
MANITOBA

2017/18

Third Quarter Report

*Honourable Cameron Friesen
Minister of Finance*

Manitoba 

SUMMARY

Budget 2017 provided the financial overview of the Government Reporting Entity (GRE) which includes core government, government business enterprises (such as Manitoba Hydro and Manitoba Public Insurance), and other reporting entities such as health authorities, social service authorities and school divisions.

Manitoba's summary budget aligns with the accounting standards set by the Public Sector Accounting Board (PSAB) and fully reflects Generally Accepted Accounting Principles (GAAP). The financial information in this report is presented in the same format as the budget.

The summary forecast for fiscal year 2017/18 is a net loss of \$726 million, an improvement of \$114 million from the net loss of \$(840) million included in Budget 2017, primarily related to under expenditures in the Manitoba Agricultural Services Corporation and improvements in own source tax and other revenue, partially offset by a decrease in personal income tax revenue.

The forecast also provides for a contingency for writedown of assets whose book value is expected to exceed actual value

GOVERNMENT REPORTING ENTITY

Millions of Dollars

UNAUDITED	2017/18 Summary		
	Forecast	Budget	Variance
Revenue			
Income Taxes	3,940	4,194	(254)
Other Taxes	4,620	4,497	123
Fees and Other Revenue	2,363	2,307	56
Federal Transfers	4,195	4,163	32
Net Income of Government			
Business Enterprises	758	705	53
Sinking Funds and Other Earnings	252	235	17
Total Revenue	16,128	16,101	27
Expenditure			
Health	6,633	6,681	(48)
Education	4,401	4,406	(5)
Families	2,156	2,159	(3)
Community, Economic and			
Resource Development	1,345	1,542	(197)
Justice and Other Expenditures	1,305	1,277	28
Debt Servicing	964	991	(27)
Total Expenditure	16,804	17,056	(252)
Contingency for Writedown	50	-	50
In-Year Adjustment/Lapse	-	(115)	115
NET INCOME (LOSS)	(726)	(840)	114

1. Budget figures are adjusted to include allocations from Enabling Appropriations.

CORE GOVERNMENT OUTLOOK

The core government outlook provides information on the core government activities – the revenue and expenditure of government departments that are under the direct control of the Legislative Assembly. These revenues and expenditures reflect the day-to-day decisions that ultimately determine the success of the government strategies, plans and programs.

The core government forecast for fiscal year 2017/18 is a net loss of \$775 million after a \$10 million transfer to the fiscal stabilization account included in Budget 2017 and a \$50 million contingency for the anticipated need to write down assets.

Revenue is under budget by \$(71) million primarily as a result of a decline in personal income tax revenue, as experienced by other provinces and linked to changes in federal income taxes announced in 2015. The reduction is partially offset by increases in Corporate Income Tax and Retail Sales Tax.

Expenditures are projected to be under budget this year primarily in Health including lower costs due to previously announced delays.

The 2017/18 Health budget was 1.8% larger than the previous year's budget. Despite the lower projected spending in 2017/18, Health expenses are projected to be \$85 million, or 1.4%, higher than 2016/17 actuals.

CORE GOVERNMENT

Millions of Dollars

UNAUDITED	2017/18 Core Government		
	Forecast	Estimated ¹	Variance
Revenue			
Income Taxes	3,940	4,194	(254)
Other Taxes	3,929	3,795	134
Fees and Other Revenue	617	584	33
Federal Transfers	3,843	3,851	(8)
Net Income of Government			
Business Enterprises	616	592	24
Sinking Funds and Other Earnings	-	-	-
Total Revenue	12,945	13,016	(71)
Expenditure			
Health	5,967	6,105	(138)
Education	2,771	2,778	(7)
Families	2,041	2,033	8
Community, Economic and Resource Development	1,522	1,543	(21)
Justice and Other Expenditures	1,144	1,121	23
Debt Servicing	215	240	(25)
Total Expenditure	13,660	13,820	(160)
Contingency for Writedown	50	-	50
In-Year Adjustment/Lapse	-	(35)	35
NET RESULT FOR THE YEAR	(765)	(769)	4
Transfer to Fiscal Stabilization Account	(10)	(10)	-
NET INCOME (LOSS)	(775)	(779)	4

1. Budget figures are adjusted to include allocations from Enabling Appropriations.

QUARTERLY FINANCIAL RESULTS

The unaudited net result of the core government for the first nine months of the fiscal year is a loss of \$176 million.

The nine-month revenue variance of \$99 million reflects increased retail sales and other activity and an over-payment in

income taxes that will be recovered later in the year.

The nine-month expenditure variance of \$(91) million is primarily the result of timing of expenditures in various departments.

CORE GOVERNMENT OPERATING STATEMENT

Millions of Dollars

UNAUDITED	Year-to-Date to December 31		
	Actual	Estimated	Variance
Revenue			
Income Taxes	3,059	3,031	28
Other Taxes	3,035	2,982	53
Fees and Other Revenue	409	395	14
Federal Transfers	2,833	2,841	(8)
Net Income of Government			
Business Enterprises	488	476	12
Sinking Funds and Other Earnings	-	-	-
Total Revenue	9,824	9,725	99
Expenditure			
Health	4,587	4,615	(28)
Education	2,048	2,042	6
Families	1,513	1,505	8
Community, Economic and Resource Development	992	1,030	(38)
Justice and Other Expenditures	735	765	(30)
Debt Servicing	125	134	(9)
Total Expenditure	10,000	10,091	(91)
Net Result	(176)	(366)	190

Core government revenue and expenditure details are provided in Appendix I and II on pages 9 and 10, and information on core government capital investment can be found in Appendix III on page 11.

QUARTERLY FINANCIAL RESULTS (Continued)

The nine-month net result of \$(176) million represents a variance of \$300 million from the prior year. Revenue increased \$521 million year-over-year, offset by an increase in expenditures of \$221 million.

The year-over-year increase in expenditures reflects increased spending in 2017/18 related to programming and services within the Health, Education and Families sectors offset by reductions in the Community, Economic and Resource Development sector.

The year-over-year increase in revenue is primarily due to increases in Individual Income Tax, Retail Sales Tax and Federal Transfers.

CORE GOVERNMENT COMPARISON TO PRIOR YEAR

Millions of Dollars

UNAUDITED	Year-to-Date to December 31		
	2017/18	2016/17	Variance
Revenue	9,824	9,303	521
Expenditure	10,000	9,779	221
Net Result	(176)	(476)	300

STRATEGIC INFRASTRUCTURE INVESTMENT

The Manitoba government is committed to spending at least \$1 billion on strategic infrastructure in 2017/18 - roads and bridges, flood protection, hospitals, schools, universities and colleges, as well as municipal projects and other infrastructure.

As at the third quarter, strategic infrastructure investment is forecast to be almost \$1.4 billion in 2017/18.

It is important to ensure that investment decisions are financially sustainable over the

long term and are assessed to provide the best value for money.

In order to ensure value for money while meeting government's commitments, all infrastructure investments continue to be scrutinized.

Through the later half of 2017, the Manitoba Government undertook significant work to develop tools to assess capital spending programs resulting in some delays and related reductions in spending.

STRATEGIC INFRASTRUCTURE

Millions of Dollars

	2017/18		
	Forecast	Budget	Variance
Roads, Highways, Bridges and Flood Protection			
Highways Infrastructure and Airport Runway Capital	436	510	(74)
Maintenance and Preservation - Highways	146	143	3
Water Related Infrastructure	45	60	(15)
Transportation Equipment and Aircraft	12	19	(7)
Maintenance and Preservation - Water	14	15	(1)
Subtotal	<u>653</u>	<u>747</u>	<u>(94)</u>
Health, Education and Housing			
Health	183	358	(175)
Education	95	176	(81)
Housing	95	107	(12)
Subtotal	<u>373</u>	<u>641</u>	<u>(268)</u>
Other Provincial Infrastructure			
Municipal and Local Infrastructure	262	270	(8)
Public Service Buildings, Equipment and Technology	57	88	(31)
Parks, Cottage and Camping	1	12	(11)
Subtotal	<u>320</u>	<u>370</u>	<u>(50)</u>
Total Strategic Infrastructure	<u>1,346</u>	<u>1,758</u>	<u>(412)</u>

BORROWINGS AND SUMMARY NET DEBT

At the end of the third quarter, Manitoba's borrowing requirements for the fiscal year ending March 31, 2018 are forecasted to total \$5.8 billion.

Borrowings are used to finance capital related projects, and to finance the expenditures of priority government services in excess of generated income.

While these investments underpin and support Manitoba's economic performance, Manitoba's Government has committed to reduce the reliance on borrowings to ensure that the use of the debt is within reasonable and predictable limits.

Net debt to GDP is currently forecast at 34.0%.

CHANGE IN SUMMARY NET DEBT

Millions of Dollars

	2017/18 Forecast	2017/18 Budget
2016/17 Summary Net Debt	22,693	23,111
Net Investment in Tangible Capital Assets		
Core Government	279	418
Other Reporting Entities	254	403
	<u>533</u>	<u>821</u>
Plus: Projected (Income) Loss for the Year		
Core Government	775	779
Other Reporting Entities	(49)	61
	<u>726</u>	<u>840</u>
Change in Net Debt	<u>1,259</u>	<u>1,661</u>
Summary Net Debt	<u>23,952</u>	<u>24,772</u>

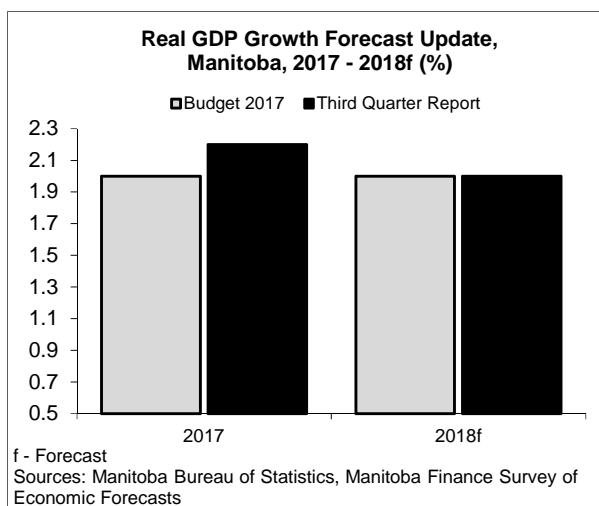
ECONOMIC REVIEW AND OUTLOOK

Overview

Manitoba's economy grew by 2.2% in 2017, an increase from 1.7% in 2016 and above the 2.0% growth projected at the time of the Budget 2017. This is the third consecutive year of improvement in growth.

Nominal GDP, the broadest measure of the tax base, increased by 4.3% in 2017, the largest increase since 2012.

According to the latest Manitoba Finance Survey of Economic Forecasts, real GDP growth in Manitoba is expected to increase by 2.0% in 2018, unchanged from Budget 2017. Nominal GDP growth is expected to increase by 3.8% in 2018.



A recovery from low oil and other commodity prices lifted real GDP growth in Canada to 3.0% in 2017, the highest since 2011 and the best among the G7 nations.

Consumer spending led growth in Canada; however, business investment did post its first increase in three years. Growth in exports remained steady at 1.0% for the second consecutive year, while imports increased by 3.6%, in line with more domestic spending.

A broad based increase in growth in a number of countries around the world is supporting a rise in global demand and jobs. As a result, since Budget 2017, the International Monetary Fund revised both its global growth estimate and forecast for 2017 and 2018 by 0.3% to 3.7% and 3.9%, respectively.

There are a number of risks associated with the current economic outlook including ongoing North American Free Trade Agreement (NAFTA) renegotiations and higher interest rates. The impact from major tax changes in the U.S. and Canada, and from the new rules to tighten financing in Canada's housing market.

Manitoba Economic Performance

In this *Economic Review and Outlook* report, annual, quarterly, and monthly economic statistics are on a calendar year basis. These statistics are often revised and can change the assessment of economic performance over time.

The Consumer Price Index (CPI) increased by 1.6% in 2017, up from 1.3% in 2016, matching the national increase. Transportation, shelter, alcohol, and tobacco boosted overall consumer prices, while clothing, footwear and food eased pressure on prices.

In 2017, Manitoba's employment increased by 10,500, up 1.7% relative to 2016. Full-time employment accounted for almost all the job growth in Manitoba, increasing by 9,200. Private sector was exceptionally strong and rose by 11,800 workers, or 2.5%. The unemployment rate averaged 5.4%, down from 6.1% in 2016 and below the national rate of 6.3%.

Manitoba retail sales were up 3.5% in 2017. Retail sales were supported by growth at gasoline stations (14.8%), building materials (9.2%), electronics and appliance stores (9.2%) and clothing stores (6.8%). Sales were tempered by declines in health and

personal care stores (5.1%), sporting goods, hobby, book and music stores (3.2%), and in furniture and home furnishings stores (2.3%).

Manitoba's 2017 manufacturing sales increased by 5.3%. Sales increased for electrical products by 13.7%, fabricated metals by 10.2%, machinery and equipment by 9.7%, transportation and aerospace by 9.3%, printing by 6.3%, food by 5.1%, primary metals by 3.6% and chemicals by 2.8%. Only furniture and wood products declined, by 1.2% and 0.6%, respectively.

Total investment in non-residential building structures was up by 9.2% in 2017, setting a new record for annual spending on non-residential buildings. Investment in industrial buildings increased by 29%, while spending on commercial buildings increased by 17%. Total spending on institutional and governmental buildings decreased by 17%.

Capital investment in residential properties increased by 14.3% in 2017. Reflecting over 7,500 housing starts in Manitoba, investment in new residential dwellings

increased by 30.2% in 2017, with spending on single units up 28.7% and spending on multiples up 33.0%. Investment in residential renovations increased by 1.8%, the eighteenth year of uninterrupted growth.

International merchandise exports rebounded from a 2.0% decline in 2016 to a 2.7% increase in 2017. Export sales to non-U.S. markets increased by 12.9%, bolstered by a 45.5% increase in sales to China. Exports to the U.S. declined by 2.2% in 2017, which follows a 3.8% drop in 2016.

Manitoba's farm cash receipts increased by 7.5% in the first nine months of 2017, compared to the same period in 2016. Crop receipts were up 13.1%, while livestock products receipts were down 1.6%. Over the same period, total direct payments are unchanged.

Manitoba's population was estimated at 1,338,109 persons in 2017, an annual increase of 19,994 persons or 1.5%. This follows a record annual increase of 22,693 persons or 1.8% in 2016.

Manitoba Outlook at a Glance

(per cent change unless noted)

	<u>2016</u>	<u>2017</u>	<u>2018f</u>
Gross Domestic Product			
Real	1.7	2.2	2.0
Nominal	1.7	4.3	3.8
Employment	-0.4	1.7	0.8
Unemployment Rate (%)	6.1	5.4	5.3
Consumer Price Index	1.3	1.6	2.1
Population	1.8	1.5	1.3

f – Forecast

Sources: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Finance Survey of Economic Forecasts (2018f)

Appendix I

2017/18 CORE GOVERNMENT REVENUE BY SOURCE

Thousands of Dollars

UNAUDITED	Year-to-Date to December 31			Full Year		
	Actual	Estimated	Variance	Forecast	Budget	Variance
Income Taxes						
Individual Income Tax	2,667,209	2,671,675	(4,466)	3,388,256	3,650,335	(262,079)
Corporation Income Tax	391,553	359,790	31,763	552,232	543,240	8,992
Subtotal: Income Taxes	3,058,762	3,031,465	27,297	3,940,488	4,193,575	(253,087)
Other Taxes						
Corporations Taxes	230,328	216,416	13,912	299,992	281,915	18,077
Fuel Taxes	260,101	259,214	887	342,222	334,683	7,539
Land Transfer Tax	74,833	68,063	6,770	89,000	84,109	4,891
Levy for Health and Education	367,391	363,518	3,873	485,978	477,528	8,450
Retail Sales Tax	1,903,893	1,869,809	34,084	2,467,707	2,357,724	109,983
Tobacco Tax	190,890	196,996	(6,106)	233,535	248,612	(15,077)
Other Taxes	7,667	7,714	(47)	10,656	10,752	(96)
Subtotal: Other Taxes	3,035,103	2,981,730	53,373	3,929,090	3,795,323	133,767
Fees and Other Revenue						
Fines and Costs and Other Legal	45,076	43,940	1,136	58,080	53,772	4,308
Minerals and Petroleum	10,927	10,172	755	14,308	10,851	3,457
Automobile and Motor Carrier Licences and Fees	117,615	124,228	(6,613)	153,615	153,770	(155)
Parks: Forestry and Other Conservation	24,740	20,753	3,987	38,057	34,030	4,027
Water Power Rentals	88,989	90,758	(1,769)	118,358	110,920	7,438
Service Fees and Other Miscellaneous Charges	99,545	82,172	17,373	201,500	188,344	13,156
Revenue Sharing from SOAs	22,491	22,519	(28)	32,680	32,680	-
Subtotal: Fees and Other Revenue	409,383	394,542	14,841	616,598	584,367	32,231
Federal Transfers						
Equalization	1,365,295	1,365,297	(2)	1,820,396	1,820,400	(4)
Canada Health Transfer (CHT)	1,027,428	1,027,474	(46)	1,365,189	1,355,400	9,789
Canada Social Transfer (CST)	376,199	376,217	(18)	501,197	501,600	(403)
Shared Cost and Other Transfers	64,586	72,375	(7,789)	155,817	173,440	(17,623)
Subtotal: Federal Transfers	2,833,508	2,841,363	(7,855)	3,842,599	3,850,840	(8,241)
Net Income of Government Business Enterprises (GBEs)						
Manitoba Liquor and Lotteries Corporation	487,646	476,000	11,646	615,800	592,000	23,800
Total Revenue	9,824,402	9,725,100	99,302	12,944,575	13,016,105	(71,530)

Note: Figures on pages 2 and 3 may differ due to rounding.

Appendix II

2017/18 CORE GOVERNMENT EXPENDITURE BY SECTOR/DEPARTMENT

Thousands of Dollars

UNAUDITED	Year-to-Date to December 31			Full Year		
	Actual	Estimated	Variance	Forecast	Budget ¹	Variance
Health						
Health, Seniors and Active Living	4,587,450	4,614,718	(27,268)	5,966,940	6,104,877	(137,937)
Education						
Education and Training	2,047,577	2,042,164	5,413	2,770,819	2,778,640	(7,821)
Families						
Families	1,513,253	1,505,479	7,774	2,040,597	2,033,357	7,240
Community, Economic and Resource Development						
Agriculture	120,409	123,789	(3,380)	187,946	191,506	(3,560)
Growth, Enterprise and Trade	58,733	53,453	5,280	80,127	86,198	(6,071)
Indigenous and Northern Relations	20,036	21,888	(1,852)	29,173	31,108	(1,935)
Infrastructure	475,763	475,589	174	662,439	668,951	(6,512)
Municipal Relations	205,944	238,657	(32,713)	407,290	410,252	(2,962)
Sustainable Development	110,743	116,357	(5,614)	154,723	154,723	-
Total Community, Economic and Resource Development	991,628	1,029,733	(38,105)	1,521,698	1,542,738	(21,040)
Justice and Other Expenditures						
Legislative Assembly	31,179	32,551	(1,372)	46,922	46,829	93
Executive Council	3,985	3,892	93	4,967	4,967	-
Civil Service Commission	15,347	15,871	(524)	20,908	21,404	(496)
Employee Pensions and Other Costs	2,486	29	2,457	22,210	22,210	-
Finance	182,065	200,025	(17,960)	260,250	266,068	(5,818)
Justice	397,467	407,027	(9,560)	601,833	602,251	(418)
Sport Culture and Heritage	60,903	57,544	3,359	82,064	78,610	3,454
Enabling Appropriations	-	-	-	21,612	21,612	-
Other Appropriations	41,657	47,566	(5,909)	84,039	56,800	27,239
Total Justice and Other Expenditures	735,089	764,505	(29,416)	1,144,805	1,120,751	24,054
Debt Servicing	125,172	133,917	(8,745)	215,000	240,000	(25,000)
Total Expenditure	10,000,169	10,090,516	(90,347)	13,659,859	13,820,363	(160,504)

1. Budget figures are adjusted to include allocations from Enabling Appropriations.

Note: Figures on pages 2 and 3 may differ due to rounding.

Appendix III

2017/18 CORE GOVERNMENT CAPITAL INVESTMENT BY DEPARTMENT

Thousands of Dollars

UNAUDITED	Year-to-Date to December 31			Full Year		
	Actual	Estimated	Variance	Forecast	Budget	Variance
Agriculture	-	-	-	419	552	(133)
Education and Training	-	-	-	-	-	-
Families	-	26	(26)	202	219	(17)
Finance	20,199	23,983	(3,784)	36,705	62,000	(25,295)
Health, Seniors and Active Living	-	100	(100)	-	1,254	(1,254)
Infrastructure	360,869	395,930	(35,061)	493,299	589,035	(95,736)
Justice	676	1,517	(841)	1,480	2,429	(949)
Sport, Culture and Heritage	-	70	(70)	120	120	-
Sustainable Development	780	2,481	(1,701)	2,821	15,439	(12,618)
Internal Service Adjustments	-	-	-	15,450	17,450	(2,000)
Total Capital Investment	382,524	424,107	(41,583)	550,496	688,498	(138,002)