



Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

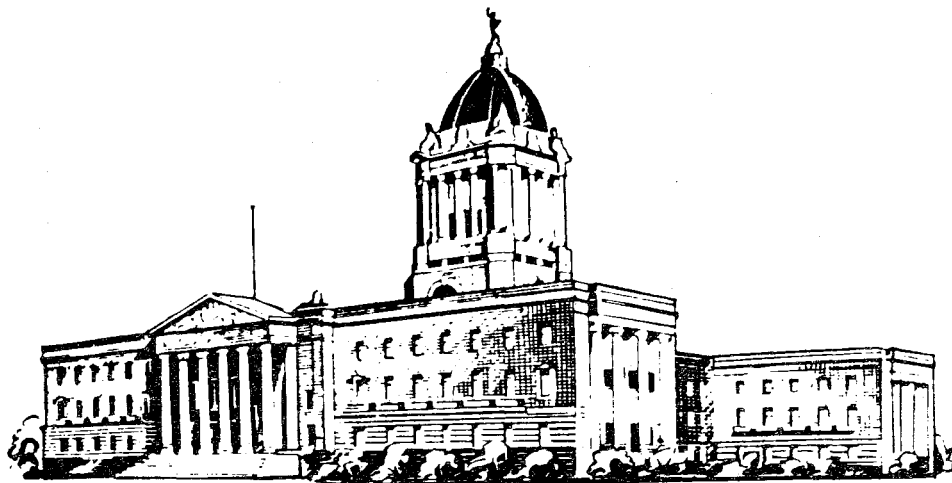
ON

PUBLIC ACCOUNTS

Chairman

David Blake, M.L.A.

Constituency of Minnedosa



10:00 a.m., Tuesday, March 23, 1976

THE LEGISLATIVE ASSEMBLY OF MANITOBA
 STANDING COMMITTEE ON PUBLIC ACCOUNTS
 10 a.m., Tuesday, March 23, 1976

Chairman: Mr. David Blake

MR. CLERK: Good morning, gentlemen, may I have your attention. This being the first meeting of the Public Accounts Committee, your first order of business will be the election of your chairman. Are there any nominations?

MR. WALDING: I nominate Mr. Blake.

MR. CLERK: Mr. Blake. Are there any further nominations?

MR. JOHANNSON: I move the nominations cease.

MR. CLERK: Thank you. That being the case I would ask Mr. Blake to take the Chair.

MR. CHAIRMAN: Gentlemen, it's customary to thank you for placing me in this exalted position, I hope that it's as comfortable when I leave it as it is now.

Our first order of business will be establishing a quorum. There are 12 members on the committee; it's been suggested that the quorum be 7. Is this satisfactory to the committee? (Agreed)

MR. WALDING: Gentlemen, I will serve a motion that the proceedings be recorded and transcribed.

MR. CHAIRMAN: Mr. Walding has moved that the proceedings be transcribed. Does that meet with the approval of the committee? (Agreed)

Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, after the meeting was called, we learned that there is a luncheon today for chartered accountants and it so happens we are dealing mostly with chartered accountants, and I hope committee will agree with my undertaking that we could stop at 12 to give them a chance to get to their luncheon.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, maybe it would be more appropriate if we invited the chartered accountants here.

MR. CHERNIACK: I don't know if you could afford to have them all here, I don't think government can.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Before we start, Mr. Chairman, I would raise one question. Mr. Cherniack is the - I'm not sure of your exact role - you're parliamentary secretary or Legislative Secretary to the Minister of Finance?

MR. CHERNIACK: The title is Legislative Assistant to the Minister of Finance.

MR. CRAIK: But technically we should have someone here - I guess we have the Minister of Tourism here as the representative of Cabinet - the Minister of Consumer Affairs. But we should really have the Minister of Finance here at an occasion that is as important as the examination of this particular document. I do raise that as a matter of privilege because I think that the Auditor's Report should have the Minister of Finance sitting in on the committee which reviews it.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, the Minister expressed regrets, he is out of the city this morning and last night. About 9/12ths of these accounts cover the period of time when I was the Minister and I am authorized to speak for the Minister and will report to the Minister in addition to which we have Hansard reporting so that the Minister will be well aware. But as the Member for Riel points out so correctly, there are three members of Cabinet here who bear the joint responsibility with any Minister in decisions of Cabinet.

MR. CHAIRMAN: Gentlemen, shall we proceed with the report of the Provincial Auditor.

MR. CRAIK: All right, Mr. Chairman, just on a point. There may be matters come up then that we may have to refer because again the fact there are other Cabinet Ministers present, although they are on the Treasury Branch, doesn't make up for the fact that the Minister in charge should, in fact, be at a meeting of this sort himself.

MR. CHAIRMAN: Is it your wish to proceed with the Auditor's Report, page by page.

(MR. CHAIRMAN cont'd)

Page 1 of the Report of the Provincial Auditor--pass; Page 2--pass; Page 3. Mr. Craik.

MR. CRAIK: Mr. Chairman, on Page 3, I wonder if Mr. Ziprick could indicate here or clarify what the procedure is here with regards to the amount of money for St. Boniface Sanatorium and Sherritt Gordon Mines Limited. It's shown in the upper part here as a recovered expenditure and it shows up again in the Advances and Other Receivables in the next bottom part of the page, and I'm just curious about the procedure here.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Well the advances, as I understand it, advances are made and then as expenditures are made the portion that's made by the province it is recoverable.

MR. CRAIK: What would be the case in the St. Boniface Sanatorium then. Is that money that's advanced, then repayable by them?

MR. ZIPRICK: That's repayable by them, yes.

MR. CRAIK: Do you know in that case, do they have other sources of income other than the province which will allow them to repay it?

MR. ZIPRICK: Offhand, I would say they don't have very much. Their source of income would be their source that comes through the Health Services Commission and then it's paid back annually, but we would have to get the particulars. I don't know offhand just to what extent they have other sources of income, but I would say very little.

MR. CRAIK: Do you know who the assets of that institution then would belong to? Do they belong to the province or will they belong, or does this "be paid off" mean that the province has no equity in them?

MR. ZIPRICK: I would assume that it belongs to the Hospital District Board but maybe the . . .

MR. CHAIRMAN: The Honourable Minister - Mr. Toupin.

MR. TOUPIN: Mr. Chairman, the assets are shared under an agreement that was signed, I believe, a couple of years ago between the Health Services Commission and/or the Department of Health and Social Development and the institution. The assets of the Order as the funds were set aside for the purpose intended by the Sanatorium remains the property of the Order. The assets contributed by the Crown from either the Health and Social Department and/or the Manitoba Health Services Commission belongs to the Crown as set by an agreement.

MR. CRAIK: All the assets that are there or that were there?

MR. TOUPIN: Mr. Chairman, in regards to the assets that were actually contributed by the Order still remains in their name so there is a split in the way the facilities belong to the Order and the part that belongs to the Crown because funds were contributed by the Crown - by the Health Services Commission and the Department of Health and Social Development, and it was agreed upon by both parties.

MR. CRAIK: On the earlier question, can you indicate whether there's a program to amortize the \$700,000 indicated here?

MR. TOUPIN: Mr. Chairman, not to my knowledge, I'm not aware of the \$700,000 here. I'm only aware of two phases that were entered into while I was in Health and Social Development and this is possibly part of that second phase.

MR. ZIPRICK: As far as I understand the advance, it is being amortized but the Department of Finance probably would have more information on that.

MISS MacTAGGART: The \$700,000 increase which is referred to in Mr. Ziprick's records represents the disbursements during the year only for St. Boniface Sanatorium. The agreement was for \$3,400,000 at the end of the year, if you refer to Page 15 of our Public Accounts, the amount was \$3,395,759, and subsequently the complete amount has been paid and the agreement is now in process of being repaid by the St. Boniface Sanatorium. -- (Interjection) -- Yes, it's a monthly payment.

MR. CRAIK: Is the total amount then to be repaid by them or what portion of?

MISS MacTAGGART: According to the agreement the whole amount is to be repaid together with interest.

MR. CRAIK: The entire three point some million dollars. Is it then just in the way of a loan to the Hospital, there seems to be some contradiction here. There's one, there's the sharing of the assets from what the Minister said, and in the second case it appears as a loan, a \$3 1/2 million loan.

MR. TOUPIN: Mr. Chairman, I would suggest that the complete accounting of this be had through the Minister of Health and Social Development, but my understanding is that the \$700,000 . . . is repayable according to the per diem that was agreed upon by the Manitoba Health Services Commission. So the repayment is had by means of funds being made available by the Health Services Commission and not by the Order.

MR. CHAIRMAN: I wonder, Mr. Craik, if we got a copy of the agreement, would this be more satisfactory than trying to get some of the answers now.

MR. CRAIK: Yes, I think that would be fine.

MR. ZIPRICK: We could get the complete information as to the ownership of the assets and how the agreement - and get that information. Because I think it's tied up, that there's a caveat involved that these assets will be used for hospital purposes but as to the exact ownership and the registry and the land title and that, I'm not prepared to say right now.

MR. CHERNIACK: Mr. Chairman, I have my own little caveat . . . I see no objection to the production of the agreement, nevertheless the Minister responsible is not present and there may be some reason in the future - I don't believe it would apply to this one - but there may be reason for saying, well the government can't or doesn't think it ought to produce documents and therefore I would think that this committee could agree to requests but that it wouldn't have the same effect as an undertaking to produce or an acceptance of an Order for Return. I am just raising this as a technical point at this stage.

MR. CRAIK: Yes, well it makes it a little awkward because if I thought we weren't going to get it, I would press for more information here as to interest rate, terms of . . .

MR. CHERNIACK: But you can see the answer is not available here. If you want the interest rate we can get that kind of information. I am just saying the production of documents are just like any other Order for Return, subject to consideration by the responsible Minister. I don't think that any of us would want to take away from that Minister the opportunity to voice his objections. I'm not suggesting there will be any.

MR. CRAIK: Well I'll leave it, Mr. Chairman. I think then what we'll do is if the committee does not want to undertake that, we will have to file it as a regular Order for Return then.

MR. CHERNIACK: Sure.

MR. CHAIRMAN: Page 3, any further questions? Mr. Graham.

MR. GRAHAM: Mr. Chairman, on the same thing with the Sherritt Gordon Mines and I believe that may deal with the Fox Mine, is that correct?

MR. CHERNIACK: Yes, I'm informed, it's pointed out to me that the Public Accounts which we have yet to look at has a greater detail and more information on these various items. You must remember that the Auditor's Report is a summary, and when we get to Page 15 of the Public Accounts there is mention there of Sherritt Gordon Mines Ltd. re Fox Mine Agreement \$1,627,362 just to the detail. So we will have another go at it when we get around to the Public Accounts.

MR. ZIPRICK: This is much the same kind of procedure where there was an agreement, advances were being made, there is repayment, and then the province would do some work and there would be a recovery of the work through the normal process of billing. So that's why you'd have a reduction of capital expenditures because of the recovery process.

MR. GRAHAM: That type of work, would that be the provision of roads or what nature would that be?

MR. ZIPRICK: I don't know the details offhand, we would have to take that as information and look it up.

MR. GRAHAM: One other point, does the Fox Mine lie outside the jurisdiction of the Local Government District there or is it within that boundary?

MR. CHERNIACK: Mr. Chairman, I don't know the answer to the last question but it may be answered by my telling the honourable member that it is apparently cost-sharing of a highway.

MR. GRAHAM: It is a cost-sharing of a highway then?

MR. CHERNIACK: So I'm informed.

MR. GRAHAM: Very good then. Thanks.

MR. CHAIRMAN: Page 3--pass; Page 4. Mr. Craik.

MR. CRAIK: Mr. Chairman, I see here that Mr. Ziprick has indicated that the \$12 million ADA grant, or whether it's still referred as that, from the Federal Government has been received in relation to the Forestry Complex at The Pas. Is that all the moneys now due from the . . . ?

MR. ZIPRICK: That's all the moneys that are due under the original arrangement. There was some negotiation going on in connection with the machinery plant but I don't know whether it materialized into further money or not. This is a question that you will have to raise when the Forestry Resources are . . .

MR. CRAIK: I notice further on there in the last paragraph you indicate the problem that the MDC is reporting - the procedure whereby they are paying back money to the province . . . repayment of interest charges but in fact are borrowing from the province at the same time to do it. You raised this matter last year in your report and it still is here this year that where something appears as a revenue but in fact is a borrowed capital for purposes of appearing to pay interest charges.

MR. ZIPRICK: Yes, there's a much smaller amount this year. Of course the other years it was very substantial because of all the Manitoba Forestry Resources or The Pas Complex was all involved while in the past year The Pas Complex has been completely removed from MDC and so there's no interest charges involved in there at all. There was a grant last year in excess of \$3 million towards interest so that reduced the amount of interest that was being provided through capital borrowing so that the amount has become relatively small. Now I understand, and I know since this report the Saunders Aircraft, all that will be moved out so it's been cleaned out to the point that there would be very little. But we feel that the entire amount should be funded one way or another from revenue funds.

MR. CRAIK: Is this procedure somewhat similar to capitalizing interest charges over a period of time, an extension of that same sort of . . .

MR. ZIPRICK: That's right.

MR. CRAIK: . . . or are there other cases where that happens or has happened in addition to . . .

MR. ZIPRICK: Oh, there are cases that capitalization is absolutely justified for instance in the progress of construction, even The Pas Forestry Complex, when it was under construction and before it went into production capitalization of interest is quite justified, but in these cases we feel that capitalization of interest will not be recoverable from its production.

MR. CRAIK: Therefore the procedure is being extended beyond where it should be used - where you capitalize interest is where you expect a future return or you're pretty sure of a future return, but in these cases that's not very likely.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: I would agree with what Mr. Craik said in general principle. I would say that the decision as to when it is recognized that the interest capitalization is no longer practical is a management decision, and the auditor points out, gives his opinion and in the end it's management that would make that decision. That would apply, I think, to Imperial Oil or anybody else, but it is clear from the experience already and the statement already made by government that there is a greater effort being made to convert into current expenditures an appropriation to take care of this kind of an item, and I believe it's on its way. The previous practice was one which was an MDC procedure for many many years. I recall many years ago that it was done that way even with borrowers such as the Sprague - whatever they're called - where they fell into arrears and the mortgage was refinanced to make it current without any input by the borrower - Columbia Forest Products, that's the name.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, maybe it's time when we're dealing with this to correlate to Page 5, too, on the Manitoba Forestry Resources Ltd. and perhaps it might be a good idea to . . .

MR. CHERNIACK: Could we deal with one at a time.

MR. GRAHAM: Well I think the two are quite interrelated in that it's very

(MR. GRAHAM cont'd)difficult to understand the financial structure that has evolved and the process of transferring. Maybe we could get a full breakdown on how the financial structure of Forestry Resources is at the present time.

MR. CHERNIACK: Mr. Chairman, on a point of order, we have in previous years fallen sometimes into the bad practice of hopping around, and I would suggest that the Auditor's Report is pretty orderly and I think it would be useful to stick to that order, and after we've dealt with Page 4 and moved to Page 5, then the question Mr. Graham asks should be dealt with. I think we ought to wind up on Page 4.

MR. CHAIRMAN: Any further questions on Page 4? Mr. Craik.

MR. CRAIK: Yes, on the comment, Mr. Chairman, with regards to Saunders Aircraft, can Mr. Ziprick indicate what the present state of affairs is on the capitalization of Saunders Aircraft?

MR. ZIPRICK: There's been an Order in Council passed - in late December, I think - that removes all the advances to the MDC as repayable items to the province as a general public debt of the province and will be carried by the province, so it will not be recorded as recoverable any more, and as a result all the charges on the MDC books will be transferred out - are being transferred out.

MR. CRAIK: What column on the Balance Sheet does Saunders now show up on, and once that's done is it a deadweight public debt?

MR. ZIPRICK: Well you see the practice that's followed in the province is that any money borrowed for a certain expenditure is offset on the other side as an asset item in one form or another. Now the portion that's borrowed for roads is shown on the debit side under "roads", now this item the moment it's moved out of "advances" and taken into the general public debt, it will also be moved up on the asset side - I'm not sure as to whether the decision has been made as to what it's going to be called, some form of intangible asset, just as an offset of the liability, but in effect the carrying charges, the servicing of it will be done by the province and together with a sinking fund, so in effect within the province's plan it would be amortized over a period of about 24 years - that debt. So all the annual charges for interest would be paid from the province's appropriations and there would also be a provision for sinking fund which on the basis of the province's sinking fund requirements would take care of that - approximately 24 years time.

MR. CRAIK: What kind of a debt do you call that?

MR. ZIPRICK: Just general debt, I think the title is just general debt of the province.

MR. CRAIK: But there's a column referred to as "deadweight public debt" that's used once in awhile.

MR. ZIPRICK: It used to be used as a term but I don't know whether it's legally used any more. I think it's been removed when the financial administration was introduced and now there's the self-sustaining debt and the general debt.

MR. CHERNIACK: It's a pejorative term.

MR. CRAIK: There's just the two categories of debt now then, is that . . . ?

MR. ZIPRICK: Well there's really always only two categories of debt but the deadweight debt, I don't know the significance of it. The general debt is the debt that's being serviced through the general revenues of the province. The self-sustaining debt is being taken care of through the earning powers of the various corporations, entities and that that have got the funds.

MR. CRAIK: So Hydro and Telephone and so on are all under self-sustaining but the general debt may be funded - or unfunded, I guess it's all funded - you borrow money to cover it so it all has to be funded one way or another unless you wish on repayment on debts or something which a province doesn't do. So it's really all just in that one other category other than self-sustaining as you say.

MR. ZIPRICK: That's right, there's the general debt, the self-sustaining and of course then there's the guaranteed debt that's shown as a contingent liability on the balance sheet.

MR. CRAIK: What's the difference between a guaranteed debt and a regular debt where you're amortizing it?

MR. ZIPRICK: The guaranteed debt, Hydro floats the bond in its own name and

(MR. ZIPRICK cont'd) the province guarantees it so the debenture or the bond is in the name of the Manitoba Hydro with a full guarantee by the province. In this other case the province floats the debenture in its own name and then sends the money over to Hydro as an advance.

MR. CHAIRMAN: Page 4--pass; Page 5. Mr. Craik.

MR. CRAIK: Mr. Chairman, on Page 5, Mr. Graham was asking here for, under the Capital Division Estimates, the breakdown on Manitoba Forestry Resources Ltd. What was the final structure of refinancing ManFor, part of it in shares and part of it in debentures?

MR. ZIPRICK: The total amount that was determined that was advanced by MDC to this certain point was \$161 million as you will note, now of that \$73 million is financed through a debenture system, the remainder has just been taken over as general debt of the province.

MR. GRAHAM: Where did the shares come in?

MR. ZIPRICK: Well the shares have been taken to offset the general debt but in effect it's not self-sustaining because there is no provision for interest. Now at some time or other if they ever earn substantial amounts of money the province could withdraw that money through the share system.

MR. CRAIK: As far as your profit and loss statement of ManFor is concerned, all it has to do is service the repayment of the \$73 million in order for it to technically show or determine whether it has a profit or a loss.

MR. ZIPRICK: Only \$45 million, that there's a fixed interest charge; \$28 million is what was called the income debentures and only a charge would be created if there is income earned, if there isn't there would be no charge for that. So the province would then have to subsidize that too.

MR. CRAIK: On the \$45 million, there is a set interest rate?

MR. ZIPRICK: There is a set interest rate, I think it is 7 percent - yes, it is 7 percent, and the income debenture interest is 9 percent, that's provided there is enough income to cover it.

MR. CRAIK: And it pays that if there is a profit?

MR. ZIPRICK: That's right, yes. The 45 million, it pays each year and it's a fixed term, 7 percent. The \$28 million is a 9 percent income debenture but only if there are profits.

MR. CRAIK: I don't believe we have the October 31st annual report of ManFor tabled yet.

MR. ZIPRICK: The 1974 one was tabled last year and that was where the whole reorganization took place. September 1974 was published and is available and that's where all the recapitalization took place. The 1975 one is just in the process of being wound up now.

MR. CRAIK: You know that's six months ago, why does it take so long for a little outfit - well, comparatively, you know, General Motors puts theirs out 60 days after their year end. Why does ManFor take six months to get out a statement?

MR. ZIPRICK: Well there's a fair amount of work with regard to inventories and whatever have you and it's just on the verge of being out, so . . .

MR. CRAIK: As a matter of fact the province's accounts, your accounts are sometimes available as early as about September after the April. They have been on occasion. Isn't it from an accounting point of view more realistic to expect the likes of ManFor to have their annual report out say in 60 days, say the year end.

MR. ZIPRICK: No, 60 days is somewhat unusual, I would say. Generally speaking, I think the Companies Act requires 90 days, or is it 120 days, but it's at least 90 days and generally if it's out within four months after the end of the year that's pretty good. So it's pretty close to being out this year. And in many instances it's a question of urgency and priorities and if there's a demand for it then it can be pushed up by two, three weeks, a month, but generally anything below three months you cannot, in a bigger corporation like that, you cannot get financial statements.

MR. CRAIK: Is ManFor done by the Provincial Auditor or is it an outside office?

MR. ZIPRICK: No, we do the audit of ManFor.

MR. CRAIK: Does your workload have peaks during certain times of the year to make it difficult for you to get these reports out? My question, incidentally, only proves that I wasn't trying to be critical of you directly, I just say as a matter of principle that a report on a company like that it seems that 5 or 6 months is a long time to get the books done. Is it because of the workload of the Provincial Auditor. . . ?

MR. ZIPRICK: No, not really, it's a combination. Last year the report was issued the 18th of April, 1975, well there was a substantial amount of work - set up a new system, organize it and clean it up. This year it's much more tidy but there's still elements of receivership that are involved in it so it's not as completely clean cut as yet, and as the years go by it will be coming out at the same rate as Hydro and the Telephones, I would say roughly 3 months after the year.

MR. CRAIK: Well the year end is October though, isn't it?

MR. ZIPRICK: September 30th.

MR. CRAIK: September 30th, 3 months would be the end of December.

MR. ZIPRICK: That's right.

MR. CRAIK: But you say after all these . . .

MR. ZIPRICK: When it's tidied up now - December is a bad month for working generally, there's a fair amount of time off and that so there would be probably a certain amount of tightness, but when it's fully organized and that, I see no difficulty that it would be put out in this sort of the normal course. It's pretty well wound up now and it will be available for the committee for consideration, there's just no doubt whatsoever the September '74 report will be before you.

MR. CRAIK: September '75 report.

MR. ZIPRICK: Or '75 report will be before you.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, in the ManFor thing we have basically a fact where about \$88 million is being transferred almost as a loss to the Provincial Government but there's about \$73 million here which in essence they're saying could be a manageable amount of capitalization that has a possibility of being recovered. Is that correct?

MR. ZIPRICK: That's the assessment that was made.

MR. GRAHAM: I'm just interested in how they arrived at that cut-off.

MR. CHERNIACK: Some said it should have been more and some said it should have been less.

MR. ZIPRICK: The arrival at that cut-off essentially was the assets were all valued, or not valued but inventoried at the time of takeover, and by and large most of this debenture debt and that covers the assets that were available.

MR. GRAHAM: So then the 73 million there then is a figure that in essence represents the present market value worth of all the assets there?

MR. ZIPRICK: Oh, no, not the present market value, the costs of the assets as inventoried at the time of receivership.

MR. GRAHAM: At the time of receivership, and what was that date?

MR. ZIPRICK: It was the 11th of January, 1971, I think. And then of course subsequent additions were all at cost.

MR. GRAHAM: Okay, thank you.

MR. CHAIRMAN: Page 5--pass; Page 6. Mr. Craik.

MR. CRAIK: Under "Working Capital", bank term deposits and so on, is there any rule of thumb that is used for a limit for the province to borrow on short term as opposed to going to the money market for long term borrowing?

MR. ZIPRICK: Yes, it's set by legislation but I think that Finance could be more specific on it.

MR. CHERNIACK: It's the bank as well that has the say in how high we go. I think we have about \$75 million as the standing authority from the banks to borrow from which is done by Order-in-Council and it is used as a cushion waiting for what seems to be the opportune time to be borrowing long term. So that it may accumulate to say 50 million and then if the Finance Department thinks that this is the opportune time to borrow again, you know, the climate, the money climate is such that that's the time then it is done. There is no fixed rule of thumb other than the market. Is that correct, Mr. Curtis?

MR. CURTIS: It would bounce the cheques very reluctantly.

MR. CHERNIACK: We don't bounce cheques, we see to it that ministers' salaries are not paid.

MR. ZIPRICK: The arrangement between the bank is that the outstanding cheques are covered and the remainder is always invested so that there is really no money lying around that's not earning and even to the extent of the outstanding cheques, so it's a pretty closely controlled system.

MR. CHAIRMAN: Page 6--pass; Page 7. Mr. Graham.

MR. GRAHAM: I think it's in here - no, it may be over on the next page.

MR. CHAIRMAN: Page 7--pass? Mr. Walding.

MR. WALDING: . . . on the Public Debt, the European Units of Account show a decrease between '74 and '75. Is that only because of fluctuating rates?

MR. ZIPRICK: No, the rates are not adjustment, there would be some repayment.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: I would like to ask, I asked the Minister of Finance in the House one day whether the change in the Euro-dollars had affected our repayment requirements, and he indicated that it had increased our apparent present debt by something like \$9 million but we had gained about 20; on the same basis for the United States.

MR. ZIPRICK: The accounting policy is that the debt is set up at the amount when it was received and it remains that way until it becomes due and payable, so at the end of each year there isn't a calculation of profit and loss on what there would be on the exchange if you converted it as at the year-end and adjustments made. I don't see much purpose to it because the foreign exchange is fluctuating continuously and so that you would provide one thing this year, the next thing - so that it's just left until it's due and when it's due then the money, whatever the exchange rate is then, that's what would have to be raised. So there are no adjustments made.

MR. CRAIK: I notice that the debt here, the U.S. debt is \$190 million, but for us to have gained \$20 million on that. . .

MR. CHERNIACK: . . . not shown here, Mr. Craik.

MR. CRAIK: No, I know. But the total public debt in U.S. currency indicates here in '75 as being \$190 million, but if it was taken at market value rather than at repayment value which is what was indicated in the reply in the Legislature was that we had gained on the U.S. exchange by \$20 million, that would indicate that we must have borrowed at 10 percent or at a 10 percent spread. I mean it would indicate that we must have borrowed when American money was worth 10 percent less than it is now.

MR. ZIPRICK: I don't know how that was calculated but probably the guarantee was also included in this calculation and if you turn to the next page you will see that there is a U.S. guarantee of 426 millions on Page 8, but we didn't do the calculation.

MR. CRAIK: Then that would indicate that on the average we've borrowed at a time when U.S. dollars were worth 5 percent less than Canadian and now that the U.S. has come up. . .

MR. CHERNIACK: I don't know that we should support that very ballpark calculation that Mr. Craik is suggesting. I don't know whether it's that alone. There's no doubt that there is a substantial difference. Has there been any recent variations as great as over 5 percent in U.S. dollars?

MR. CURTIS: Not in the last couple of years, I don't think.

MR. CHERNIACK: No, not in my recollection.

MR. CRAIK: This would also indicate - there is only 30 million German dollars indicated here and it's indicated in the House that we've lost \$9 million on that.

MR. CHERNIACK: We haven't lost a penny on that.

MR. CRAIK: Well, no, okay, our present market value if they were due and payable today rather than at the end. . .

MR. CHERNIACK: About \$8 million.

MR. CRAIK: \$8 million.

MR. CHERNIACK: I think it's 25 percent up of what it was, I think that's roughly it.

MR. CRAIK: This is on only a \$30 million loan though.

MR. CHERNIACK: 25 percent up. The deutschmark has - Gurney Evans put

(MR. CHERNIACK cont'd) through the original loan in 1968 and I believe that since 1968, up to now, there has been an increase in valuation of the deutschmark of over 25 percent which would be roughly the \$8 million. But we don't consider it a loss because for one thing as the province is borrowing and will continue to borrow it could keep borrowing deutschmark which means that as it borrows it repays in the same currency and it's only if the province reaches a stage where it must buy deutschmarks in order to pay back the debt that there might be a loss at that stage depending on what the - I don't want to say fluctuating - fluctuating value will be at that time. So there's no point in calling it a loss now and as pointed out by the Minister of Finance if you're going to consider that a loss currently, then you should consider the U.S. dollar value increase also as a gain, but that's academic only.

MR. CRAIK: When was the 30 million borrowed?

MR. CHERNIACK: The original borrowing was in 1968 for a short term. In 1971 it came due. It was I believe a 3½ year borrowing of 100 million deutschmarks, and at that time we borrowed the same amount in Germany to pay back the debt that had already fallen due, rolled it over, and in that way extended the term. You see there would have been a loss right then had we had to buy deutschmarks with Canadian dollars, but by borrowing the same amounts in deutschmarks we were able to extend the term - I think it was an 8 or 11 year term on this current term - that may be academic, but in any event when you add the 3½ years plus the new term it's spread the potential loss over a longer period of time which reduced the average loss. Am I . . . ?

MR. CRAIK: Yes. How much had it dropped at that time?

MR. CHERNIACK: I don't remember, I have it in the House, my impression is about 10 percent - was it? - 10 or 12 percent.

MR. CRAIK: Of this value which would be about 3 million dollars.

MR. CHERNIACK: Three or four million, something like that for the 3½ years.

MR. CRAIK: I notice that the Ontario Government caught in the same thing had bought back in part way along the line and had been able to, in the same market had been able to buy low and sell high to offset their losses. Was there any consideration to doing that?

MR. CHERNIACK: We don't as a practice speculate in foreign currencies.

-- (Interjection) -- Mr. Curtis says that he believes their loan was due and payable in the next year and under those circumstances we might be doing that - well we do do that when the loan falls due in the short foreseeable future.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: I wanted to speak on the Trust and Special Division at the end so if somebody is on this other subject I'll wait.

MR. CHAIRMAN: All right. Mr. Graham.

MR. GRAHAM: Mr. Chairman, I just wanted to know how rigid we were in our long term borrowing in this respect, if we can foresee or anticipate that there may be wide fluctuations in foreign currency in the future. All our long term borrowing is fairly rigid, is it?

MR. CHERNIACK: We don't know what you mean by rigid.

MR. GRAHAM: Well has it an escalator clause that it can be paid back earlier and get out. . . ?

MR. CHERNIACK: There are penalty clauses where you can pay back by paying a bonus and it's a reducing bonus as it comes closer to maturity so there is that. But if you look at our borrowing, total borrowing, you will see that our foreign risk - the greater risk is much smaller than the total of our debts and really there should not be any great problem at any time to borrow the same type of currency again and again. So it's really the longer you can borrow the same type of currency the less the risk, the greater you spread the risk over a much longer period of time. And don't forget that at all times it's done because the interest rate is less. When you take a lower interest rate as against a risk of an increase in value, the risk is not as great as it appears by these bald figures of 8 million or 34 million because if you always compensate for the fact that you're borrowing say at least 1 percent less than you do in Canada, you've got that cushion as well.

MR. GRAHAM: Well is it not true also that if one currency changes drastically

(MR. GRAHAM cont'd) . . . usually it is reflected in a counterbalancing increase in value of other currencies as long as we have a fairly broad spectrum of what you lose on the oranges you're, in all likelihood, going to make on the bananas.

MR. CHERNIACK: You're making a good point.

MR. CHAIRMAN: Page 7. Mr. Wilson, did you want to speak on Page 7.

MR. WILSON: Yes. Mr. Chairman, I wondered if the Minister could answer the question under this section. Does this mean the Manitoba Telephone Commission is 21.4 million less in interest that was removed, certain amounts of money were removed from these trust accounts so that therefore the interest would be lower.

And the second part is, under the Law Society and Solicitors' trust funds, it's at an increase of \$1 million, I believe. . .

MR. CHERNIACK: Which one?

MR. WILSON: Law Society and Solicitors' trust funds. I wonder if you could explain how many dollars that the fund is holding and how this money is split up. I just want some clarification because it does say on the other page that it's an investing account for surplus funds and therefore increases and decreases are shown reflecting the position of the funds. So if you've got an increase of a million does that mean to say that you're holding on to ten, twelve million dollars of trust moneys for the Law Society?

MR. CHERNIACK: Mr. Chairman, I'd like to point out again that this is a summary of the Public Accounts, Public Accounts have details which give the total. All this shows is increases, decreases and what the auditor has done is give us the benefit of explaining how the total increase or decrease breaks up as compared with the previous year. When we deal with Public Accounts then the answers to these questions would be right on the surface.

MR. CHAIRMAN: You can get in much more detail there. Mr. Ziprick.

MR. ZIPRICK: Yes, I would just like to explain why we do this. The Public Accounts are made up and they're not on a comparative basis, they show the total amount of the various moneys, so to assist the members, to indicate the change between the years we have included in here the increases and decreases. Now if you want to know the total amount that's on deposit for that particular account, you have to turn to the Public Accounts and under the trust section it will show the total amounts on deposit. This is only the change in the year, and the reason we are doing this is to give the members a quick overview of what took place and the changes so that they don't have to sit down and compare the two sets of Public Accounts and work out the differences. And so we've included in here to show it, as being helpful, and also to give some explanation as to the basic operation of these funds.

Now as far as the Telephone System, the Hydro and that, it's essentially a banking system through the province dealing with borrowings and the supply of money, and so if they've got surplus funds, they've borrowed and they've got surplus funds, they will put them in here because the province is the investing agent for the Hydro and the Telephone. So they put it in here and it's invested, earns interest, and then when they need it they get it back so that it's really an investment working fund with the province for Hydro, Telephones and all its agencies, because the Minister of Finance is the investing agent for all the various utilities including the Manitoba Public Insurance Corporation.

MR. WILSON: . . . where in the set of books I will be able to find out my long awaited search to find out how much of the citizens money is being held in the Law Society and Solicitors' trust account that is paid into the Consolidated Fund, I'll be able to find out that answer?

MR. ZIPRICK: It's in the Public Accounts, the total amount, under the Trust Section, it will show in the total amount of money that's in there as at March 31, 1975.

MR. CHERNIACK: Page 25 will give him that answer.

MR. CHAIRMAN: Page 25 of the Public Accounts.

MR. CHERNIACK: But let's not move to that, let him look . . .

MR. CHAIRMAN: Page 7--pass; Page 8. Mr. Graham.

MR. GRAHAM: Mr. Chairman, perhaps the Auditor may be able to give me some clarification of something that has bothered me for quite some time and this is the operation of the School Capital Financing Authority and the debenture system that he

(MR. GRAHAM cont'd) mentions here. Could he explain how this whole operation operates in fact?

MR. ZIPRICK: When a school is being built the province provides the money and through a debenture it gets back from the school and mostly the CPP money from Canada has been used for that purpose. So the CPP is assigned to this capital school finance authority, then this capital school finance authority provides the money to build the school, gets a debenture back and this debenture is the investment that's offset against the liability to Canada from the CPP money. Do you follow me?

MR. GRAHAM: The debenture rests in the name of the Province of Manitoba, not in the school division - does it?

MR. CHERNIACK: Issued by the school division.

MR. ZIPRICK: . . . by the school division to the Province of Manitoba.

MR. GRAHAM: And it's guaranteed by the province?

MR. CHERNIACK: It's the other way around; the province lends the money to the school division and receives a debenture from the school division for that amount.

MR. ZIPRICK: Essentially these debentures are all basically repaid from the province's money. The annual provision for operating the schools includes the amounts for payment of interest and the repayment of this capital. So, in effect, it's a debenture but the charge is annually made up through the school foundation account and most of the money comes from the province, now some of it is a levy on the municipality.

MR. GRAHAM: But it appears here as a guarantee.

MR. ZIPRICK: No, the guarantee - the CPP money that comes from Canada to the province, the province issues a debenture to Canada for X number of dollars which it guarantees, then that money is used to build schools and debentures are obtained from the school payable to the province, then the school district raises annually its money through the school foundation program - most of it which comes from the province and some of it from the municipalities - then makes the annual payments to take care of its debenture. So in effect it really doesn't need, the province doesn't need to guarantee the school district debenture, it's holding it, so there would be no point in guaranteeing it.

MR. GRAHAM: When they borrow from Canada Pension, at what interest rate do they borrow it?

MR. CHERNIACK: It fluctuates - every three months I believe. -- (Interjection) -- Every month.

MR. GRAHAM: At approximately what rate is it, around three?

MR. CHERNIACK: Oh, no.

MR. CURTIS: About a percent and a half lower than our own borrowing.

MR. GRAHAM: About 1½ percent.

MR. CHERNIACK: Less than the province normally borrows, so that if we're borrowing at 10, it would be about 8½, but actually -- (Interjection) -- Nine. 9.02 for the CPP funds.

MR. GRAHAM: From the federal side of it then, is that recallable at any time?

MR. CHERNIACK: No, it's a fifty year or it's a very long term.

MR. ZIPRICK: It's 15 years. . .

MR. CHERNIACK: Fifteen?

MR. ZIPRICK: I don't think it's unusually long.

MR. CHERNIACK: I thought it was longer than that. Miss MacTaggart.

MISS MacTAGGART: Twenty years.

MR. CHERNIACK: Twenty years. The most authoritative person here says 20 years. Any other figures, any other bids?

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: The CPP money is borrowed for 20 year periods?

MR. CHERNIACK: Yes.

MR. JOHANNSON: And I was going to ask about the amortization period for the school division loans, what is that?

MR. ZIPRICK: They're serial debentures and I think they're about 20 years, I guess, too. Around about the same. But they're serial debentures and one is repaid each year so that it keeps diminishing.

MR. CHAIRMAN: Mr. Osland.

MR. OSLAND: I don't know whether I missed something along the line there but it's actually the school district then that has borrowed the money. . .

MR. CHERNIACK: If I may, Mr. Chairman, the school district with the authority of the school capital financing authority is permitted to build a building, a school, and borrows that money from the authority, that is from the province, with which to pay the costs of the construction and pays it back out of current revenues spread over a period of let us say 20 years, and as Mr. Ziprick pointed out, most of the money which the school division has with which to pay back the debt comes to it in the normal course from the school levy and from the foundation authority and, you know, the provincial contributions.

MR. CHAIRMAN: Mr. Graham, were you finished?

MR. GRAHAM: No, I had one other question on it. The school capital financing authority each year, if I remember correctly, goes for so much capital authorization in the Legislature. Now we see here that there's an increase of 14 million here in guarantees, but in the next column in Unexpended Authority, in essence that means that in the past year they have used every dollar that they had asked for. Is that correct?

MR. CHERNIACK: They're expected not to ask for more than they expect to use.

MR. ZIPRICK: Yes, but if there's no item here then there is no open authority from the Legislature to get any more. If they are going to get some more money they will have to come in with a capital supply bill to get some more. This, at the bottom of Page 8, is the amount of authority that's still remaining and not drawn on as at March 31, 1975. Now if it's not there then it doesn't have any authority.

MR. GRAHAM: Well then I have another question. Can they authorize through special warrant additional funds if they are required for capital purposes?

MR. ZIPRICK: Well there's no law that forbids it but it's very very seldom done. I think it was only done about once to my knowledge going way back.

MR. CHERNIACK: Quite a number of years ago, I am told, it was done once.

MR. GRAHAM: In essence then, what you are saying here is that the capital school financing authority runs a very tight ship and maybe should be commended for operating it so closely.

MR. CHERNIACK: I think the Minister of Finance should be commended for controlling their requests, to make sure that they're in line with their expectations.

MR. ZIPRICK: I think it's pretty important to understand how this works, the request for authority. The way the Financial Administration Act reads, in effect, that no organization could go into any kind of commitment without funds being voted by the Legislature. Now if you've got a fairly long term commitment then you've got to have a lot of authority from the Legislature to make those commitments and they may go over a number of years. Now all this money may be committed but hasn't been drawn on as yet, but there may be contractual commitments, probably in most cases there are. For instance, Hydro, they have pretty well committed all the authority they've got and in addition they have now gone into the system of agreeing with a contractor that we don't have legislative authority for the full amount, but if you agree to sign a contract with the understanding that it's subject to legislative approval then we can undertake this contract with you. But the way the laws of Manitoba stand now there is no agency or government can make a contractual commitment without funds being voted by the Legislature. So if you're signing a contract that's going to take three years to build and it cost \$40 million, you have to have \$40 million sitting authorized in here before you sign that contract, then you start drawing down the money as the contract is being worked on and payments are being made. So this here indicates that the money hasn't been drawn down but most of that money could have been committed. Now in the Public Schools Finance Board, the school divisions don't come under that regulation, they are an entity outside of a government agency in that way and they can contract for a school without having legislative vote as such.

MR. GRAHAM: Mr. Chairman, the answer I got from the Provincial Auditor I think, raises some more questions. When you start talking about Hydro and contractors pussyfooting into a back room to negotiate a contract. . .

MR. ZIPRICK: No, it's not pussyfooting and this is why we point this out so it's clearly understood and it's a condition - in an operation like Hydro it is really

(MR. ZIPRICK cont'd) almost unavoidable because you are going into such long term contracts and it was a question of whether the contractors would agree to that and they did agree. As far as the Government of Canada is concerned they don't have this kind of commitment control provision and all their contracts by law, but the Financial Administration Act says that they're subject to funds being voted by parliament. So they can go to any amount of contracts they want to, that's the administration, there's no control whatsoever. They can go into any contracts they want but the Financial Administration Act says that all the payments of these contracts are subject to funds being voted by parliament. Now in Manitoba there is a commitment control and this other area is just used rather sparingly in these isolated cases. But it is being used.

MR. GRAHAM: In your examination then of Hydro, has this procedure, is it a common occurrence or does it happen just rarely?

MR. ZIPRICK: It just happens rarely, but because they have got to go into such large contracts they have had to go into that or go into special warrants, but this is a much more preferable procedure. Now, you know, when it comes down to the point of law as to whether the Legislature could at some point or other really stop payment, I don't know, that would be a fine legal point in courts, but these are the systems that are in operation and it should be understood, because I have noted that there has been a fair amount of debate with not fully understanding that these big amounts of money are being asked because of the long term, large commitments that have to be made.

MR. CHERNIACK: Mr. Ziprick, on this point, does Hydro enter into contracts of this size other than by competitive tender or quotes?

MR. ZIPRICK: No, the contracting is all by competitive tender, by quotes, contracting is all the same and there's just no question, there's just that kicker in the contract that they don't have sufficient legislative authority at that point to cover the contract right to its very completion, and so it's conditional to that extent that the Legislature will vote that money when it becomes due. Now it may not become due until three or four years or so. Now as I mentioned the federal system is completely the other way, there is no commitment controlled through parliament in that way at all. Some other provinces - I think Ontario is much the same. We think the Manitoba system to be a much better system because it's a tighter controlled system and if situations like in Hydro do arise well then we'd sooner see this other exception being made rather than going into another system.

MR. GRAHAM: Can I carry this a little further and ask how competitive are the tenders on Hydro? Do they get 10 bids or 15 bids or 1 bid? Does the Provincial Auditor review the tendering system too?

MR. ZIPRICK: We look at the tendering system and we see that it's gone out to tender, public tender, the tenders have come in and the lowest tender has been accepted and if it hasn't that there's a technical explanation as to why it wasn't accepted, but we can't say that, you know, that that's right or not. We know that there is an explanation but we don't have engineering advice or expertise in our set-up to say well this is right or not. But the system is that everything must be tendered and it's publicly tendered, the tenders come in, they are opened under controlled conditions, the lowest bidder, after evaluation, the lowest bidder is supposed to get the contract. Now if for some reason or other, through the evaluation process, it's found that there is a reason why the lowest bidder should not get the tender then there is a full explanation of why the second bidder has been chosen. And as far as us as laymen, we look at it and make sense, but we cannot verify it from a technical point of view, we rely on the experts, engineers or what have you, that put their signatures to these explanations, that they in fact know what they are talking about and this is the case.

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: Just for my own clarification, is the Public Schools Finance Board the board of the Manitoba School Capital Financing Authority or what is the relationship?

MR. ZIPRICK: No, the Public School Finance Board is really the operating side of the public schools, in other words they get the money in and provide the levies and the operation. The Public School Finance Authority is this capital side of providing capital loans to the school divisions for capital construction.

MR. JOHANNSON: So the approval for the construction of a new school by a school division would come from the financing authority?

MR. ZIPRICK: The system is that it goes through the Public Schools Finance Board and comes through to the Department of Education and it's a government decision that the school will be built and the funds will be provided. There is input from the Public Schools Finance Board as a recommendation and that, but the decision as to whether funds will be provided, that rests with the Department of Education and it's a government decision.

MR. JOHANNSON: But the actual financing is done through the financing authority?

MR. ZIPRICK: The financing authority looks after that capital; the Public Schools Finance Board does not provide money for debentures, long term repayments and arrangements of that sort. They are just operating on the annual operations basis. They provide the money to make the annual payments on principal and interest and all the various operations but they don't finance the schools unless of course it's just built from the one year's sort of provision, whatever is built from the one year's provision.

MR. CHAIRMAN: Page 8. Mr. Craik.

MR. CRAIK: Mr. Chairman, on Mr. Ziprick's comments, when he's referring to Hydro, he says if the lowest tender is not accepted there is a report made on it. Who makes the report and what is it reported to?

MR. ZIPRICK: The report is to management and it's made by experts. As you appreciate in some of these big contracts the evaluation is a big process, as a matter of fact, Hydro has a fairly big department that does nothing but evaluate the effectiveness, the propriety of these contracts and to see whether these people that have submitted the bids are capable of doing what they say they can do. And then after that the same group carries on an extensive monitoring process because you can see progress payments are made on these kind of big contracts and the only substantiation and assurance that this work is going on and going on effectively is through the monitoring system of experts that are taking a look, and we look at this monitoring to see that this work and progress is coming on and it's only when the final delivery is made and it's put into place that we have complete assurance that value for money has been obtained and it's in progress. So there is a lot of monitoring protection, also performance protection and everything else that has to come.

MR. CRAIK: When you run across something like that, do you ask for a full report on it or are you saying that a report will already have been passed.

MR. ZIPRICK: No, we look at it and we expect all this to be as a matter of system and if it's not set up in this sort of way as a matter of system we would criticize it, and if it wasn't corrected we would bring it to the attention of the Legislature because we would consider this kind of a deficiency to be a very very serious deficiency. So we expect all these kind of controls to be in place as a matter of system and all these kind of reports to flow as a matter of system. Then we just take a look and see that the system is working and that. And this is purely from the business and the systematic approach kind of deal.

Now as far as the evaluation, the technical evaluation by the engineers and the monitoring of the contracts and its progress, we have no expertise in this. When these experts, engineers or what have you, put a signature and say they've examined at that plant and they're satisfied with the work in progress, that it's being progressing and the province's position is protected, we accept their signatures, we have no way of . . . and within our system we don't have responsibility.

MR. CRAIK: The last time I can recall when something came to the Legislature was when the contract was let on Kettle Rapids probably, and Mr. Stephens was the chairman of the board at that time and there was a mistake found in the contract, and in order to resolve the matter he brought it back before the Public Utilities Committee of the Legislature to have it aired and explained and his actual move ratified. I think that's the last I ever recall anything coming from the Manitoba Hydro of that sort happening where a contractor came in low, a mistake was found and then he was allowed to correct his mistake and still got the contract. Does this sort of thing happen? Would that sort of thing be dealt with by you at this point or would it depend on the size of the thing?

MR. ZIPRICK: All have, you know, relevance. Some minor mistake, and these things happen all the time, these various minor mistakes but any serious omission or error or that, first of all there would have to be a very full explanation as to how that kind of error could ever materialize because you do not build control systems to protect against everything because it's very expensive, so materiality plays a very big part. But when you get into the area, like in the Hydro, where you've got such big contracts and so much money involved, the room for error there, your controls should be such that the room for error there should be very very small, so if a more serious error occurred, one, we would want to investigate as to how an error like that could occur, the system should have been such that it shouldn't have allowed an error like that to occur. And then if there was a correction needed, then appropriate steps would be taken to ensure that this was corrected and all the legal and other undertakings given.

MR. CRAIK: What I'm really wondering is under what conditions would you feel disposed to report this to the Legislature in your annual report?

MR. ZIPRICK: Oh, if there was any serious error that developed that we expected the system to control and find and it didn't do it, we would report that, yes, without any hesitation.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I think that it should be mentioned that contracts of this type which Hydro enters into has to be done by the board of Hydro and I believe that is why the auditor expects that the board will have been given the kind of information that he says should be there already. He shouldn't have to make inquiries because the board itself will have wanted to and did receive explanations for any variations.

The other point is, I think Mr. Craik must have been referring to some very large contractor from Ontario, Mac something or other, that made, they claim, a tremendous error in excess of \$1 million - MacNamara, is that the one? I think the government or Hydro or both feared that the company would be broke if they weren't allowed to correct what they claim was an error in their calculation. If he's referring to that, then I think it was the government of the day which was worried that the company would go broke and be unable to complete its contract. I think subsequently it did go broke.

MR. CRAIK: That's the case and the question was whether or not that sort of thing on a smaller scale happens. They didn't have to bring it back for a Public Utilities Committee, the Hydro board could have done it on their own but it was felt that it should be brought back because of the significance of the difference.

MR. CHERNIACK: It would have been . . . public knowledge. The same as a road contract was not corrected and a small supplier went broke the honourable member will recall - up around Dauphin way or Swan River.

MR. ZIPRICK: This transaction that you're talking about was prior to us becoming auditor of Hydro so I have . . .

MR. CRAIK: Well it wasn't an auditing function.

MR. ZIPRICK: . . . no knowledge of the situation, but our procedure is that any major breakdown, that in addition to correcting we feel obliged to bring to the attention of . . .

MR. CRAIK: Well if for instance a contract was let, because it was a Crown corporation purchasing from a Manitoba manufacturer and it wasn't the lowest tender but there was some provincial spinoff in terms of employment, economic factors that were taken into account other than straight tenders, would that sort of thing be reported?

MR. ZIPRICK: No, if it's a board policy and the board has laid down the policy and it's enunciated in the board minutes generally, and the preference is for Canada first and that, as long as that's followed, we would not . . .

MR. CRAIK: There would be no comment from the auditor?

MR. ZIPRICK: No comment, no.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, my question probably is a very general one, but because we're dealing with Hydro here, at the present time we have one board or commission of government, namely Manitoba Hydro, which spends about 20 or 25 percent, as much money as the province in its entirety does. Now our provincial accounts are broken down in great detail, we have this very committee which examines the past year's

(MR. GRAHAM cont'd)spending and we are provided with a great deal of material, Hydro just brings in one, may I say, very simplified account of their operations, and the question I wanted to ask, would it place an unbearable load on the auditing and the accounting procedures of the province if we got a breakdown in the same detail of the operations of Manitoba Hydro as we do for the accounts of the Province of Manitoba?

MR. ZIPRICK: It would cost money, it wouldn't be exorbitant figures, I don't know whether the Hydro system is geared up right now to spin that off as detailed statements because they didn't have to do it so probably certain system changes would have to be made. But if it was decided as a matter of policy, it certainly can be done and the cost would not be prohibitive. I don't know the implications of their competitive situation and whether that would have any bearing, that's another side of it, but it wouldn't be up to us to decide, it would be up to the Legislature and the government to decide and direct Hydro to do that. But technically there are no prohibitive problems.

MR. CHAIRMAN: Page 8--pass; Page 9--pass; Page 10. Mr. Craik.

MR. CRAIK: The mining and mineral royalties and taxes increase is only \$9.2 million here. Are you familiar with the projections of the increases that were to be brought in, this is substantially lower than what was projected as an increase in this department as a result of the tax changes.

MR. CHERNIACK: Won't that come with the budget?

MR. CRAIK: Well I think they went into effect in this particular year.

MR. CHERNIACK: Mr. Chairman, it's just that expected revenues for the coming fiscal year are revealed with the Budget Address and the filing of revenue. I don't know whether the auditor or anybody else knows or should be expected to know what the projection is of what will come as a result of . . .

MR. CRAIK: Well the projection for this particular year though, it wouldn't be in the coming budget. . .

MR. CHERNIACK: You mean for the current year.

MR. CRAIK: For the year referred to by this report.

MR. ZIPRICK: No, the projection as I see it, I don't think there is very much deviation from what was projected because otherwise we would have commented on it, we usually make a comparison. If you note in some of the other items we had indicated that there was a difference between what was projected and what was actually realized. In this case there's no comments so I would assume that the projection and the amount realized was reasonably close, but I would have to check with my people as to what was actually projected. But on the basis of what I see here, last year's projection was reasonably close to what was realized because if it had been a substantial variation we bring it to the attention and we also take a look to see, you know, why there is this variation, and sometimes the accusation is made that it was deliberately done; if we would observe that it was deliberately done we would certainly point that out. So we make a comparison between the actual and the projection and we try to establish the reason for it, and usually there is a good explanation. Now if there wasn't an explanation for it then we would report that there was no explanation. So I would say here that it was pretty well in line.

MR. CRAIK: In the case of the retail sales tax, the increase taken from the sales tax is \$26.4 million which is indicated here that it wasn't readily predictable.

MR. ZIPRICK: Yes, well that's a situation that there was a variation between what was budgeted and what was actually realized. We have each year taken a look at it and the officials have a system whereby they try to determine the best possible figures. As far as we see the system that they use, there's nothing wrong with it but it is a situation that is quite fluid and pretty hard to predict so we think it's just a straight hazard of estimating and that's all there is to it. There's nothing untoward about it.

MR. CRAIK: That's pretty close to a 20 percent growth in revenues from the sales tax in that particular year.

MR. ZIPRICK: Yes, but it's been expanding at quite a phenomenal rate and beyond what was normally expected in the estimating period. You've got to know your estimating at least a year and a half or something like that before it takes place, that you're putting a figure in, you're figuring out your projections, and it's been done in our view in a realistic manner but the growth has been quite phenomenal and a person could

(MR. ZIPRICK cont'd) have taken a very optimistic view and put more in, but we would say that's not a good budgeting practice to take that kind of approach, and it's been a fairly buoyant area, beyond normal expectations.

MR. CHAIRMAN: Page 10--pass; Page 11. Mr. Graham.

MR. GRAHAM: When we get two-thirds of the way down we find that an amount of 45 million was transferred to an allocated revenue account to be applied as revenue of the 1975-76 fiscal year, and the next one also applies to the 1975-76 fiscal year. Is this the same fiscal year that we're dealing with in our review of Public Accounts?

MR. ZIPRICK: No, that's the year that's now in progress, what we're dealing with is the completed year, then there's the year in progress and what you're dealing in the Estimates is the year into the future, so you're always contending with three years.

MR. GRAHAM: Why would there be a transfer then from one year to the other?

MR. ZIPRICK: Well the Act allows it or provides for it and it's purely at the discretion of the Minister of Finance and the Department of Finance. If they want to allocate it in that way, we just point it out.

MR. CHERNIACK: Mr. Chairman, that's true, what Mr. Ziprick says is true, but it is shown in the revenue Estimates of the Legislature and this \$45 million figure will have been in the revenue I discussed a year ago. Is that not correct?

MR. ZIPRICK: Yes.

MR. CHERNIACK: So this 45 million transfer was reported and discussed a year ago in the House in Committee of the Whole. --(Interjection) -- For 1975-76, yes.

MR. GRAHAM: The only reason I raised it is this is about the only place where I see we get an opportunity to discuss the current year. In our whole legislative process we examine the Estimates of next year, and in our Public Accounts we examine what was spent in the past year, but here we have two items that are currently an ongoing process. I just point out that this is a couple of places where we do get a chance to look at what is presently going on.

MR. CHAIRMAN: I think this is probably a simple bookkeeping entry to put it extremely simple. Would you not agree, Mr. Ziprick?

MR. ZIPRICK: What Mr. Graham said we don't disagree with. As a matter of fact two years ago in our report we recommended that a change be made so that the display in your Estimates would be on the basis of the completed year, the year in progress up-dated in the new year, and I still feel it but as to how you do it the decision is yours, but it's a valid point.

MR. CHERNIACK: Mr. Chairman, when there is a surplus, the government, the Minister has the right to put that surplus into the next year or put it into surplus account. Now I'm just getting the information - is that right? - that there was 45 million carried forward in the year previous to the one we are dealing with, that is the year ending March 1974, there was 45 million carried forward. It was not used so it was carried forward into the current year, the year expiring at the end of this month, and was reported on and discussed both in the previous year and last year as being a carry forward whereas the government could have taxed for that kind of money and left it in surplus; it was the decision of the Minister and of government that that money be brought forward and used in the following year. You know, that's where Mr. Ziprick cannot really make the comment as to whether - all he can say is it's correct, but it is still a government decision. Government could tax enough to surplus . . .

MR. ZIPRICK: So the arriving at the surplus or deficit is based on the Financial Administration Act which allows a lot of movement one way or another in the certification there. As a matter of fact one of the reasons that you will see later on why we've prepared a Source and Use of Funds statement which discloses, taking out all the various transfers and gives you a cash position overview which we feel really brings to bear the situation as it took place in the cash flow situation.

MR. GRAHAM: Well is it not true that at the end of a fiscal year, unexpended authority ceases there. . .

MR. CHERNIACK: Authority for expenditures other than capital, that's true. That has nothing to do with this 45 million.

MR. GRAHAM: Then can I go on to the next paragraph, and it says: "In the

(MR. GRAHAM cont'd)preparation of this statement, because of movements of programs between departments it was necessary to re-allocate the 1974 expenditure. Records were not maintained in a way so as to preserve comparability. Therefore, the re-allocation was made on the basis of an analysis of the expenditure accounts and, although it may not be precise, in our opinion it does reflect a fair comparative position." That's about the extent of it, too. Can the Provincial Auditor tell us does it create a lot of problem to your department when we find a program shifted from one Ministry to the other?

MR. ZIPRICK: It did more at one time than it does now, at one time it was fairly prevalent, it's much less prevalent now, but it does create problems to make a comparison, and when we compare the expenditures, for instance, then we've got to move the '74 ones, in this case, into the same comparative position as the '75, and in some cases it does present some difficulties. But we feel what we have done although is not exact, it certainly is sufficiently close to indicate a proper comparison; if you look on the revenue and expenditure comparative statement, the comparative expenditures between departments we feel are reasonable.

MR. GRAHAM: We find this practice is still going on and I think maybe the past year has shown maybe increased activity in that respect. Do you anticipate further problems in the coming year or in the present fiscal year in your reporting?

MR. ZIPRICK: This whole area of accounting and comparison, analytical review and checking has been a problem, and we reported if you remember two years ago, and made some recommendations that there should be a much more improved sort of cost control oriented system. Now I can say that the Department of Finance is moving towards that and as we pointed out later on, a controllership branch has now been set up, a Small Standards and Accounting Branch, Controllership Branch has been set up, there is a committee that's been established, all these things are being reviewed, so that the accounting system will be so organized that the expenditures automatically could be flowed from one area to the other. We don't object to the need for shifting program responsibilities, that's an operating necessity in many instances and, you know, the tail shouldn't wag the dog. If a program is more effectively administered under this system then it should be transferred without any doubt, but the accounting should be geared up in a way that you could flow the information forward to the other side and maintain comparability. Now it's something that the Department of Finance is fully aware of, they are grappling with the situation and there's a committee set up, we are not part of the committee, but we are continuously being advised of what's going on, we are being consulted, and we feel that what's been done through time that we are heading in the right direction. Now I think I mentioned to this committee last year that these kind of realignments and re-adjustments cannot be done very quickly because it's a big organization that requires a lot of planning, a lot of training than to bring this about. So behind the scenes the process is now going on. We feel that in a very short period of time substantial or a certain amount of it will start surfacing to the statements and in due course - I predicted last year if in five years time we are at a position where we have this kind of oriented, cost control accounting system then I would say that it would be a pretty good accomplishment.

MR. CRAIK: Are you looking at going to a system of national accounting, national accounts, whatever the common terminology is?

MR. ZIPRICK: No, we are going to be looking at going into a system of program accounting, by budgeting, comparisons with budgets, variance explanations and then if there is a program shifted, that there's immediate cost allocations from the preceding year, possible to make a comparison and that there would be an analytical reflection of what's going on and control in that manner.

MR. CRAIK: Well if you are going to make these kind of changes, have you considered the possibility of going to a national account system of presenting accounting information?

MR. ZIPRICK: Well the national account system, for instance, Ottawa, their normal accounting is not on the national account system, the national account system is built up by their statistics department for a different purpose and I don't know whether this would ever be combined or not. For instance, Ottawa has set up a committee to take a look at the principles of accounting in the Federal Government. They have just come out with a report, they've made some pretty strong or pretty pointed recommendations and they are working towards a similar kind of system of accounting reporting,

(MR. ZIPRICK cont'd) . . . both management and legislative-wise, and coming up with sets of accounting principles that will have a base to it, based on accounting philosophies, and it's hoped that this will be co-ordinated and all the various provinces will be doing the same thing so that the accounts could be looked at on the overall on a comparative basis. I can say this, that it will be quite awhile coming yet because right now between provinces, for instance, and even the Federal Government there is such a diversity of treatments of different things that it will be a while before all this is ironed out. But as I see it, in a matter of time that's the direction we're heading.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Well, Mr. Chairman, I'd like to point out that I sort of favour the concept of national accounting which is really combining the capital expenditures with the current into one statement which always means of course you're showing a deficit budget, and the trouble is, in my opinion, that there's been too much of a hangup on whether or not there is a balanced budget. You know, there's newspaper reports and there is comments by opposition and by government, yes, the budget is in balance or the budget shows a deficit or it shows a surplus. Frankly, I think, that the total operation is much more important for a conception of what is being planned as a program for the coming year. Nevertheless I think both sides of the House and the communication media seem to favour a desire to separate current revenue expenditures from capital expenditures and until there is a general move towards a desire to have the other kind of blended accounting, then I don't see much point in it because in the end what we expect is a proper review that moneys are properly spent and accounted for. The item that Mr. Graham raised in his own style is, I believe, answered by Mr. Ziprick in that this is not an accounting point that he's making, there is no question of the accountability of the expenditures, it is the comparison from previous years which I suppose a private auditor in private industry wouldn't be involved in at all and wouldn't have any right to concern himself as to how management decides to run its coming year's budget. But the auditor believes that it is important, and I agree with him, that there be some form of comparative statement prepared and he indicates in his report that he believes that the way it is done now reflects a fair comparative position. Now let's make it clear that it is management that decides where a program rests and I think an efficient management is one which is flexible enough to make changes as the program's developed to see where it can be best managed, and it is the management committee, along with finance, that make the decision of how to arrive at a fair estimate of comparability, that is only in relation to comparing programs and program evaluation, has nothing to do with the accountability for money spent. I believe that that is correct and that the auditor is concerned that the Legislature and the government have a better than ever comparison, but to do it in great detail I think is a very expensive thing and it is worthwhile but it is not essential. Therefore I think that if it is done on a fairly good basis then it accomplishes its purpose, which doesn't mean it can't be improved on and the Department of Finance is working now on some effort to improve it.

So I point out again that the Auditor says in his report although the re-allocation now being carried on may not be precise, in his opinion it does reflect a fair comparative position. I don't know how much money it is worth to have it an exact comparative position - worth in academic exercise.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Well, Mr. Chairman, my command of the English language is not equal to that of the Member for St. Johns but what he does say is that his interpretation may be somewhat different than mine because I think what the Provincial Auditor is saying is that by constantly shifting programs from one department to another it makes his job as the Provincial Auditor more difficult.

MR. CHERNIACK: It's not our job to make it easier, is it? But he's not complaining, that's my point.

MR. ZIPRICK: No, we're not complaining about the shifting of programs if they're done for a matter of proper administration. Now if they were just being shifted to confuse people, we'd certainly object, but that's not the reason that the programs are being shifted. They're being shifted because it's felt that they will be administered more effectively that way. So that's not what we're complaining about. What we're saying is

(MR. ZIPRICK cont'd) to devise a systematic movement of the comparative costs so that the comparability remains, and the program shifting should really be determined by where is it best administered, more effectively administered. And we don't complain about that whatsoever. We think it should be done that way and if it isn't it's the wrong way of doing it.

MR. GRAHAM: I think what the Provincial Auditor says is exactly what I agree with, but we find that in some cases programs are being shifted not for those reasons at all but because some Ministers want particular responsibilities over certain commissions or over certain programs.

MR. CHAIRMAN: Page 11. Mr. Walding.

MR. WALDING: I move that the committee rise.

MR. CHAIRMAN: Moved that the committee rise. Agreed? (Agreed)