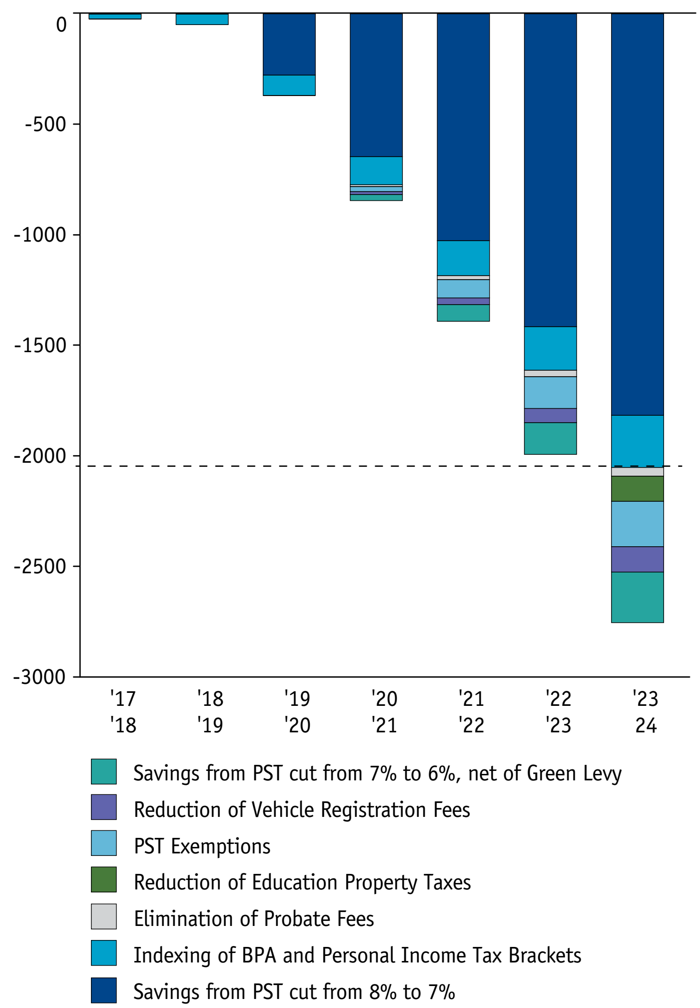
During the last election we promised to return $2,020 to Manitoban households over the next four years. Once again, we have not only kept our promises, we are ahead of plan. Promise made, promise kept.

The sales tax rate reductions introduced in our last two budgets represent the largest Manitoba tax reduction in history even after netting the revenue from the green levy. We are reducing the PST rate by 25 per cent from 8 per cent to 6 per cent and implementing tax measures under the $2,020 Tax Rollback Guarantee announced in 2019 - while reducing the deficit at the same time.

The graph illustrates our progress towards the $2,020 Tax Rollback Guarantee. The savings to taxpayers will accumulate over time to reach, and then exceed, our rollback target. As a result of significant cuts to the PST rate, the indexing of the basic personal amount and personal income tax brackets, the elimination of probate fees, and commencing the elimination of education taxes, Manitobans are saving more of their hard-earned tax dollars.

*Manitobans are saving more of their hard-earned tax dollars.*

### $2,020 Tax Rollback Guarantee Savings



The following table provides a status update on this commitment:

| Tax Measure | Implementation Date |
|---|---|
| Indexing of Basic Personal Amount and Personal Income Tax Brackets | January 1, 2017 |
| PST Rate Reduction from 8% to 7% | July 1, 2019 |
| PST Exemption - Preparing Wills | January 1, 2020 |
| PST Rate Reduction from 7% to 6% | July 1, 2020 |
| Elimination of Probate Fees | July 1, 2020 |
| Vehicle Registration Fee Reduction | July 1, 2020 |
| PST Exemption - Preparing Personal Income Tax Returns | October 1, 2020 |

The remaining $2,020 Tax Rollback Guarantee tax measures still to be implemented include the phase out of education property taxes, and removing sales tax from home insurance and from personal services such as haircuts and salon services.

***On-going average annual savings to Manitoba households of $476 per year.***

## Removing Important Services from the PST Base

We continue to reverse tax increases introduced by the previous administration. In addition to rolling back their PST rate increase, we will reverse during our mandate their decision to expand the sales tax base by removing the PST on home insurance, and on personal services such as haircuts and salon services.

We have also removed the PST from the preparation of wills as of January 1, 2020 and will remove the PST on the preparation of personal income tax returns on October 1, 2020, all as part of our $2,020 Tax Rollback Guarantee.

## PST Reduction

On a full year basis, the revenue reduction cost of lowering the PST from 7 per cent to 6 per cent is estimated at $(326) million (for 2021/22):

| | | |
|---|---|---|
| Impact on Individuals | $(176)M | 54% |
| Impact on Business | $(134)M | 41% |
| Impact on Government Sector | $ (16)M | 5% |
| Total | $(326)M | 100% |

With approximately 510,000 households in Manitoba, the further 1 percentage point PST reduction represents an average annual savings of approximately $345 per household. In addition, it is estimated that up to one-half of savings received by Manitoba businesses will also be passed on to Manitoba households, benefiting them by an estimated additional $131 per year.

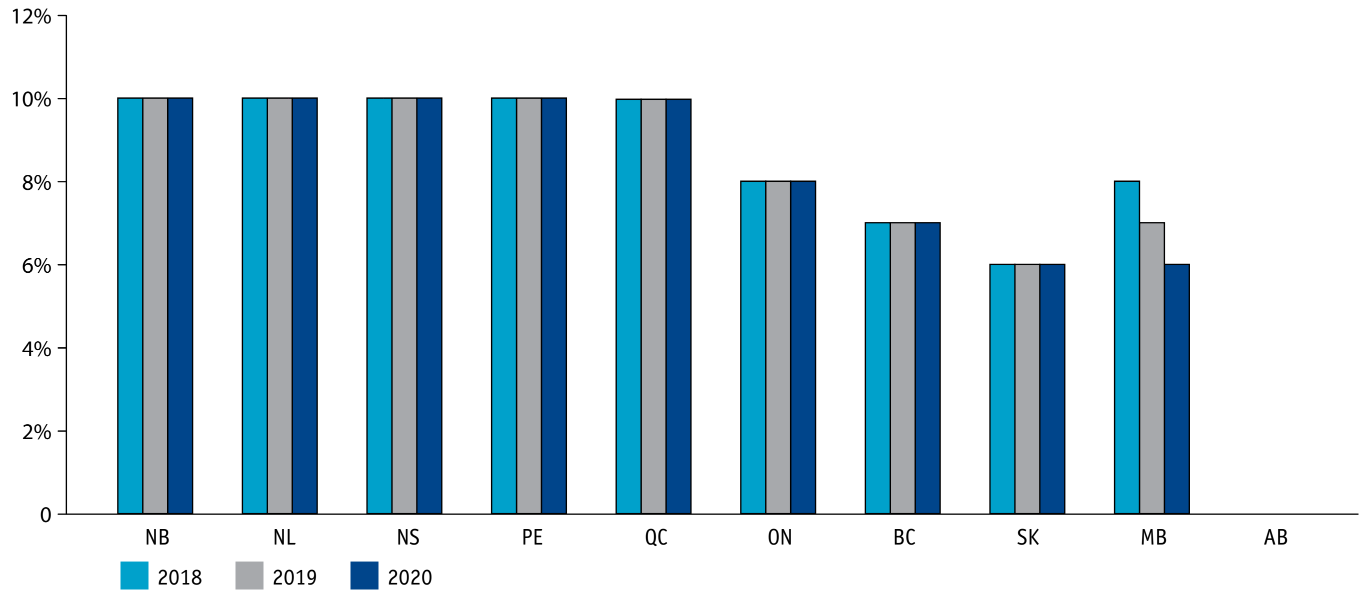
This results in an on-going average annual savings to Manitoba households of $476 per year.

## Interprovincial Comparison

With a further 1 percentage point decrease, from 7 per cent to 6 per cent, Manitoba's retail sales tax rate will be tied with Saskatchewan for the second lowest rate in Canada, as detailed below:

***With this change, Manitoba will be the only province that has reduced its sales tax in recent years!***

**Manitoba Reducing its Sales Tax Rate**
**(excludes GST and HST in other provinces)**




| Province | Type | GST (%) | PST (%) | Total Tax Rate (%) |
|---|---|---|---|---|
| Alberta | GST | 5 | - | 5 |
| **Manitoba (as of July 1, 2020)** | **GST + PST** | **5** | **6** | **11** |
| Saskatchewan | GST + PST | 5 | 6 | 11 |
| British Columbia | GST + PST | 5 | 7 | 12 |
| Ontario | HST | 5 | 8 | 13 |
| Quebec | GST + QST | 5 | 9.975 | 14.975 |
| New Brunswick | HST | 5 | 10 | 15 |
| Newfoundland and Labrador | HST | 5 | 10 | 15 |
| Nova Scotia | HST | 5 | 10 | 15 |
| Prince Edward Island | HST | 5 | 10 | 15 |

GST – Goods and Services Tax, HST – Harmonized Sales Tax, PST – Provincial Sales Tax, QST – Quebec Sales Tax

## Annual Impact of BPA Indexation

The Basic Personal Amount (BPA) is a non-refundable tax credit that every Manitoba resident is entitled to claim on their income tax return. Manitoba legislated the indexing of the BPA and personal income tax brackets to the rate of inflation beginning in 2017.

Since 2016, the BPA has increased by $704 from $9,134 to $9,838. It will increase from $9,626 in the 2019 tax year to $9,838 in 2020.

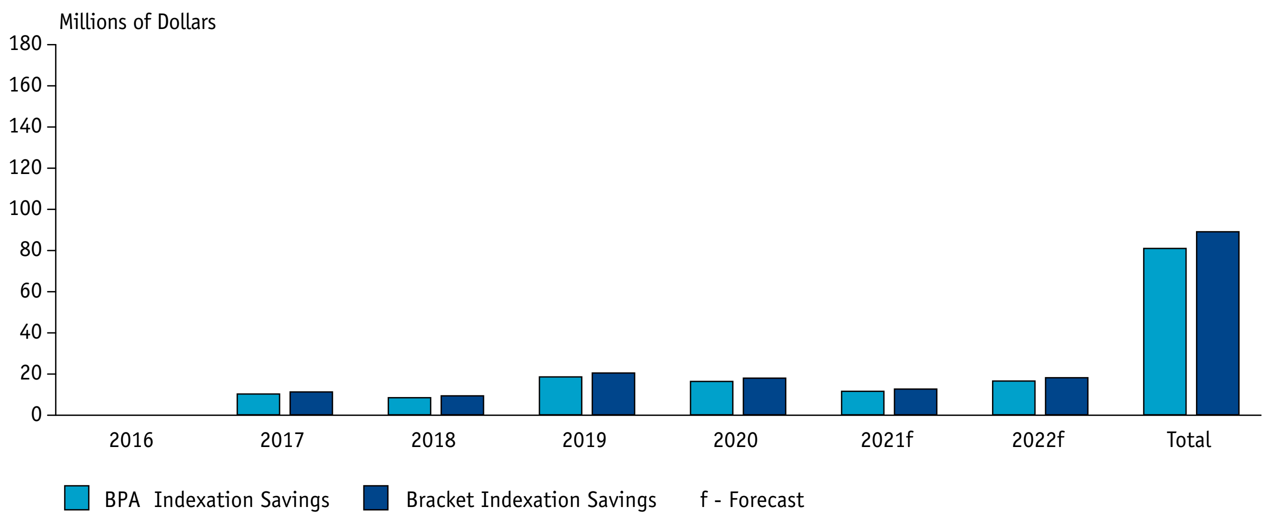
In 2019, indexing the BPA removed an estimated 3,800 low-income Manitobans from the tax rolls and saved all residents more than $18.4 million. In 2020, indexing will remove an additional 3,300 Manitobans from the tax rolls for an additional annual savings for all residents of $16.2 million. These savings will continue growing at the rate of the growth in the consumer price index, meaning more Manitobans will be removed from the tax rolls and that taxable Manitobans are able to keep more of their income.

**Basic Personal Amount and Manitobans Removed from Tax Rolls, 2017 – 2022, Province of Manitoba**

| Tax Year | Basic Personal Amount | Manitobans Removed From Tax Rolls (Year-over-year) | Manitobans Removed From Tax Rolls (Cumulative) |
|---|---|---|---|
| 2017 | $9,271 | 2,150 | 2,150 |
| 2018 | $9,382 | 1,750 | 3,900 |
| 2019 | $9,626 | 3,800 | 7,700 |
| 2020 | $9,838 | 3,300 | 11,000 |
| 2021 | $9,986 | 2,300 | 13,300 |
| 2022f | $10,196 | 3,250 | 16,550 |

f – Forecast and subject to change

**$169.8 Million Savings to Manitobans from Indexation**




## Vehicle Registration Fees

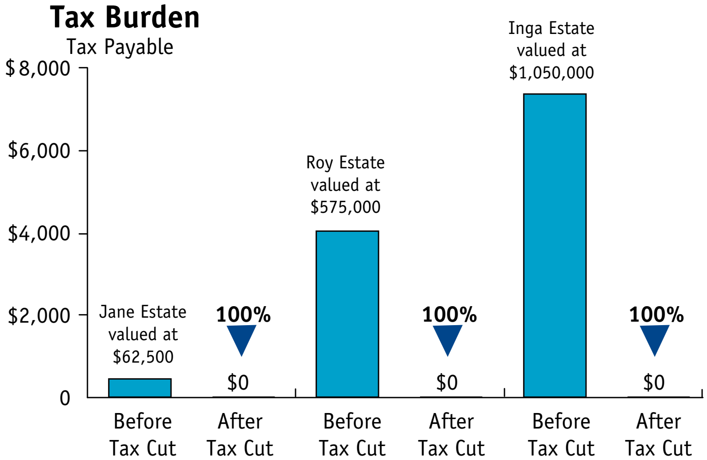
Vehicle registration fees will be reduced by 10 per cent starting on July 1, 2020. This measure is the first step in the government's commitment to roll back the increase to vehicle registration fees by 30 per cent by 2023. The vehicle registration fee reduction applies to non-commercial vehicles, including personal vehicles, trucks, trailers, motorcycles/mopeds, dealer/repairer vehicles, and off-road vehicles.

## Probate Fee Elimination

Probate fees - regarded by many as "death taxes" - represent "double taxation" on money that has already been taxed. This is a poor social policy, and these taxes are often avoided by sophisticated parties who spend significant professional fees to avoid these fees.

In Manitoba, death taxes are payable when a deceased person's estate is settled through the administrative process of Manitoba Justice. Portraying this charge as a "fee" was misleading, as it was for all intents and purposes a tax. There was no "cost recovery" aspect of it. The current death tax is $70 on the first $10,000 value of the estate and then $7 per $1,000 or portion of a $1,000 thereafter. Beginning on July 1, 2020, all death taxes will be eliminated. In 2018/19, approximately 3,500 probate applications were processed by Manitoba courts, with total probate fees paid of nearly $9.2 million.

### Reducing The Estate Administration Tax Burden




*Note: Assumes the estates are taxable.
The names indicate estate representatives.

## Education Property Tax Phase Out

Our government remains committed to eliminating the education portion of property taxes. The phase-out will begin the first year after the budget is balanced, and will be completed over a maximum of 10 years. Once fully implemented, the average homeowner will save more than $2,000 annually.

## Small Business Payroll Tax Reduction

The Health and Post Secondary Education Tax Levy (commonly called the "payroll tax") is a tax imposed on remuneration that is paid to employees. It is paid by approximately 3,000 employers with a permanent establishment in Manitoba. Approximately $510 million is paid in payroll taxes per year and the tax is calculated as follows:

| Total Yearly Payroll | Tax Rate |
|---|---|
| $1.25 Million or Less | Exempt |
| Between $1.25 Million and $2.5 Million | 4.3% on the amount in excess of $1.25 Million |
| Over $2.5 Million | 2.15% of the total payroll |

The payroll tax thresholds have not changed since 2008 when they were increased from $1 million / $2 million to the current $1.25 million / $2.5 million. Too many small businesses are paying payroll taxes, which penalizes those who can least afford it, and discourages entrepreneurship and investment. Budget 2020 increases the tax thresholds from $1.25 million to $1.5 million and from $2.5 million to $3.0 million, effective January 1, 2021.

This will benefit an estimated 1,000 employers, including exempting 220 employers, entirely and result in an annual revenue reduction of an estimated $8.9 million.

| Increase Total Yearly Remuneration Limit | Estimated Number of Employers | Estimated Average Savings per Employer |
|---|---|---|
| Small businesses becoming tax exempt | 220 | $5,455 |
| Small businesses employers paying less tax because of the increase in tax thresholds | 780 | $9,870 |
| Totals | 1,000 | n/a |

## Reducing Interest Rate on Tax Debts

When Manitoba businesses have outstanding payments on delinquent taxes, they are charged interest at prime rate, plus an increment. Between 2002 and 2012, the previous government tripled the incremental rate charged on outstanding tax debts, resulting in the rate increasing from prime plus 2 per cent to prime plus 6 per cent. This change was made in Budget 2012, supposedly to encourage more timely tax remittance. However, there was no demonstrable improvement in tax remittance, meaning the increase in the interest rate charged on tax debt was little more than another "tax grab".

To assist Manitoba businesses, we reduced the interest rate on provincial tax debts on January 1, 2020 from prime plus 6 per cent to prime plus 5 per cent. The interest rate will decrease by an additional one per cent in each of the next two years, in order to harmonize our rate with other provinces, and to not unduly punish small businesses who may have unintentionally made an error in the amount of taxes they remitted or paid. The interest rates charged will decrease to:

- Prime plus 4 per cent on January 1, 2021
- Prime plus 3 per cent on January 1, 2022

Provincial taxes impacted by this interest rate include: Retail Sales Tax, Health and Post Secondary Education Levy (Payroll Tax), Fuel tax, Tobacco Tax, Mining Tax, Insurance Corporations Tax, Corporations Capital Tax, Emissions Taxes on Coal and Petroleum Coke.

Provincial incomes taxes - both personal and corporate – are collected by the federal government and are subject to the Government of Canada's interest rate policies.

## Film Tax Credit Improvements

Recognizing the positive impact that the film and video production sector has on our economy and creative community, our government announced the removal of the expiration date for the Manitoba Film and Video Production Tax Credit in Budget 2019. This credit was very effective in promoting the growth of the Manitoba film and video production industry and was typically used to support labour costs associated with filming. It was less effective at encouraging permanent, sustainable pre- and post-production activities that will stay in Manitoba.

Budget 2020 further strengthens this credit by adding a new Manitoba Production Company Bonus of 8 per cent to the 30 per cent cost-of-production credit.Increasing the total cost-of-production credit to 38 per cent for "all spend" production costs, will encourage more permanent film infrastructure within the province.

## Renewing Expiring Tax Credits

Budget 2020 announces extensions to the Mineral Exploration Tax Credit, the Cultural Industries Printing Tax Credit and the Community Enterprise Development Tax Credit, recognizing the important economic and cultural value that these industries provide to Manitoba.

In addition, Budget 2020 will provide greater planning certainty for over $900 million (2019) in manufacturing and processing investments in Manitoba by removing the expiration date from the Manufacturing Investment Tax Credit, thereby making it permanent!

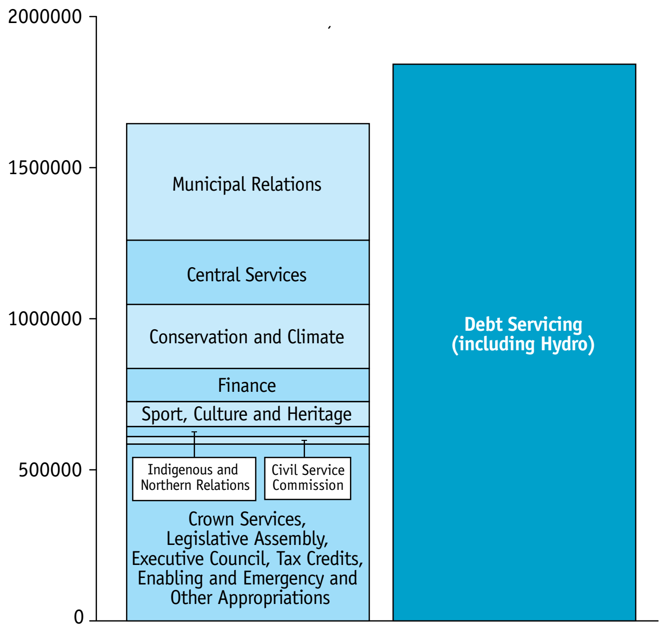
# UNSUSTAINABLE DEBT

*Our debt is growing at an unsustainable pace.*

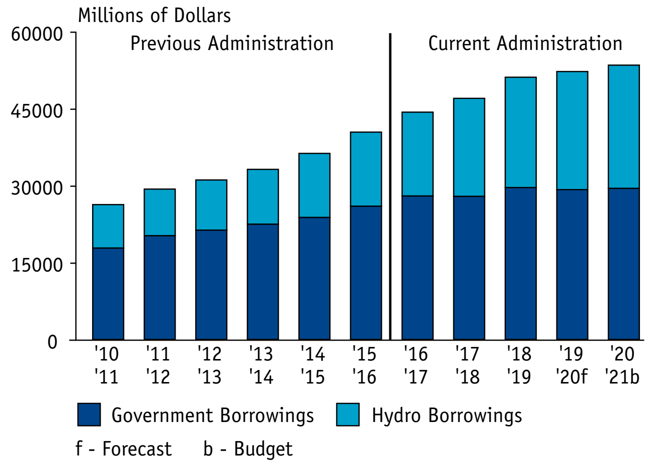
## Interest Costs Exceed 13 Departments & Business Areas

Interest costs alone are greater than 13 other individual appropriations in our budget. If interest payments were its own government department, it would be larger than the Department of Justice.

### Debt Servicing is larger than 13 departments and business areas combined




### Total Borrowings
**2010/11-2020/21b**

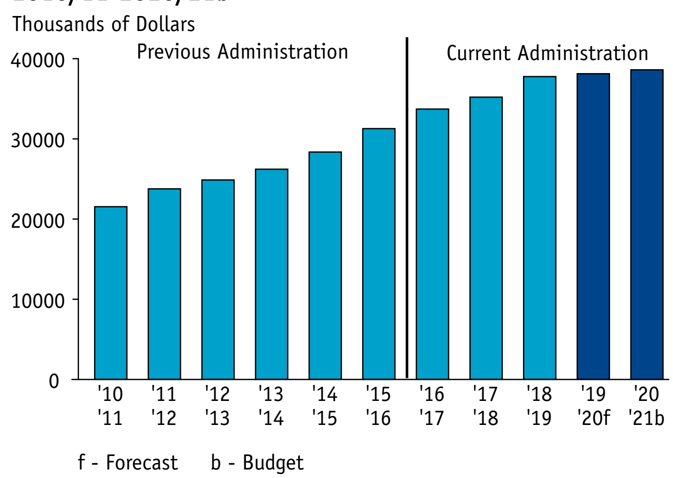



## Per Capita Debt is Problematic

Our population did not grow at the rate of our debt. As a result, our per capita debt obligations grew at an unsustainable pace as well, and now total over $37,000 per Manitoban.

In fact, according to the federal Parliamentary Budget Officer (PBO) recent warning, Manitoba's debt levels

### Borrowings per Capita
**2010/11-2020/21b**

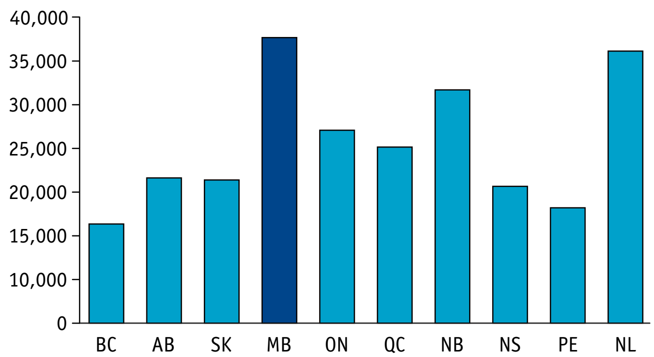


are expected to continue to grow to an unsustainable level over the next 73 years unless the fiscal situation changes.

The PBO has forecasted that Manitoba's debt-to-GDP ratio would grow to 86 per cent by 2043, from 34.3 per cent in 2019/20f. In 2007, the debt-to-GDP ratio was 21.2 per cent and increased over the years as a result of significant expenditures by the previous government.

Per capita, Manitobans have the highest debt levels of all the provinces:

**Total Direct Debt Per Capita**
**2018/19 (Dollars)**




Source: Moody's Investor Services

These costs are <u>interest costs only</u>. They do <u>not</u> include the costs to actually repay this debt.

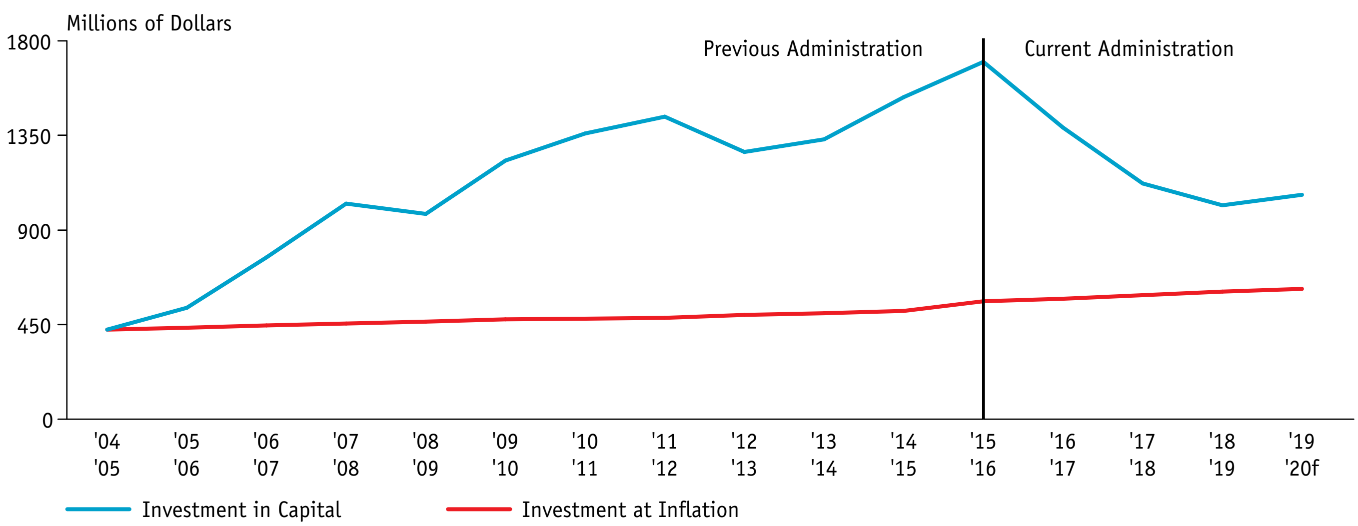
> ***Between 2004/05 and 2015/16, capital spending increased by approximately four times, saddling future generations with a legacy of debt.***

## Restoring Sustainable Capital Spending

Decisions by the previous government resulted in capital infrastructure spending reaching unsustainable levels. Between 2004/05 and 2015/16, capital spending increased by approximately four times, saddling future generations with a legacy of debt without commensurate outcomes. Between 2008/09 to 2016/17, the net book value of these assets was growing between 8 per cent and 12 per cent annually, significantly increasing the province's debt servicing costs over this period.

Our government continues to make significant and important investments at a sustainable pace. Significant infrastructure investments continue to be made and our tangible capital assets (a measure of the aggregate pool of investments still within their useful life) continue to grow.

**Actual Capital Investments vs. Investments at Inflation Rate**
**2004/05-2019/20f**




f - Forecast

## The Road to Recovery Does not End with Balance

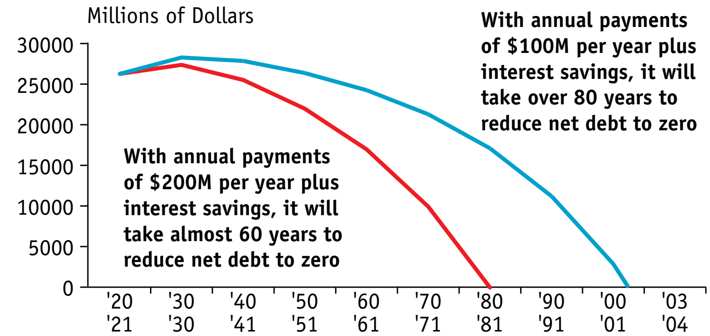
Achieving a balanced budget and controlling our capital spending does not fix the problem, it merely stops the problem from worsening.

If we:

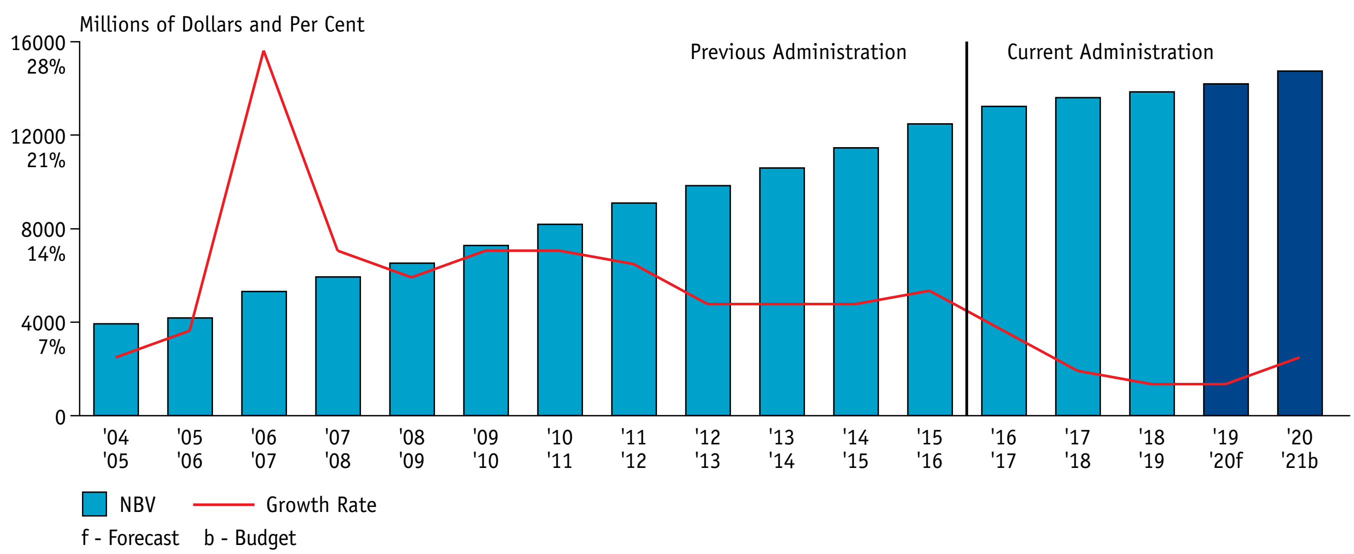
- achieve a balanced budget by fiscal 2022/23,
- maintain a sustainable rate of capital investments,
- repay our debt at the rate of $100 million per year, and
- increase the size of the debt repayment by the amount of reduced interest costs as the debt burden decreases over time,

*it would take over 80 years – until the year 2102 - to eliminate our debt*. And that assumes successive governments would consistently maintain fiscal discipline. Doubling the debt reduction rate to be at $200 million per year would accelerate the debt repayment – but *it would still take almost 60 years to solve the problem.*

### Net Debt Reduction
**2020/21–2103/04**




### Tangible Capital Assets Net Book Value
**2004/05-2020/21b**

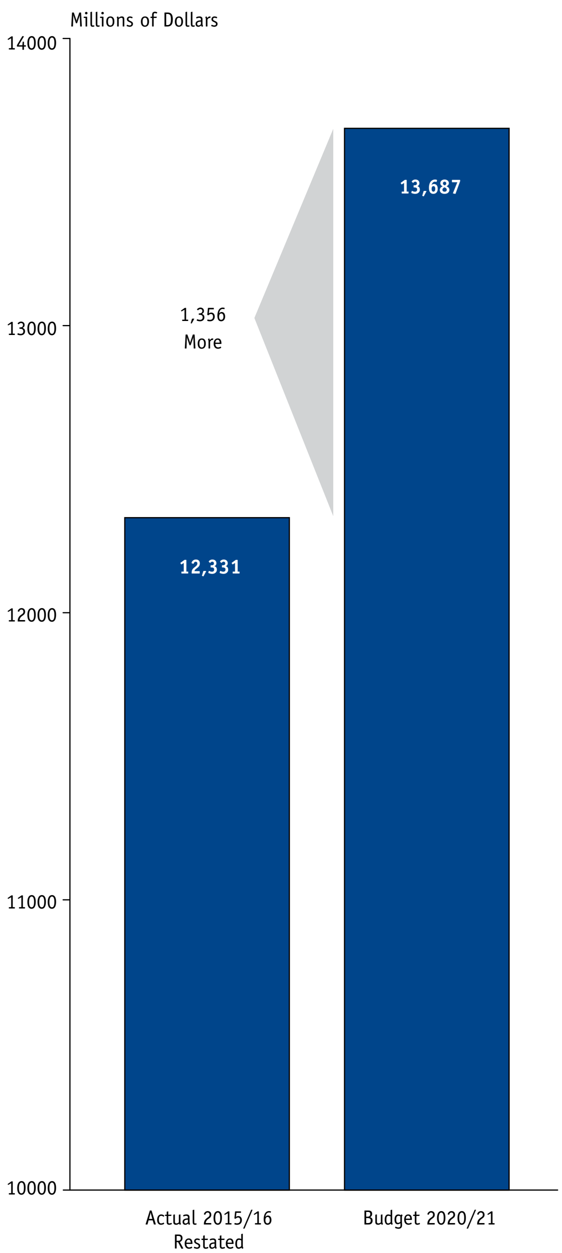


# SUSTAINABLE INVESTMENTS

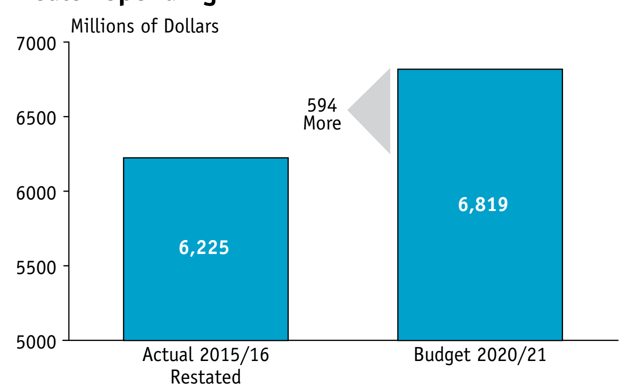
## *Investing in Front Line Services*

*Our government continues to make record-level investments in health, families and education, spending a cumulative total of $1,356 more since 2016.*

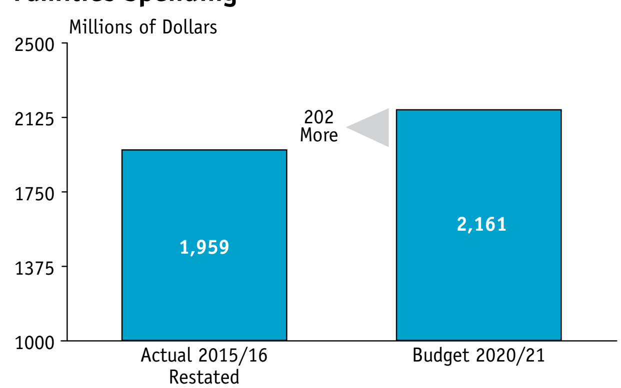
**Big 3 Front Line Departments**



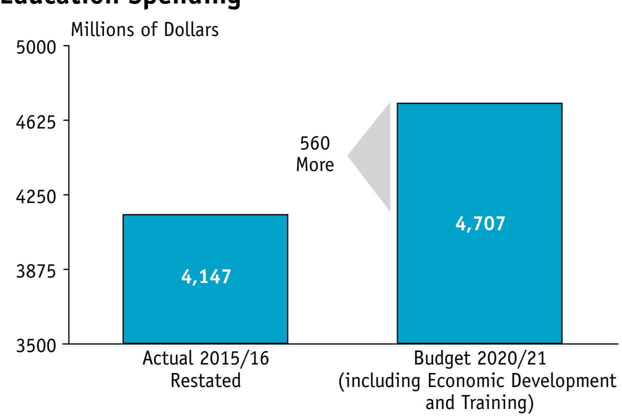

**Health Spending**




**Families Spending**




**Education Spending**



## Strategic Infrastructure

Our investments continue at sustainable levels – almost $1.8 billion in 2020/21. This is above our government's commitment to invest over $1 billion in Strategic Infrastructure.

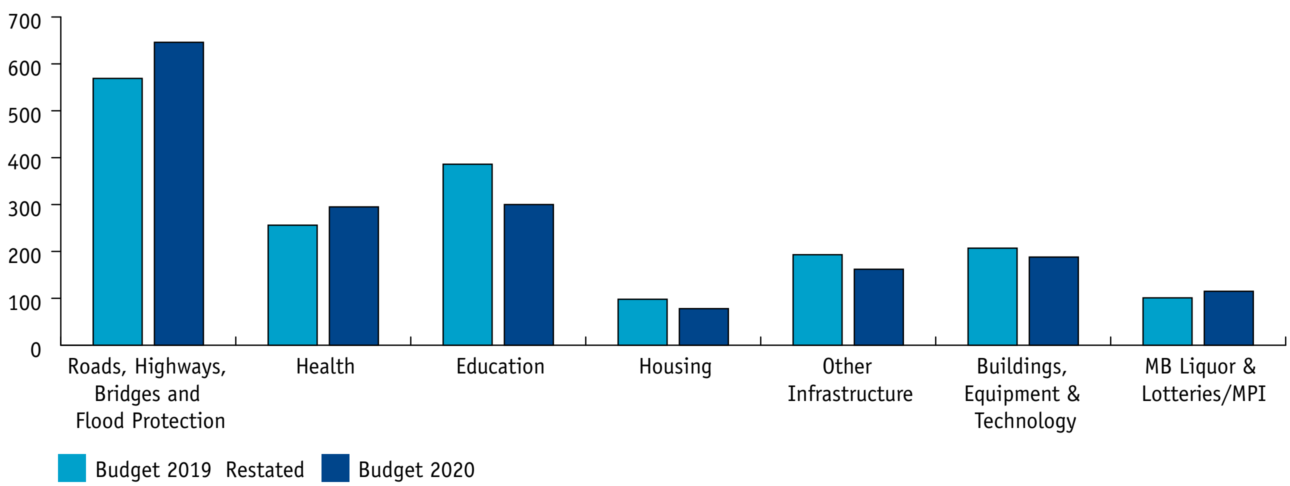
Since 2017/18, we have demonstrated our commitment to investing in Strategic Infrastructure as part of the annual provincial budget, including investments in roads and bridges, flood protection, health care facilities, schools and post-secondary institutions and other public buildings. We also included operating costs incurred to maintain our highways, bridges and water-related capital assets, as well as the capital grants we provided to support our municipal partners in addressing their infrastructure needs. While this presentation format included many critical public infrastructure investments, other capital spending was omitted. As part of our move towards reporting on all of our summary government, we are developing more comprehensive reports to Manitobans regarding the significant capital investments their government is making on their behalf.

Large categories of capital investments have not previously been included in the definition of Strategic Infrastructure, including investments by some of our largest Crown Corporations and Special Operating Agencies. Capital that was self-financed by Other Reporting Entities, including Regional Health Authorities, school divisions and universities and colleges through retained earnings or donations generated through capital campaigns was also omitted.

We began to address this issue in the 2018/19 Public Accounts, by including capital spending of Manitoba Liquor and Lotteries on casinos, gaming equipment and liquor stores within our Strategic Infrastructure report. Commencing in Budget 2020, we have now expanded the definition of Strategic Infrastructure to include all of these capital investments regardless of how they are financed or by which Government Reporting Entity.

| Strategic Infrastructure | Budget 2020 | Budget 2019 (Restated) |
|---|---|---|
| | (Thousands of Dollars) | |
| **Roads, Highways, Bridges and Flood Protection Retail Sales Tax Measures** | | |
| Highways Infrastructure and Airport Runway Capital | 368,110 | 353,150 |
| Maintenance and Preservation - Highways | 123,591 | 125,000 |
| Lake Manitoba Outlet Channel | 101,000 | 34,515 |
| Water Related Infrastructure | 30,900 | 30,900 |
| Transportation Equipment and Aircraft | 10,755 | 13,894 |
| Maintenance and Preservation - Water | 11,544 | 11,000 |
| **Buildings, Equipment & Technology** | 188,005 | 206,741 |
| **Health, Education and Housing** | | |
| Health | 294,702 | 255,704 |
| Education | 300,477 | 386,000 |
| Housing | 77,787 | 98,377 |
| **Other Infrastructure** | | |
| Municipal Grants | 136,900 | 170,000 |
| Northern Affairs Communities | 3,797 | 4,000 |
| Other Reporting Entities | 20,806 | 18,471 |
| **Crown Corporations (*excludes Hydro)** | | |
| Manitoba Liquor and Lotteries Corporation | 56,645 | 61,696 |
| Manitoba Public Insurance Corporations | 58,689 | 39,000 |
| **Total** | **1,783,708** | **1,808,448** |

**Strategic Infrastructure**
**Budget 2019 Restated vs. Budget 2020**




Now that we have expanded the scope of Strategic Infrastructure, we have increased our target for Strategic Infrastructure spending from $1 billion to $1.2 billion, understanding that we continue to work on our capital delivery processes to ensure that this money gets spent. While there is some risk in the short term of our ability to fully spend budgeted amounts, we are confident that, going into the mid-term, we will comfortably achieve these sustainable targets and will have the opportunity to increase this promise to Manitobans over time.

> ***We have increased our target for Strategic Infrastructure spending from $1 billion to $1.2 billion.***

## Federal Bi-Lateral Spending

The Investing in Canada Infrastructure Program (ICIP) is a key component of the Investing in Canada Plan. Under Phase 1 of ICIP, over 123 water wastewater and transit infrastructure projects in Manitoba were supported. Phase 1 funding is now fully allocated and approved projects are currently underway. Phase 2 of the ICIP will see $1.17 billion in federal funding allocated to support Manitoba's infrastructure needs under four funding streams, as follows:

| | |
|---|---|
| Transit Infrastructure | $546M |
| Green Infrastructure | $451M |
| Rural and Northern Communities | $112M |
| Community, Culture and Recreation | $61M |
| | **$1,170M** |

Investments over the next decade, such as those funded through the ICIP, will benefit our provinces and municipalities by promoting sustainability, improving public spaces, mitigating climate-related events, enhancing public transit, and facilitating reconciliation initiatives for our diverse populations.

Increased flexibility under the ICIP infrastructure program, including the ability to move funds between infrastructure programs, is critical. It is also important to reduce red tape and significantly accelerate federal approval processes, to ensure projects are launched rapidly.

While the federal government has indicated an openness to amendments to allow for some limited ability to transfer funds between the four funding streams, Manitoba, along with other provinces and territories, have been advocating for even broader flexibility to transfer Transit Infrastructure dollars to any funding stream under the program. This would allow Manitoba and others to better direct funding to address provincial priorities.

We are also taking steps to ensure that ICIP money is used across all of summary government, not just within central government. As an example, we were recently highly successful in leveraging ICIP funding to support Manitoba Hydro's planned transmission line expansion into Saskatchewan. This advanced our green objectives, strengthened Manitoba Hydro and improved interprovincial alignment. It serves as an example of how ICIP funding can actively support our provincial priorities, not just those of central government.

## Mental Health and Addictions

Manitoba is taking a comprehensive whole-of-government approach to improving mental health and addictions programming. In addition to base level spending on mental health and addictions of various government departments totalling $566 million (2018/19), we are making an incremental investment of $67 million over the next three years, focused on three main areas: (1) children and youth with complex, multi-system needs; (2) addictions, mental health and trauma support; and (3) mental health promotion and universal supports. Some highlights include the following:

- Fourteen new initiatives previously announced in the fall of 2019, based on recommendations from a variety of reports, including VIRGO, the Illicit Drug Task Force, and the Community Wellness and Public Safety Alliance;
- Investments in government's Safer Streets, Safer Lives Action Plan, which focuses on pillars of treatment, enforcement and education;
- Enhancing access to school-based mental health and addictions supports (psychiatric nurses and addictions support workers);
- Expanding walk-in mental health services and specialized trauma counselling;
- Adding 100 supportive recovery housing beds to help Manitobans who have received addictions treatment successfully transition back into the community;
- Implementing the Metis CART pilot project, which will provide support for at-risk families through support teams that include a caseworker, family mentor and addictions and mental health worker; and
- Enhancing access to mental health assessments and treatment for children and youth.

***Incremental mental health and addictions investment of $67 million over the next three years.***

Other initiatives were announced earlier in 2019/20 in order to improve services that were difficult to access under the former government:

- Increased supports for Rapid Access to Addictions Medicine (RAAM) clinics;
- Sixteen new residential treatment beds for women, with 12 to be located within the 28-day program at the Addictions Foundation of Manitoba's Portage Avenue campus and another four at the Behavioural Health Foundation;
- A partnership with Bell Let's Talk to offer programming by phone and online for families with mild to moderate mental health issues through the Strongest Families Institute;
- The opening of 11 flexible-length withdrawal beds, suitable for patients who are addicted to dangerous drugs like methamphetamine, in Winnipeg and Brandon; and
- Partnering with the College of Physicians and Surgeons of Manitoba to increase training for prescribers who can administer opiate replacement therapy.

Most of these initiatives will continue into 2020/21, and there are more announcements to come.

## Funding of Municipalities

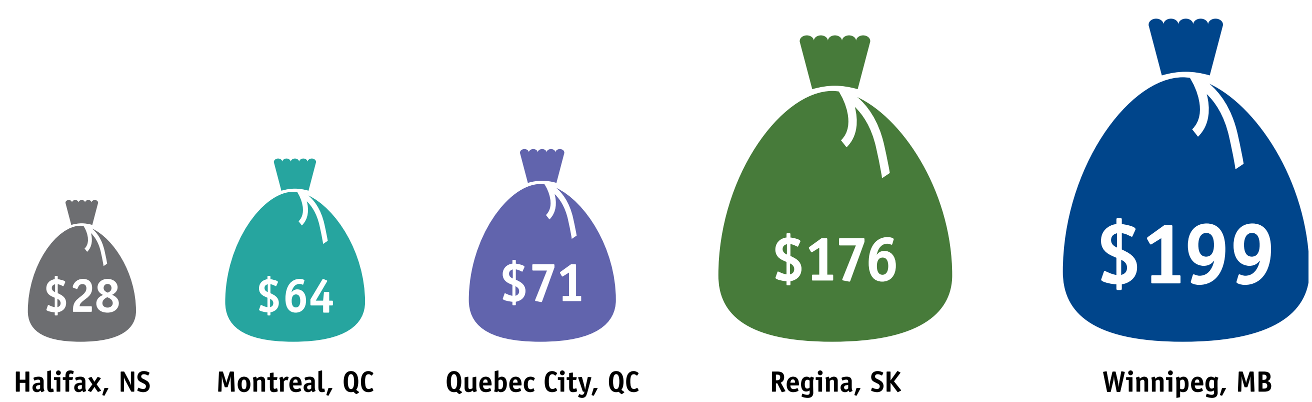
### *Fair Say Funding*

Our Government continues to make a significant commitment to fund municipalities. In response to municipalities' request for a "fair say" in funding, we have worked hard over the past four years to simplify and streamline provincial funding support into consolidated funding baskets.

We have also integrated operating funding previously provided by multiple departments into one Unconditional Operating Basket, rather than tying provincial funding to specific municipal services and programs. This has further strengthened the basket funding model, providing municipalities with unprecedented flexibility over how to invest provincial funding at the local level. Our cities, towns and rural municipalities are in the best position to make their own decisions on how to allocate these funds to address the priorities of their citizens.

Manitoba's delivery of unconditional operating support is one of the most generous in Canada. Winnipeg continues to lead the country in provincial unconditional grant funding compared to cities of similar size:

**Provincial Unconditional Grant Funding Per Capita, 2018**



## Reforming Capital Basket Funding

Budget 2020 introduces a new change to our funding of municipalities in respect of capital funding. While annual operating grants provided to municipalities have been unconditional and fixed, capital grants provided to municipalities have varied on an annual basis due to project cash flow management. Furthermore, annual capital funding has traditionally been announced to municipalities one year at a time. This has led to confusion for municipalities – and with the City of Winnipeg in particular who has requested greater certainty of capital budget grants as part of its new four year budgeting process.

We have listened to the concerns of municipalities - and new changes to the Strategic Municipal Investment Fund that will take effect in 2020/21 will further enhance fair say to the City of Winnipeg and other municipalities. These changes will provide even more flexibility for municipalities to carry out long-term planning, while at the same time providing more clarity and certainty for both operating and capital support. In other words, funding for municipalities will now be even more transparent, flexible and predictable.

Beginning in 2020/21, and continuing in future years, a new strategic infrastructure basket will be introduced that includes a funding formula based on population. 55 per cent of the total capital funding available to municipalities will be allocated to the City of Winnipeg, and the remaining 45 per cent to other municipalities outside of the City of Winnipeg. That means that the total capital basket available to the City of Winnipeg will be $75.3 million and the total capital basket available for all other municipalities will be $61.7 million, and will be reflected in the printed Estimates of Expenditures on this basis.

Manitoba will continue to work with municipalities to improve the way in which funding is provided in order to drive even greater predictability and transparency.

## Municipal Service Delivery Improvement Program

We are supporting municipalities to be more efficient by helping them to consider return-on investment and value-for-money in the investments they make in their communities. We have committed up to $5 million over the next four years, including $1.25 million in Budget 2020, to provide third party reviews and audits for municipalities and planning districts wanting to improve services without raising taxes. Pre-qualified firms will work with municipalities to conduct these value-for-money reviews and audits and to publicly post the results of these reviews. This will allow all municipalities to evaluate the effectiveness, efficiency and economy of funding spent on service delivery for:

- transportation
- protection
- water and sewer
- recreation and culture
- planning
- general government administration

Further details will be announced in the coming months as we request Expressions of Interest from municipalities wishing to participate in this program.

## Municipal Benefits from Tax Reductions

Municipalities will also benefit from our Government's commitment to tax reduction. By reducing the PST by an additional percentage point, from 7 per cent to 6 per cent, it is expected that our local governments will save $3 million. Winnipeg alone will realize $1.7 million in savings. Combined with the previous PST cut, this is a savings of approximately $6 million.

Even when factoring in the cost of the Manitoba Green Levy, municipalities will still see net savings of over $3.1 million in 2020. Municipalities will also benefit from green levy exemptions, such as when operating fire fighting equipment or its own equipment (except for vehicles) for constructing or maintaining municipal works.

## Municipal Benefits from Provincial Credit Rating

While the province does not guarantee municipal debt, it is well understood that municipal borrowing costs are highly related to the provincial credit rating and provincial borrowing costs. In 2016, we faced a deteriorating credit rating with three successive downgrades. Our borrowing costs were increasing as lenders were increasingly concerned with Manitoba's fiscal sustainability.

By stabilizing and even improving the expected outlook for our credit ratings, municipalities have correspondingly benefited from lower borrowing costs.

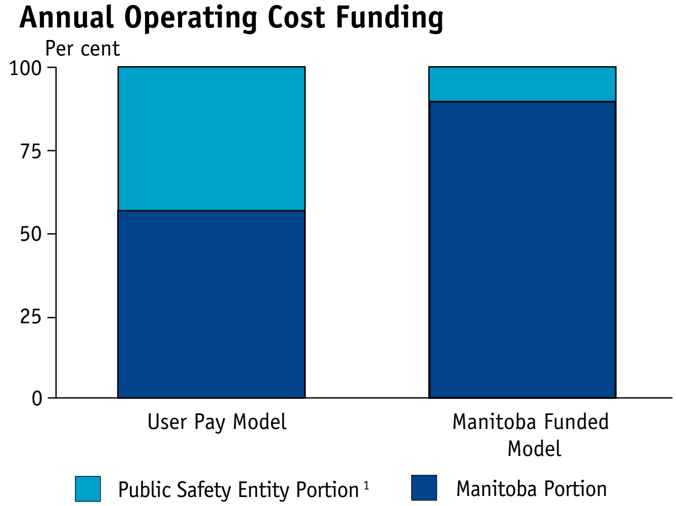
## Providing Fleetnet to Municipalities

Commencing in Budget 2020, the Province will also fund the annual operating costs of Public Safety Communications Service (PSCS) on behalf of municipalities, resulting in public safety organizations not being charged monthly subscriber fees over the 15-year services agreement. Scheduled for completion in 2021, the new service is a modern radio communication service that will help organizations manage and respond to emergencies for the benefit of all Manitobans. The system includes:

- Radio equipment with GPS to track the location of first responders, improving safety;
- Advanced radio encryption ensures police operations are secure; and
- Additional towers have been added to enhance radio coverage and mobile tower units will be available to provide additional coverage on an emergency basis.

The elimination of subscriber fees encourages usage of PSCS providing agency interoperability that enhances safety for all Manitobans. Eliminating subscriber fees also aligns within our Red Tape reduction strategy, in that it will reduce the administrative burden for municipalities and other organizations providing public safety services.

### Annual Operating Cost Funding




[1] RCMP will be required to pay annual subscriber fees

# BALANCED SCORECARDS

*There has been too much historic focus on the activity of spending money, and too little focus on the actual outcomes we achieve. We are changing that!*

## Balanced Scorecard Financial Metrics

### *Improving Quality of Life for Manitobans*

Over the past three years, the Government of Manitoba has built momentum toward our vision to move Manitoba forward. We understand this is a journey, not a short-term sprint, and requires focus, discipline and accountability. It requires the whole of government to understand priorities and it requires every public servant to know how they contribute to the achievement of those priorities.

**Balance scorecards:**

✔ highlight strengths and areas for improvement

✔ provide meaningful information for decision-making

✔ foster transparency

### *Using a Strategic Management Tool to Deliver Results*

As part of Transforming the Public Service: A Strategy for Action, which was launched in 2018, the implementation of balanced scorecards was identified as a strategic initiative to help transform the work of the public service. The 'balance' in balanced scorecards is about using key performance indicators to capture the necessary balance of skills, processes, resources and client requirements to lead to a desired outcome.

Scorecards are a proven mechanism for translating an organization's strategy, which is abstract, into measureable actions that are concrete. They enable us to be strategic in placing our efforts and resources where they are needed to bring focus to our work and accountability to deliver results.

## Manitoba Measuring Progress: Being Transparent about Impact


On December 13, 2019 Manitoba became the first provincial jurisdiction in Canada to launch a public- facing balanced scorecard dashboard (mbmeasuringprogress.ca). This performance measurement website represents our commitment to transparent reporting on provincial-level priorities that are focused on moving Manitoba forward.

The dashboard features metrics on four key areas:

1. **Quality of Life:** Reporting on measures that contribute to quality of life

   Within quality of life, there are four provincial objectives. Each objective is a concise statement of what we must do well, to improve quality of life, and includes sub-measures that give direction on areas to focus on:

   - *Create conditions to improve quality of life*
     - Socio-economic index that features education, public safety, healthcare, poverty, employment, and immigration indicators

- *Advance reconciliation*
  - Advancing Treaty land entitlement
- *Sustain Manitoba's unparalleled natural environment*
  - Grow parks usage, lower greenhouse gas emissions, support renewable electricity generation
- *Foster private investment for economic growth*
  - Private sector business exits, private capital investments

2. **Working Smarter:** Reporting on measures that demonstrate public servants' progress in delivering client-centred services
   - *Foster and advance innovation*
     - New approaches to delivering services
   - *Reduce red tape*
     - Reduce number of regulatory requirements
   - *Involve Manitobans in decision making*
     - Number of public engagements
   - *Be transparent*
     - Number of reports added to Proactive Disclosure, number of FIPPA responses added to Proactive Disclosure
3. **Public Service:** Reporting on measures that demonstrate how public servants are fostering client-service excellence
   - *Enhance client services*
     - Establish a Manitoba client satisfaction survey
   - *Build our capacity to deliver*
     - Organizational capacity index
   - *Advance inclusion*
     - Diversity and inclusion index
   - *Strengthen respect in our workplaces*
     - Respect in the workplace index
4. **Value for Money:** Reporting on progress associated with protecting Manitoba's bottom line
   - *Provide value for money*
     - Work within summary operating and capital budgets
   - *Prepare for a rainy day*
     - Protect our credit ratings
   - *Let Manitobans keep more of their money*
     - Money left on your kitchen table
   - *Balance the budget*
     - Work within Legislated budget

## Cascading to Departments

The implementation of balanced scorecards is underway with departments across government, and has begun with training senior managers in how to understand, create and use scorecards. Work is also underway to ensure funding arrangements with government-funded entities (post-secondary institutions, health authorities, and child and family services authorities) are tied to improving outcomes among those entities.

## What's Coming Next

The use of scorecard software is a tangible component of implementing scorecards across government. The software will modernize data entry, tracking and performance reporting (both internally and externally to our dashboard).

Once departments have completed their scorecard training and created department-level scorecards that align to the provincial scorecard and its measures, software training and use will start.

Work is also underway to integrate scorecard performance results into existing functions and processes across the public service. This will ensure transparency around results, improve decision making and foster accountability.

***This will ensure transparency around results, improve decision making and foster accountability.***

# PUBLIC SERVICE TRANSFORMATION

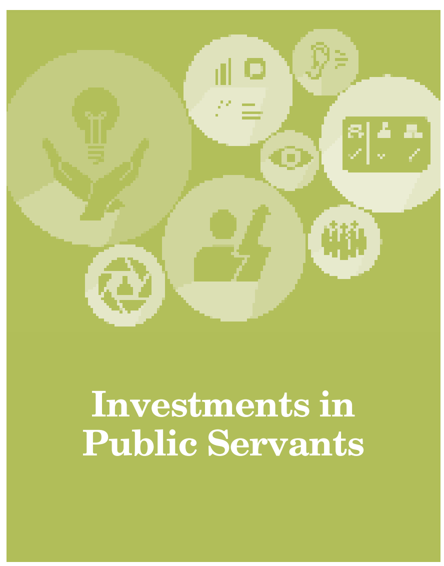
*It has been two years since the launch of the Transformation Strategy, and our public service has undergone immense change. The strategy set out to transform both our culture and the way that we work, enhancing our capacity to modernize and innovate.*

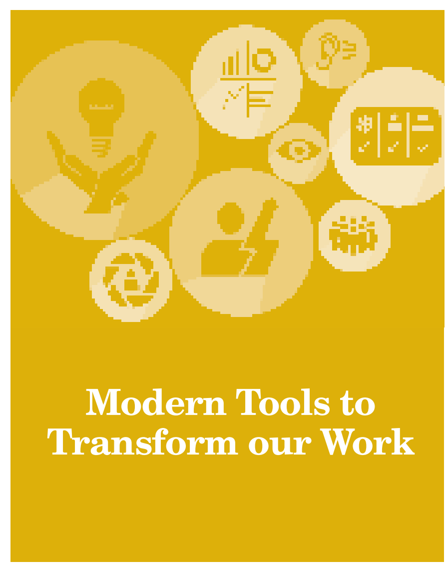
In December 2019, we released a progress report that highlights successful initiatives resulting in better public services for Manitobans. That's Transformation – success stories from change makers like you contains sixteen stories that show how public servants are working differently by focusing on outcomes, embracing creativity, and collaborating with internal and external partners.

The stories are grouped under three pillars that demonstrate how transformation is embedded into our organization:

Every corner of the public service is engaging in transformation in unique ways – concerted and collaborative efforts that foster creative solutions and a focus on outcomes.

## Transforming our Work


### *Increasing transparency*

Access to information is at the heart of our open government initiative, and can lead to a more accountable, participatory, and transparent system. While Manitoba has legislation and tools in place to request government information, we are striving toward proactive publication. We envision a modern public service that anticipates people's needs, and are taking great steps forward through OpenMB. This tool is a new online portal that gives Manitobans access to information about government priorities, policies, programs, and public spending. Users can learn more about how government works, as well as access data and resources from publication archives.

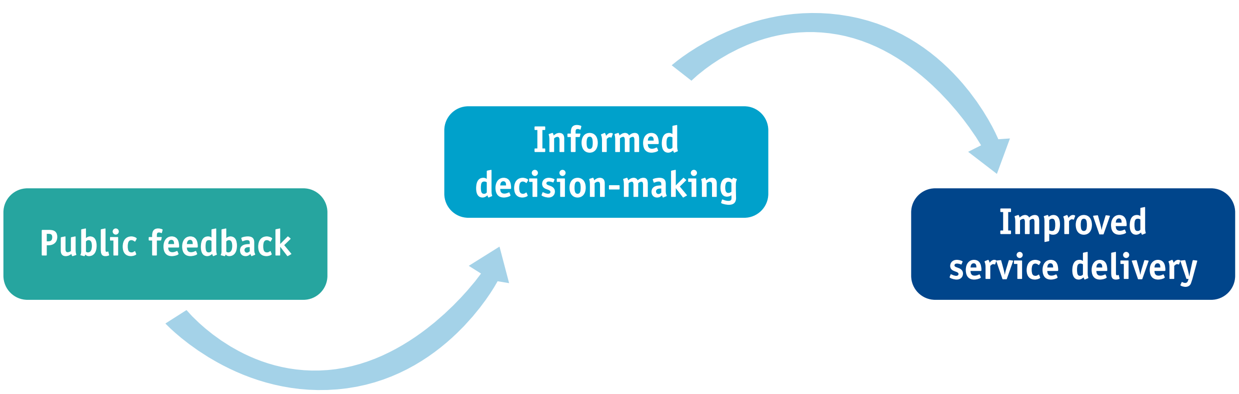
### *Engaging the people we serve*

*A new way to engage with the people we serve*

To respond to shifting demographics and the evolving expectations of Manitobans, we needed a new way to engage with the people we serve. As part of open government, the launch of EngageMB, an online communication portal, delivers on the commitments we made to simplify and enhance public engagement. The portal provides a single location for Manitobans to find information about public engagement initiatives, and to provide their insights to government. Public engagement provides vital information that inform the steps we take, and is a key part of developing legislation, programs, and services.

### *Service Innovations*

There has been a wave of service innovation across the government as we have used innovative methods to solve complex government problems and enhance services. To pace the rapidly changing world of technology around us, many departments have looked to digitalization of services for ease of use, improved accessibility, and faster turnaround times. One example is the upcoming launch of the Manitoba Scholarship and Bursary Initiative portal, an accessible, streamlined, and consolidated tool for Manitobans to apply for scholarships and bursaries. Historically, the process has been complex and fragmented, resulting in many students seeking out larger than necessary loans. Users will find a centralized portal with all of the scholarships and bursaries available to them in one place, making it easier to understand eligibility and apply.



## Transforming our Culture

### *Redefining who we are*

A modern public service needs foundational legislation that outlines our shared values and redefines who we are. The tabling of the new Public Service Act is a significant step forward that embeds key aspects of transformation and innovation, harmonizes principles such as diversity and reconciliation, and aligns government priorities to focus on outcomes. Fundamental tenets like transparency, accountability, integrity and respect for others are newly embedded in a framework that ensures we apply them consistently. Directives are enshrined that set the stage for innovation, and provide more opportunities to harness the talent of our dedicated public servants.

### *Expanding our networks*

In the spring of 2019, North Forge became the Manitoba government's official economic development partner for innovation and entrepreneurship. Public servants have had numerous opportunities to learn from this innovation-based agency, and North Forge is a strategic partner in developing services for Manitobans. Networking and collaboration strengthens the resources and knowledge we have at our fingertips, building organizational capacity. The public service continues to grow through our relationships with the private sector, non-profit and community organizations, academia, and Indigenous leadership.

## Investing in our People

### *The Learning Fund*

The Learning Fund was launched for public servants in core government on May 7, 2019, and immediately became a game changer. The Transformation Strategy's focus on harnessing our talent, combined with the excitement around the success of the Idea Fund, catalyzed the creation of a centralized fund for training that has resulted in some of the most significant impacts to the government training landscape in a generation.

Within a few weeks, it was obvious that the Learning Fund was sorely needed. Applications flowed in from all corners of government and, in less than two months, half of the $2 million had been allotted to learning opportunities. Applicants requested an impressive range of courses, workshops, conferences and online learning resources.

As of December 31, 2019, after just eight months of activity, the Learning Fund has supported 832 unique learning courses, 175 of which were for group trainings which leverage economies of scale and also enabled 2,393 employees to be trained in a particular area.

It is estimated that for the fiscal year 2020/21, there will be at least a 30 per cent increase in the total number of employees applying for either an individualized or group training.

*The public service continues to grow through our relationships with the private sector, non-profit and community organizations, academia, and Indigenous leadership.*

### *Leadership Programs for Executives and Senior Leaders*

We have partnered with the Schulich Executive Education Centre to offer our executive and senior leaders an opportunity to deepen their individual and collective skills in leading transformation. To date, we have 80 enrolled participants at the Deputy Minister and Assistant Deputy Minister executive level and 99 enrolled at the senior leadership level. In the next year, about 100 more senior leaders will participate in the program. The customized program is focused on creating a culture of leadership excellence and the development of innovative business leaders capable of building a service-focused culture, transforming the customer experience, championing the Manitoba government brand and living its values.

### *Leaders in Training Program*

Understanding that if we want a strong public service, we need to focus our recruitment at the university level to get the best and brightest early in their careers. The Leaders in Training Program (LTP) recruits individuals interested in a career with the Manitoba public service who have the potential to fill future leadership positions, with both a "general" and a "financial" stream.

This program provides LTP interns opportunities to develop their skills and knowledge through three eight-month work placements, under the guidance and mentorship of senior leaders in the organization. Interns also receive a variety of training in classroom and online formats. The program enables interns to gain a whole-of-government perspective on different functions of government, specifically for the general stream in policy development, operations, and financial management, and for the finance stream in provincial comptrollership, central finance and departmental finance. Interns are often involved in supporting government priorities by working on exciting projects, including transformation initiatives.

# BETTER SPENDING OF MONEY

*We understand that Manitobans care about how we spend their money.*

### Why Transformation is Necessary

We are constantly re-thinking how we deliver better outcomes. The first several years of our mandate, we were more focused on fixing central government. As we became more comfortable in terms of what worked, and what didn't work, we expanded our efforts across summary government. Indeed, given that broader summary government reflects considerably more spending and cost to Manitobans than central government, it is imperative that these transformation initiatives be expanded across all summary government.

### The Idea Fund

*The Government's Transforming the Public Service: A Strategy for Action* initiative encourages civil servants to generate innovative ideas that result in better ways of doing things and spending taxpayer dollars more effectively and efficiently. The Idea Fund supports this initiative through a whole-of-government approach to use innovation to improve and modernize our civil service.

A total of $140 million is available to government and government reporting entities. This includes dedicated funding of $40 million over four years for health care facilities and $25 million for the establishment of a new Teacher's Idea Fund. Funding initiatives under the Idea Fund for Health prioritize projects that support Manitoba's Clinical and Preventative Services Plan for better patient outcomes. The health fund supports initiatives that address, among other issues, modernization of home and community care to enhance coordination of clinical and related heath services, improve processes and standardize services across the province. The projects selected will bolster the focus on preventative health measures and help to build local capacity in areas such as access to rehabilitation and remote monitoring programs, fulfilling our government's election commitments.

***A total of $140 million is available to government and government reporting entities.***

Projects undertaken through the Idea Fund focus on achieving outcomes, backed by business plans that demonstrate a positive Return on Investment (ROI) and encourage evidence-based decision making.

As part of this commitment, $2 million has been set aside to cover scoping costs for Information, Communication and Technology projects. Scoping undertaken during the project development stage results in better planned projects and provide more accurate cost estimates and ROI projections to support better decision making.

To date, 73 projects have been approved, with almost $34 million allocated for active projects that are expected to generate over $48 million in net savings over the next four years with an expected average ROI of 144 per cent. Projects recently approved under the Idea Fund include the following:

***Treasury Management Solution*** – development of a new automated system to replace the current technology allowing Manitoba to:

- Enhance cash flow visibility and reduce borrowing costs.
- Improve investment management and increase investment yield.
- Post collateral and reduce hedging costs.
- Increase awareness of timely foreign debt issuance opportunities and reduce borrowing costs.
- Increase automation and reduce risk related to manual processes.
- Net Savings of $2.5 million over 4 years, with an ROI of 38 per cent.

***Purpose Built Home*** - building of a new purpose built home in Elie for individuals transitioning from the Manitoba Development Center to community placement: Net Savings of $485,000 over 4 years, with an ROI of 69 per cent.

***Collaborative Prescriber Agreements for Exception Drug Status*** - establishes agreements with specialist physicians including neurologists, gastroenterologists and infectious disease specialists that will reduce the regulatory burden on prescribers, pharmacists and patients by eliminating the need to send in applications for selected drugs in the Exception Drug Status (EDS). Savings are generated by removing the administrative steps and allow existing human resources to be re-deployed. Net Savings of $74,000 over 4 years, with an ROI of 308 per cent.

***Diagnostic Imaging Outpatient Centre*** - within Misericordia Hospital to reroute non-urgent and less-urgent outpatient CT and ultrasound exams from acute care centres. Net Savings of $420,000 over 4 years, with an ROI of 280 per cent.

***Secure Bulk Email Automation*** - to centralize and streamline the upload and transmission of individual documents securely. The saving comes from not having to pay postage on mail outs. Net Savings of $101,000 over 4 years, with an ROI of 187 per cent.

***Government Employee Identification Card Program*** - reduces costs associated with outsourcing production of provincial staff identification with new in-house card printers and software that can create low-cost staff identification cards. Net Savings of $19,000 over 4 years, with ROI of 239 per cent.

## Strategic Initiatives and Program Reviews

This central group was formed two years ago and is tasked with generating better outcomes and increasing value-for-money for all Manitobans through comprehensive program reviews and alternative service delivery.

The Strategic Initiatives group works very closely with various areas of government to identify opportunities for improving the quality of services delivered to Manitobans as well as making better use of taxpayer money. When an opportunity is identified, a program review is performed to ascertain the relevancy of the program in the modern landscape, its alignment with government priorities, its effectiveness in achieving the desired outcomes, as well as its ability to maximize the return for every dollar invested.

A program review often identifies a service that could be delivered in a more efficient and cost-effective manner through the private sector – i.e., alternative service delivery. In this case, the Strategic Initiatives group, in collaboration with the various stakeholders, develops the appropriate public tender document and drives the procurement process. The proposals that the government receives, together with the companies

***We work to identify opportunities for improving the quality of services delivered to Manitobans as well as making better use of taxpayer money.***

who submitted them, are put under scrutiny to ensure that the successful supplier has the financial capacity, experience, technical expertise and human resources to deliver the services exactly as described in the contract. This work is highly collaborative and is supported by legal, procurement and other experts to ensure a fair and transparent process together with a favourable and measurable outcome to Manitobans. Finally, Strategic Initiatives collaborates closely with the newly formed Contracted Programs Management Office, which is responsible for managing the contract after its initiation and ensuring that the suppliers are complying with the terms and conditions of the contract and delivering a better, more cost effective service to Manitobans.

The work executed so far will save Manitobans approximately $34 million over the next 10 years. Work is also underway on projects that are expected to save $324 million of net present value over 10 years.

## Health Care Transformation

When our new government began in 2016, Manitoba's health expenditures were among the very highest in Canada, yet we were achieving amongst the very worst outcomes in Canada. The Manitoba Health, Seniors and Active Living (MHSAL) Transformation Program has been established to guide the thoughtful planning and phased implementation of broad health-system changes.

If we look at a longer time horizon, we see that health spending across Canada has been characterized by period of rapid expenditure growth, followed by shorter periods of spending retrenchment.

In Manitoba, by contrast we see the same general trends but – generally speaking – in Manitoba health spending has increased by more than the national average. We generally grew more than other provinces during the periods of growth, and we retrenched less than the other provinces during periods of retrenchment. As a result, in the past few years we have had to play "catch up".

Over the same period of 1975 to 2019, Manitoba's average annual growth rate was almost 0.2% higher than that for the rest of Canada.  It does not sound like a lot, but the compounding effect over 45 years is material.

As a result, looking at per capita total health expenditures, Manitoba has improved from spending the eighth most among the provinces and territories in 2015 to seventh in 2019.

We adopted a blueprint and roadmap in 2018 for transformation activities anticipated to be completed over five years, with three waves of work each carefully planned to include initiatives that will improve the quality, accessibility and sustainability of health services across the province.

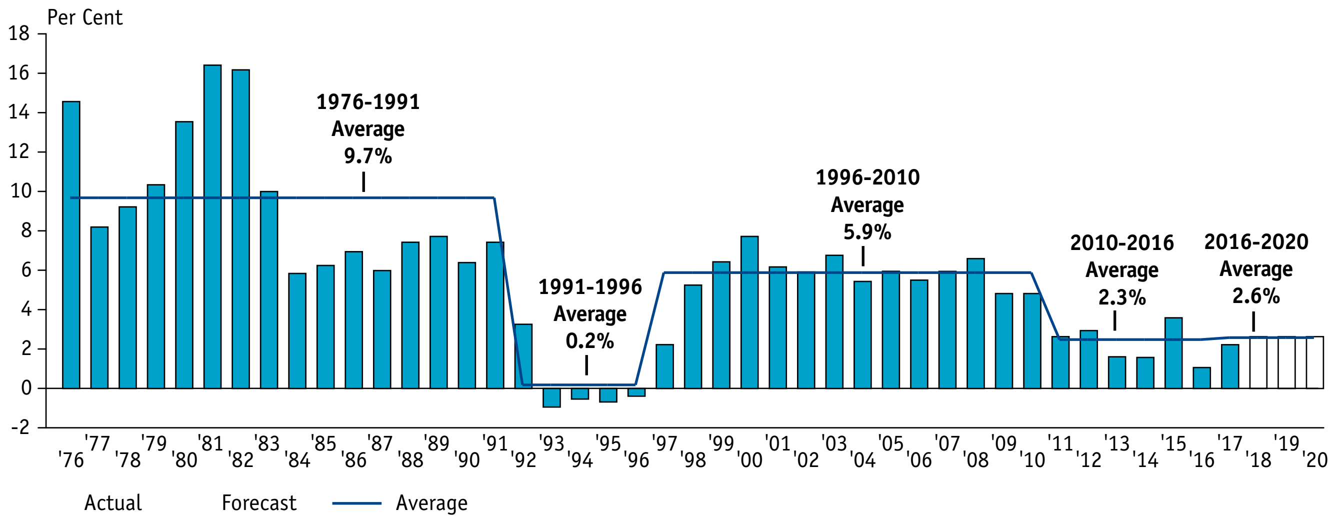
Throughout Wave One, 12,000 staff transitioned to Shared Health as the organization became responsible for provincial clinical and preventive service planning, workforce planning and the delivery of province wide sites and services, including:

- Diagnostic Services
- Health Sciences Centre Winnipeg
- Emergency Response Services
- Digital Health
- Medical Assistance in Dying; and
- Crisis Response Mental Health Program Services

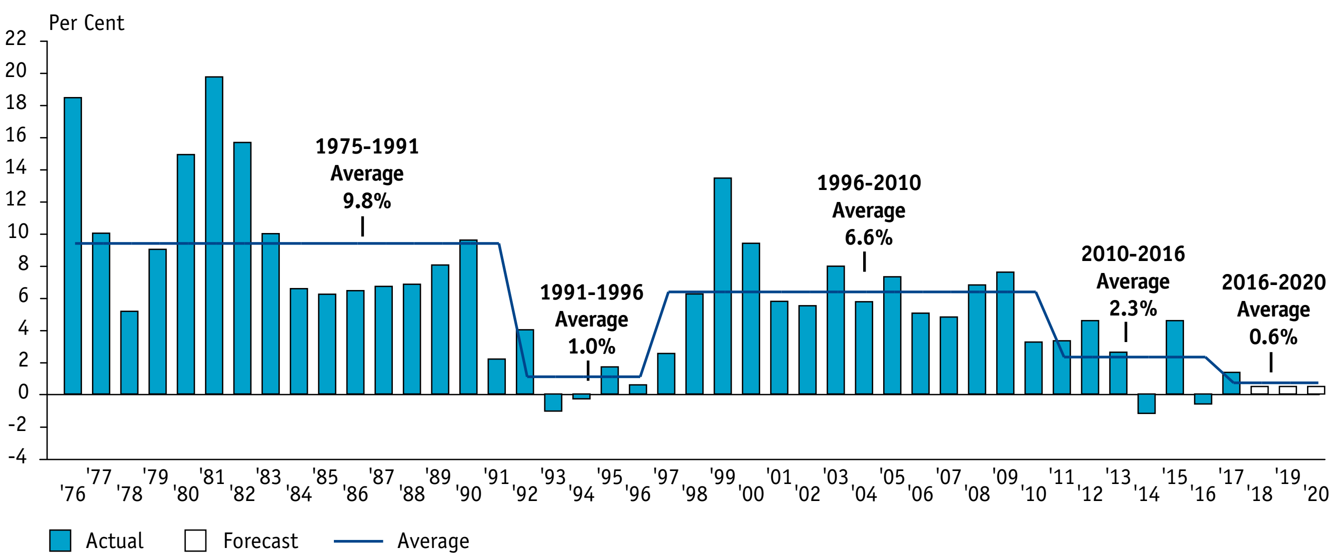
This shift, together with realignment of the role and function of the Regional Health Authorities, CancerCareMB and Addictions Foundation of Manitoba as part of Bill 10: The Health System Governance and Accountability Act, are significant steps to simplify the system and focus organizations on health service delivery.

***We continue to improve the long-term sustainability of the system while building towards better access, consistency and equity of the services offered to Manitobans.***

**Annual Growth Rates - Canada**
**1976–2020**




**Annual Growth Rates - Manitoba**
**1976–2020**



New legislation (The Health Sector Bargaining Unit Review Act) allows for more than an 80% reduction of health bargaining units in Manitoba – from more than 190 to 36 – setting the foundation for bargaining to begin on new collective agreements. This is a significant part of the ongoing effort to achieve administrative efficiencies that may be redirected to patient care.

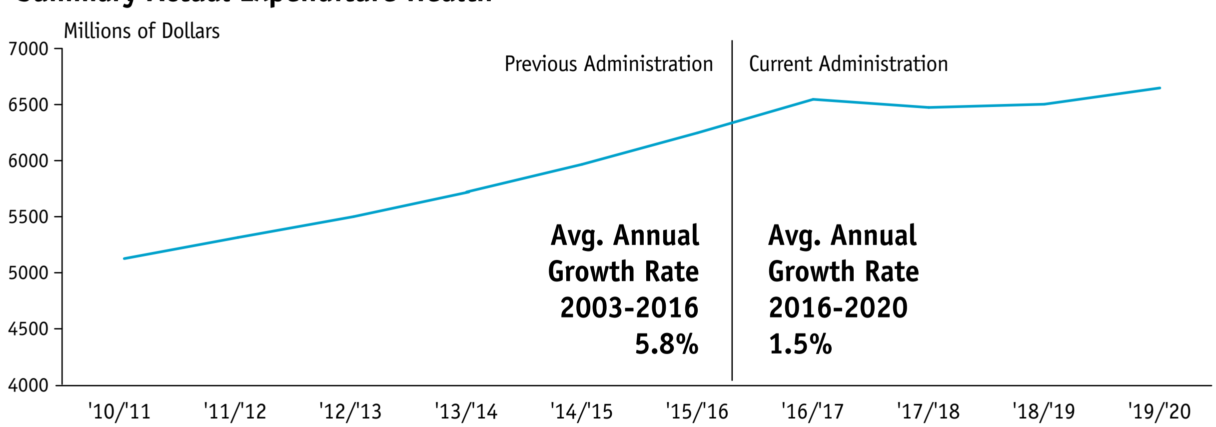
Reorganization of MHSAL is underway to strengthen its capacity to commission health services and manage the accountability for health service delivery across the province.

Shared Health also led the development of Manitoba's first Clinical and Preventive Services Plan, which involved thousands of clinical experts, health system leaders and frontline providers from throughout Manitoba in the identification of opportunities for investment, innovation and change to health services across all regions and many clinical areas. This plan will guide an investment by government of more than $250 million over 4 years, with the aim of shifting care away from acute hospital settings and closer to home.

Wave Two of the transformation, currently underway, will continue to improve the long-term sustainability of the system while building towards better access, consistency and equity of the services offered to Manitobans. It will see the centralization of a number of administrative and support services (capital planning, supply chain, legal services) within Shared Health to ensure consistent and integrated planning, leadership and support for provincial services. At the same time, regional health authorities and service delivery organizations are undergoing a redesign that will see their management and administrative structures align with their responsibilities. Accountability agreements and consistent service purchase agreements will provide further assurance that the right care will be available for Manitobans when they need it.

The transformation of our health system has made strong progress in bending the cost curve of healthcare in the province. This change has been accomplished while initiatives across the system have improved service delivery outcomes for patient care over the same period.

**Summary Actual Expenditure Health**




Source: KPMG Health Sustainability Review, Priorities & Planning

The Health System Governance and Accountability Act was re-introduced in the fall to support Manitoba's health-care transformation plan to achieve better results for patients and to simplify an overly complex and expensive system. One new Act modernizes and streamlines the legislation for the provincial health system and replaces The Regional Health Authorities Act, The Cancer Care Act, The Addictions Foundation Act and The Hospitals Act, and clarifies the roles and responsibilities of the province's major Health Delivery Organizations: including the five Regional Health Authorities, Shared Health and CancerCare Manitoba. It will reduce administrative duplication and improve efficiency by aligning the roles and responsibilities of all organizations into an integrated system. It will also free the Department of Health, Seniors and Active Living from its health service delivery obligations, enabling it to focus on health policy, as well as system oversight, performance and accountability.

In particular, new accountability tools and processes will allow the Department of Health, Seniors and Active Living to exercise stronger financial oversight across the health sector. This includes a requirement for Health Delivery Organizations to enter into an Accountability Agreement with the Minister. These Agreements will identify reporting requirements and performance measures and will also require each Health Delivery Organizations to produce a balanced budget. They will outline the funding provided, the services to be delivered, and the outcomes to be achieved.

The new Act also clarifies the authority of the Minister to audit physician billing and recover funds paid out either inappropriately or by error, and strengthens the resolution process for any disputes over physician billing audits. Working in collaboration with Doctors Manitoba, we are also modernizing the Fee-For-Service Billing Schedule so that it better matches the practice of modern medicine. This will make it easier for physicians to match billing codes to the services they provide.

Bargaining unit restructuring in the health sector is nearing completion. There are now 36 bargaining units in the health system, compared to more than 190 bargaining units prior to restructuring. The restructuring included approximately 45,000 employees in the following sectors:

- nurses
- professional/technical paramedical
- facility support
- community support
- physicians
- medical residents
- physician assistants and clinical assistants

Following the union representation votes in August, 2019, the number of unions representing employees in the health system was reduced from 13 to 7. The next step in the process is a significant reduction in the number of collective agreements through the collective bargaining process. A key goal of negotiations is to streamline collective agreement language between and across sectors to the greatest extent possible. This will improve administrative efficiency and streamline both the negotiation and administration of collective agreements. Following the completion of collective bargaining, there will be no more than 36 collective agreements, with the goal of having a master agreement for each sector.

Provincial Health Labour Relations Services (within Shared Health) has been designated as the exclusive employer bargaining representative for all employers' organizations created by The Health Sector Bargaining Unit Review Act. The designation of a single bargaining representative across multiple employers through an employer's organization structure reduces complexity and duplication of administrative effort, while enabling the consistency and streamlining of collective agreements throughout the system.

Provincial Health Human Resources Planning also becomes the responsibility of Shared Health. This will provide an integrated view of the health system workforce, improving the ability to better match health human resources to population health needs across the province in line with the Provincial Clinical and Preventative Services Plan.

Over the next five years, Manitoba's Clinical and Preventative Services Plan is expected to:

- move 21,000 days of care away from Winnipeg's acute facilities and back into local communities across the province;
- prevent the need for 2,500 patient transports to Winnipeg, as rural facilities are better equipped to provide care;
- give all Manitobans access to lab results via a new secure patient service portal, eliminating the need to travel to doctors and specialists to retrieve those results;
- provide 50,000 additional in-person home care visits while modernizing the system to provide more and better care;
- provide 800 Manitobans with access to remote monitoring of their chronic conditions, allowing them to remain in the community, closer to home; and
- extend Manitoba's acute care electronic record system to 800,000 patients, enabling health-care providers to have a clear and consistent understanding of their patients' care requirements.

## Wait Times Reduction

In addition to our efforts to transform the delivery of health care services to Manitobans, our government is committed to reducing wait times for some of the most important health services.

Building on the Wait Times Reduction Task Force recommendations, our 2019 one-time investment of $5.3 million for cataracts and joint replacements (hips and knees) resulted in 25% more joint replacements and 15% more cataract surgeries for Manitobans. We are continuing to deliver on this promise by establishing a $10 million permanent fund in Budget 2020 for Priority Procedures Wait Times Reduction, which will provide more timely access to cataracts surgeries and joint replacements (hips and knees).

***We are continuing to deliver on this promise by establishing a $10 million permanent fund in Budget 2020 or Priority Procedures Wait Times Reduction.***

## Centralized Capital Delivery

Manitobans depend on government capital infrastructure such as roads, parks, water treatment facilities, flood protection, schools, hospitals, social housing, courthouses, correctional facilities, and other government buildings and structures. Building, upgrading, and maintaining these assets is important to Manitobans. Our government is committed to investing over $1.2 billion each year towards capital infrastructure, which is spread across many areas of government.

Disciplined infrastructure spending is a multi-year effort that is beginning to take hold. Until the recent change in government, there was no process for capital prioritization. The previous province's approach to capital planning was ad hoc and decentralized; it did not focus on return on investment nor multi-year capital prioritization. In response, our government has developed new capital assessment tools to ensure more strategic decision-making. The Capital Project Prioritization Model is a value for money tool, based on leading practices utilized in other jurisdictions. It was first applied in the 2018/19 Estimates and was used again, more rigorously and with the benefit of a year's experience, with respect to proposed 2019/20 capital expenditures. In advance of Budget 2020, we are starting to hit our stride.

In past years, we have lapsed significant amounts of our capital budgets, which is not a desirable outcome. If government has approved capital to be spent, it wants that capital to be spent within the expected time frame. Sometimes, a change to the way government is organized is crucial to enabling success. In October 2019, our government began the process of centralizing capital project and asset management staff from multiple departments. The new Central Capital Divisions will be located in the new Department of Central Services, which delivers government's information technology systems, procurement and supply-chain management, government fleet vehicles, and material purchases.

This new model will bring over 600 staff together from capital teams from six different government departments. The teams will be re-aligned to meet the lifecycle needs of all assets from capital planning, to project delivery, to asset management and finally, to asset retirement, for all of government. Central Capital will oversee and manage all capitalized projects, regardless of dollar value, to ensure that all capital allocation benefit from the new model.

## Reforming Emergency Preparedness

This is the most resilient budget for emergency preparedness in Manitoba's history. We have been working for several years now to be more prepared to appropriately respond to emergencies.

## Fixing the Emergency Appropriation (BA27)

Compared to 2016, we now have $86 million more available to address emergency expenses.

Historically, the Emergency Expenditures budget was intended for actual emergency expenses such as major flooding and forest fires. However, the previous government increasingly put $36 million of normal, recurring program expenditures that were predictable into the Emergency budget. They took advantage of the loosely defined "emergency" circumstances and lacked budgetary accountability in the use of the Emergency Expenditures budget.

This practise not only failed to put proper financial controls in place, but also resulted in "blown budgets", where historical expenditures averaged $157 million annually and exceeded budget by an average of $57 million annually.

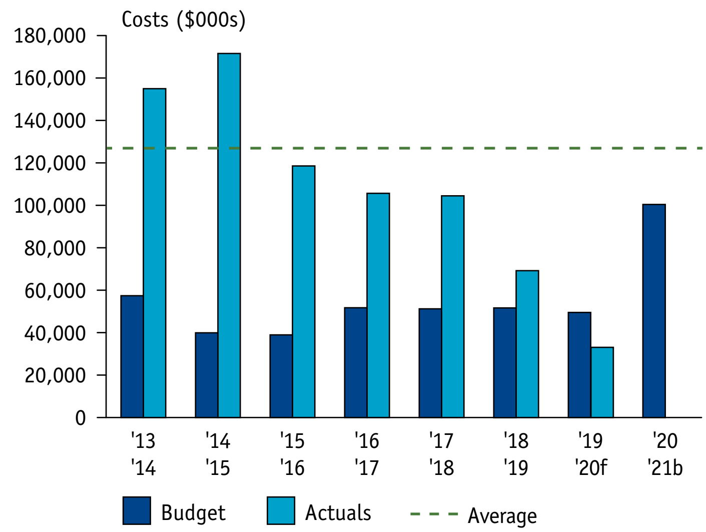
We started to address this issue in Budget 2019 by first:

- Right-sizing and then printing up the Emergency Expenditures budget to $49.5 million, focused on supporting Manitoba's needs during a truly unforeseeable emergency; and
- Right-sizing Conservation and Climate's wildfire budget of $50 million – an increase of $30 million - in order to address core program delivery.

Budget 2019 did not fully address our historical problems. Budget 2020 continues to make improvements by:

- Right-sizing the Department of Infrastructure's budget by $5.7 million to address core program delivery;

### Emergency Expenditures - Budget vs. Actuals




- Allocating an additional $45 million in new one-time capital funding for environmental damage protection and climate resiliency measures, working with our municipal partners in the Winnipeg Metro Region and across the province;
- Investing an additional $3 million in Budget 2019 for spring flood preparedness, before the flood arrives. Decisions on how this funding will be spent will also be made in conjunction with our municipal partners, in accordance with the priorities of the Association of Manitoba Municipalities (AMM) and the Winnipeg Metro Region; and
- Finally and most importantly, Budget 2020 takes the unprecedented step of increasing Emergency Expenditures budget by $50 million, for a total of $100 million. This represents the largest amount set aside to respond to floods, forest fires and other emergency situations in Manitoba's history. In fact, after adjusting for the $36 million of regular programming we moved into departments, our budget is now $86 million greater than it was in 2016.

## Lake Manitoba/Lake St. Martin Outlet Channels

The Lake Manitoba and Lake St. Martin Outlet Channels Project is the largest, most significant water control and flood mitigation project undertaken in Manitoba since the expansion of the Red River Floodway. It will improve the regulation of water levels on the two lakes, and enhance flood protection for several surrounding communities, including First Nations, rural municipalities, farms and businesses. The project will also become a critical component of Manitoba's broader integrated water control and flood mitigation network, which includes the Shellmouth Dam, Portage Diversion and Red River Floodway.

Collectively, this system is designed to protect hundreds of thousands of Manitobans across much of the province, and reduce catastrophic costs and damages associated with future flood events. The need for this project is highlighted by the enormity of damages caused by recent major flood events in 2011 and 2014, resulting in thousands of evacuations, tremendous damage to homes and properties and extensive social and economic disruption. Based on extensive research on the impacts of climate change on the Canadian Prairies, Manitoba will continue to be subject to wetter conditions, and will face more frequent and larger flood events.

Despite these realities – and common understanding of the need to build this project – Manitobans continue to be exposed to risk while we work through regulatory approvals. While the Government of Canada's commitment to this project was first made in Budget 2016, a federal funding agreement is still being negotiated, resulting in further delays.

We are committed to getting this project built and we hope the federal government will work with us on the next phase.

***It will improve the regulation of water levels on the two lakes, and enhance flood protection for several surrounding communities including, First Nations, rural municipalities, farms and businesses.***

## Emergency Spending – Lessons Learned

Preparing for emergencies and disasters requires an anticipatory approach. We have incorporated lessons learned from previous years' emergency events into our planning for future events, so that mistakes of the past such as the following are not repeated:

- Poor procurement planning and last minute execution, driving vendors to bid higher than they might otherwise because of emergency requirements;
- Lack of financial controls, communication, early central planning and timely regular reporting;
- Decisions on contracts and expenditures made without proper oversight; and
- Agreeing to pay bills on behalf of others. This resulted in federal government settlements arriving up to eight years after the 2011 Flood, which necessitated deficit financing.

In addition to putting the appropriate financial resources in place, we have also established new processes and protocols to ensure allocated funds are spent efficiently and effectively. This includes:

- Pre-planning well in advance of potential disaster events, with greater emphasis on inter-departmental communication to ensure the right people are getting the right information at the right time;
- Ensuring readiness to address emergencies, thereby preventing the untimely acquisition of goods and services at the mercy of prevailing market prices. This includes tendering for goods and services ahead of time supported by more competitive bidding; and
- Accountability in spending, by taking all necessary steps to spend money prudently, ensuring all expenditures are valid and that the appropriate spending authorities and financial controls are exercised.

## Fixing Planning, Zoning and Permitting Processes

Sustained growth in the Winnipeg Metropolitan and other regions requires a responsive, predictable and competitive planning and permitting environment. We are taking legislative and regulatory action as the next step in driving the development of a culture of regional collaboration, building a foundation for economic success and developing an investor-ready climate.

These actions will address the findings of the June 2019 report from the multi-stakeholder review led by the Treasury Board Secretariat. That report concluded that removing development and permitting delays can improve our economy and ultimately lead to over $2 million in improved provincial and municipal revenue for each day we reduce the time for approvals. We are rebuilding planning and permitting frameworks with the input of experts to help our communities function and grow. This spring, legislation will be introduced that will establish the Winnipeg Metropolitan Region as a sanctioned regional planning authority within a set timeframe and allow other regions to follow this path in future. The legislation will also enable an independent, expert-based appeal body to hear zoning and permitting appeals, adhering to set timeframes to ensure there is professional integrity, inter-jurisdictional consistency among codes and rules, fairness in application, targeted turnaround times and transparency in tracking activities for cost-effective results.

Going forward, actions will continue to be delivered with key guidance from the October 2019 report prepared by Dr. Robert Murray - For the Benefit of All Regional Competitiveness and Collaboration in the Winnipeg METRO Region - and expanded upon through a working group and task forces that reflect the input of the City of Winnipeg and other regional municipal partners, Indigenous partners, industry experts and good practices learned from researching leading examples.

***For each day we reduce the time for approvals, provincial and municipal revenues will improve by over $2 million.***

## Families Transformation

Over the past several years, a number of program areas within the Department of Families have grown at unsustainable levels. We have begun work to fix this.

## Child and Family Services

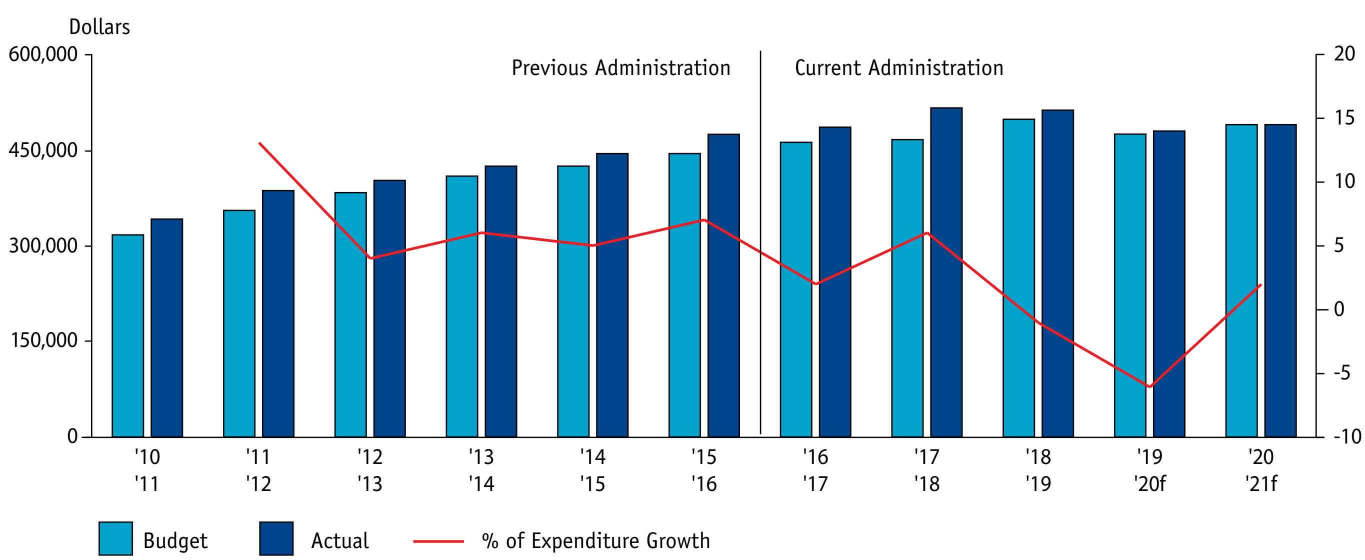
Between 2010/11 and 2018/19, Child and Family Services (CFS) spending experienced an average annual expenditure growth of approximately $14.8 million, or approximately 4 per cent per year. The program was designed to pay per child taken into care, creating structural incentives to apprehend children and provided no supports for pre-emptive preventative expenses to prevent children from going into care in the first place.

> ***Cost savings achieved by agencies can be redirected to prevention and early intervention initiatives.***

Our government has introduced a new Single Envelope Funding model to empower transformative change, giving Child and Family Services authorities and agencies the flexibility to begin to allocate more funding to prevention and early intervention initiatives. Through single envelope funding, the authorities are given the responsibility for allocating agency budgets, and agencies in turn have the ability to implement creative solutions to support families and to prevent the need for children to come into care, or to remain in care. This new funding approach furthers the objectives of the devolution of Child and Family Services and enhances opportunities to shift long-standing practices towards reducing the numbers of apprehensions in Manitoba.

In 2019/20, all four authorities are expected to manage within their budgets, with one authority registering a surplus. Cost savings achieved by agencies can be redirected to prevention and early intervention initiatives, which are anticipated to help slow the growth in demand for child protection services.

**CFS Budget and Actual**
**2010/11-2020/21f**

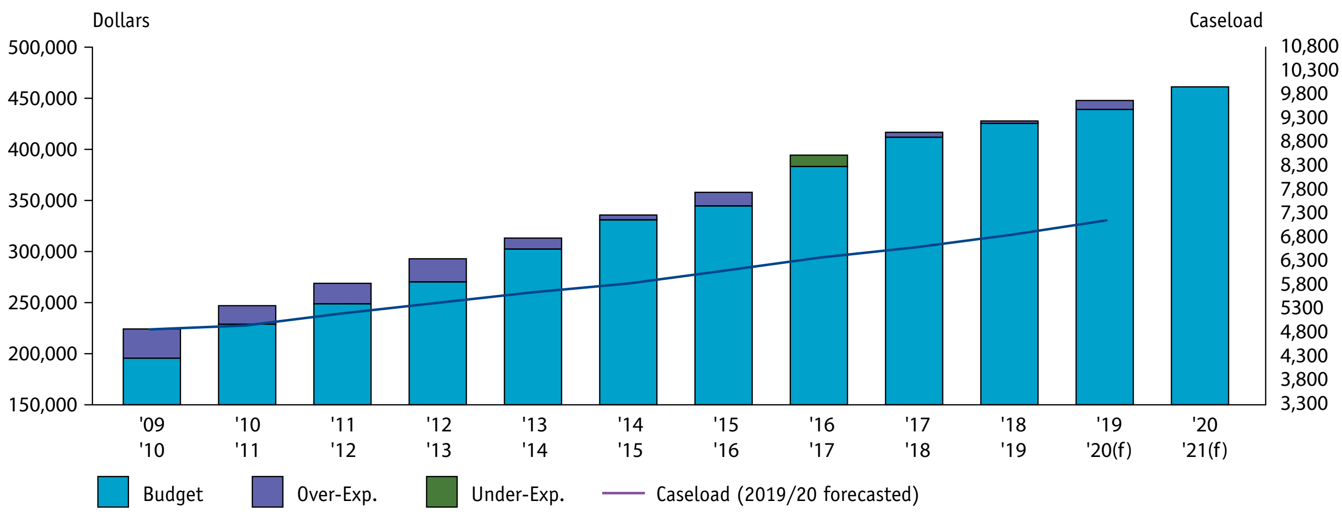


## Community Living disABILITY Services

During the past 10 years, the Community Living disABILITY Services (CLDS) caseload has grown by 46 per cent, and the program budget has increased by almost 130 per cent.

The department continues to concentrate efforts to support agency capacity and sustainability, including examining the role of Community Living disABILITY Services funded agencies to more clearly define responsibilities and reduce the duplication of work.

**Community Living disABILITY Services**
**Budget, Actual and Annual Caseload 2009/10 - Present**




## Contract Management

In 2019, as part of a corporate review of expenditure controls within government, the department's management and oversight of service purchase agreements to deliver programs were deemed to be lacking. The total value of these agreements issued by the department was approximately $600 million, with individual agreements ranging from just over two thousand to $56 million. New delegated authorities have been implemented, and an external review of contract and financial management practices is ongoing to ensure appropriate governance and financial controls are in place.

Our government has also undertaken a review of the department's contract management practices in order to improve processes, identify methods to review spending at a macro scale, and identify ways to track overall spending and recognize trends. An important aspect of this project will be to provide training and change management to department staff to ensure that contract management practices are updated and modernized to reflect best practices.

## Housing Transformation

Manitoba's per capita share of social housing is only exceeded by New Brunswick and Newfoundland. In 2018/19, Manitoba Housing and Renewal Corporation (MHRC), a Crown corporation, owned and operated 13,700 housing units, and had sponsors manage 4,200 units, and provided subsidy and support to a further 17,100 units (including 4,200 personal care home beds) across the province.

As part of transformation changes to make the regulation and funding of social housing more sustainable, MHRC will be brought under the internal financial control policies as of April 1, 2020. This will ensure greater alignment with expenditure controls within voted appropriations and greater alignment with central government.

Over the next five years, Manitoba Housing is working to shift its role from housing provider to one of funder and regulator. A plan for Manitoba Housing is being developed with the key goal of making social housing more sustainable. The current system of housing subsidies is unnecessarily complex. The department will work with partners to develop a clear and simple benefit system that better meets the needs of tenants.

Manitoba Housing will also continue devolving housing management to the non-profit and municipal sectors, and upgrading and selling assets where it makes good sense to do so. Housing will work with the non-profit and municipal sectors to ensure they have the capacity to take on a growing housing portfolio, and ensure that vulnerable people are not put at risk. The department will also leverage federal funds under the National Housing Strategy to modernize the portfolio (for example, through capital upgrades, expansion, divestments, income-mixing) and reduce reliance on government subsidies.

## K-12 Reform

In January 2019, our government announced a Commission on Kindergarten to Grade 12 Education, with the mandate to review the education system and make recommendations to improve outcomes for students and ensure long-term sustainability of the system. The review focused on a variety of topics, including the following:

- improving student outcomes and accountability related to student learning
- education governance, including the roles and responsibilities of school boards and of division administrations
- sustainability of, management of, and accountability for financial resources that support the education system

The Commissioners conducted an extensive consultation process in 2019, and will submit their final report with recommendations to the Minister of Education soon. It is expected to be released publicly in the near future.

The department's mandate review, which was announced in both the 100 Day Action Plan and Throne Speech, will position the department to implement the K-12 reforms to achieve better outcomes for students. As part of its initial response in anticipation of the review findings, the department is allocating one-time funding of $5 million as a contingency for the implementation of education reforms related to the K-12 Review. The department is also increasing funding for curriculum development by $2.4 million to support the expansion of the provincial assessment program, modernization of the provincial curriculum framework, and renewal of the K-12 science and health education anti-addictions curricula.

***Manitoba Housing is working to shift its role from housing provider to one of funder and regulator.***

## Family Law Transformation

Our transformation of family law is well underway, and we are now starting to see the benefits emerge. Previously, our family law system encouraged adversarial behaviour and unnecessary court and legal costs for the very families who could afford it the least. We have designed a leading family law model that is focused on effective and fair outcomes, without making a bad situation worse, driving unnecessary legal costs, and clogging our courts.

## Right Asset, Right Owner

Government does not need to own everything. We always need to be aware of the possibility that some of our assets – even if for the public good – may be under better management if in the not-for-profit sector.

Budget 2020 contains $120 million of non-cash accounting charges associated with the devolution of the following assets to the not-for profit sector:

1. ***Manitoba Centennial Centre Corporation (MCCC) buildings and properties:*** Following a strategic review conducted by the MCCC's Board of Directors, we agree with its recommendation that it will have greater flexibility to operate and seek private sector fundraising if the MCCC's various assets are no longer under the direct control of government. More information about the devolution of these assets to the not-for-profit sector will be announced in the future. The MCCC's assets include the Centennial Concert Hall and gardens, Manitoba Production Centre, Manitoba Museum, John Hirsch Mainstage, Tom Hendry Warehouse, Artspace, and various parking lots.
2. ***Manitoba Habitat Heritage Corporation:*** One of Manitoba's Crown corporations, this organization is responsible for the administration of our significant GROW and Conservation Trusts in its capacity as trustee. While the role of the trustee is strictly limited to administering the Trusts in accordance with their terms, there is significant benefit to remove this organization from the influence of future elected governments. This will allow it to carry out its role as trustee without any political interference, to the benefit of Manitoba's environment. In addition, we believe that, as we have seen in the United States, there is significant opportunity for Manitoba Habitat Heritage Corporation to significantly increase Trust capital through private sector endowments and bequests.
3. ***Northern Airports and Marine Operations:*** A working group has been formed with the Assembly of Manitoba Chiefs to devolve our northern airport and ferry operations to First Nations. In addition to supporting reconciliation and Indigenous economic opportunities, this will improve outcomes by having these services delivered by those who use them the most.

## "CUSH Sector" Alignment

We are spending an increasing amount of time ensuring alignment with many of our reporting entities, including Crowns, Universities, Schools and Hospitals (CUSH). As indicated above, this is where a vast majority of our spending occurs. The following are some examples of the types of activities we have undertaken to drive better alignment with our reporting entities:

- Introduction of The Summary Accountability Act to give greater control to Treasury Board to ensure the CUSH sector complies with central budgeting, accounting, outcomes and directives;
- Legislative changes to allow for greater alignment of compensation levels across central government and the CUSH sector;
- Changes to The Appropriation Act to ensure the Legislative Assembly votes on all guarantees and capital advances to CUSH entities;
- Treasury Board now requires the attendance of our major Crown corporations and selected post-secondary institutions in order to obtain approvals of their operating budgets and capital spending programs

- Changes to internal processes, whereby departments must submit estimates proposals for their entire ministry, including their OREs. In the past, only core department spending was approved, without checks and balances into spending in the OREs.

## Strengthening Internal Audit

As stewards of public funds, we are concerned with accountability and the proper use of tax dollars. We are increasing our use of external forensic auditors to investigate allegations of financial impropriety affecting summary government, and we are taking appropriate action to protect and recover funds.

Moving forward, our government will establish a dedicated in-house investigative team that will respond to allegations of financial improprieties. This will include developing a response protocol to guide actions when allegations of financial improprieties are reported or identified, to minimize the risk of loss and maximize potential recoveries. When necessary, we will enhance this team with external forensic auditors and other experts.

As an example, we introduced legislation that aims to create a better resolution process for disputes over physician billing. In 2015, physician billing totalled $741 million, with $7,000 determined to be an overpayment. That translates to a recovery rate of less than one-thousandth of one per cent. Oversight for physician billing was significantly scaled back by the previous government, impacting both accountability and recovery of funds paid out either inappropriately or by error. We believe that ensuring proper billing oversight, accountability and fairness is essential in a well-functioning health system.

## Manitoba Parks Renewal and Modernization Strategy

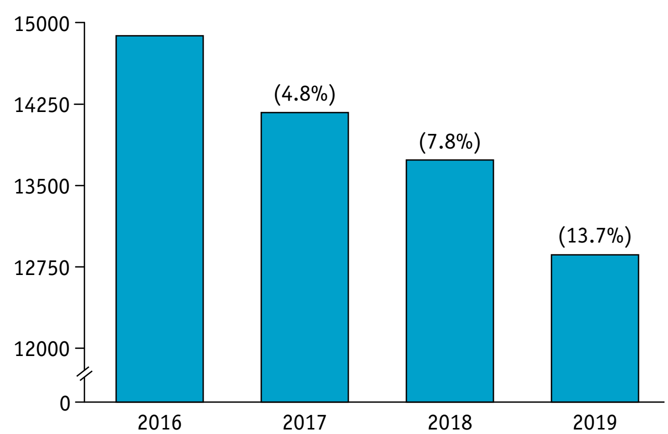
There is a significant opportunity to establish a new, improved and more efficient parks model that continues to reflect the principles of provincial parks legislation. The new Manitoba Parks Strategy for modernization and renewal will enhance programming and operations while also achieving greater financial sustainability of the parks system for Manitobans.

### SUSTAINABLE WORKFORCE

Across summary government, labour costs are the single largest expense. Both salary increases and staffing levels need to be carefully managed in our path towards fiscal sustainability.

Since 2016, we have reduced the overall size of the central public service in departments by nearly 14 per cent through reorganization of our workflows. Nearly all of this was managed without layoffs; using attrition and normal course staff turnover.

**Central Government Employee Counts**
**as of March 31**




Source: Civil Service Commission

We have also executed a comprehensive strategy to ensure the cost of public sector salaries is sustainable including:

- Streamlining collective bargaining in the health and education sectors by reducing the number of bargaining units; and
- Trimming at the top of our administration by reducing core government management positions by over 15 per cent and completing a "spans and layers" review to ensure we have an appropriate balance of managers and front line workers.
- The Civil Service Commission (CSC) is coordinating a review of spans and layers of management, executive compensation, and job classification across the broader public sector. This review will include:
  - assessing existing spans and layers of control and recommending optimal parameters subject to industry-specific norms
  - reviewing executive compensation and providing recommendations to align compensation practices
  - reviewing and reporting on classification systems
- Crown corporations, school divisions, and post secondary institutions have been directed to:
  - limit executive compensation growth
  - reduce management by 15%

## Transformation and Sustainability

As the world changes around the public service, our institution has to keep pace with the shifting expectations of Manitobans. The challenges facing government are complex, and our historical approach to service provision needs to modernize quickly. At the outset of the Transformation Strategy, we identified that if we were going to propel our public service forward, we needed our workforce and structure to reflect these changes. The technological, environmental, and economic pressures facing the public sector necessitate a sustainable government and sustainable public service. We knew that fostering an agile, collaborative, and predictive workforce would provide a buffer against these pressures facing our public sector and serve as both the prescription and the remedy.

The approach we took was deliberate, steady, and capitalized on our greatest resource – our people. We invested in talent and harnessed innovation that encouraged public servants to develop new ways of working. The framework afforded by Bill 28 allowed us to avoid layoffs, and instead we managed change through a balanced and intentional approach of leveraging the natural attrition of an aging workforce - essentially foregoing growth in exchange for sustainability.

The Transformation Strategy was launched two years ago. While we have already undergone immense changes and celebrated many successes, we are still in the midst of our change. As our strategic investments in our culture continue to gather momentum and embed agility and innovation in our public service, we will continue to reshape and strengthen our workforce to achieve sustainability and improve outcomes for all Manitobans.

***We have invested in talent and harnessed innovation that encouraged public servants to develop new ways of working.***

# SMARTER SHOPPING

*Manitobans are smart shoppers, and expect their government to do the same.*

## Procurement Modernization

Our government currently sources goods and services in a decentralized, transactional approach, which can be costly and inefficient. In order to provide greater value to taxpayers and achieve better results and cost savings, our government launched a three-year initiative to modernize procurement in June 2018.

Modernizing procurement will enable the government to become a 'smart shopper' by consolidating its spending and bundling contracts to reduce costs. Manitoba will see real cost savings while improving the quality of services Manitobans expect and deserve.

The project includes:

- Centralizing procurement services to ensure government contracting is more coordinated, strategic and sustainable.
  - *Approval to create the Procurement and Supply Chain Division in the Department of Central Service consisting of 64 existing staff, all of whom were reassigned from other government departments.*
- Adopting a category management approach to procurement.
  - *Category Management is a collaborative approach adopted widely by private and public sector organizations. It drives collaboration across departments, agencies, business units and functions to achieve cost savings and improvements.*

The following is an overview of what has been addressed:

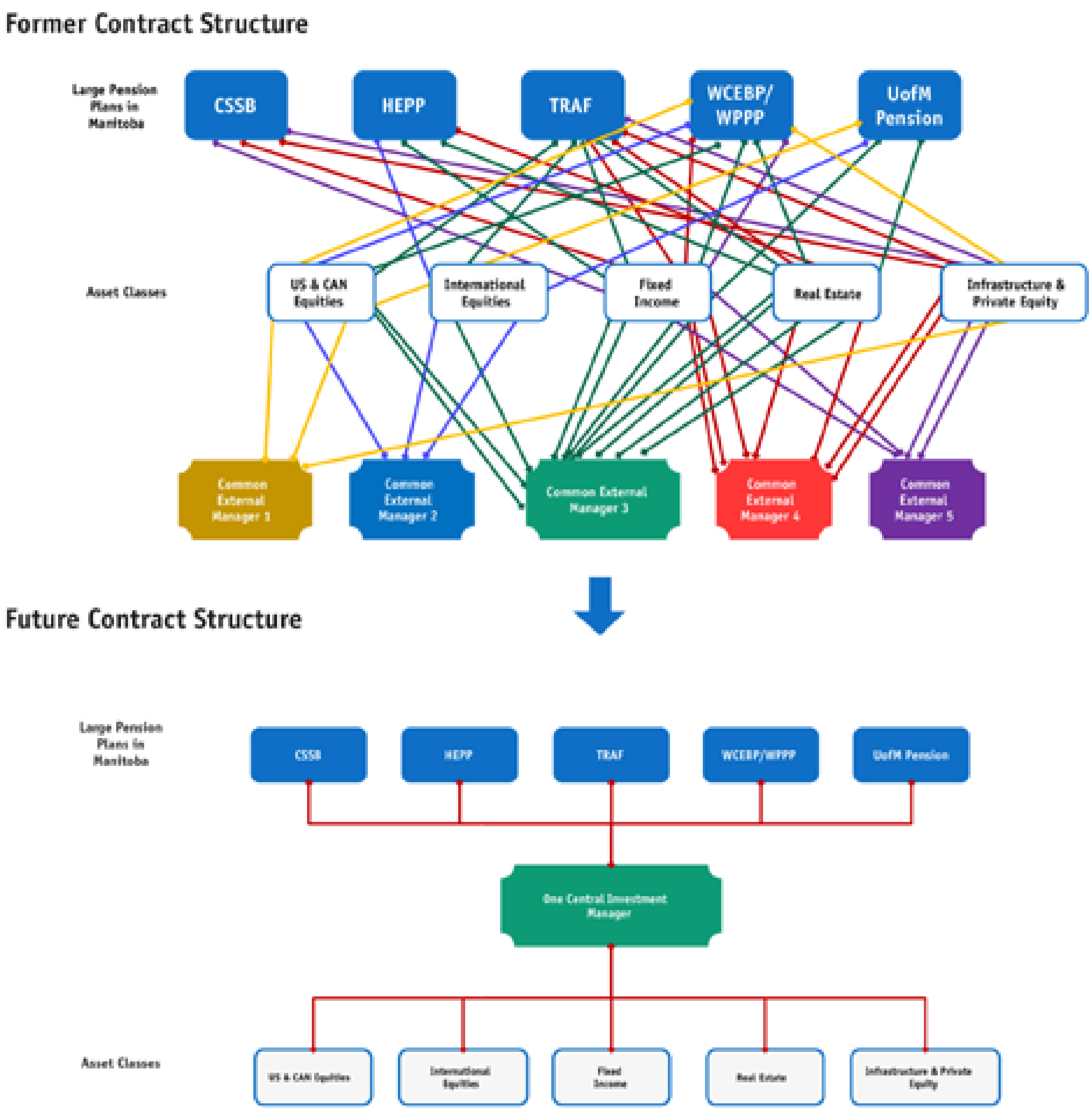
- Core Government (GoM) spending excluding health and crowns has been estimated at $549 million (Engineering, Construction, and Transportation $367 million and Corporate and Speciality Categories $182 million).
- Developed a Category Wave Plan with four deliverable waves. Wave 1 included GoM (ASD, MI, SD and GET) generated $4.7 million in projected savings.
- Improved planning and economies of scale.
- With Wave 1 successes, more departments and organizations (Health, Hydro, MBLL and MPI) were included in Wave 2A, generating an additional $1.8 million in projected savings.
- Participation and purchasing power continues to grow at over $2 billion, with the addition of the broader public sector be added to the initiative, including the City of Winnipeg and City of Brandon.
- As a result of this, savings are expected to exceed $200 million over the next 5 years.

We are also starting to see savings on infrastructure, resulting from improvements in the bids received in our infrastructure tendering – often coming in 10% or more lower than previous bids.

## Pension Investment Fees

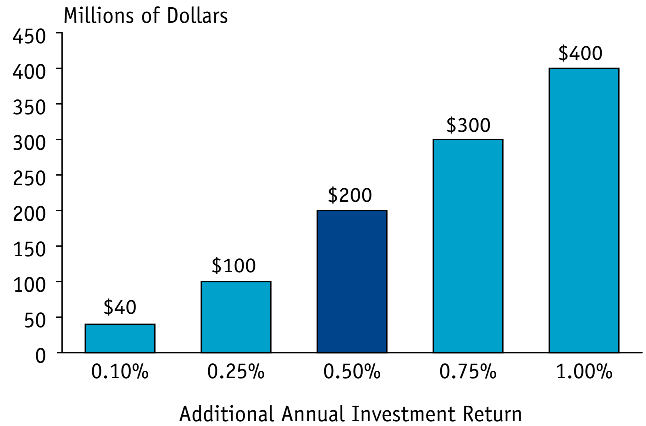
One of the most successful program reviews conducted this past year was that of the investment management of Manitoba's public sector pools of funds (mostly pension plans). These funds are all significantly "subscale" by national or international standards. The program review found that our many provincial pension plans were managed in siloes by external investment managers, leading to cost inefficiencies. Repeatedly, we found multiple contracts with different Manitoba pension plans with the same external investment managers for similar services, shown graphically below as a mess of unnecessary contracts, all of which are subscale.

Manitoba pension plans have not been smart shoppers. They can do better.



Today's structure prevents our pension funds from leveraging scale to improve investment returns. As a result, we have commenced work with public sector pension fund managers to obtain better returns on investment through a centralized system. A central investment manager will enable efficient investment operations, significantly lower costs and improve investment returns by leveraging economies of scale. Additionally, centralized investment management will improve the performance reporting and disclosure of fees paid by pension plans. Our analysis shows that by centralizing the investment management of these funds, an annual additional investment return of about 0.5 per cent of total assets under management could be realized every year, representing approximately $200 million in plan assets.  We believe this reform will improve the sustainability of pension plans.

**Annual Value to Pools of Funds**



# FOCUS ON ECONOMIC GROWTH

*Economic growth remains at the centre of our plan for a stronger, more prosperous Manitoba.*

## Our Economic Growth Action Plan

Manitobans recognize that a stronger economy will allow for improvements in the services and programs most important to Manitoba families, while also repairing the state of the province's finances.

Free trade is an essential ingredient for our economic success. Our Premier led the fight to dismantle growth-stifling interprovincial trade barriers, beginning with the move to "negative option" as Manitoba joined the New West Trade Partnership in 2016.

Manitoba continues to be a strong, consistent advocate for freer trade both within Canada and internationally. It has led by example, by eliminating many of its own barriers to interprovincial trade, and remains a forceful and effective voice against measures that stifle the free flow of commerce.

In December 2018, Manitoba launched a new *Economic Growth Action Plan* that envisions greater coordination between government and the private sector to support a more nimble approach to economic development. The plan responds to recommendations made in the *Growing Manitoba's Economy* report, which grew out of extensive consultations with Manitobans by business leaders Barb Gamey and Dave Angus. The *Growing Manitoba's Economy* report made a number of recommendations related to drivers of economic growth and the processes through which economic development initiatives are delivered.

To set the foundation for success of the plan, new structures were established to better align government and non-government agencies in delivering economic development programming. These included a new Economic Growth Committee of Cabinet, a new Manitoba Economic Development Office (EDO), and seven regional and strategic partnerships for program delivery. Notably, these structures are being funded from existing resources. The EDO and the Secretariat supporting the Economic Growth Committee of Cabinet have both been staffed through re-assignment of existing personnel, while funding for regional and strategic partners has been resourced through the existing Partnerships for Economic Growth program.

***Working collaboratively with partner organizations to develop strategies for trade, investment attraction and other initiatives.***

Mandates and service agreements were established for existing strategic and regional partners by mid-year. In November 2019, an interim board was established for a new rural economic development organization, to be based in Brandon. The EDO has been working collaboratively with partner organizations to develop strategies for trade, investment attraction and other initiatives.

A critical element of the *Economic Growth Action Plan* is ensuring that Manitoba's workforce has the skills required to support industry expansion and economic growth.

In May 2019, the Manitoba government announced an investment of $24 million over four years to help sector councils provide workforce training and develop human resource services. In order to address workforce needs of Manitoba employers, the province will provide funds to industry organizations in ten key economic sectors. Provincially supported sector councils in Manitoba represent more than 280,000 workers and 9,000 employers, small-business owners, labour groups and others. This investment will help workers acquire the skills and knowledge they need in order to succeed and support Manitoba businesses that compete on local, national and international levels.

Sector councils applied for this support through an open, competitive request for proposals. This process identified many opportunities for cross-sector initiatives and innovative partnerships to reduce duplication and produce better results. Examples included strategies to support under-represented groups in the workforce, such as Indigenous people, youth and newcomers who lack Canadian work experience and face barriers to employment.

***Build on Manitoba's strengths to provide opportunities for the existing workforce as well as develop future talent.***

Additionally, to better align the province's post-secondary system and immigration programs with the workforce needs of Manitoba industry, a *Skills, Talent and Knowledge Strategy* is being developed. Its aim is to ensure that Manitoba's work force has the right skill sets to enable a thriving, growing economy. This strategy will build on Manitoba's strengths to provide opportunities for the existing workforce as well as develop future talent. It will support an improved post-secondary education system and partnerships to improve student outcomes, job creation and retention, aligned to an ever-changing competitive labour market. To inform the development of the strategy, the Manitoba Skills Survey was launched in November, and the first in a series of online town halls was hosted in December.

In addition to the *Skills, Talent and Knowledge Strategy* being developed, several sector-focused strategies were launched last year. Each was based on extensive consultations with industry stakeholders.

Following the first review of the province's cultural policy in nearly three decades, Manitoba released an action plan for Manitoba's cultural and creative industries in March. In recognition of the value of Manitoba's cultural industries, Budget 2019 announced extensions to the Book Publishing Tax Credit and the Cultural Industries Printing Tax Credit, and reaffirmed the permanent status of the Film and Video Production Tax Credit, which was announced earlier in the year.

In April, a new provincial tourism strategy was released, aimed at increasing tourist expenditures to $2.2 billion by 2022.

Manitoba launched a first-of-its-kind sustainable protein strategy in September 2019, entitled the *Manitoba Protein Advantage*. The strategy encourages leadership and industry collaboration to make Manitoba North America's protein supplier of choice. It proposes a number of initiatives, including key investments in the Food Development Centre to advance protein sector innovation and commercialization.

In addition to these important efforts, Manitoba announced a new $20-million Mineral Development Fund in October 2019. This Fund will help jump-start mineral and economic development initiatives in the north and throughout the province. Just one month later, Manitoba signed a new consultation protocol with Manto Sipi Cree Nation to advance mineral development.

Work has also been undertaken to develop broader, cross-sector supports. Shortly after the initial launch of the *Economic Growth Action Plan*, a new Tax Increment Financing (TIF) Framework was introduced to strengthen the use of TIF as a tool to support economic growth. In June 2019, the Innovation Growth Program was launched to encourage small and medium-sized enterprises to invest in development and commercialization of innovative new products.

## Manitoba Works

In October, 2019, the *Economic Growth Action Plan* gained additional momentum with the launch of the new Manitoba Works Jobs Plan. The ambitious plan to enable the creation of 40,000 jobs across Manitoba over the next four years will be a result of co-operation across government departments, with the Team Manitoba partners and the private sector.

Manitoba Works is tightly tied to the *Economic Growth Action Plan* and seeks to enhance partnerships and collaboration with municipalities and Indigenous communities. It aims to build on our strengths in key sectors to grow trade, investment and job creation, and to ensure that policies in areas such as permitting, infrastructure investment and regulatory reform align with the *Economic Growth Action Plan*.

***An ambitious plan to enable the creation of 40,000 jobs across Manitoba over the next four years.***

## Better Outcomes in Indigenous Economic Development

Increasing Indigenous participation in all sectors of Manitoba's economy remains a priority for our government. We support collaborative approaches that will build a strong, vibrant and sustainable economy. Building positive, respectful and inclusive relationships and partnerships with Indigenous people and communities is fundamental to enhancing and increasing Indigenous participation and contributions to Manitoba's economic prosperity, and to advancing reconciliation through a principled approach.

***Building positive, respectful and inclusive relationships and partnerships with Indigenous people and communities is fundamental.***

There has been much progress made over the past three and a half years. Several innovative economic development initiatives and partnerships have come to fruition, including the following:

- Signed memorandum of understanding with the Assembly of Manitoba Chiefs aimed at transferring the Northern Airport and Marine Operations (NAMO) network to Indigenous ownership with the goal of ensuring uninterrupted, reliable and cost effective service for the Manitoba communities that rely on the NAMO network.
- Completion of Shoal Lake 40 Freedom Road, significant participation of Shoal Lake 40 members in the construction of the all-weather-road (contractors and workers).
- The establishment of the Nisokapawino Forestry Management Corporation, a 50-50 partnership between CKPI and Nekote that is co-managing 8.7 million hectares of boreal forest, the largest forest tenure in North America.
- Access road upgrades for Lake Manitoba Outlet joint ventures and local Indigenous employment opportunities in construction of the road.
- A first of its kind forestry development agreement, with the issuance of an option licence with four First Nations on the east side of Lake Winnipeg that will explore Indigenous-led forest development.
- First Nation investment and partnership with Meta Cannabis and four First Nations-owned retail stores on reserve.

- Since May, 2016, Manitoba has transferred just over 94,000 acres of land to Canada. As of January 31, 2020, Manitoba has transferred 692,098 acres in total to Canada under all Treaty Land Entitlement (TLE) agreements. Canada has set apart 665,142 acres as Reserve land. There are currently 16 parcels of land in the final stages of the TLE process, pending Reserve creation. These parcels total 19,001 acres. Our government continues to work in partnership with Canada and the Entitlement First Nations to fulfil its Treaty Land Entitlement obligations.
- The creation of four new urban economic development zones (Waywaseecapo, Gamblers, Sapotaweyak and Peguis). In addition, there are seven TLE First Nations in Manitoba at various stages in the urban Reserve creation process.
- The transfer of Grace Lake Airport, including 373 acres of Crown Land, to Beaver Air Services Limited Partnership, Missinippi Management Ltd. and Mathias Colomb Cree Nation.
- Twelve young people from Pimicikamak graduated from industry-specific training in the mining sector, which was aimed at preparing community members for employment opportunities with Hudbay Minerals in Snow Lake.
- The issuance of a Crown Land Use Permit to Peguis First Nation for exclusive use for a quarry, as part of its TLE selection.
- Working with Indigenous Services Canada Manitoba Regions (Lands and Economic Development) on capacity development opportunities, mining related training and job readiness, mining readiness strategy, and baseline studies to increase Indigenous participation in the mining sector.
- Initiated discussions with Indigenous communities on the development of a meaningful and respectful approach to shared management that works collaboratively with First Nations, Metis, landowners, licensed hunters, fishers and anglers to give local communities a greater voice and ensure long-term sustainability of our fish and wildlife populations.
- Initiating a review of Manitoba's Procurement Strategy for Indigenous business, including the establishment of an engagement process with Indigenous leaders, businesses, entrepreneurs and other stakeholders.
- Working with Indigenous Services Canada Manitoba Region (Lands and Economic Development) on the Inland Indigenous Commercial Fisheries Strategic Partnership Initiative to assist in the transition to open market, capacity building, collaborative stock monitoring, business development and eco-certification of Indigenous fisheries.
- Working with Indigenous communities to identify partnerships, training and economic development opportunities to increase Indigenous participation in major infrastructure projects so that benefits accrue to Indigenous communities.
- The development and release of the Manitoba-First Nations Mineral Development Protocol which defines how Crown–Indigenous consultations will occur during all phases of mineral development. Manto Sipi Cree Nation signed a Protocol agreement with Manitoba, the first to be developed through this initiative. The mineral development protocol creates certainty to advance projects in a timely way, and ensures First Nations can be actively involved in all phases of development projects within their traditional territories. The Protocol will also provide mineral exploration and mining industries with a clear understanding of the requirements and processes for mineral development projects in Indigenous traditional territories.
- Working with First Nations who sign the Manitoba-First Nations Mineral Development Protocol, to develop a model for shared minerals management which will include provisions for joint decision-making for proposed mineral development activities within First Nations traditional territory.

***We will continue to support collaborative approaches and partnerships that will increase Indigenous participation in all sectors of Manitoba's economy.***

As we move forward with advancing Look North - a key pillar of our *Economic Growth Action Plan* - we will continue to support collaborative approaches and partnerships that will increase Indigenous participation in all sectors of Manitoba's economy, grow local companies and industries, create jobs and build the necessary skills and talent to attract investment, and increase economic competitiveness.

## THE MANITOBA PROTEIN ADVANTAGE

In September 2019, Manitoba released a first-of-its-kind sustainable protein strategy, called the *Manitoba Protein Advantage*. Manitoba has always been strong in protein production and the *Manitoba Protein Advantage* aims to build on this strength to capture a greater share of the growing global demand for plant- and animal-based protein. The strategy is based on the input of hundreds of industry stakeholders gathered through more than 70 meetings and more than two dozen written submissions.

Key priorities of the strategy include attracting new investment and jobs in plant- and animal-protein processing, growing the hog industry to meet current processing capabilities, seeking opportunities to grow beef and other animal-protein production to meet market opportunities, and positioning Manitoba as a leading research and development centre in North America for plant-protein extraction technology. The strategy also has a focus on sustainability, including facilitating research to reduce greenhouse gases from animal-protein production by 15 per cent per kilogram of protein produced, as well as reduced water usage, energy use, and waste in production and processing.

As part of the strategy, the Manitoba government is making key investments to advance protein innovation. This includes $362,000 at the Food Development Centre (FDC) to support protein sector innovation and commercialization. This investment in equipment will accelerate the pace of protein ingredient development and further position the FDC as a leading protein innovation centre. Other announcements related to the *Manitoba Protein Advantage* include:

- becoming part of the Protein Highway, a cross-border network for plant-based protein innovation that will increase collaboration opportunities for Manitoba researchers and companies across the Prairie provinces and the U.S. Midwest and Great Plains regions;
- creation of the Manitoba Protein Product Challenge, a competition that will accelerate commercialization of plant- and animal-protein products;
- creation of a Manitoba Protein Development Consortium, to co-ordinate industry, academic, and government efforts in protein industry development and alignment on strategic projects.

The *Manitoba Protein Advantage* will maintain the Manitoba government's focus on creating an environment for investment attraction while supporting research and innovation and reducing red tape. Since 2016, Manitoba has attracted over $1.5 billion in agri-food investments, examples of which include:

- Roquette Canada constructing the world's largest pea processing facility in Portage la Prairie ($400 million);
- HyLife Foods broadening its hog processing capacity in Neepawa ($176 million investment);
- MDI Holdings Corp. opening a new state-of-the-art dairy processing facility in Winnipeg ($100 million).

# PROVINCIAL REVENUES

*Budget 2020 has benefitted from strong revenue growth that was beyond our initial expectations. It is important to understand the drivers to this revenue growth in making assessments as to whether these income levels are sustainable.*

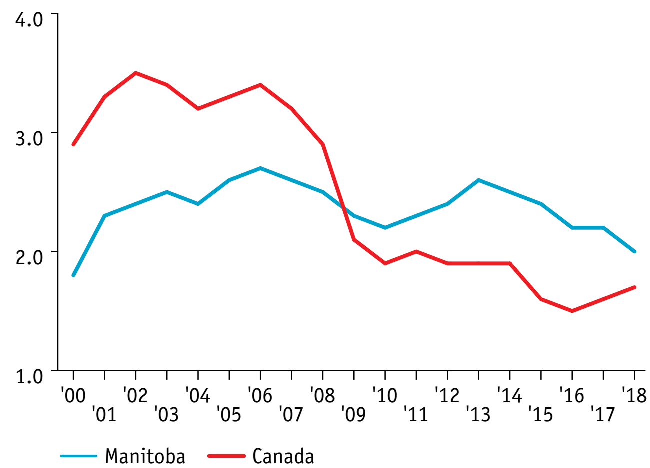
## Revenue Drivers

In recent years, we have seen a slowing of economic growth. The International Monetary Fund (IMF) and the Bank of Canada have revised their global growth expectations downward. As indicated in the graph, Manitoba and Canada continue to experience slower long-term economic growth. Long-term growth in 2019 is well below the pace seen in 2008-2009.

Lower economic growth affects government revenues, as the amount of economic activity that is taxable is reduced (e.g., personal and corporate income taxes, sales taxes). However, economic growth is not the only factor that can impact Manitoba's revenues. Population trends, migration and immigration, household debt and saving, as well as tax planning by personal and corporate taxpayers can also impact government revenues.

Manitoba's major revenue sources include personal and corporate income tax, federal transfers (Equalization, the Canada Health Transfer, the Canada Social Transfer, and other transfers); the provincial sales tax, provincial fees and fines; and, other revenues sources (e.g., net income from other government reporting entities, school taxes, sinking funds, among others).

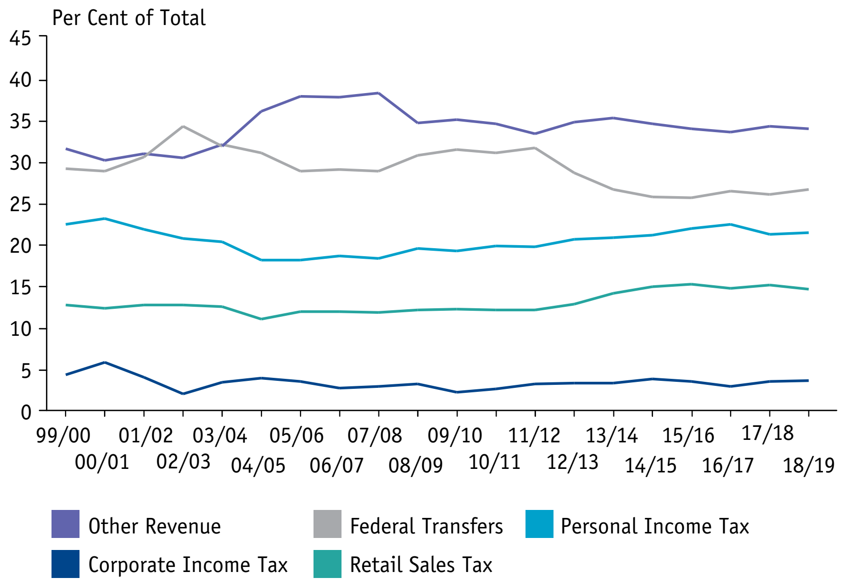
**10 Year Average Annual Growth in Nominal GDP Manitoba and Canada, 2000-2018**
(Compounded Average Annual Per Cent)



These revenue sources respond differently to changes in the provincial and national economy. Some revenue sources closely follow GDP growth, while others follow irregular patterns and are more difficult to predict, notably corporate income tax. This graph illustrates the main sources of Manitoba's revenues. It illustrates how their contribution to total summary revenue fluctuates over time.

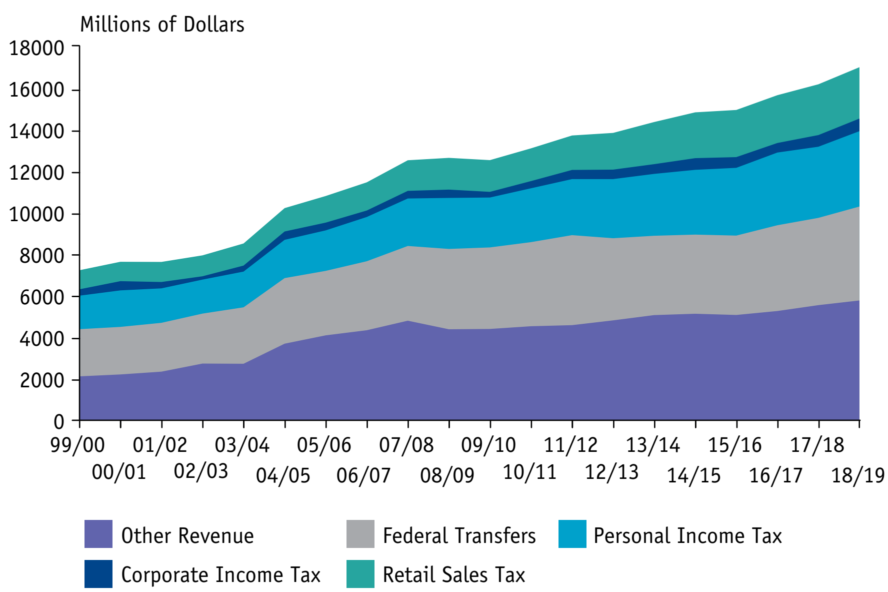
Other revenues include net income contributions from Manitoba Hydro, MPI and Manitoba Liquor and Lotteries, as well as other own source revenues (fees, fines, sales of goods / services, etc.)

**Components of Total Revenue**
**1999/00–2018/19**




This graph illustrates the share of each major revenue component out of total government revenues.

**Components of Total Revenue**
**1999/00–2018/19**



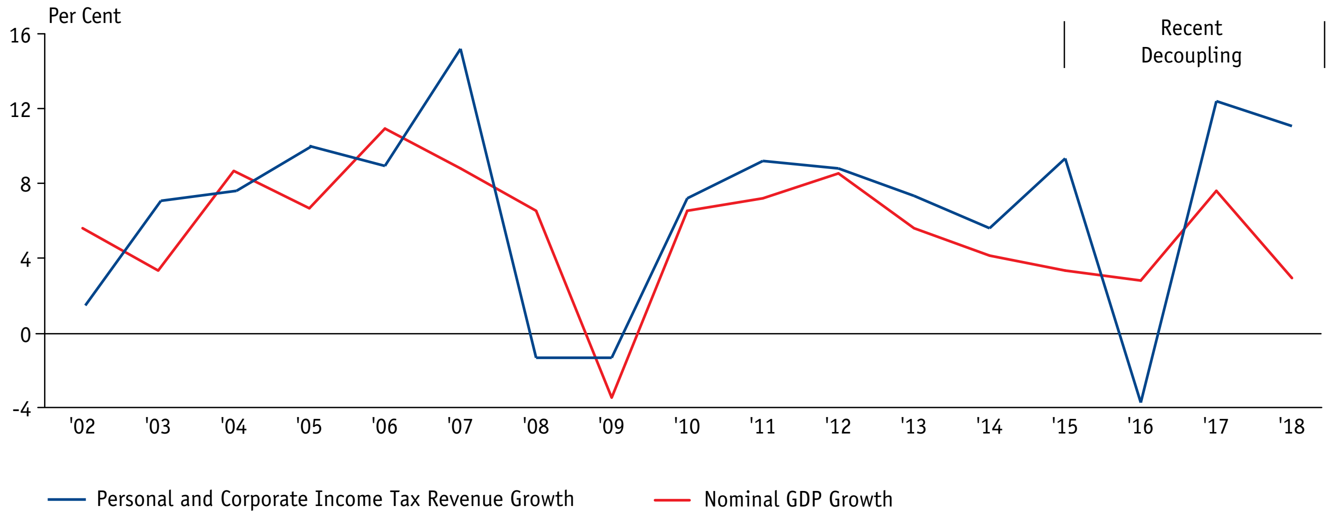
## Linkages to Economic Growth / Tax Planning

Growth in income tax revenue was highly variable between 2015 and 2018.

Income taxes generally follow economic growth, slowing during downturns and rising during expansion phases. In recent years, we have experienced the unexpected decoupling of income tax revenue growth from economic growth as a result of tax planning behavior following federal tax reforms in 2016, which introduced a new top marginal tax rate.

The graph below illustrates the nominal GDP growth and income tax revenue growth, with notable departures from the GDP trend in recent years. In each of these years, income tax revenues were materially different than would be expected from economic activity.

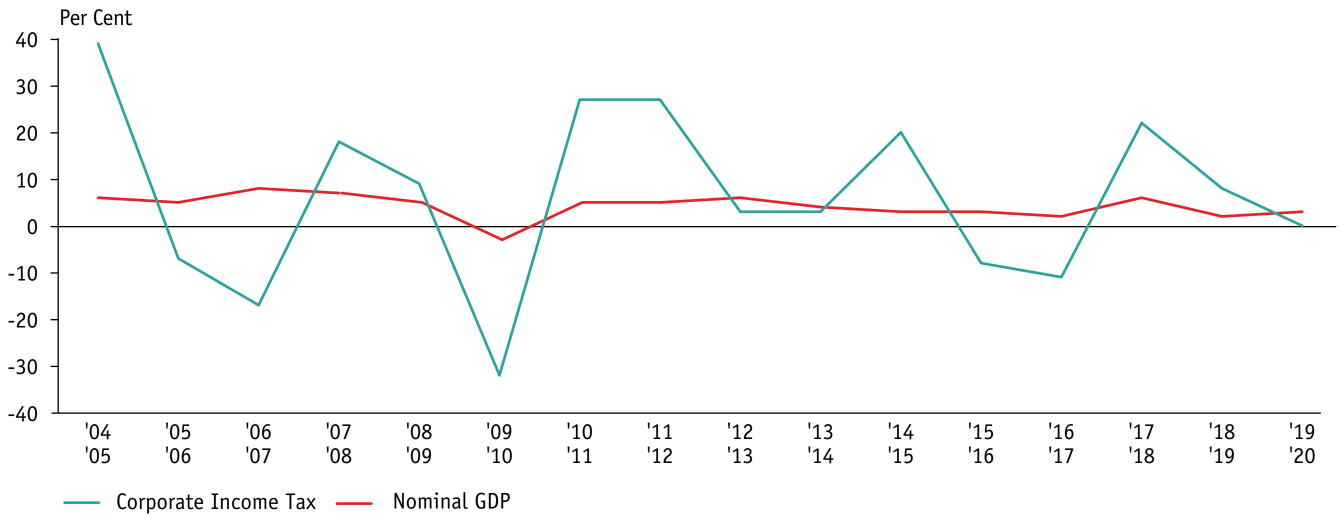
**Income Tax Revenue Tax Year Basis and Nominal GDP Growth**
**2002-2018**



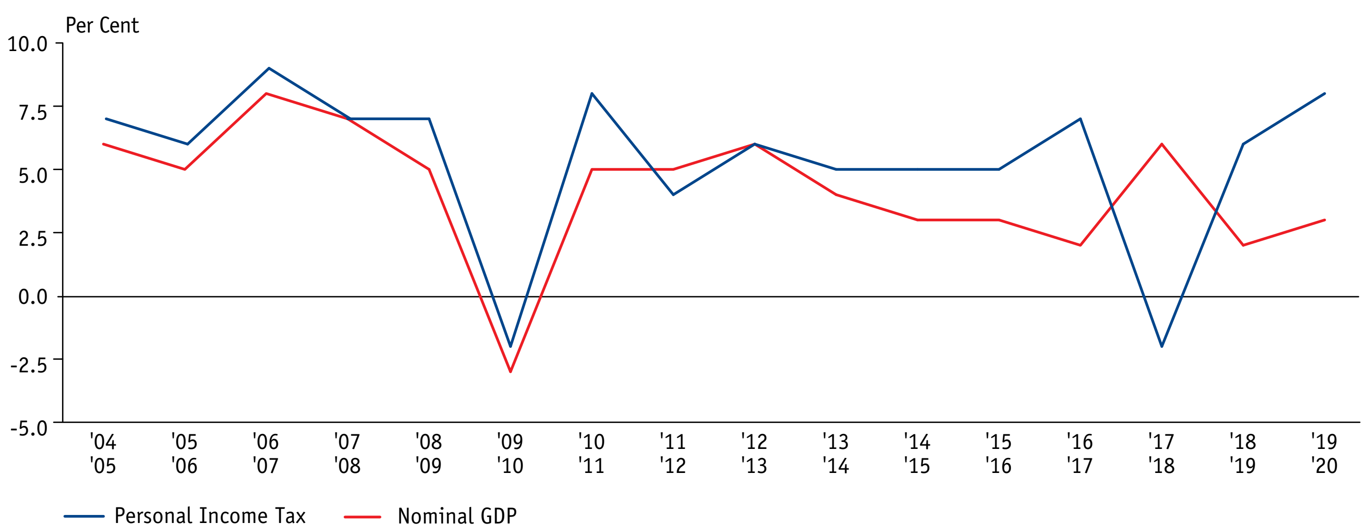
Corporate income taxes have the most significant variances from economic growth. As illustrated in the graph below, annual changes in corporate income tax revenue have varied from a decline of 32 per cent in 2009/10 to an increase of 27 per cent in the following year. In contrast, retail sales tax revenue generally follows the economic cycle, since collection reflects consumption at the point of sale.

This variability suggests that corporate income tax revenues, which can be highly responsive to corporate taxpayer activity, is difficult to predict and poses a budgeting challenge.

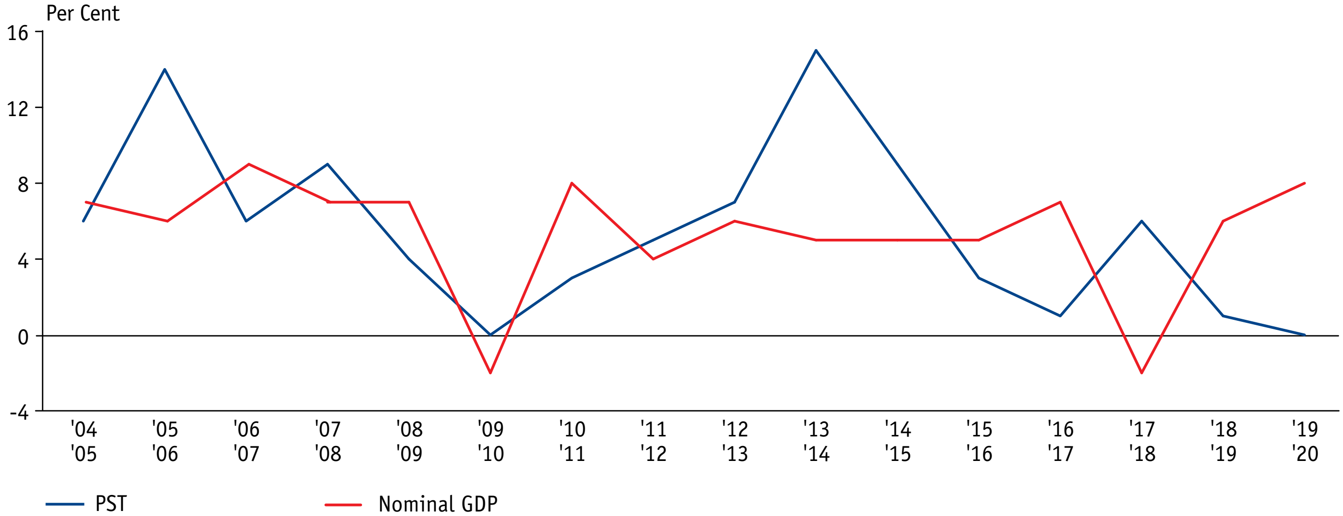
**Volatility in Corporate Income Tax Revenues: Annual Per Cent Growth**
**2004/05-2019/20**




**Volatility in Personal Income Tax Revenues: Annual Per Cent Growth**
**2004/05-2019/20**

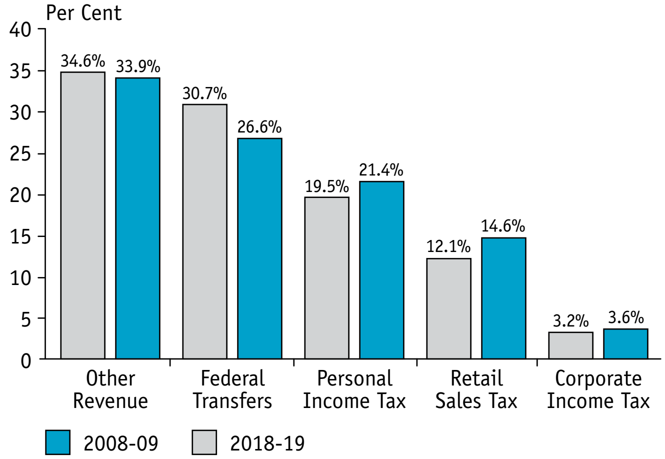


**Volatility in PST Revenues: Annual Per Cent Growth**
**2004/05-2019/20**



As illustrated in the graph below, from 2008/09 to 2018/19, personal income taxes and retail sales taxes increased their share of total revenue in Manitoba, more so than other revenues and corporate income tax revenue. The contribution from federal transfers fell during this period. The increase reflects a recovery in economic activity and jobs increasing income tax, as well as a boost from major capital investment projects in the province (e.g., Simplot expansion, HyLife expansion, Canada Goose expansion, Roquette, etc.) that have increased sales tax revenues.

**Change in the Share of Contribution to Total Revenue**

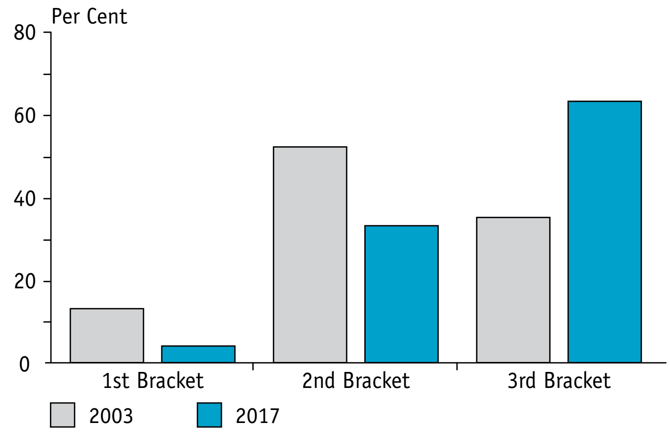



## Personal Income Taxes

As illustrated in the table below, incomes increased between 2003 and 2017, shuffling taxpayers to higher tax brackets.

Although a good sign of growing incomes in Manitoba, this trend illustrates that more Manitoba taxpayers have moved into the highest provincial bracket (which in 2020 is at $72,164). To mitigate some of this bracket creep, the government indexed the personal income tax brackets in 2017 to the annual rate of inflation.

**Share of Manitoba Personal Income Tax by Bracket - 2003 vs. 2017**

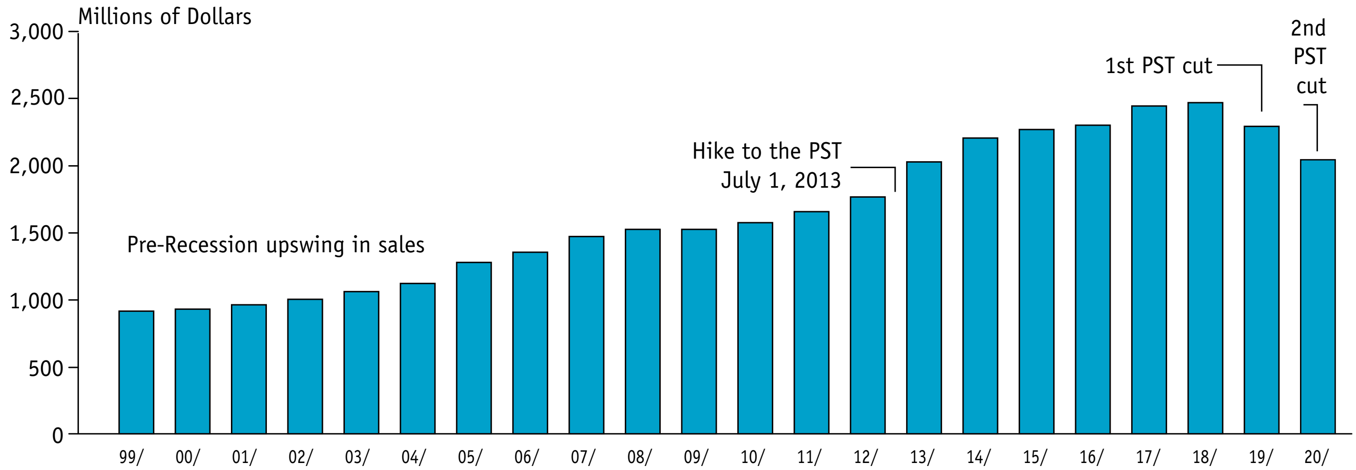



***To mitigate some of this bracket creep, the government indexed the personal income tax brackets in 2017 to the annual rate of inflation.***

## PST

Manitoba's retail sales tax is one of the more stable revenue sources, as can be seen in the graph below. However, it can see fluctuations, notably as a result of the increase in the sales tax by the previous government in 2013, and through major capital expenditures by the public and private sectors that are taxable (e.g., between 2017 and 2018). The sales tax rate reduction on July 1, 2019 reduced the amount of sales tax collected.

### Manitoba PST




## Federal Transfers

The major transfers to Manitoba include the Canada Health Transfer (CHT), the Canada Social Transfer (CST), and Equalization (EQ).

The CHT is the primary federal transfer to the provinces and territories in support of health care. It provides ongoing funding for Canada's health care system. Manitoba will receive $1.521 billion through the CHT in 2020/21, up $50 million or 3.4 per cent from 2019/20. Manitoba's share of the CHT nationally is at 3.63 per cent.

The CST is a federal block transfer provided to all provincial and territorial governments in support of post-secondary education, social assistance and social services, and programs for children. Manitoba will receive $546 million through the CST in 2020/21, up $14 million or 2.7 per cent from 2019/20. Manitoba's share of the CST nationally is per cent.

Equalization is a fiscal transfer designed to reduce revenue-raising disparities (known as fiscal disparities) among the provinces. Its purpose is to give provinces with lower fiscal capacity the financial means to offer their residents reasonably comparable levels of health care, education, and other public services at reasonably comparable rates of tax.

In addition, the major transfers include Total Transfer Protection (TTP), which ensures that there is a minimum base funding available to a recipient province. Manitoba received the TTP in 2011/12 and 2012/13.

This graph shows Manitoba's major federal transfers over the last ten years:

The increase in Manitoba's Equalization entitlement in 2018/19 to 2020/21 is a result of varying fiscal capacities in other provinces, primarily Ontario and Quebec.

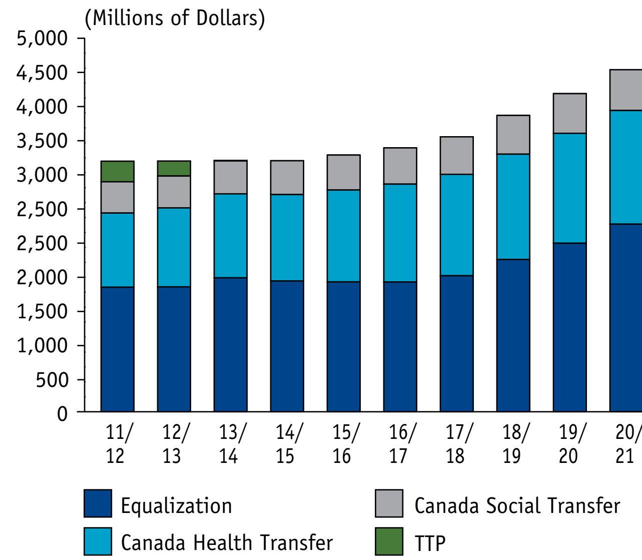
We see variability, primarily related to the Equalization program, which is based on the relative fiscal capacity of provinces and territories.

Absolute declines in Manitoba's combined Major Federal Transfers (MFT) are rare. Growth may slow, but a reduction in Manitoba's combined dollar MFTs is unlikely. Changes are not anticipated, at least until the next renewal of the MFT programs in 2023/24.

There are many fiscal and economic factors that influence the federal and other provincial governments, including the impact of regional slowdowns or global recessions. For example, a reduction in economic activity would reduce growth in the national economy as measured by nominal GDP. As nominal GDP is used to determine growth in CHT and Equalization, total growth in the transfers may slow as would Manitoba's dollar allocation. However, the use of a three year average of GDP growth helps to moderate fluctuations and limits sudden drops in growth.

Annual growth in the CHT and CST are relatively predictable which helps provide payment certainty for Manitoba. Based on the current formulas, preliminary estimates suggest growth in the two transfers should provide new revenue of about $65 million annually.

**Total Major Transfers Federal Transfers to Manitoba**



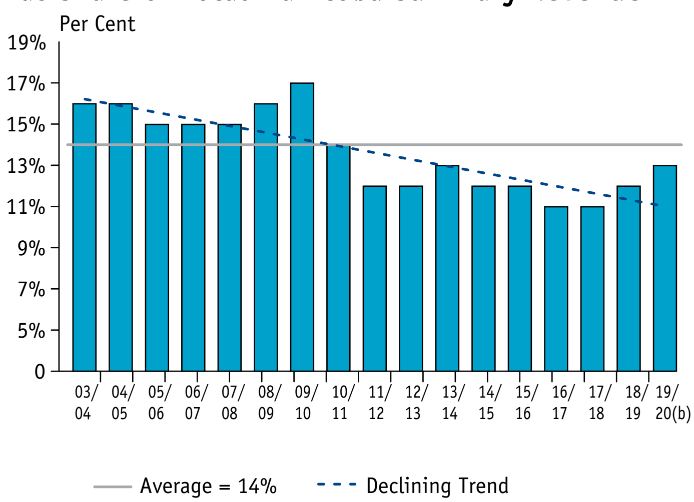

Manitoba's Equalization entitlement has seen exceptional growth in the last three years following the departure of Ontario from the program (averaging growth of about $230 million per year). As a result, growth in Equalization could slow somewhat. The key factor affecting Manitoba's entitlements is the fiscal performance of other receiving provinces, particularly larger provinces like Quebec. Because Equalization has a fixed funding envelope, additional payments to one province reduce available payments for the other receiving provinces.

Equalization payments are based on the relative fiscal capacity of all 10 provinces. To assess risk of declines and increases, Manitoba Finance uses economic modelling supported by numerous data sources, including Manitoba Bureau of Statistics data, to estimate any potential changes in entitlements.

Although Manitoba may be seen as a high tax province, its fiscal capacity is not high relative to other provinces because measurements of provincial fiscal capacity are determined using a 10-province average standard. It is the province's relative capacity to raise revenues that are used to calculate Equalization entitlements, not actual provincial revenues or tax rates. So while Manitoba's actual tax rates may appear high relative to other provinces, Manitoba is still considered to have below average fiscal capacity for all five tax bases measured by the program. In 2020/21, Manitoba combined resource and non-resource fiscal capacity was 81% of the national average.

In general, strong population growth can lead to increased MFT payments. In Equalization, higher population growth acts to reduce the province's per capita fiscal capacity which results in higher entitlements. The CHT and CST are paid on an equal per capita basis so higher population shares results in higher payments.

**Federal Equalization Revenue as Share of Total Manitoba Summary Revenue**




*Cannabis revenues are not the fiscal windfall that some had forecast.*

## Cannabis Income

Cannabis revenues are not the fiscal windfall that some had forecast. Manitoba has had a successful rollout of its cannabis regime, but supply chain challenges, due in part to licensing timelines by the federal government, had exacerbated this rollout. This has resulted in supply shortages and prices that continue to be higher than the illegal market.

Total Manitoba net revenues from cannabis are estimated for the Budget at $15 million for 2020/21.

The Cannabis Social Responsibility Fee revenues paid by non-medical cannabis retailers are estimated at $3.7 million for the 2019 calendar year. Provincial costs associated with the non-medical cannabis market were estimated at $4.9 million in 2019/20 up to the third quarter, with more detailed accounting yet to be completed.

In 2018/19, as reported in the Public Accounts, the provincial government costs associated with the legalization of non-medical cannabis exceeded revenues. With the legalization of cannabis edibles in late 2019, the financial picture as it relates to cannabis revenues and expenditures continues to evolve. Manitoba is continuing to monitor the impacts of cannabis legalization, though one thing is clear: there has been no financial windfall to the province once costs are reflected.

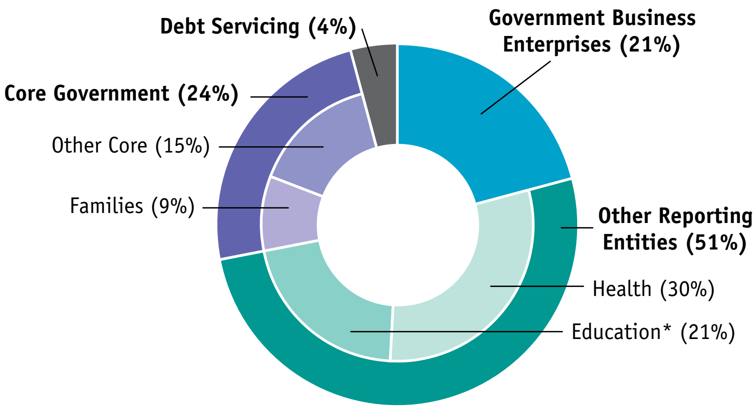
# BETTER BUDGETING

*As every year goes by, we learn more about the books and how to budget better.*

## A Focus on Summary

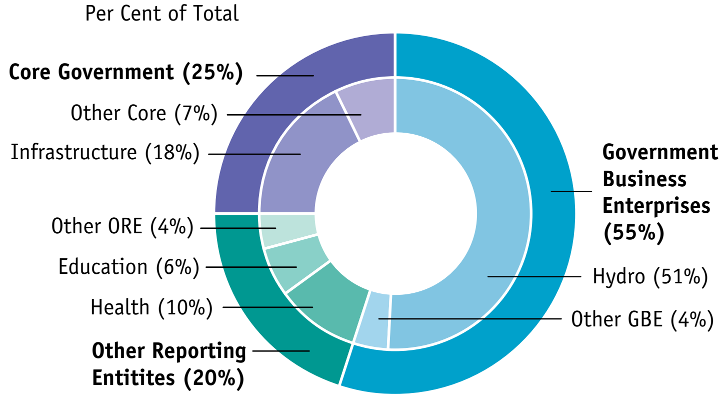
Following the change of government in 2016, Manitoba was still focused on its "core" books, which did not follow accounting standards and were highly misleading. Following the long-standing recommendation of the Office of the Auditor General, we stopped keeping a second set of books. At the same time, we have been changing our processes to focus on summary government, re-inventing processes and controls to keep track of money that had never before been monitored centrally.

**2020-21 Expenditures**
Per Cent of Total




* includes Economic Development and Training

**2020-21 Capital**
Per Cent of Total




The reasons for this are self-evident: summary is where all the money is spent!

The summary budget provides a more complete picture of the government revenue, expenditures and variances, allowing for more informed decision making at the Cabinet level. It forms the basis for provincial balanced budget legislation.

Manitobans may be surprised to learn that there are over 170 separate reporting entities in summary government. Having control and oversight over so many entities requires a new level of oversight, paving the way to integrate the Office of the Provincial Comptroller into Treasury Board Secretariat and ensuring that financial outcomes are aligned with accounting outcomes. We have engaged ministries to require an accountability relationship between departments and their entities for their Summary Ministry financial results.

***More Transparent Estimates of Expenditures***

Our Estimates of Expenditures have not ever been reviewed critically for alignment with summary budgeting. Simply put, a lot of tax dollars were being spent outside of voted appropriations.

## Modernizing the Loan Act

Some of the deficient processes came from our antiquated "Loan Act", which does not properly integrate into our budgeting processes.

- Our traditional appropriations in the Estimates of Expenditure tabled with the budget represent $15.1 billion in expenditures.
- Conversely, borrowing bills under the Loan Act can be tabled and debated the same day, but in practice often without debate. In 2019/20, it represented almost $5 billion in total borrowing authority, which has historically not received the same profile or scrutiny. This lack of scrutiny surely contributed to the stream of enormous, imprudent spending witnessed at Manitoba Hydro, as an example.

Budget 2020 ends this practice. Going forward, our Estimates of Expenditure will include Part C loan and guarantees investment and Part D other reporting entities capital. Legislators, the public, investors, bond rating agencies and others will now see upfront the fiscal and financial requirements of the broader government reporting entity for the budget year.

***Legislators, the public, investors, bond rating agencies and others will now see upfront the fiscal and financial requirements of the broader government reporting entity for the budget year.***

***Consistency in Presentations***

Historically, there have been inconsistencies in the way departments show their expenditures in the budget. The format does not match Public Accounts and makes the budget book hard to follow. In addition, it is often not clear whether grants to reporting entities were subsumed into "other expenditures" or what "other expenditures" represents. We have now standardized the estimates presentations across departments respecting the following 4 "hierarchies":

1. Salaries and employee benefits;
2. Other Expenditures, i.e. administration and overhead costs;
3. Grant Assistance; and
4. Financial assistance, i.e. tax credits or assistance to business (loans)

***OLD HIERARCHY***

| SERVICE | ESTIMATES OF EXPENDITURE 2019/20 $(000s) | ESTIMATES OF EXPENDITURE 2018/19 $(000s) |
|---|---|---|
| Program Area | | |
| Salaries & Employee Benefits | 2,000 | 1,975 |
| Other Expenditures | 200 | 200 |
| Other Program 1 | 5,000 | 4,800 |
| Other Program 2 | 2,500 | 2,475 |
| Community Organization | 1,000 | 1,000 |
| Subtotal (b) | 10,700 | 10,450 |

***NEW HIERARCHY***

| **SERVICE** Appro. No. | 2019/20 $(000s) | 2018/19 $(000s) |
|---|---|---|
| (b) Program Area | | |
| (1) Salaries & Employee Benefits | 2,000 | 1,975 |
| (2) Other Expenditures | 200 | 200 |
| (3) Grant Assistance | 1,000 | 1,000 |
| Subtotal (b) | 3,200 | 3,175 |
| (c) Program Area | | |
| (1) Salaries & Employee Benefits | 3,000 | 3,000 |
| (2) Other Expenditures | 500 | 500 |
| (3) Grant Assistance | 1,500 | 1,300 |
| Subtotal (c) | 5,000 | 4,800 |
| (d) Program Area | | |
| (1) Salaries & Employee Benefits | 2,000 | 2,000 |
| (2) Other Expenditures | 500 | 475 |
| (3) Grant Assistance | - | - |
| Subtotal (d) | 2,500 | 2,475 |

The new presentation format is considerably more transparent.

### *Reduction in Number of Reporting Entities*

Our government's summary environment currently includes over 170 reporting entities. This includes government departments, other reporting entities (OREs) such as RHAs, school divisions, post secondary institutions, special operating agencies, as well as various boards and other organizations.

As part of our focus on summary budgeting and financial reporting, we have discovered many organizations operating as OREs that no longer serve their intended purpose. By having these organizations as separate entities from government departments result in an unnecessary level of complexity in our books.

In Budget 2020, we are taking steps to simplify the Province's Summary environment by either eliminating OREs that are no longer needed, or rolling those entities back into their home departments. This will provide greater transparency and accountability to the public.

Starting with a challenge to ourselves to bring the number of entities to less than 150 in Manitoba's 150th Anniversary year, we exceeded our goal. Through these efforts, we will reduce the number of Government Reporting Entities by 25, or almost 15 per cent, by the end of 2020/21.

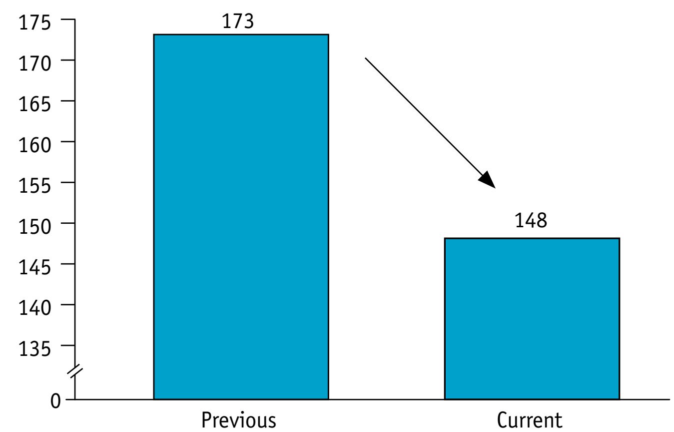
### *Fake Funds*

Over the past year, our government has uncovered approximately $93 million of notional account balances in a number of funds we have referred to as "fake funds". We call these funds "fake" because there are no financial resources available to spend money out of these funds without further increasing our debt and incurring new expenses. The money that was supposed to be in these funds was already spent.

Many of these funds were established by departments prior to Public Sector Accounting Standards (PSAS) requirements for summary financial reporting. Departments thought that they could put aside these funds for future spending, without triggering operating expenditures; essentially treating these funds as if they were "off-book". Indeed, from an old "core" accounting perspective, which was a second, improper set of books, these were indeed "off-book".

*Starting with a challenge to ourselves to bring the number of entities to less than 150 in Manitoba's 150th Anniversary year, we exceeded our goal.*

**Government Reporting Entities**




However since PSAS accounting standards came into place, their notional account balances were not actual reserves.

The simplest way to explain "fake funds" is through an example of a fictional fund. For the sake of illustration, imagine government introduced a fund called a Widget Enhancement Fund. For every fictional "widget" sold in Manitoba, we charged a $1 levy that went into the Fund. The Fund was then for grants to Manitobans for a fictional "widget promotion activity".

These "fake funds" work fine as long as the revenue collected exactly matches the amounts we spend – i.e., if the amounts in and out of the fund are the same. However, problems occur with these "fake funds" develop growing balances over time.

**Widget Enhancement Fund Impact**

| Year | Widget Levies Collected ($) | Widget Promotion Expenses ($) | Accounting Impact to Government Income ($) | Widget Fund Account Balance ($) |
|---|---|---|---|---|
| 1 | 100 | 60 | Net income: + 40 | 40 |
| 2 | 130 | 80 | Net income: + 50 | 90 |
| 3 | 60 | 50 | Net income: + 10 | 100 |
| **SUBTOTAL** | 290 | 190 | +100 | 100 |

We now have a situation where the widget community – which had an expectation that there was a fund with $100 in it, available for widget promotion expenses. However, under accounting rules, this $100 was already – in past years – recognized as income by government. It has been spent on other things.

If government wants to spend this $100 balance in year 4 (on top of amounts collected), there is no reserve or money to draw from.

| Year | Widget Levies Collected ($) | Widget Promotion Expenses ($) | Accounting Impact to Government Income ($) | Widget Fund Account Balance ($) |
|---|---|---|---|---|
| 4 | 40 | 140 | Net income: (100)<br>A $100 loss<br>was triggered! | Nil |

***Our government is cleaning up these funds, budgeting the money appropriately and ensuring that it is spent.***

As a result, when these funds are drawn down, they trigger summary expenditures that result in unplanned increases in the summary deficit, if these expenditure have not been budgeted. We identified 17 "fake funds" across eight departments that are projected to have a total of almost $93 million in outstanding balances at the end of fiscal 2019/20.

None of these funds should have ever had an outstanding balance, as the intention was always that revenues generated through the dedicated fees or levies would be used in the year they were collected.

Our government is cleaning up these funds, budgeting the money appropriately and ensuring that it is spent. We will remediate each of the funds to clear the outstanding balances, and "fix" them so that they don't have outstanding balances in the future. Legislation will be introduced in 2020/21 to dissolve these funds. However, our government will ensure that the revenues generated by the fees and levies paid by Manitobans do not disappear into general revenues, and will continue to be spent for their intended purposes.

First, amounts equal to the $92.8 million in unspent fund balances has been included in Budget 2020 within Enabling Appropriations – Internal Service Adjustments.

Departments are able to spend these funds in 2020/21 for the original purposes for which these funds were intended.

Additionally, departmental budgets have been increased by an amount equal to the revenues generated by the fees and levies in Budget 2020, with departments directed to spend these funds by the end of fiscal year. This funding will remain within the departments' base budgets going forward.

| Department / Name of Former Fund | 2020/21 ISA |
|---|---|
| **AGRICULTURE AND RESOURCE DEVELOPMENT (ARD)** | |
| Abandonment Reserve Account | $3,153.0 |
| Mine Rehabilitation Reserve | 13,899.0 |
| Fisheries and Wildlife Enhancement Fund | 2,500.0 |
| Quarry Rehabilitation Reserve Account | 5,339.0 |
| Farm Machinery and Equipment Fund | 569.0 |
| **SUB-TOTAL (ARD)** | **$25,460.0** |
| **ECONOMIC DEVELOPMENT AND TRAINING (EDT)** | |
| Manitoba Opportunities Fund | $16,500.0 |
| Community Revitalization Fund | 7,388.0 |
| **SUB-TOTAL (EDT)** | **$23,888.0** |
| **JUSTICE** | |
| Victim's Assistance Fund | $11,433.0 |
| Legal Aid | 1,850.0 |
| **SUB-TOTAL JUSTICE** | **$13,283.0** |
| **FINANCE** | |
| Borrowers' Financial Literacy Fund | $165.0 |
| Land Titles Assurance Fund | 279.0 |
| Workplace Safety and Health Public Education Fund | 120.0 |
| **SUB-TOTAL FINANCE** | **$564.0** |
| **FAMILIES** | |
| Housing Development and Rehabilitation Fund | $12,700.0 |
| **MUNICIPAL RELATIONS** | |
| Fire Prevention Fund | $9,140.0 |
| **INFRASTRUCTURE** | |
| Trucking Productivity Improvement Fund | $5,000.0 |
| **CONSERVATION AND CLIMATE** | |
| Waste Reduction and Recycling Support Fund | $2,806.0 |
| **TOTAL** | **$92,841.0** |

### *Health Service Insurance Fund (HSIF)*

Manitoba Health, Seniors and Active Living has long operated with the Manitoba Health Services Insurance Fund which is – simplistically – a separate Enterprise Resource Planning (ERP) software system that handles the processing of money that flows between the provincial government and our Regional Health Authorities and other health-related service delivery entities such as CancerCare or the Addictions Foundation. It has nothing to do with actual health outcomes, the coverage of universal health care or anything that would impact front line services. The HSIF is the IT system used to administer the Health Services Insurance Plan; it is not at all the same as the plan itself.

The HSIF computer system is highly transactional and, while it may have made sense in a "Core Government" world, it drives confusion in the current summary financial environment, adds Red Tape, lacks transparency and adds additional costs to the health care funding process.

The cash flows related to the HSIF are convoluted and circular:

- When the province receives federal funding through the Canada Health Transfer, these funds are deposited to the Consolidated Fund ;
- The province then adds its 78 per cent share of health care funding to the federal amount and places the money into the Health Services Insurance Fund; and
- Payments are then made out of the Fund to entities like RHAs, Shared Health, CancerCare and the Addictions Foundation, who in turn make payments to service delivery agencies and organizations

Unnecessary confusion and computer systems that just do not help are a big contributing factor as to why Manitoba spends 3.5 per cent of its health care budget on administration – the highest percentage compared to all other Provinces (Source: 2015-2019 data from the Canadian Institute of Health Information).

***Eliminating the HSIF, which Manitoba's Office of the Auditor General has long called for, has many benefits, including enhanced transparency, reduced administration and Red Tape.***

Eliminating the HSIF, which Manitoba's Office of the Auditor General has long called for, has many benefits, including enhanced transparency, reduced administration and Red Tape. It will reduce the complexity of the province's financial statements, enhance the ability to ensure proper internal financial controls are being followed, and ensure the requirements of the Canada Health Act are met.

Our Government will therefore begin the work towards elimination of the HSIF system in 2021/22.

### *Elimination of Budgeted Lapse*

A budgeted "lapse factor" is a central budgeting tool that had been used in Manitoba by provincial governments for many years, although it has never made any sense.

The simplest way to explain lapse is that it is the exact opposite of a contingency. Lapse represents a "hope" that all of the voted appropriations will not be spent by departments, and will lapse. Governments that budget for lapse cannot allow their departments to spend all of their budgets, otherwise the lapse factor will not be realized and the government will not hit its targets.

Budget 2019 signalled our plan to gradually phase out use of a lapse factor over next 5 to 6 years – the lapse was reduced by $20 million to $95 million in 2019.

This plan assumed a return to surplus by the end of our Government's second term. However, stronger revenue growth than anticipated, combined with careful control of provincial expenditures, has resulted in an accelerated path to balance – with the Province projected to return to surplus by 2022/23.

Therefore, our government will eliminate the use of a Budget Lapse as of Budget 2020. We will continue to exhibit fiscal prudence through the use of budget contingencies in provincial budgets going forward.

### *Virement*

Virement – from the French and meaning "transfer" – is a government budgeting tool legislated in many jurisdictions that allows for the reallocation of funding from one department appropriation, which is underspent, to another appropriation, which is overspent, without requiring supplementary funding authority.

In the past, the Appropriation Act provided government with annual spending authority, which lapses at the end of the fiscal year (March 31st). The Act provides financial details at a departmental (business area) level for both operating and capital investments.

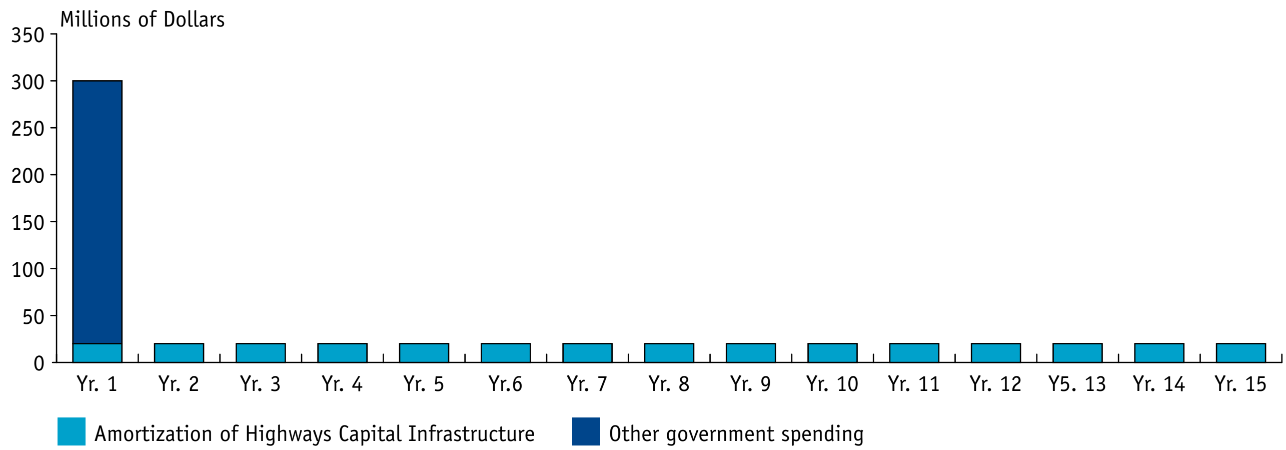
However, when the provincial Budget is approved in the Legislative Assembly, it is voted on at an "Appropriation" level – each department's budget is typically comprised of a number of appropriations. If one appropriation in a department is overspent, but the department as a whole is underspent, the department still requires supplementary funding authority for the overspent appropriation.

Manitoba already has provisions that allow funding to be transferred between sub- appropriations within a departmental main appropriation, providing some flexibility to manage departmental budget. However transfers between main appropriations are not allowed. This does not make sense. If a department's spending is on budget, it should not need supplemental funding. This is unnecessary red tape.

With virement, unused or lapsing spending authority in one appropriation could be used to offset overspending in another appropriation. Other provinces, including Saskatchewan and Alberta use virement as a way of managing their departmental budgets within the fiscal year. Our government will introduce legislative amendments to allow the use of virement, starting in fiscal 2020/21. Prudent controls on the use of this tool will be put in place to ensure it is used appropriately, including restrictions to ensure:

- Virement is not used to generate funding authority in-year for a new government program;
- It does not result in a department's budget increasing above the level set out in the annual budget estimates and approved by the Legislature; and
- No virement is allowed between government departments.

**Annual Spending Related to 1% PST Increase**




## Historic Confusion over Highway Infrastructure

When the PST was increased by the previous government, Manitobans were misled by an "accounting sleight of hand" deception over highway infrastructure spending. With an ostensible commitment to spending the additional PST revenue on infrastructure, it took advantage of the confusion between cash and accrual accounting.

Using rough numbers for the sake of simplicity and illustration, a one per cent increase in the PST yielded $300 million of incremental revenue. If the full $300 million is spent on highway infrastructure, assuming a 15-year amortization period for the sake of simple math, only $20 million is expensed annually. The expensing of amortization and interest continues for the following 14 years. In the meantime, the remaining $280 million of the $300 million in additional PST revenue was spent on other, unrelated and unsustainable initiatives.

***The burden of the long tail of the amortization costs lasts a very, very long time.***

The differences between cash accounting and the required public sector accounting standards are significant. It allowed Manitobans to be misled as to where the increased PST revenues were actually being spent.

The burden of the long tail of the amortization costs lasts a very, very long time – and the issue becomes compounded when the pace of infrastructure spending continues to grow unsustainably over time. Today, over 55 per cent of the entire budget for Manitoba Infrastructure is amortization and interest – payment for past "announcements" that will stay on our books into future generations!

# BROKEN BUDGETING

*Another unacceptable mess that we found involved the previous government's decision to make a series of grants and pretend it is a loan, not an expense. These loans total $41.3 million.*

## Fake Loans

Every Manitoban would know this is not only absurd – it is highly misleading and used to mask expenses. A government cannot loan money to itself. But that is what happened – the government claimed that a series of grants were actually "loans":

- $25 million of "loans" to the Northern Affairs Fund, but it was really a grant. To make this bad situation even worse, we will have to pay $2.2 million penalty to the lending institution for prepaying the loan. This was more than an accounting deception; it cost Manitobans cash paid to banks.
- $9.2 million of "loans" to Leaf Rapids Town Properties, a Crown corporation operating the Town Centre that houses most of the services in Leaf Rapids. This was categorically not a loan; it was money that was being spent to operate the Town Centre!
- $3.8 million of "loans" to one Crown corporation, Manitoba Potash Corp., to facilitate its purchase of subsurface mineral rights. However, from an accounting perspective, this could have never been a loan. It was always a grant under accounting rules. We now need to remove this loan from our books.
- $3.3 million in "loans" to our SOAs - which exposed a bizarre shortcoming in the budgeting process, allowing Special Operating Agencies to by-pass departments and borrow money from our Treasury Division, masking structural deficits in these agencies. In this case, the government was deceiving itself.

***A government cannot loan money to itself.***

## Broken Budgeting at RHAs

Last year, we made our regional health authorities (RHAs) convert to our accounting standards, which lead to some remarkable discoveries in how our budgeting was not aligned with the underlying summary accounting. The most significant of these discoveries was that the RHAs had been borrowing their own money from commercial banks, using a provincial guarantee. By forcing the RHAs to borrow centrally from Treasury Division and benefiting from our lower interest rates, we were able to free approximately $7 million in interest costs, allowing us to increase spending on hips, knees and joints.

We have since learned that the RHAs had not been repaying principal on these loans, and had been making "interest only" payments. Apart from reflecting bad cash management practices, this lead to a "structural understatement" of health expenses in our voted appropriation, where the RHAs were incurring principal and interest on their income statements which were not reflected in the central cash funding requirements in the voted appropriation. This "budget deception" hid the cost of these health capital assets from the "core" books, at a time when health capital spending was materially increasing. In effect, we were structurally underfunding the RHAs by approximately $22 million of cash per year, and the real cost of health care to Manitobans was not reflected in our estimates of expenditure.

## Fixing Past Accounting Mistakes

In our efforts to clean up our books over the past year, and transition more of our reporting entities to the same accounting standards, we have discovered that mistakes have been made that need to be fixed.

### *Amortization Periods*

Amortization periods are an accounting measure of the useful life of an asset. Over the accounting life of an asset, every year we need to expense a portion of that asset cost into our income statement. The longer the amortization period, the longer this cost can be pushed into future years. We have spent considerable time looking at our amortization periods, in order to ensure they accurately reflect the underlying useful life of an asset. Where we felt mistakes were made, we worked with provincial comptrollers to fix it, resulting in several million dollars of unexpected charges we had to expense in fiscal 2019/20.

### *Agriculture*

We learned that a third party organization held $4.7 million of money for various programs on behalf of the province. This money - provincial money - should have been reflected on our books and used to reduce our debt. This did not occur, however, and this money was effectively out of central oversight. We have fixed that accounting.

### *U of M Financial Statements*

When the University of Manitoba converted to the province's accounting standards, it became clear that the provincial consolidation of the University of Manitoba financial statements were wrong. The restatement will require an adjustment of a $160 million increase to assets, $50 million increase to the opening accumulated deficit, a $210 million increase to unearned revenue. For fiscal 2018/19 revenues will increase $40 million but expenses will also increase by $40 million.

### *First Nation and Metis Authorities*

In the area of Child and Family Services, Manitoba has four authorities: the General Authority (which is part of the government reporting entity) and three Indigenous authorities (Northern, Southern and Metis).

In 2005/06, an assessment of control for accounting purposes was made, and government at that time concluded that the authorities were controlled and should be consolidated into our summary financial statements. It is very clear that our government does not control these organizations; the underlying Indigenous owners control these groups. We removed these organizations from our financial statements, and accounting for this as an error. While these do not have a material impact on our financial statements, this reflects yet another example of historical accounting mistakes that were made (like Workers Compensation Board) and need to be cleaned up.

### *Workers Compensation Board*

Our position remains unchanged that government never controlled the Workers Compensation Board (WCB), and their money belongs to workers, not us. We agreed with the accounting treatment approved by 8 other provincial auditor generals. However, we have been working collaboratively with our Office of the Auditor General to find a resolution to this impasse, and have introduced legislative changes that we believe will satisfy the Office of the Auditor General to remove this qualification from our financial statements.

This legislation has already been introduced and is guaranteed passage by November 2020 under the current rules of the Legislative Assembly. However, given this timing, it is expected that the Province's Summary Financial Statements will continue to be qualified for March 31, 2020.

### *Manitoba Agricultural Services Corporation (MASC) Trusts*

We continue to have constructive discussions with the Office of the Auditor General with respect to the MASC Trusts, which are legal trusts formed to ensure that government cannot access the monies that belong to farmers, growers and producers. We are hopeful to have a resolution soon.

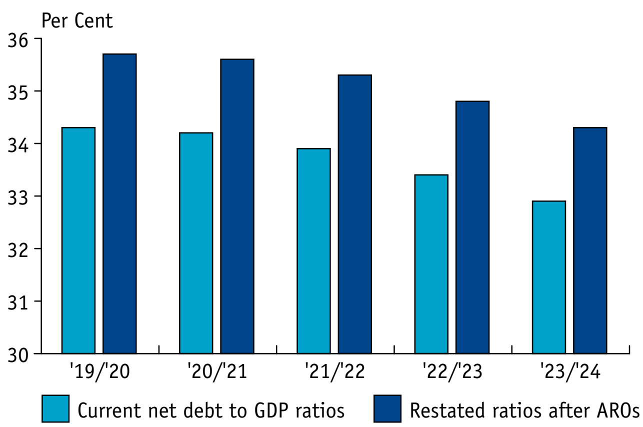
# UPCOMING ACCOUNTING CHANGES

## Asset Retirement Obligations (ARO)

The new standard on Asset Retirement Obligations comes into effect on April 1, 2021 (in Budget 2021/22). It provides guidance on the accounting and reporting for legal obligations associated with the retirement of tangible capital assets. For example, if we had a building with asbestos that would need remediation at the time it is to be demolished, we would need to start to plan for that upcoming liability. When this new rule comes into effect on, our net debt will increase, as we expect will occur in every other province in Canada.

While this is a "non-cash" change to our debt position, this will have an impact on our Debt to GDP ratios:

**Net Debt to GDP after ARO**
**2019/20-2023/24**




The introduction of ARO accounting is also expected to put pressure in the range of approximately $5 million on our future net income, which we believe can be fully absorbed within our existing fiscal framework.

| Fiscal Year Ended March 31st | ARO Balances ($ millions) |
|---|---|
| 2015 | 970 |
| 2016 | 995 |
| 2017 | 1,020 |
| 2018 | 1,046 |
| 2019 | 1,073 |
| 2020 (known) | 1,100 |
| 2021 | 1,128 |
| 2022 | 1,156 |
| 2023 | 1,185 |
| 2024 | 1,214 |
| 2025 | 1,245 |

1. Assume that ARO balance will increase by 2.25 per cent per year due to the increased cost of inputs.
2. Newly discovered ARO will equal the amounts remediated.

## Financial Statement Presentation, Portfolio Investments & Revenue

We will also be subject to a new standard for Budget 2020 that introduces a statement of re-measurement gains and losses. Requirements in respect of Foreign Currency Translations and Financial Instruments can give rise to the presentation of gains and losses as re-measurement gains and losses. Similarly, there will be new rules in respect of the accounting for, and presentation and disclosure of, portfolio investments, and a new standard for recognizing revenue by distinguishing between revenue that arises from transactions that include performance obligations from transactions that do not have performance obligations.

We are currently assessing the impact of these standards on our Summary Financial Statements.

# IGNORED LIABILITIES

## Litigation

In fiscal 2019/20, we were required to take provisions totalling over $10 million in respect of litigation that had not been recognized on our books. While we cannot disclose the breakdown of these amounts without prejudicing our court positions, this is an example of the failure to properly recognize our liabilities.

## Children's Special Allowance

In 2005, the previous government required First Nations and Metis agencies providing mandated services off reserve to apply for the federal Children's Special Allowance (CSA) for provincially funded children and remit this funding to Manitoba. The CSA was then combined with provincial funding and distributed back to agencies as provincial child maintenance. CSA is the equivalent of the Canada Child Benefit that is provided to a parent/legal guardian of a child under the age of 18. In 2011, the previous government re-developed the funding model for CFS Agencies, in collaboration with the Authorities and the Government of Canada. Under that revised model, the CSA continued to be collected and distributed with child maintenance funding provided by the province.

This approach to the CSA has for many years been a contentious issue with First Nations and Metis CFS agencies. Commencing in Budget 2019/20, CFS agencies retain the CSA to support the needs of children in their care. Agencies have retained over $33 million in CSA funding, and Manitoba will no longer budget for the revenue or expenditures associated with the CSA. The net impact is neutral for CFS agencies and the province, but it significantly reduces red tape and resolves a longstanding disagreement.

These steps demonstrate our government's desire to move forward with a new Single Envelope approach to funding, focused on supporting families through prevention and reunification activities while also providing for the safety and security for children.

## Orphaned and Abandoned Mines

In 2001, the Manitoba government created a reserve to address orphaned and abandoned mines in Manitoba in need of environmental remediation and rehabilitation. In the 2005/06 fiscal year, Manitoba adopted an accounting policy to recognize environmental liabilities. At that time, the liabilities for these mines were established at $220 million. Although there has been $275 million disbursed from the fund since that time, these liabilities were not properly addressed; with inconsistent oversight, disputes with contractors and lack of central attention and focus. Consequently, the increase of $111 million in remediation requirements added during the same time period did not adequately address the physical state of the mines. In an effort to create a more realistic view of future costs for these mines; a recent review of priority sites, including the provision of post-remediation monitoring and maintenance, identified an additional $103 million in liabilities. Funding was required to bring the balance of required remediation to just under $180 million.

At the same time, government knew that these costs were escalating out of control and rehabilitation work was not being done.

***A zero-based review of these contaminated sites occurred, with a more realistic view of future remediation costs.***

As part of the transfer of this portfolio from the former Department of Growth, Enterprise and Trade into Conservation & Climate, a zero-based review of these contaminated sites occurred, with a more realistic view of future remediation costs. This review concluded that the reserve - currently at $182 million - was understating its liabilities by $93 million. We fixed that.

## East Side Road Authority (ESRA)

We retained a forensic accountant to look at several aspects of the mismanagement under the ESRA. In 2016, the OAG described ESRA as an organization lacking accountability and oversight, an organization that unsuccessfully implemented its strategy, and an organization that did not monitor and measure the return on its investments or the outcomes.

Under the previous government, ESRA spent hundreds of millions, but only built minimal roads and just three bridges. We already had to write off over $20 million of ESRA road and bridge assets from the books in 2017 before our forensic accountants came in to examine the situation more closely.

In addition to the $20 million in over-valued assets in 2017, our forensic accountants noticed that the previous government had put over $55 million of “capacity building allowance” payments as assets on government books to avoid incurring an expense. Unfortunately, there are no assets or outcomes associated with these payments, requiring that government immediately take a $55 million expense to clean these non-existent assets off our books. This is one more example of the previous government trying to claim the benefit of non-existent assets.

## Contaminated Sites

The Department of Conservation & Climate also manages the Contaminated Sites Program, which operates with the objective of determining the liabilities associated with remediation work and to book those costs in an environmental liability account. In 2019/20, a review of the environmental liability account revealed that there are $7.8 million in additional costs that had not been previously identified.

## Overstated Assets

We continue to monitor the book values of our assets in order to ensure that Manitobans receive a transparent financial picture. We have found instances where book values were far in excess of market value.

As an example, following a program review of our air services branch (in which the Manitoba government used to operate an airline), we disposed of our 15 aircraft in 2019. It was learned that the maintenance and repairs that were performed on the aircraft were amortized using a standard schedule, which is much longer than their useful life. As such, their book value increased substantially over time, to a point where it far exceeded the market value of the aircraft - sometimes by more than 500 per cent! Even though 60 per cent of the aircraft, along with tooling, equipment and parts, were sold for above their book value through a highly successful auction process, the sale overall triggered an accounting loss of $5.7 million.

## Past Poor Business Decisions

As disclosed by the Auditor General on many occasions, the previous government far too often entered into untendered contracts on questionable terms that did not serve the interests of Manitobans. We will continue to take steps to protect taxpayers from this inappropriate behaviour.

# HEADWINDS

*We are concerned about headwinds that may slow down our path to fiscal sustainability. For that reason, we continue our efforts to replenish the Rainy Day Fund. By the end of 2020/21, we expect to contribute an additional $300 million, resulting in the highest Rainy Day Fund balance ever – and above the 5% target set in our legislation.*

## Economic Growth & Revenue Volatility

Manitoba's revenue outlook is based on reasonable assumptions about the pace of growth in the province's economy. There are both positive and negative risks to the economic projections underlying the revenue forecast.

The following table illustrates some of the main drivers and sensitivities that could affect the fiscal plan.

| Component | Sensitivities |
|---|---|
| Total Summary Revenue | $209 million for each percentage point change in Manitoba's nominal GDP growth |
| Personal Income Tax | $38 million for each percentage point change in personal income |
| Corporation Income Tax | $7 million for each percentage point change in the growth of national corporate profits |
| Sales Tax Revenues | $12 million for a percentage point change in retail sales levels |
| Fuel Taxes | $9 million change for each percentage point change in real GDP growth |
| Land Transfer Tax | $6 million for every 500 new and 500 used dwelling units changing ownership |
| Health and Post-Secondary Education Tax Levy | $5 million for each percentage point change in growth in remuneration |
| Equalization | $19 million for each 0.1% point change in Manitoba's share of total Equalization program payments |
| Canada Health Transfer | $39 million for each 0.1% point change in Manitoba's population share |
| Canada Social Transfer | $14 million for each 0.1% point change in Manitoba's population share |

As indicated above, several major revenue sources grow with economic activity (production, sales and jobs). However, the decoupling of revenues from economic activity that we are experiencing in recent years indicates that this relationship is unstable. Some taxable income components have significantly increased in a year when reported economic activity is modest. In other years, the absolute opposite has occurred.

Some of the amplification of annual swings in reported income by households and businesses is a result of increased tax planning activity following several major tax reforms introduced in Canada and the U.S. These swings have resulted in an underestimation of total revenues.

As a result, Manitoba, and other provinces, have reported material changes in total revenues and net income from Budget to the Public Accounts. For example for 2018/19, income tax revenue was $198 million above target. For 2019/20, the latest estimate shows income tax revenue up $106 million over budget. Revenue estimates are subject to variance since they are based on economic forecasts that are subsequently revised when new information becomes available. The unexpected swings in reported income introduces an additional element of instability in revenues estimates. Considering the cause for the large variances, higher than expected future revenue estimates are not sustainable. The province could very easily experience large revenue shortfalls in the medium term, especially given the elevated level of uncertainty in the national and international economic situation.

## Trade Uncertainty

Trade restrictions and trade concerns disrupt supply and demand conditions, which in turn affect commodity prices and production decisions. In 2019, Manitoba's international exports of goods and services were $17.7 billion, or about 25% of GDP (expenditures in the province). International exports declined by 1.0% in 2019, due predominately to lower sales to non-U.S. regions and lower commodity prices.

The U.S. is Manitoba's largest export market, with 75.8% share of total foreign merchandise sales in 2019. China is the second largest international market, however, due to their restrictive trade ban on canola; the share fell to the third largest, with 4.2% share down from 7.9% in 2018. Japan is traditionally the third largest, but in 2019, it rose to the second largest market (5.7%). Mexico is the fourth largest with 2.4% share.

While the U.S. has traditionally been the top export market for Manitoba, its share has gradually declined since 2000 and remained relatively flat since 2010, as the Asian economies, Japan and Mexico gained market share. More recently, with low commodity prices, China slowing and imposing a ban on Canadian canola seed, the share to the U.S. is at its highest since 2003. Further generating uncertainty, access to the Chinese market, particularly for select agri-food commodities is expected to continue to be difficult in 2020.

Manitoba is a trading economy, with 51% of nominal GDP, or over $37 billion in spending in Manitoba coming from total exports. A significant portion of incomes generated for businesses, households, communities and all levels governments are impacted by internal and international trade policy and trade restrictions.

According to Statistic Canada, in 2016 (latest available), 76,279 jobs in the province were directly related to Manitoba's international exports. International exports from other provinces that are supported by Manitoba industries, added another 22,896 provincial jobs. Combining the two, international exports directly impact almost 100,000 jobs in Manitoba.

***Manitoba is continuing to take action on supporting internal and international trade.***

Manitoba is continuing to take action on supporting internal and international trade. Despite the increase in trade restrictions, there are some encouraging signs on Canadian Free Trade Agreement (CFTA), Canada-European Union Comprehensive Economic and Trade Agreement and Comprehensive and Progressive Agreement for Trans-Pacific.

## Internal Trade

Internal trade is of critical importance to the Manitoba economy. In 2018, Manitoba's exports of goods and services to other provinces and territories was over $19 billion, accounting for almost 28 per cent of GDP. Nationally, internal trade barriers amount to a 6.9 per cent tariff.

While Manitoba is leading by example to reduce barriers on internal trade, this progress is not happening fast enough. In October 2019, Manitoba announced that it was immediately removing six and narrowing one of its party-specific exceptions under the CFTA. Manitoba is continuing to review its remaining exceptions, with the goal of further eliminating or narrowing them.

## Manitoba Hydro Capital Spending & Earnings

Manitoba Hydro has made significant and investments in recent years. While the green outcomes of these projects have been beneficial, the underlying program delivery and financial implications of this spend has been nothing short of a disaster. The table below shows the extent to which all of those projects spiraled out of control.

| Capital Project | Initial Approved Budget | Final Control Budget | Overage |
|---|---|---|---|
| Keeyask | $3.7B (2008) | $8.7B (2016 & holding 2018) | $5.1B |
| Bipole III (including Riel) | $1.8B (2005) | $4.6B (2019) | $2.8B |
| MMTP | $205M | $490M | $285M |
| Wuskwatim | $900M | $1.7B | $800M |
| Head Office<br>Conawapa | $75M<br>n/a (not approved) | $278M<br>$200M spent | $203M<br>$200M |
| **TOTAL** | $6.6B | $16B | $9.4B |

***This represents nearly $9.4 billion of blown budgets, or $6,782 per Manitoban.***

Over the past decade, the previous government encouraged Manitoba Hydro to undertake a number of massive capital projects. While the Public Utilities Board (PUB) approved the Keeyask Generating Station and Manitoba-Minnesota Transmission Project, the Bipole III project was excluded from PUB review. Manitobans were erroneously led to believe that these projects would ensure a strong and stable future for Manitoba Hydro. We have commissioned an expert report to review the validity of the business case for this expansion, and determine if adequate oversights were in place to protect Manitobans and suggest improvements.

**Keeyask Generating Station and Associated Transmission Lines**
For the year ending March 31

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|
| **Total Carrying Costs** ($000s) | 40 | 303 | 616 | 686 | 677 | 670 | 661 | 650 | 639 |

Source: Manitoba Hydro

The carrying costs associated with the new Keeyask generating station (finance, depreciation, capital tax, operating and administrative and water rentals) commence over the multiple in-service dates beginning in August 2021 through to August 2022. The 2023/24 fiscal year will be the first full year of the Keeyask generating station, with a material amount of carrying costs impacting net income. In addition, the Manitoba-Minnesota Transmission line is planned to be in-service in May 2020 with the U.S. portion of the line in-service in June 2020. The carrying costs of these facilities will also impact net income. The total carrying costs of the generating station and associated transmission lines peaks in 2023/24, at approximately $700 million.

The carrying costs, while significant, could be offset by new revenue streams from increased generation capacity (notably, approximately $275 million in 2023/24 as a result of the additional generation production by Keeyask) as well as power sale arrangements with Minnesota Power (commencing 2020), Xcel Energy (enhanced commencing 2021), and SaskPower (commencing 2022).

Ultimately, future expected impact on Manitoba Hydro net income cannot be determined with accuracy given our inability to fully know the expected new revenue streams, as well as the number of unpredictable variables that can materially impact net income, including approved rate increases, interest rates, weather conditions, domestic load growth, export prices and water levels.

By way of examples, on an annual basis:

- Water flow conditions can vary projected net income by approximately $400 million between the 10th and 90th per centile of net export revenues under the 105 years of historic flow conditions;

*The financial performance of Manitoba Hydro is one of the single largest risks to our ability to balance our budget.*

- Colder or warmer winter weather can vary projected net income by approximately $60 million;
- With interest rates 1 per cent above or below that forecasted, net income could vary by approximately $30 million; and
- Export prices higher or lower than used in budgetary assumptions can produce a variation of up to $50 million.

As such, the financial performance of Manitoba Hydro is one of the single largest risks to our ability to balance our budget.

## Health Risks

Pandemics, including events such as the recent 2020 COVID-19 Coronavirus outbreak, can impose a significant strain on health care expenses. Even a particularly bad flu season can increase health care costs by many millions of dollars, and it is a hard expense to budget for in advance.

For example, preliminary estimates of the economic impact of the COVID-19 Coronavirus suggest a reduction in global GDP of around over 1 per cent in 2020. To what extent these impacts would affect Manitoba's economy are too early to know and will in large part depend on how the U.S. economy is affected, given that so much of Manitoba's trade is with the U.S.

## Federal "Bill C-92"

As of January 1, 2020 with the coming into force of An Act respecting First Nations, Inuit and Metis Children, Indigenous communities will also be able to notify the federal and provincial governments that they want to take responsibility for child welfare services under their own jurisdiction. Once a community provides notice, the federal government, the provincial government and the Indigenous community will have one year to enter into a trilateral coordination agreement that lays out how services will be transferred from provincial responsibility to Indigenous communities. This sweeping change, in respect of which provinces were not consulted, could have dramatic impacts on the delivery of child and family services in Manitoba, with no clear funding commitment on the part of the federal government and unknown impacts on outcomes across the province. The federal government has also indicated that it may pass similar legislation in respect of health or other services in respect of Indigenous communities.

*Failure to act quickly can prolong disease events, inflicting damage to the livestock sector, provincial economy and public trust.*

## Animal Disease Emergencies

An animal disease emergency can have severe economic, animal welfare and public trust impacts. Failure to act quickly can prolong disease events, inflicting damage to the livestock sector, provincial economy and public trust. A Foreign Animal Disease such as Foot and Mouth Disease could close export markets and trigger the loss (welfare cull) of millions of healthy pigs, cattle and other livestock. The cost of such an event to industry could exceed $1 billion for the Manitoba livestock sector and threaten thousands of food processing jobs in Brandon, Neepawa and elsewhere in the province. The economic and psychological pressures on producers facing a billion dollars in losses and the destruction of their flocks and herds can be severe. Disposal of animals destroyed on infected and uninfected farms must be managed in an environmentally responsible manner. If not properly controlled, diseases such as influenza in swine and poultry can threaten human health while others can spread to wildlife. Failure to control a disease in Manitoba could cause an extended loss of export markets for all Canadian producers and weaken the country's economy and reputation.

## Climate Change

Climate change heightens risk to revenues and expenditures.

Extreme weather events in Manitoba are reflective of a changing climate. The climate impacts of flood, wildfire, tornadoes, ice storms and other events are bringing ever-increasing costs to our provincial government, insurers, investors, businesses, agri-producers and ultimately Manitobans.

This also is happening across Canada. Since 2009, flooding whether coastal or inland, has emerged as the most costly natural disaster for causing financial and psychosocial distress to Canadians.

Similarly, the Office of the Auditor General of Canada noted that from 2009 to 2015, Disaster Financial Assurance Arrangements' (DFAA's) compensation to the provinces and territories was greater than any of the previous 39 fiscal years combined. The DFAA's spending on flooding accounted for 75 per cent of all weather-related expenditures.

Global credit rating agencies, including DBRS, Moody's and Standard & Poor's, are beginning to examine climate change risks and potential impacts on ratings

*The climate impacts of flood, wildfire, tornadoes, ice storms and other events are bringing ever-increasing costs to our provincial government, insurers, investors, businesses, agri-producers and ultimately Manitobans.*

of tradable assets, including municipal bonds. For crop insurance pay outs, we expect 2019-20 to be higher due to the extreme moisture conditions (both drought and excess moisture).

The second-most frequent natural hazard after flooding in Manitoba is drought. Notable recent droughts occurred in 1990, 1991 and 1992, and losses incurred by these events were $58.1, $14.6 and $58.0 million respectively. These losses were mostly attributed to damages to cereals and low livestock yields. These droughts were primarily "climatic droughts", where surface water droughts were reported.

In recent decades, Manitoba has observed a shift to greater weather extremes that has resulted in earlier start up of the wildfire season. The 2018 spring wildfire event in Eastern Manitoba is representative of this observation. It is not unique to Manitoba, as the recent wildfire events in Southwest Australia, the 2016 and 2019 wildfire events in Northern Alberta, the 2017 wildfire event across British Columbia have demonstrated.

This shift is shaping wildfire programs globally. Every year, Manitoba is required to spend millions of dollars to manage wildfires in comparison to other disasters, such as floods and droughts.

As a prairie province, Manitoba also experiences tornadoes, winter storms, severe rainstorms, heat waves, biological epidemics, tornadoes, chemical releases from derailment and cold spells. In recent decades, a trend of escalating costs of disaster is evident in Manitoba.

Climate-related risks are being faced globally. The World Economic Forum's Global Risk Report 2020 states that climate change is striking harder and more rapidly than many expected, and notably climate-related issues dominated all of the top five long-term risks in terms of likelihood.

Manitoba's Climate and Green Plan, includes, but is not limited to action by business and investors. As one example, Manitoba's Expert Advisory Council hosted a Low Carbon Economy Opportunities Forum in November 2019, where diverse businesses from across

***Our debt servicing costs are extraordinarily vulnerable to increasing interest rates.***

Manitoba and internationally highlighted how they are considering climate change in their operations and investments.

## Interest Rates

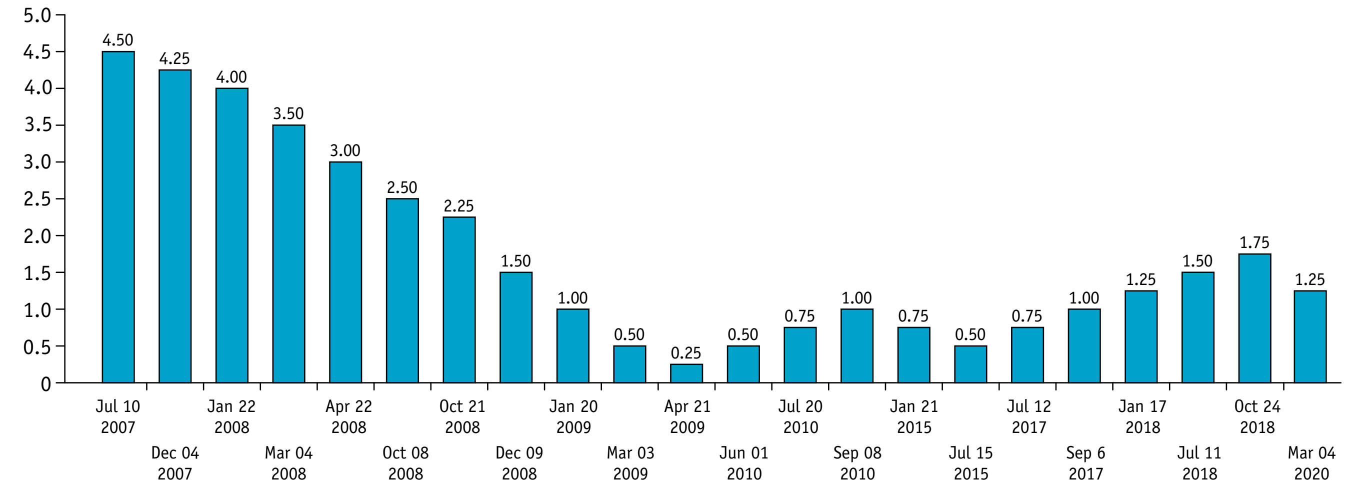
Given our huge debt levels, we are acutely mindful of interest and borrowing costs. While interest rates have not increased so far, our debt servicing costs are extraordinarily vulnerable to increasing interest rates. Future interest rate decisions will be guided by the Bank of Canada's close assessment of Canadian economic indicators, focused on consumer spending, housing activity and business investment. Fiscal policy developments in the upcoming Budget will also figure into the Bank's rate announcement in March.

## Manitoba's Debt Burden

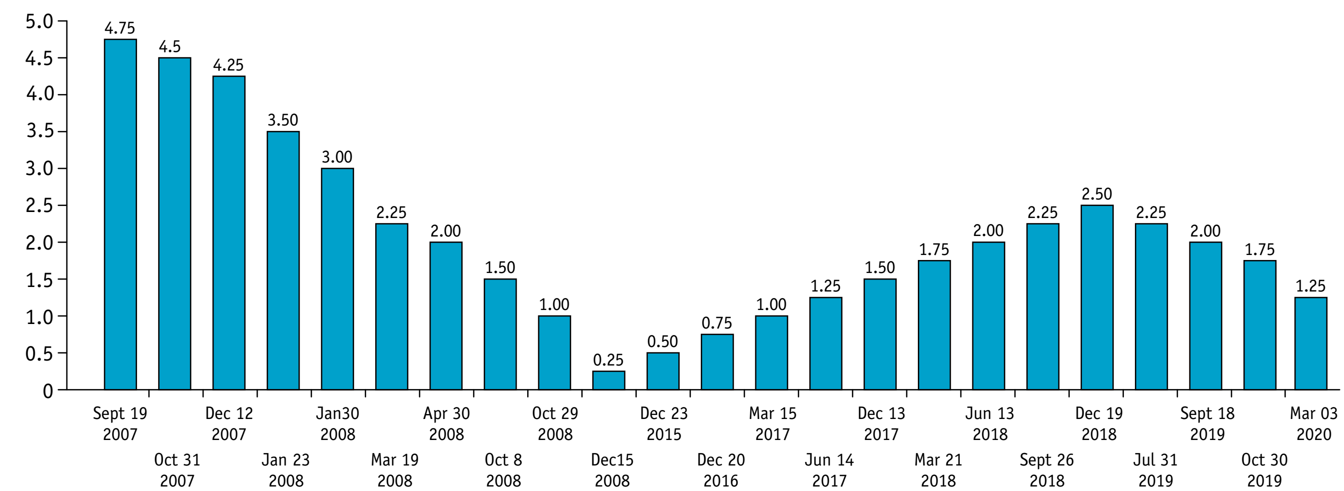
Government net debt is the difference between total liabilities and total financial assets. It provides a measure of the future revenue that is required to pay for past transactions and events.

The run up in net debt by the previous government has increased the future financial obligations placed on

## Bank of Canada Overnight Rate and Date Set
**(2007 to 2020)**



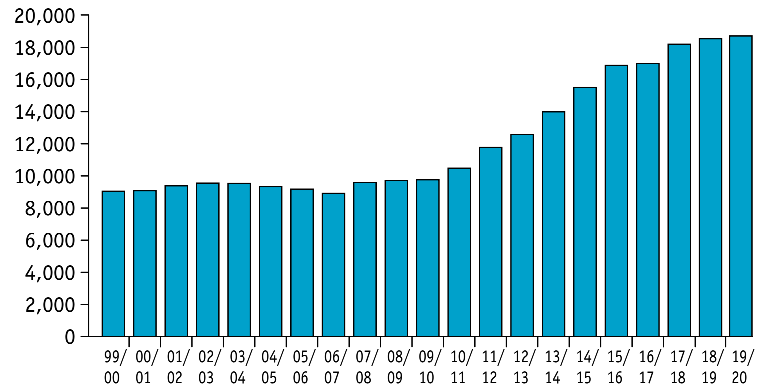

## U.S. Federal Fund Interest Rate and Date Set
**(2007 to 2020)**



the government, since cumulative spending has grown faster than the growth in incomes in the province. The net debt to GDP ratio rose to a peak of 34.6% in 2016/17, almost eliminating the gap with the federal government. The ratio has since fallen to 34.2% in 2018/19.

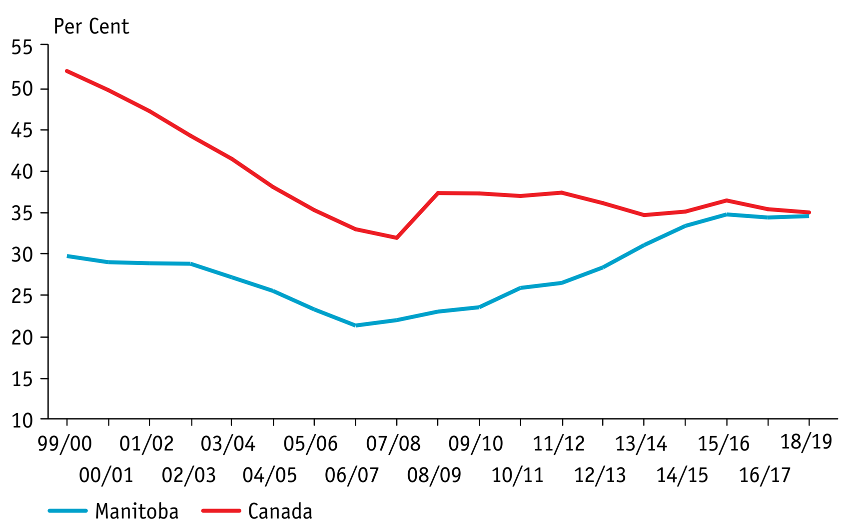
Two key factors influence the cost of servicing debt. The rate of accumulation of debt and interest rates. For Manitoba, despite the rapid rate of growth in debt, servicing cost rose relatively slowly following the Great Recession, due to the record low interest rates. More recently, as the Bank of Canada started increasing interest rates, higher interest charges are increasing debt servicing costs. In just the past four years, debt-servicing costs jumped from $855 million in 2015/16 to $1,023 million in 2019/20, up $168 million per year.

**Manitoba Net Debt Per Capita**




Given the factors that drive debt servicing costs, Manitoba is vulnerable to financial market volatility. Higher interest rates would automatically increase servicing cost and thereby reduce investments in priority areas like in health care, education, social services and infrastructure.

**Manitoba and Canada Net Debt to GDP Ratio**
**1999/00–2018/19**

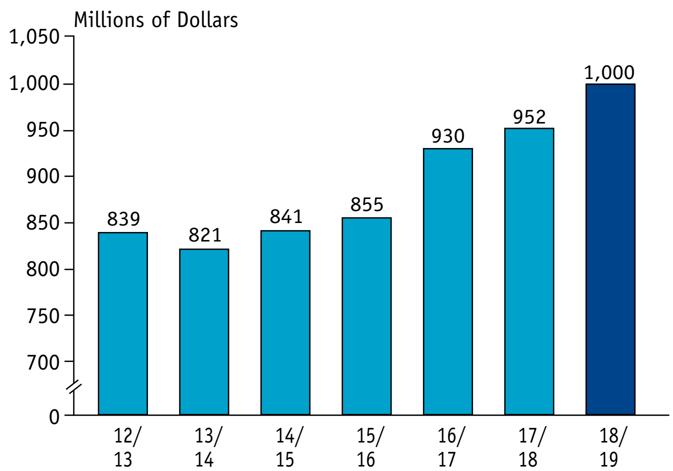



***The run up in net debt by the previous government has increased the future financial obligations placed on the government.***

## Credit Ratings

There is a strong correlation between a provincial credit rating and the actual cost of borrowing money for a province. A credit downgrade is estimated to cost about five basis points, meaning that any borrowing undertaken after the downgrade would have an interest rate that is five basis points higher than prior to the downgrade. The overall cost of the downgrade would depend on the size of the borrowing program and the timing of the actual borrowing.

**Manitoba Governments Annual Debt Servicing Costs, 2012/13 – 2018/19**




Taxpayer dollars spent servicing debt is money that cannot be invested in priority areas like in health care, education, social services and infrastructure

If the borrowing program for 2020/21 is estimated at $6 billion, and if all the borrowing is done at the beginning of the fiscal year, the impact of such a downgrade would be $3 million in additional interest charges for 2020/21. There would also be a compounding impact of the downgrade. For every year after 2020/21, Manitoba's borrowing costs would be $3 million higher than if the downgrade had not happened. The compounding factor can substantially raise the debt servicing costs.

There would be a similar impact in respect of Manitoba Hydro debt.

## Vaping

Protecting the health of our youth is a high priority for our government. Manitoba is carefully considering its approach toward vaping, mindful of evidence and action in other jurisdictions. A key focus is on curbing the alarming increase in youth vaping rates. It is now clear that the original intent of limiting vaping products to adults trying to quit smoking has in fact resulted in far too many youth becoming addicted to nicotine-containing vape products.

***A key focus is on curbing the alarming increase in youth vaping rates.***

In 2018, Manitoba's Smoking and Vapour Products Control Act came into force as a means of preventing youth access to vaping products at the retail level and ensuring that the display, advertising and promotion of these products was significantly restricted. The Act also limits where vaping can take place, similar to the restrictions put in place for smoking in public places. While these measures have had a positive impact, they have not prevented youth from accessing highly addictive vaping devices through the internet and by other means.

More needs to be done, and that is why our government is actively considering further measures to reduce youth consumption of vaping products. We will continue to cooperate and collaborate with other jurisdictions as we collectively work towards addressing this serious public health concern.

## Material Litigation Losses

We are subject to many lawsuits, several of which could have a material impact on our financial statements if determined adversely against us. In the past two years, Treasury Board has taken a direct role in reviewing all material claims against government in order to ensure proper stewardship and accounting provisions have been taken.

## Government Business Enterprises (GBE) Income

The net income of various government business enterprises such as Manitoba Hydro, Manitoba Public Insurance and Manitoba Agricultural Services Corporation can be quite volatile, with historic swings in excess of $100 million. While we have done significant work to reduce this volatility, these represent a constant risk factor to us achieving our budget.

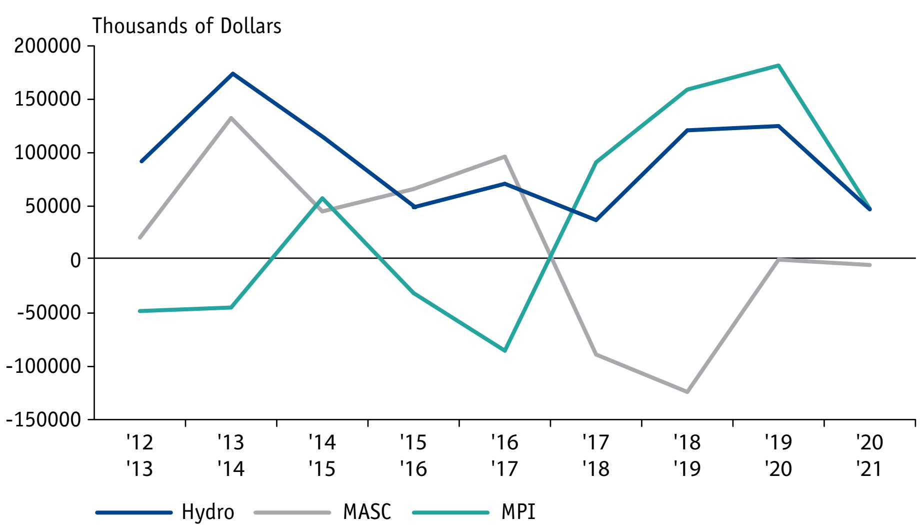
## Anti-Money Laundering

Money Laundering is a significant national phenomenon, with a presence in Manitoba. While the vast majority of corporations across Canada are law-abiding and contribute positively to the economy, recent international and domestic reviews and events have highlighted how greater transparency of who owns and controls corporations could bolster law enforcement efforts to counter the misuse of corporate vehicles. For example, the Panama Papers and Bahamas leaks of 2016, as well as the Paradise Papers release of 2017, highlighted the scale and ease with which corporations and other legal entities are being used in order to avoid taxes and facilitate criminal activities such as money laundering, terrorism financing, and corruption.

Manitoba continues to support multi-jurisdictional efforts to put in place a national strategy to strengthen the transparency and availability of beneficial ownership information, potentially through a national corporation registry.

On October 10, 2019, Manitoba amended The Corporations Act to require privately held corporations to track beneficial ownership information and eliminate the use of bearer warrants, in order to prevent or mitigate money-laundering, terrorism financing, tax evasion and tax avoidance. This implements Manitoba's commitment made by all Canadian jurisdictions at the December 2017 federal, provincial and territorial finance ministers' meeting.

**Volatile OREs**
**2012/13-2020/21b**




Source: Statistics Canada

# CONCLUSION

*The previous government raised taxes, chronically overspent their budgets, ignored liabilities and misrepresented the finances of the province.*

It is not easy, but we are unwinding this legacy of fiscal toxicity. We are rolling back the tax increases, we are living within our budgets, we are taking the painful steps of providing for our liabilities, and we are cleaning up our books.

We often say that responsible fiscal management is hard work. It is not a single decision that one needs to take, but rather it is the culmination of thousands of small decisions, and engendering a culture where when we find a problem, we want to fix it - not hide it. The work continues to be relentless. For the past four years, we have rolled up our sleeves every day – even though it can get discouraging to continuously find more problems that the previous government hid or ignored.

We are looking forward to a better tomorrow, because Manitobans deserve it. Budget 2020 moves Manitoba forward by providing better services.

**By protecting our environment.**

**By making our communities stronger and safer.**

**By making life more affordable.**

**And by building a better, brighter future for all Manitobans and their families.**

***We are rolling back the tax increases, we are living within our budgets, we are taking the painful steps of providing for our liabilities, and we are cleaning up our books.***