

Post Election Financial Accountability Review

Prepared for the Government of Manitoba

February 21, 2024



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Executive Summary

The Department of Finance, on behalf of the Minister of Finance, initiated a review of the fiscal responsibility and financial accountability of specific decisions taken prior to October 3, 2023.

What We Found

From the release of the 2023/2024 budget to October 3, 2023, budgetary decisions were made that collectively represent high budgetary risk. When examined together, simultaneously directing the entirety of the 2022/2023 surplus into program expenditure; reducing personal income tax revenues; and increasing expenditures in both capital and operating represents high budgetary risk.

Likewise, the decision to aggressively budget for an above-average net income from Manitoba Hydro and then to fail to adjust for the significant, downside risk to Hydro's net income in the first quarter update, led to additional fiscal pressure later in the year.

Further, the additional announced funding for the Health Human Resource Action Plan in the weeks leading up to the election was not accounted for in any public reporting, resulting in an incomplete picture of the province's fiscal pressures.

Based on the principal findings of the review, MNP has drawn the following conclusions.

1. **Programming Expenditure versus Debt Reduction** – Based on the practices of other western Canadian provinces, using a portion of the previous years surplus to reduce debt could have been considered a more prudent approach than the decision to spend on ongoing and new program obligations.
2. **Personal Income Tax Reduction** – It is reasonable to expect the government to have understood that all the unique circumstances that led to significantly higher revenues in 2022/2023 would not likely repeat in immediately subsequent years, and that this would have been prudent to consider when developing forward looking personal income tax policy.
3. **Expenditure Increases** – Expenditure increases (both operating and capital) were significant in Budget 2023/2024 as compared to Budget 2022/2023, representing close to a 10% increase. MNP estimates that over 85% of these increases will create long-term obligations for the government, as they are largely related to remuneration increases, and infrastructure capital spending.

Further, MNP could not find evidence of a whole of government assessment of infrastructure and state of repair document as exists in many other Canadian jurisdictions. A document such as this would generally provide detail on the state of repair of government owned assets and estimate the cost to bring those assets into a state of good repair over a period, allowing this information to inform capital decision making.

4. **Manitoba Hydro's Impact** – In their fiscal 2023/2024 Q1 update on July 28, 2023, the government acknowledged that Manitoba Hydro might not achieve the budgeted net income of \$450 M but made no adjustment to the fiscal 2023/2024 forecast. MNP believes that given the significant historical fluctuations in Manitoba Hydro net income, it would have been prudent for the government to consider additional risk reduction measures.

MNP concludes, that the budgeted total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) of \$632 M that the previous government included in Budget 2023/2024 appears aggressive given the prior four years historical average budgeted amounts.

Further, the return to average reservoir storage conditions entering fiscal 2023/2024 that remained through to the end of May 2023, uncertainty of summer rainfall conditions, and the risk of drought or low water levels, may not have warranted an above average budget of \$632 M for the total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income).

5. **Economic Downturn** – Given the reduction in taxes proposed in Budget 2023/2024, and indications that the economy was going to slow down in the last half of 2023 and again in 2024, which would likely result in declining income tax revenues, the decision to essentially keep revenue flat from 2022/2023 to 2023/2024 in Budget 2023/2024 can be interpreted as a decision with significant risk.
6. **Health Human Resource Action Plan Budgetary Provision** – MNP did not find any evidence that budgetary provision was made for the additional \$200 M in funds for the Health Human Resource Action Plan announced on July 27, 2023. It would have been reasonable to expect the government to have included this in the 2023/2024 First Quarter Report and Fiscal Economic Update released the next day on July 28, 2023, but it was absent.
7. **Capital Planning** – The government's capital expenditure budget for 2023/2024 and the subsequent four years was well above historical average actual capital expenditures. The absence of a whole of government assessment of infrastructure and state of repair inventory, to facilitate informed capital planning, is considered a gap that could have impacted the rigour of the capital planning process, particularly as compared to other Canadian jurisdictions who have this information to inform their capital planning process.

Further, the addition of large capital expenditure commitments within Budget 2023/2024 then adding \$1,400 M of additional capital commitments after that, all of which are debt financed, significantly increased the provinces debt service costs, and will delay the government's ability to return the budget to a balanced position. This also has the potential to impact the provinces credit rating negatively.

8. **Health Sector Collective Agreements** – The settlement of multiple health sector agreements did create significant future financial obligations for the current government.

The additional obligations created for items such as signing bonuses, super weekend premiums, and retention bonuses are unique as compared to historical settlements, and accordingly do contribute to the financial obligations of the government. Whether these obligations could have been forecast earlier than they were was difficult to determine conclusively.

1 Background

The Department of Finance, on behalf of the Minister of Finance, sought to engage a consulting firm to complete a review of the fiscal responsibility and financial accountability of the decisions taken prior to October 3, 2023.

The Statement of Work MNP received outlined the following background information.

“On March 7, 2023, Province of Manitoba released Budget 2023 with a forecasted budget deficit of \$363 M. Budget 2023 passed in May 2023 and implementation commenced until the Government entered the Caretaker Convention on September 5, 2023.

On July 28, 2023, the Province released the First Quarter Report Fiscal and Economic Update. The Update did not forecast any changes to the budgeted deficit of \$363 M. The Update, which traditionally is released in late September and as a part of Public Accounts release, was released two months early due to the pre-election restricted communications period that took effect on August 4, 2023.

On September 29, 2023, the Government released its public accounts for the 2022/2023 fiscal year. The province’s summary financial position as of March 31, 2023, was a surplus of \$270 M, an improvement of \$1,020 M over the previous year’s deficit of \$750 M. Year-end results shows an improvement of \$818 M over the 2022/2023 Budget deficit of \$548 M.

In the six months that followed Budget 2023, the province’s financial position deteriorated by close to \$1.3 B, posing a significant fiscal challenge for the incoming administration.”

2 Scope of Review

The Minister of Finance sought an external opinion on whether the deterioration of the fiscal outlook was affected by any decisions taken by the previous Government that could be considered fiscally irresponsible or lacking in financial accountability in the lead up to the October 2023 election¹.

The Statement of Work MNP received outlined the following scope of work.

2.1 Budget 2023

The Manitoba Government's largest source for own source revenues are personal and corporate income taxes and sales tax revenues. In 2022 and 2023, all governments across Canada experienced a post-Covid surge in tax revenues. Following Manitoba's surge in tax revenues starting 2022, the government made a series of decisions that resulted in \$1,100 M of additional expenditures in 2022/2023, authorized through two special warrants, and an overall \$2,000 M increase in expenditures in Budget 2023.

In Budget 2023, the previous Government announced permanent income tax reductions and expenditure increases that created multi-year obligations.

- The Consultant is to provide an opinion on whether the decisions made by the previous Government in Budget 2023 to make permanent income tax revenue reductions and multi-year expenditure commitments was responsible, with respect to:
 - o The decision of investing into ongoing program obligations instead of paying down the debt.
 - o The decision of reducing personal income taxes by \$500 M when fully implemented on a permanent basis.
 - o The decision to increase expenditures by nearly \$2,000 M and the portion of expenditures that create long term obligations.

2.2 Q1 Forecast

The Manitoba Government issued the First Quarter Report Fiscal and Economic Update on July 28, 2023, before the communications blackout period related to elections took effect on August 4, 2023. The Government did not make any substantial changes to its revenue forecast in that report.

- The Consultant is to provide an opinion on whether the downturn in revenues were known or could have been forecasted, particularly in relation to:
 - o Economic downturn and reduction in tax revenues.
 - o Water levels that impact Manitoba Hydro's net income.

¹ Province of Manitoba. Statement of Work. Post Election Financial Accountability Review.

2.3 Expenditure Decisions in the First Five Months of Fiscal 2023/2024

The previous Government continued to announce additional operating expenditures between March 7, 2023, when the Budget 2023 was tabled and September 5, 2023, when the election period Caretaker convention commenced. These decisions depleted most of the contingency budget for the 2023/2024 fiscal year and created future obligations for both Operating and Capital Budgets for the medium term, more than nominal GDP growth (which is used for planning the province's revenue growth).

- The Consultant is to provide an opinion on whether the announcements made by the previous Government during the period between March 7, 2023, and September 5, 2023, that were not part of Budget 2023 were responsible. Focus areas are the following announcements:
 - o Health Sector Collective Agreements.
 - o Health Human Resources Action Plan.

2.4 Capital Budget

Under the Previous Government, Province developed a 5-year capital plan, including new health care facilities in the clinical and preventative service plan, 15 new schools, 6 new personal care homes, new capital for universities and colleges in addition to significant continued investment in transportation and IT programs. This program was subsequently expanded through announcements to include major legacy projects such as the HSC Bannatyne Campus redevelopment. Investment in new projects may defer or crowd out maintenance on the state of good repair backlog of existing assets.

Manitoba finances 100% of its capital through debt, significantly increasing provincial debt during a higher interest environment that can lead to more concerning levels and threatening the credit rating of the province. Burdened by the capacity of the sector to respond, in addition to supply chain issues and high inflation in the construction sector, have increased project costs and created a further burden on debt levels and debt service costs.

A disproportionate focus on new capital instead of state of good repair investments creates future pressures on the midterm operating budgets. Additionally, over-saturation of the market by significantly increasing capital programs simultaneously influences market prices.

- The consultant is to compare Manitoba's Capital Plan to other provinces and best practices in the Governments and provide an opinion on:
 - o Whether the current Capital plan is responsible and feasible and supported by analysis.

3 Limitations of Review

MNP has relied upon the completeness, accuracy, and fair presentation of all information and data that were made available by January 5, 2024. The accuracy and reliability of the findings and opinions expressed in this report are conditional upon the quality of this same information.

Additionally, the findings and expressed opinions constitute judgments as of the date of the report and are subject to change without notice. MNP is under no obligation to advise of any such change brought to its attention which would alter those findings or opinions.

Further, the findings are limited by the following factors:

- *MNP was only provided access to publicly available information* – Access to Cabinet and Treasury Board Minutes or confidential briefings materials provided to members of Cabinet to support Cabinet or Cabinet decision-making are protected under cabinet confidence and were not made available to MNP.
- *Further, Manitoba has adopted the Access Convention*, a long-standing parliamentary convention that treats all records of the outgoing Cabinet, its committees, and ministers as confidential information of the former government. The foundation of the Access Convention is that a new government should not have access to the confidential documents of the previous government, specifically Cabinet and ministerial records.
- *Interpretational differences of fiscal responsibility and accountability* – The definitions of both fiscal responsibility and fiscal accountability differ in literature, resulting in opportunity for varying interpretations.

4 Findings

4.1 Group 1 – Budget 2023

In Budget 2023, the previous Government announced permanent income tax reductions and expenditure increases that created multi-year obligations.

- The Consultant is to provide an opinion on whether the decisions made by the previous Government in Budget 2023 to make permanent income tax revenue reductions and multi-year expenditure commitments was responsible, with respect to:
 - o *The decision of investing into ongoing program obligations instead of paying down the debt.*
 - **Findings**
 - \$3,100 M is budgeted for capital infrastructure spending in Budget 2023/2024.
 - This budget is 72% higher than the province's historical five-year average actual expenditures of \$1,800 M for the years 2018/2019 – 2022/2023.
 - \$2,700 M – 2,800 M of planned capital infrastructure spending is identified for each of the subsequent four-years 2024/2025 – 2027/2028.
 - This increased spending is 50% to 56% higher than the province's historical five-year average actual expenditures of \$1,800 for the years 2018/2019 – 2022/2023.
 - The annual increase in summary net debt outlined below represents the fourth highest increase in borrowing for the province in the eight-year period reviewed (2015 – 2023).
 - Manitoba's debt burden remains amongst the highest in the country, and several financial institutions highlighted that maintaining this high level of debt could make Manitoba less able to manage unexpected and/or adverse events in the future.
 - Budget 2023/2024 projected a 33.5% net debt-to-GDP ratio at the end of FY 2022-2023 and a deterioration of that through a four-year period with the ratio projected to reach 34.6% by the end of FY 2023-2024².
 - Manitoba's outstanding gross debt as of February 17, 2023 was \$57,700 M³. This is inclusive of borrowing on behalf of Manitoba Hydro.

² Government of Manitoba. Budget 2023 – Historic Help for Manitobans. Page 111.

³ Government of Manitoba. Budget 2023 – Historic Help for Manitobans. Page 111.

- An additional \$4,756 M of gross borrowing was budgeted for 2023/2024.
- An increase of \$1,642 M to summary net debt was included in Budget 2023/2024⁴.
- The federal Office of the Parliamentary Budget Office (PBO) Fiscal Sustainability Report published July 27, 2023, defines fiscal sustainability as, “fiscal sustainability means that government debt does not grow continuously as a share of the economy⁵.
 - o The PBO report identified five provinces that had current fiscal policies that were sustainable, and indicated these provinces have fiscal room to increase spending or reduce taxes.
 - o Manitoba was identified as having current fiscal policies that are *not* sustainable over the long term.
 - o As indicated the decision in Manitoba for significant and continued increase in debt is not consistent with PBO principles of fiscal sustainability.
 - o The PBO report was published after the approval of the budget and only one day prior to Manitoba issuing their Q1 forecast.
- Credit rating agencies including S & P Global and Moody’s published reports on May 25, 2023, and July 18, 2023, respectively that identified:
 - o S & P
 - A strong recovery in 2022 provided fiscal space for an expansive 2023 budget, which adds some budgetary risk in the context of elevated inflation and slower growth.
 - We believe management remains committed to fiscal and debt sustainability in the long term and has historically outperformed budget expectations.
 - Major generation and transmission projects at Manitoba Hydro-Electric Board (MHEB) are largely complete, with limited new debt requirements in the medium term.
 - We expect the Province of Manitoba’s economic growth to slow in 2023 in line with Canada’s, and to gradually recover thereafter.

⁴ Government of Manitoba. Budget 2023 – Historic Help for Manitobans. Page 15.

⁵ Office of the Parliamentary Budget Office. Fiscal Sustainability Report July 27, 2023.

- Significant spending will erode budgetary performance this year, with fiscal results reverting to trend over the next two years.
- The province's debt burden will remain high but decline gradually as a share of revenue, and debt servicing costs will stay elevated.
- *Moody's*
 - Strengths of Manitoba included:
 - Significant economic diversity supports fiscal resilience.
 - Strong liquidity levels and prudent debt management support debt affordability.
 - Mature institutional framework and important federal transfer.
 - Risks to Manitoba included:
 - Elevated debt burden and contingent liability risk of Manitoba Hydro.
 - High inflation and a cautious return to balance pressures fiscal profile.
- MNP reviewed comments on the 2023/2024 budgets for British Columbia, Alberta, and Saskatchewan, and in each case the government of the day utilized a portion of their surplus to reduce their debt.
- **Conclusion** – The decision to increase debt was identified by several sources as a riskier and less fiscally responsible decision. Other western Canadian provinces who ended 2022/2023 in surplus, chose to use a portion of their surplus to reduce their respective debt.

While MNP could not find conclusive evidence to suggest that the decision to invest in ongoing and new program obligations alone, instead of using a portion of the surplus to pay down debt was poor fiscal policy, the opinions reviewed, and practices of other western Canadian provinces suggests that using a portion of the previous years surplus to reduce debt could have been considered a more prudent approach.

- o *The decision of reducing personal income taxes by \$0.5 B when fully implemented on a permanent basis.*

- **Findings**

- \$311 M in tax relief was included in Budget 2023/2024. While overall tax revenues (individual income tax and corporate income tax) were forecast to increase by \$574 M based on higher than forecast economic growth and stronger than expected labour projections, expenditure was increasing by close to \$2,000 M. This increases reliance on other sources of revenue including federal transfer payments. There is inherent risk to this approach, as control of federal transfer payments is not within the control of the Government of Manitoba. The PBO report also notes that Manitoba could expect federal transfer to decline because of relatively high per capita income growth.
- This loss of provincial revenue will reduce Manitoba's capacity to invest in public services, however, may increase consumer spending, partially offsetting the loss to provincial revenues.
- Budget 2023/2024 highlighted that after a strong performance in 2022, the Manitoba economy faces several headwinds moving forward. Economies around the world are beginning to slow under the weight of decades-high inflation, tighter monetary policy, the ongoing Russian invasion of Ukraine, persistent supply chain disruptions and lingering labour shortages as markets adjust. Budget 2023 expects the province's real GDP to slow from 3.6 per cent growth in 2022 to 0.7 per cent in 2023, with an expansion of 1.1 per cent in 2024⁶.
- Restrictive monetary policy from the Bank of Canada is expected to stabilize price pressures and return inflation to target levels by 2024. The Bank of Canada raised rates twice since Budget 2023/2024 was released, once in March and again in July.
- "Budget 2023 implements new and enhanced tax measures to better bring Manitoba's personal income taxes in line with other provinces."⁷
- The true cost of these tax reductions will increase over time in the form of compounding annual lost revenue for the government.
- Three circumstances occurred during fiscal 2022/2023 and leading up to fiscal 2023/2024 that led to higher than budgeted revenues in fiscal 2023/2024.

⁶ Government of Manitoba. Budget 2023 – Historic Help for Manitobans. Page 92.

⁷ Government of Manitoba. Budget 2023 – Historic Help for Manitobans. Page 26.

- o Higher than budgeted tax revenues were realized by Manitoba in 2022/2023 because of a surge in spending post-COVID, and inflationary impacts.
- o There was significantly larger than budgeted earnings from Manitoba Hydro in 2022/2023 due to high water levels.
- o Over \$1,000 M in additional federal transfers were projected to be realized in 2023/2024.
- All three of these circumstances could reasonably be expected to be special circumstances that would not necessarily repeat in 2023/2024 in the case of the higher tax revenues, and larger earning for Manitoba Hydro, and not necessarily repeat beyond 2023/2024 in the case of the federal transfers.
- **Conclusion** – The higher-than-normal revenue realized by Manitoba in 2022/2023 could reasonably be expected to be a one-time circumstance that would not likely repeat in the immediately subsequent year.
It is reasonable to expect the government to have understood that all the unique circumstances that led to significantly higher revenues in 2022/2023 would not likely repeat in immediately subsequent years, and that this would have been prudent to consider when developing forward looking fiscal policy.
- o *The decision to increase expenditures by nearly \$2,000 M and the portion of expenditures that create long term obligations.*
 - **Findings**
 - **Operating Expenditures** – Budget 2023/2024 included an increase of \$1,976 M in expenditure over Budget 2022/2023.
 - o Expenditures in 2023/2024 are projected to include a \$469 M or 7.0 per cent increase in Health spending due to increases in front-line health care provider remuneration and price and volume increases in Pharmacare.
 - o Education and Early Childhood Learning has projected an increase of \$113 M largely due to increased operational requirements.
 - o Advanced Education and Training has projected an increase of \$169 M mainly due to higher personnel expenses and inflationary increases in operational costs at post-secondary institutions.
 - o Families has projected an increase of \$221 M because of sector wage increases.
 - o Agriculture has projected a \$117 M increase primarily due to higher insurance indemnities and increased contributions to the reserves for the Agri-Insurance program after a high claim year in 2021/2022.

- o Consumer Protection and Government Services has projected an increase of \$242 M primarily due to higher projected expenditures for cost-shared projects under the Investing in Canada Infrastructure Program (ICIP) being delivered to municipalities.
 - o Enabling Appropriations is projected to increase by \$116 M largely due to an increase in funding to advance various initiatives such as the Surgical and Diagnostic Backlog, Health Human Resource Action Plan, Homelessness Strategy, and the federal programs under the Low Carbon Economy Fund.
 - o Debt Servicing is projected to increase by \$263 M due to higher interest rates.
- The majority (over 85 per cent) of these operational expenditure increases create ongoing obligations with the exception perhaps of the Enabling Appropriations (\$116 M), and the increases in the department of Agriculture (\$117 M) expenditures.
- **Findings Capital Expenditures** – Budget 2023/2024 also included over \$1,200 M in health facility capital investments and an additional \$1,000 M in other capital commitments. Many of these commitments were for construction of new facilities including hospitals and schools, commitments that will result in new and unbudgeted operating expenditures that will create long-term obligations for government.
- **Findings Expenditure Increases Post Budget** – After Budget 2023/2024's release, there were several additional project (capital and operating) expenditures approved in-year that MNP estimates could be valued at over \$1,600 M⁸, with several of these creating future year commitments.
- Three of the most significant additional expenditures that were approved in-year included:
 - o A multi-year \$1,800 M increases in collective agreements across all nurses, allied health, community, and facility support staff, professionals, technical, and paramedic workers, medical residents and interns, and physician and clinical assistants⁹.
 - o A capital commitment of \$1,500 M over six years for the redevelopment of the Health Sciences Centre (HSC) campus.

⁸ MNP only had access to publicly available information, and information obtained through interview of Treasury Board and Finance Staff. Confidential information that may contain additional expenditure information was not available for MNP review.

⁹ <https://news.gov.mb.ca/news/index.html?item=60113&posted=2023-08-01> Accessed December 1, 2023

- o A commitment by Shared Health Manitoba Inc. to a 35-year lease in the former Manitoba Clinic facility.
- These three commitments all created new long-term (4+ years) obligations for the government.
- Budget 2023/2024 indicates that “Work is well underway to develop and maintain a government-wide inventory of the condition of assets that will facilitate better prioritization of capital investments and proactive asset management,” but the government had not created such a document for Manitoba prior to the election.
- **Conclusion** – Expenditure increases (both operating and capital) were significant in Budget 2023/2024 as compared to Budget 2022/2023, representing close to a 10% increase. MNP estimates that over 85 per cent of these increases will create long-term obligations for the government, as they are largely related to remuneration increases, and infrastructure capital investments. Further, MNP estimates that over \$1,600 M of additional commitments (operating and capital) were made between March 7, 2023, and September 5, 2023, by the previous government, several of which create future year commitments.
- **Summary Conclusion** – *Whether the decisions made by the previous Government in Budget 2023 to make permanent income tax revenue reductions and multi-year expenditure commitments was responsible.* When examined collectively, implementing all three fiscal strategies at the same time: increase in expenditure versus debt reduction, personal income tax revenue reductions, and increased expenditures (capital and operating), does represent higher than normal budgetary risk. Further, the additional commitments made by the previous government estimated to a total of over \$1,600 M (operating and capital) are anticipated to create significant future year commitments. The specific amounts of the commitment are difficult to fully quantify at this time because MNP did not have access to anticipated operating costs related to the new capital initiatives.

4.2 Group 2 – Q1 Forecast

The Manitoba Government issued the First Quarter Fiscal and Economic Update on July 28, 2023, before the communications blackout period related to elections took effect on August 4, 2023. The Government did not make any substantial changes to its revenue forecast in that report despite announcing an additional \$200 M in funding for the Health Human Resource Action Plan the previous day and having information that suggested Manitoba Hydro budgeted net income was not going to be achieved.

- The Consultant is to provide an opinion on whether the downturn in revenues were known or could have been forecasted, particularly in relation to:
 - o ***Economic downturn and reduction tax revenues.***
 - **Findings**
 - Budget 2023/2024 projected a revenue increase of \$2,161 M or a 11.2 per cent increase from Budget 2022/2023.
 - Budget 2023/2024 projected a revenue increase of \$931 M or a 4.5 per cent increase from 2022/2023 forecast that was based on the third quarter report.
 - Budget 2023/2024 projected an income tax revenue increase of \$574 M or 11.6 per cent from Budget 2022/2023.
 - Budget 2023/2024 projected an income tax decrease of \$49 M or 0.9 per cent decrease from the 2022/2023 forecast that was based on the third quarter report.
 - The \$574 M increase in projected income tax from Budget 2022/2023 included a \$332 M increase in individual income tax revenue and a \$242 M increase in Corporation income tax revenue. This increase in income tax revenue is a result of higher personal and corporate taxable income, however it will be offset by the fiscal impact of the increase to the basic personal amount in 2023 and the change to the personal income tax bracket thresholds in 2024.
 - Budget 2023/2024 highlighted that after a strong performance in 2022, the Manitoba economy faces several headwinds moving forward. Economies around the world are beginning to slow under the weight of decades-high inflation, tighter monetary policy, the ongoing Russian invasion of Ukraine, persistent supply chain disruptions and lingering labour shortages as markets adjust. Budget 2023 expects the province's real GDP to slow from 3.6 per cent growth in 2022 to 0.7 per cent in 2023, with an expansion of 1.1 per cent in 2024. Manitoba employment is expected to increase by 0.4 per cent in 2023 and 0.8 per cent in 2024. Elevated inflation and growing incomes helped push up provincial nominal GDP growth in 2022 to levels not seen in decades,

contributing to Manitoba's strong fiscal performance in the 2022/2023 fiscal year¹⁰.

- o Restrictive monetary policy from the Bank of Canada is expected to stabilize price pressures and return inflation to target levels by 2024. The Bank of Canada raised rates twice since Budget 2023/2024 was released, once in March and again in July.
 - o Slower real economic growth, in combination with declining inflation, is projected to decelerate nominal GDP growth from 9.9 per cent in 2022 to 2.2 per cent in 2023 and 3.0 per cent in 2024. Moderate nominal GDP growth in the coming months will temper near-term tax revenue growth.
 - o This loss of provincial revenue will reduce Manitoba's capacity to invest in public services, however, may increase consumer spending, partially offsetting the loss to provincial revenues.
- **Risks to the Financial Forecasts** – The previous government highlighted in Budget 2023/2023 highlights that “changes in nominal GDP growth can wield a significant influence on total revenue. Approximately 50 per cent of Manitoba's revenue is derived from taxation, making it susceptible to volatility based on the underlying levels of economic activity. Conversely, major federal transfers constitute around 33 per cent of total revenues and are governed by fixed funding arrangements that remain unchanged throughout the year. As experienced over the past two years, Manitoba Hydro's net income is subject to large volatility depending on water levels throughout the province. After the province experienced a drought in 2021/2022, Manitoba Hydro saw a loss of \$248 M followed by a forecasted surplus of \$651 M in 2022/2023 due to above-average water levels at generating stations and favourable export market prices. To mitigate the risks of a revenue downturn, a \$200 M revenue contingency was included in Budget 2023/2024 and is being retained in the forecast at this time.”¹¹
- Three circumstances occurred during fiscal 2022/2023 and leading up to fiscal 2023/2024 that led to higher than budgeted revenues in fiscal 2023/2024.
 - o Higher than budgeted tax revenues were realized by Manitoba in 2022/2023 because of a surge in spending post-COVID, and inflationary impacts.

¹⁰ Government of Manitoba. Budget 2023 – Historic Help for Manitobans. Page 92.

¹¹ Government of Manitoba First Quarter Report Fiscal and Economic Update. Page 13.

- o There was significantly larger than budgeted earnings from Manitoba Hydro in 2022/2023 due to high water levels.
 - o Over \$1,000 M in additional federal transfers were projected to be realized in 2023/2024.
- All three of these circumstances could reasonably be expected to be special circumstances that would not necessarily repeat in 2023/2024 in the case of the higher tax revenues, and larger earning for Manitoba Hydro, and not necessarily repeat beyond 2023/2024 in the case of the federal transfers.
- The Manitoba 2023/2024 First Quarter Report Fiscal and Economic Update was released July 27, 2023, which is two months earlier than the traditional release in late September due to the pre-election restricted communications period that took effect on August 4, 2023.
- The noteworthy changes in the Q1 Forecast as compared to Budget 2023/2024 include the following:
 - o An \$20 M increase to federal revenue and the offsetting increase in expenditures was identified. This kept the projected deficit at \$363 M.
 - o Commentary was included that indicated Manitoba Hydro may not achieve their budgeted net income of \$450 M.
 - o Real GDP expanded to 1.7 per cent which was higher than the 0.7 per cent that was included in Budget 2023/2024, demonstrating a stronger economy than budgeted.
 - The momentum in economic activity from 2022 has remained unexpectedly solid in the first half of 2023. Sales from retail, wholesale and manufacturing sectors continued to increase at a steady pace.
 - Due to resilience in the economy through the first half of 2023, the budget outlook was revised. Persistently high inflation combined with ongoing increases in interest rates were expected to slow growth in the second half of 2023 and into 2024.
 - Labour income was up 7.3 per cent in 2023, the third highest among provinces.
 - After posting 3.9 per cent real gross domestic product (GDP) in 2022, the highest growth since 2020, economic growth in Manitoba was expected to substantially slow in 2023 and 2024, under the weight of decades-high inflation, decades-high interest rates, the ongoing Russian invasion of Ukraine, persistent supply chain disruptions and tight labour markets.

- o Forecast real GDP for 2024 was decreased to 0.9 per cent from the 1.1 per cent that was included in the Budget 2023/2024 demonstrating an economy that would contract more in 2024 than budgeted.
- Commentary from Budget 2023/2024 that was repeated in the Q1 Forecast included the following:
 - o Changes in nominal GDP growth can wield a significant influence on total revenue. Approximately 50 per cent of Manitoba's revenue is derived from taxation, making it susceptible to volatility based on the underlying levels of economic activity. Conversely, major federal transfers constitute around 33 per cent of total revenues and are governed by fixed funding arrangements that remain unchanged throughout the year.
 - o As experienced over the past two years, Manitoba Hydro's net income is subject to large volatility depending on water levels throughout the province. After the province experienced a drought in 2021/2022, Manitoba Hydro saw a loss of \$248 M followed by a forecasted surplus of \$651 M in 2022/2023 due to above-average water levels at generating stations and favourable export market prices.
 - o To mitigate the risks of a revenue downturn, a \$200 M revenue contingency was included in Budget 2023/2024 and was retained.

▪ **Conclusion**

Income Tax Reduction – The higher-than-normal revenue realized by Manitoba in 2022/2023 could reasonably be expected to be a one-time circumstance that would not likely repeat in the immediately subsequent year.

MNP believes it would have been reasonable to expect the previous government to have understood that the unique circumstances that led to significantly higher than budgeted revenues in 2022/2023 would not repeat in immediately subsequent years, and that this should have been considered when developing forward looking fiscal policy.

Economic Downturn - Whether the economic downturn could have been forecast and should have been considered more specifically than it was when developing Budget 2023/2024 and subsequently when the Q1 Forecast was published, is difficult to determine conclusively. Several external credit agencies who published opinions in May and July 2023 prior to the publication of the Q1 Forecast signaled a relatively strong Manitoba economy, and the previous governments Q1 Forecast contained updated economic information that demonstrated that real GDP expanded to 1.7 per cent which was higher than the 0.7 per cent that was included in Budget 2023/2024, demonstrating a stronger economy than budgeted. The momentum in economic activity from 2022 remained unexpectedly solid in the first half of 2023. Forecast real

GDP for 2024 was decreased to 0.9 per cent from the 1.1 per cent that was included in the Budget 2023/2024 demonstrating an economy that would contract more in 2024 than budgeted.

Given the reduction in taxes proposed in Budget 2023/2024, and indications that the economy was going to slow down in the last half of 2023 and again in 2024, which would likely result in declining income tax revenues, the decision by the previous government to essentially keep revenue flat from 2022/2023 to 2023/2024 in Budget 2023/2024 can be interpreted as a decision with significant risk.

o ***Water levels that impact Manitoba Hydro's net income.***

▪ **Findings**

• **2022/2023 Q3 Forecast Findings**

- o The 2022/2023 forecast referred to in the 2023/2024 Budget outlined that the net income of Government Business Enterprises mainly reflects an increase in Manitoba Hydro's forecast. This was due to a combination of above-average water levels at generating stations, an upward forecast attributable to the export spot market prices, as well as a reduction in waterpower rental rates and the debt guarantee fee paid to the province, and that Manitoba Hydro is now forecasting net income of \$651 M which is a \$531 M improvement over the budget of \$120 M.

• **Manitoba Hydro Findings**

- o Manitoba Hydro's historical 4-year average budgeted net income was \$291.63 M (2023 \$299.50 M, 2022 \$371.00 M, 2021 \$219.00 M and 2020 \$277.00 M).
- o The province's historical 4-year average budgeted total income share from Hydro (water power rental fee, provincial debt guarantee fee and Hydro's net income) was \$463.75 M (2023 \$479.00 M, 2022 \$552.00 M, 2021 \$391.00 M and 2020 \$433.00 M).

Note that for comparison purposes, we adjusted the historical budgeted amounts for both the waterpower rental fee rate and the provincial debt guarantee rate down by 50 per cent to match the rates in fiscal 2022/2023 and Budget 2023/2024. Note this also leads to Manitoba Hydro's net income being increased by the corresponding amount for each of the historical four-year average calculations.

• **2023/2024 Budget Findings**

- o The previous government budgeted \$450 M net income from the business of Manitoba Hydro for 2023/2024. This is \$158 M (54%) higher than Manitoba Hydro's average budgeted revenue in the previous 4 years.

- o Budget 2023/2024 stated that Manitoba Hydro's net income is highly dependent on several uncontrollable factors. One of the most significant is water flow conditions which is monitored and managed daily. Coming off well above average water supply conditions in 2022-2023, reservoir storage conditions have returned to average entering the 2023-2024 fiscal year and have remained at average through the end of May 2023. Annual hydraulic generation is dependent on summer and fall rainfall conditions so there remains uncertainty as to the impact of water flow conditions on the corporation's 2023-2024 financial results. Assuming normal precipitation for the remainder of the fiscal year, hydraulic generation is projected to be very close to the approved budget.
- o The previous government budgeted \$632 M total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) for 2023/2024. This is \$168 M (36%) higher than Manitoba's average budgeted revenue in the previous 4 years.
- **2023/2024 Q1 Forecast Findings – July 28, 2023**
 - o The Manitoba Q1 Update was dated July 28, 2023. It stated that as a government business enterprise, Manitoba Hydro's net income is included in the provincial summary government revenue forecast. This represents a significant risk to the forecast as Hydro's net income is always subject to significant variability, especially early in the year, due to changing export market prices and water conditions across the province. This practice is consistent with PSAB requirements as a GRE. Current water levels and export market prices suggest Manitoba Hydro may not achieve the budgeted net income of \$450 M. However, a "\$200 M revenue contingency was included in Budget 2023/2024 to mitigate against this type of revenue risk.¹²"
- **Manitoba Hydro Q1 Results Findings – August 14, 2023**
 - o The Manitoba Hydro Q1 results were dated August 14, 2023. The consolidated net income attributable to Manitoba Hydro was \$40 M for the first three months of 2023-24 compared to \$82 M for the same period last year. The decrease in net income from the prior year was primarily attributable to the impacts of lower net exports, lower domestic electric revenue, and an increase in operating and administrative costs.

¹² Government of Manitoba First Quarter Report Fiscal and Economic Update. Page 3.

- o It further states that the unfavourable net income was driven by a decrease in net export revenue related to the impact of less favourable water conditions and lower market prices. These unfavourable impacts were partially offset by higher domestic electric revenues driven by favourable weather impacts as well as higher usage and customer growth.
- o Manitoba Hydro's budgeted net income for 2023/2024 is "approximately \$450 M, however projected net income is expected to be about 50% lower than budget.¹³" The decrease in expected net income is largely due to the unfavourable water conditions experienced in the first quarter which have negatively impacted net export revenues. Precipitation amounts for the remainder of the year can have a material impact on water conditions as well as the impact of market prices. The Public Utilities Board's (PUB) pending decision on the recent electric general rate application, which is expected to be received in the next quarter, may also have a material impact on projected net income.
- **Conclusion** – The previous government acknowledged in their fiscal 2023/2024 Q1 update, that Manitoba Hydro may not achieve the budgeted net income of \$450 M but made no adjustment to the fiscal 2023/2024 forecast beyond citing the \$200 M revenue contingency that was included in Budget 2023/2024 to mitigate against this type of revenue risk. MNP believes that given the significant historical fluctuations in Manitoba Hydro net income, it would have been prudent for the previous government to consider additional risk reduction measures.

Manitoba Hydro's actual total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) in 2022/2023 was \$827 M, when MNP reviewed the prior four years we identified that the historical average budget was \$463 M, and the prior four years average actual was \$444 M which are both significantly lower than the \$632 M total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) budget for fiscal 2023/2024.

MNP concludes, that the budgeted total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) of \$632 M that the previous government included in Budget 2023/2024 appears aggressive given the prior four years historical average budgeted amounts.

¹³ Manitoba Hydro Electric Board Quarterly Report for the Three Months Ended June 30, 2023.

Further, the return to average reservoir storage conditions entering fiscal 2023/2024 that remained through to the end of May 2023, uncertainty of summer rainfall conditions, and the risk of drought or low water levels, may not have warranted an above average budget of \$632 M for the total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income).

The previous Government adjusted their first quarter forecasts in the three previous years but chose not to make any adjustments to the fiscal 2023/2024 Q1 update despite having information that suggested Manitoba Hydro budgeted net income was not going to be achieved.

4.3 Group 3 – Expenditure Decisions in the First Five Months of Fiscal 2023/2024

The previous government continued to announce additional operating expenditures between March 7, 2023, when Budget 2023 was tabled and September 5, 2023, when the election period Caretaker convention commenced. These decisions depleted most of the contingency budget for the 2023/2024 fiscal year and created future obligations for both Operating and Capital Budgets for the medium term, more than nominal GDP growth (which is used for planning the province's revenue growth).

The Consultant is to provide an opinion on whether the announcements made by the previous Government during the period between March 7, 2023, and September 5, 2023, that were not part of Budget 2023 were responsible. Focus areas are the following announcements:

- Health Sector Collective Agreements.
- Health Human Resources Action Plan.

Health Sector Collective Agreements

- **Findings**
 - o A multi-year \$1,800 M increase in wages and other benefits related to the settlement of new collective agreements and/or contracts across all physicians, nurses, allied health, community, and facility support staff, professionals, technical, and paramedic workers, medical residents and interns, and physician and clinical assistants was announced on August 1, 2023¹⁴.
 - o A press release from Shared Health Manitoba Inc. on July 14, 2023, highlights that "These agreements deliver fair, long-term agreements that include significant retroactive pay, compounding general wage increases in every year, as well as extensive other monetary gains and non-monetary improvements to support retention, advancement, education, staff wellness and recruitment"¹⁵

¹⁴ <https://news.gov.mb.ca/news/index.html?item=60113&posted=2023-08-01> Accessed December 1, 2023.

¹⁵ <https://sharedhealthmb.ca/news/2023-07-14-collective-agreements-with-all-health-sector-employees/> Accessed December 1, 2023.

- o The \$1,800 M increase announced in the press release is comprised of the following:
 - \$1,379 M in wage rate increases including retroactive pay for 2022/2023, as well as extensive other monetary gains and non-monetary improvements to support retention, advancement, education, staff wellness and recruitment.
 - 2022/2023 – \$73 M retroactive
 - 2023/2024 – \$100 M
 - 2024/2025 – \$229 M
 - 2025/2026 – \$254 M
 - 2026/2027 – \$260 M
 - 2027/2028 – \$261 M
 - 2028/2029 – \$202 M
 - **Total – \$1,379 M**
 - \$400 M for initiatives related to the Health Human Resource Action Plan, a plan originally announced in November 2022 as a \$200 M multi-year commitment to addressing staffing challenges in the health sector, including the addition of 2,000 new health care workers to the system.
 - The wage increases represent a total increase of 13% over the first four – year period of the agreements.
 - Year 1 – 3.0%
 - Year 2 – 3.0%
 - Year 3 – 3.4% (2.9 GSI plus 0.5 retention adjustment)
 - Year 4 – 3.6% (2.8 GSI plus 0.8 retention adjustment)
 - **Total - 13.0%**

- The Conference Board of Canada's Compensation Planning Outlook 2023 issued October 2022, and the Conference Board of Canada's Compensation Planning Outlook 2024, issued October 2023 identified the following average annual salary increases across Manitoba for the period 2016 – 2024, with 2023 and 2024 being forecasted amounts.

Year	Average Annual Salary Increase
2016	3.0%
2017	2.8%
2018	2.1%
2019	2.6%
2020	2.0%
2021	2.2%
2022	3.4%
2023	3.2%*
2024	3.5%*

**Forecasted*

- This data suggests that the percentage increases that were established for the health sector collective agreements were below the forecasted average annual salary increases for Manitoba in both 2023 and 2024.
- MNP notes that the health sector collective agreements contain significant additional requirements for items such as signing bonuses, super weekend premiums, and retention bonuses.
- The 2023/2024 Second Quarter Report Fiscal and Economic Update released on December 5, 2023 highlighted that "Health, Seniors and Long-Term Care is forecasting a \$566 million variance mainly due to higher than budgeted salaries and benefits due to actual wage settlements, increased overtime payments due to increased workload and staff shortages, volume increase in the usage of medical and operational materials as well as supply cost increases and inflationary pressures on medical supplies under the fee-for-service program."
- **Conclusion** – The settlement of multiple health sector agreements did create significant future financial obligations for the current government. However, there is no evidence to suggest that the obligations created were not aligned with current economic circumstance.

The additional obligations created for items such as signing bonuses, super weekend premiums, and retention bonuses are unique as compared to historical settlements, and accordingly do contribute to the financial obligations of the current government.

Given that the wage increases agreed for the health sector were below the forecasted average annual salary increases for Manitoba and that despite this, salaries and benefits were higher than budgeted, which contributed to Health, Seniors and Long-Term Care's variance and the overall deterioration of the province's fiscal situation relative to budget, it would have been reasonable for the previous government to better anticipate these financial obligations and make greater provision for them in their financial forecasting at budget time.

Health Human Resource Action Plan

Findings

- o The Health Human Resource Action Plan was announced in November 2022, as a \$200 M multi-year commitment to address staffing challenges in the health sector, including the addition of 2,000 new health care workers to the system¹⁶.
- o Budget 2023/2024 identified \$123 M of funding for this initiative.
- o After the announcement in November 2022, several initiatives were identified that increased the total financial amount promised to \$400 M.
- o This increase from \$200 M to \$400 M was not identified in Budget 2023/2024, nor in the 2023/2024 First Quarter Report and Fiscal Economic Update released in July 2023.
- o The 2023/2024 First Quarter Report and Fiscal Economic Update released in July 2023 indicated that \$120 M had been committed to advance the plan this year, with more investments expected.
- o The first public indication that the financial commitment had increased, was an August 1, 2023, press release.¹⁷

Conclusion – MNP did not find any evidence that provision for additional funding of the Health Human Resource Action Plan beyond the \$123 M allocated in Budget 2023/2024, was provided.

- The 2023/2024 First Quarter Report and Fiscal Economic Update released on July 28, 2023 likewise did not indicate a specific amount of additional funding beyond the \$120 M that had already been committed to advance the plan this year, however it did indicate that an unspecified amount of additional investment was expected.

In August 2023 an additional \$200 M was allocated to the Health Human Resource Action Plan, as evidenced by the previously referred to press release.

MNP does believe it would have been reasonable to expect the previous government to have included this in the 2023/2024 First Quarter Report and Fiscal Economic Update released on July 28, 2023, given their announcement of the additional \$200 M four days later on August 1, 2023. Failing to do so provided an incomplete picture of the province's fiscal realities.

¹⁶ <https://news.gov.mb.ca/news/?archive=&item=56864> Accessed December 5, 2023.

¹⁷ <https://news.gov.mb.ca/news/index.html?item=60113&posted=2023-08-01> Accessed December 1, 2023.

4.4 Group 4 – Capital Budget

The consultant is to compare Manitoba's Capital Plan to other provinces and best practices in the Governments and provide an opinion on:

- Whether the current Capital plan is responsible and feasible and supported by analysis,

Is the Capital Plan Responsible and Feasible

Findings

- o \$3,100 M is budgeted for capital infrastructure investments in Budget 2023/2024.
- o This budget is 72% higher than the provinces historical five-year average actual expenditures of \$1,800 M for the years 2018/2019 – 2022/2023.
- o \$2,700 M – 2,800 M of planned capital infrastructure investments is identified for each of the subsequent four-years 2024/2025 – 2027/2028.
- o These planned investments are 50% to 56% higher than the provinces historical five-year average actual expenditures of \$1,800 for the years 2018/2019 – 2022/2023.
- o We found no evidence of an all of government assessment of infrastructure and state of repair document as exists in many other Canadian jurisdictions. A document such as this would generally provide detail on the state of repair of government owned assets and, estimate the cost to bring those assets into a state of good repair over a period.
- o We reviewed capital budgets for each of British Columbia, Alberta, and Saskatchewan for the budget year 2023/2024 and Manitoba's capital budget was 95% higher than British Columbia's, 61% lower than Alberta's and 85% higher than Saskatchewan's.
- o Manitoba finances its capital 100 per cent through debt. Manitoba already had the highest per capita debt among the province, prior to Budget 2023/2024 capital commitments and the subsequent additional capital commitment of over \$1,400 M.

- **Conclusion** – The previous government's capital expenditure budget for 2023/2024 was well above historical average actual capital expenditures, as were planned expenditures for the four subsequent years. The absence of a whole of government assessment of infrastructure and state of repair inventory, to facilitate informed capital planning, is considered a gap that could have impacted the rigour of the capital planning process, particularly as compared to other Canadian jurisdictions who have this information to inform their capital planning process.

Further, the addition of large capital expenditure commitments within Budget 2023/2024 then adding \$1,400 M of additional capital commitments after that, all of which are debt financed, significantly increased the provinces debt service costs, and will delay the current government's ability to return the budget to a balanced position. This also has the potential to impact the provinces credit rating negatively.

5 Summary Conclusions

Based on the principal findings of the review, MNP has drawn conclusions that speak to whether the deterioration of the fiscal outlook was affected by any decisions taken by the previous Government in the lead up to the October 2023 election.

5.1 Group 1 – Budget 2023:

The Consultant is to provide an opinion on whether the decisions made by the previous Government in Budget 2023 to make permanent income tax revenue reductions and multi-year expenditure commitments was responsible, with respect to:

1. *The decision of investing into ongoing program obligations instead of paying down the debt.*
 - a. **Conclusion** – The decision to increase debt was identified by several sources as a riskier and less fiscally responsible decision. Other western Canadian provinces who ended 2022/2023 in surplus, chose to use a portion of their surplus to reduce their respective debt.
MNP could not find conclusive evidence to suggest that the decision to invest in ongoing and new program obligations alone, instead of using a portion of the surplus to pay down debt was poor fiscal policy, however the opinions reviewed, and practices of other western Canadian provinces suggests that using a portion of the previous years surplus to reduce debt could have been considered a more prudent approach.
2. *The decision of reducing personal income taxes by \$0.5 B when fully implemented on a permanent basis.*
 - a. **Conclusion** – The higher-than-normal revenue realized by Manitoba in 2022/2023 could reasonably be expected to be a one-time circumstance that would not likely repeat in the immediately subsequent year.
It is reasonable to expect the government to have understood that all the unique circumstances that led to significantly higher revenues in 2022/2023 would not likely repeat in immediately subsequent years, and that this would have been prudent to consider when developing forward looking fiscal policy.
3. *The decision to increase expenditures by nearly \$2 B and the portion of expenditures that create long term obligations.*
 - a. **Conclusion** – Expenditure increases (both operating and capital) were significant in Budget 2023/2024 as compared to Budget 2022/2023, representing close to a 10% increase. MNP estimates that over 85 per cent of these increases will create long-term obligations for the government, as they are largely related to remuneration increases, and infrastructure capital investments. Further, MNP estimates that over \$1,600 M of additional commitments (operating and capital) were made between March 7, 2023, and September 5, 2023, by the previous government, several of which create future year commitments.

4. **Summary Conclusion** – *Whether the decisions made by the previous Government in Budget 2023 to make permanent income tax revenue reductions and multi-year expenditure commitments was responsible.* When examined collectively, implementing all three fiscal strategies at the same time: increase in expenditure versus debt reduction, personal income tax revenue reductions, and increased expenditures (capital and operating), does represent higher than normal budgetary risk. Further, the additional commitments made by the previous government estimated to a total of over \$1,600 M (operating and capital) are anticipated to create significant future year commitments. The specific amounts of the commitment are difficult to fully quantify at this time because MNP did not have access to anticipated operating costs related to the new capital initiatives.

5.2 Group 2 – Q1 Forecast:

The Manitoba Government issued the First Quarter Fiscal and Economic Update on July 28, 2023, before the communications blackout period related to elections took effect on August 4, 2023. The Government did not make any substantial changes to its revenue forecast in that report.

The Consultant is to provide an opinion on whether the downturn in revenues were known or could have been forecasted, particularly in relation to:

Economic downturn and reduction tax revenues.

o Conclusion

1. **Income Tax Reduction** – The higher-than-normal revenue realized by Manitoba in 2022/2023 could reasonably be expected to be a one-time circumstance that would not likely repeat in the immediately subsequent year. MNP believes it would have been reasonable to expect the previous government to have understood that the unique circumstances that led to significantly higher than budgeted revenues in 2022/2023 would not repeat in immediately subsequent years, and that this should have been considered when developing forward looking fiscal policy.
2. **Economic Downturn** – Whether the economic downturn could have been forecast and should have been considered more specifically than it was when developing Budget 2023/2024 and subsequently when the Q1 Forecast was published, is also difficult to determine conclusively. Several external credit agencies who published opinions in May and July 2023 prior to the publication of the Q1 Forecast signaled a relatively strong Manitoba economy, and the previous governments Q1 Forecast contained updated economic information that demonstrated that real GDP expanded to 1.7 per cent which was higher than the 0.7 per cent that was included in Budget 2023/2024, demonstrating a stronger economy than budgeted. The momentum in economic activity from 2022 remained unexpectedly solid in the first half of 2023. Forecast real GDP for 2024 was decreased to 0.9 per cent from the 1.1 per cent that was included in the Budget 2023/2024 demonstrating an economy that would contract more in 2024 than budgeted.

Given the reduction in taxes proposed in Budget 2023/2024, and indications that the economy was going to slow down in the last half of 2023 and again in 2024, which would likely result in declining income tax revenues, the decision by the previous government to essentially keep revenue flat from 2022/2023 to 2023/2024 in Budget 2023/2024 can be interpreted as a decision with significant risk.

Water levels that impact Manitoba Hydro's net income.

o Conclusion

1. Manitoba Hydro's actual total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) in 2022/2023 was \$827 M, when MNP reviewed the prior four years we identified that the historical average budget was \$463 M, and the prior four years average actual was \$444 M which are both significantly lower than the \$632 M total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) budget for fiscal 2023/2024.

MNP concludes, that the budgeted total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income) of \$632 M that the previous government included in Budget 2023/2024 appears aggressive given the prior four years historical average budgeted amounts.

Further, the return to average reservoir storage conditions entering fiscal 2023/2024 that remained through to the end of May 2023, uncertainty of summer rainfall conditions, and the risk of drought or low water levels, may not have warranted an above average budget of \$632 M for the total income share from Hydro (waterpower rental fee, provincial debt guarantee fee and Hydro's net income).

The previous Government acknowledged in their fiscal 2023/2024 Q1 update, that Manitoba Hydro may not achieve the budgeted net income of \$450 M but made no adjustment to the fiscal 2023/2024 forecast beyond citing the \$200 M revenue contingency that was included in Budget 2023/2024 to mitigate against this type of revenue risk. MNP believes that given the significant historical fluctuations in Manitoba Hydro net income, it would have been prudent for the previous government to consider additional risk reduction measures.

The previous Government adjusted their first quarter forecasts in the three previous years but chose not to make any adjustments to the fiscal 2023/2024 Q1 update despite having information that suggested Manitoba Hydro budgeted net income was not going to be achieved.

5.3 Group 3 – Expenditure Decisions in the First Five Months of Fiscal 2023/2024:

The previous Government continued to announce additional operating expenditures between March 7, 2023, when the Budget 2023 was tabled and September 5, 2023, when the election period Caretaker convention commenced. These decisions depleted most of the contingency budget for the 2023/2024 fiscal year and created future obligations for both Operating and Capital Budgets for the medium term, more than nominal GDP growth (which is used for planning the province's revenue growth).

The Consultant is to provide an opinion on whether the announcements made by the previous Government during the period between March 7, 2023, and September 5, 2023, that were not part of Budget 2023 were responsible. Focus areas are the following announcements: Health Sector Collective Agreements and Health Human Resources Action Plan..

Health Sector Collective Agreements

1. **Conclusion** – The settlement of multiple health sector agreements did create significant future financial obligations for the current government. However, there is no evidence to suggest that the obligations created were not aligned with current economic circumstance.

The additional obligations created for items such as signing bonuses, super weekend premiums, and retention bonuses are unique as compared to historical settlements, and accordingly do contribute to the financial obligations of the current government. Whether these obligations could have been forecast earlier than they were was difficult to determine conclusively.

Health Human Resource Action Plan

2. **Conclusion** – MNP did not find any evidence that provision for additional funding of the Health Human Resource Action Plan beyond the \$123 M allocated in Budget 2023/2024, was provided.

The 2023/2024 First Quarter Report and Fiscal Economic Update released on July 28, 2023 likewise did not indicate a specific amount of additional funding beyond the \$120 M that had already been committed to advance the plan this year, however it did indicate that an unspecified amount of additional investment was expected.

In August 2023 an additional \$200 M was allocated to the Health Human Resource Action Plan, as evidenced by the previously referred to press release.

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5.4 Group 4 – Capital Budget

The consultant is to compare Manitoba's Capital Plan to other provinces and best practices in the Governments and provide an opinion on:

- Whether the current Capital plan is responsible and feasible and supported by analysis,
 1. **Conclusion** – The previous government's capital expenditure budget for 2023/2024 was well above historical average actual capital expenditures, as were planned expenditures for the four subsequent years. The absence of a whole of government assessment of infrastructure and state of repair inventory, to facilitate informed capital planning, is considered a gap that could have impacted the rigour of the capital planning process, particularly as compared to other Canadian jurisdictions who have this information to inform their capital planning process.
Further, the addition of large capital expenditure commitments within Budget 2023/2024 then adding \$1,400 M of additional capital commitments after that, all of which are debt financed, significantly increased the provinces debt service costs, and will delay the current government's ability to return the budget to a balanced position. This also has the potential to impact the provinces credit rating negatively.

Disclaimer

In preparing this report MNP relied upon the completeness, accuracy, and fair presentation of all information and data that were made available by the Government of Manitoba by January 5, 2024. The accuracy and reliability of the findings and opinions expressed in this report are conditional upon the quality of this same information. MNP did not audit or independently verify the accuracy or completeness of the supporting information. Accordingly, MNP expresses no opinion or other forms of assurance in respect to the supporting information and does not accept any responsibility for errors or omissions, or any loss or damage because of any persons relying on this Report for any purpose other than that for which it has been prepared.

The findings and expressed opinions constitute judgments as of the date of the report and are subject to change without notice. MNP is under no obligation to advise of any such change brought to its attention which would alter those findings or opinion. MNP reserves the right to revise any analysis, observations or comments referred to in this Report, if additional supporting information becomes available to us after the release of this Report.

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