Second Session - Fortieth Legislature

of the

Legislative Assembly of Manitoba

Standing Committee
on
Public Accounts

Chairperson
Mr. Reg Helwer
Constituency of Brandon West

Vol. LXV No. 2 - 2 p.m., Wednesday, March 20, 2013

ISSN 0713-9462

MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, March 20, 2013

TIME – 2 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Reg Helwer (Brandon West)

VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Messrs. Gerrard, Struthers

Mr. Allum, Ms. Braun, Messrs. Cullen, Dewar, Ewasko, Helwer, Jha, Pedersen, Whitehead

Substitutions:

Mr. Ewasko for Mrs. Driedger

APPEARING:

Mr. Cliff Graydon, MLA for Emerson
Ms. Carol Bellringer, Auditor General

WITNESSES:

Hon. Peter Bjornson, Minister of Entrepreneurship, Training and Trade

Mr. Hugh Eliasson, Deputy Minister of Entrepreneurship, Training and Trade

MATTERS UNDER CONSIDERATION:

Auditor General's Report–Report to the Legislative Assembly: Performance Audits, dated December 2010

Chapter 2–Economic Development: Loans and Investments under The Development Corporation Act

* * *

Mr. Chairperson: Good afternoon, everyone. Will the Standing Committee on Public Accounts please come to order.

This meeting has been called to consider Chapter 2–Economic Development: Loans and Investments under The Development Corporation Act of the Auditor General's Report–Report to the Legislative Assembly: Performance Audits, dated December 2010.

Are there any suggestions from the committee as to how long we should sit this afternoon?

Mr. Blaine Pedersen (Midland): Mr. Chairman, I would suggest we sit 'til 4 o'clock, reassess at that time if we need to, or, if we happen to run out of questions before then, we can adjourn.

Mr. Chairperson: Committee agrees? *[Agreed]*

Does the Auditor General wish to make an opening statement?

Ms. Carol Bellringer (Auditor General): Thank you, Mr. Chair, I will.

I'm joined by Sandra Cohen, who is the assistant auditor general responsible for value-for-money audits, and with her is Vernon DePape, who is the principal in that area, and I see at the back of the room Maria Capozzi, who is our principal in the audit office who is responsible for assisting us with the Public Accounts Committee itself.

The audit that we're looking at was included in our December report to the Assembly on performance audits. The department administers loans and equity investments made under part 2 of The Development Corporation Act to economic development programs in Manitoba's broader economic development strategy. Most of the part 2 loans are Manitoba Industrial Opportunity Program, or MIOP, business loans, and equity investments are in venture capital funds. We did an audit to examine the due diligence used in approving, disbursing and monitoring those loans and investments as well as the related performance measurement and public reporting.

In summary, what we found was that the two programs have stimulated economic development in Manitoba and most systems and practices were adequate. There remains–and this was at the time of the audit–room for improvement in planning, analyzing investment requests, monitoring and ensuring that performance reporting is accurate and focused on actual economic benefits to Manitoba. We did issue a follow-up on this report in 2013.

However, that–I understand that report's not being considered today. So, we had provided the members, however, with some very brief information on the status subsequent to the time of that audit.

Mr. Chairperson: Thank you. And thank you to the minister and deputy minister for joining us today.

Does the deputy minister wish to make an opening statement?

Mr. Hugh Eliasson (Deputy Minister of Entrepreneurship, Training and Trade): Sure. I'd like to introduce the staff that are with me today. Jim Kilgour is the executive director of Financial Services in the Department of Entrepreneurship, Training and Trade, and he's joined by two of his key staff, Jeff Hodge and Doug Fyfe.

I'd like to thank the committee for the opportunity to provide remarks on the report on the Department of E, T and T's Manitoba Industrial Opportunities Program, which we affectionately refer to as MIOP, and our venture capital fund program that was issued by the Auditor General's office in December of 2010. The report, as the Auditor General mentioned, covers the period between April 1st, 2002 and March 31st, 2009.

The Manitoba Development Corporation acts as the Province agent under part 2 of the Manitoba Development Corporation Act meaning that all lending and investment activities under MIOP are done under the direction of the Province of Manitoba. Each loan is reviewed and approved by Treasury Board and subsequently by Cabinet.

Manitoba Industrial Opportunities Program is the secured interest bearing repayable loan program which is designed to assist companies in securing significant Manitoba investment which would otherwise not occur without the provision of MIOP loan assistance. Typically MIOP is described as providing highly flexible loans to support businesses that are expanding in Manitoba whose proposals will assist in providing significant job creation or strategic economic development benefits to Manitoba. From MIOP's beginning in 1988 to March 31st, 2009, MDC made 117 MIOP loans totalling $249 million in disbursements to Manitoba-based companies. Loan writeoffs during this time were $28 million or approximately 11 per cent of loans disbursed.

Occasionally MDC also manages other part 2 loans on behalf of the Province. These would be loans that would typically assist organizations other than companies in some specific economic development objective. For example, the Province has assisted some school divisions in funding some of their international education projects.

Through the development corporation, the Province has also invested in pools of privately managed venture capital funds. These pools assist–invest capital in Manitoba-based opportunities. Broad objectives for these provincial venture capital fund investments include: to leverage private sector growth capital into the–into Manitoba-based businesses, to increase the number of private growth capital investment for Manitoba-based businesses, to increase the number of Manitoba resident skilled investment management teams for placing, managing and exiting private growth capital. From the venture capital funds program's beginnings in 1966 to March 31st, 2009, MDC invested as a limited partner in six different funds at a cost of approximately $21 million.

The auditor's report included 14 recommendations that were directed to the Department of Entrepreneurship, Training and Trade. As the Auditor General mentioned in their follow-up of those recommendations at that time, six were fully implemented and eight were works in progress. As of today, eight recommendations have been fully implemented, although the two that were implemented post the Auditor General's review have not been reviewed by her office yet and six are classified as works in progress.

The department notes that the board of the Manitoba Development Corporation formally approved and implemented a conflict of interest policy respecting its venture capital funds program, and the department believes that that recommendation has now been fully addressed. The department also notes considerable progress in reporting on the status of MIOP loans to management as the board of MDC is regularly updated on the status of loans including job creation audits. The annual reports of MDC also now contain a management discussion and analysis section.

A number of the other recommendations respecting venture capital funds are awaiting further activity in the venture capital funds sector. The Province has not made an investment in the sector since 2006, and this sector has seen a lot of change over this time frame as evidenced by some of the announcements that have emanated from the federal government on their participation in the venture capital field.

***** (14:10)

The recommendations of the office of the Auditor General respecting venture fund investments will be further addressed when and if the Province commences due diligence if another investment in a new venture capital fund is contemplated. Thank you.

Mr. Chairperson: Thank you, Mr. Deputy Minister.

Now, before we get into questions, I would like to remind members that questions of an administrative nature are placed to the deputy minister and that policy questions will be–will not be entertained and are better left for another forum. However, if there is a question that borders on policy and the minister would like to answer that question or the deputy minister wants to defer it to the minister to respond to, that is certainly something we would consider.

The floor is now open for questions.

Mr. Cliff Cullen (Spruce Woods): Thank you, Mr. Deputy.

You alluded to the $21 million that you had vested in venture capital. Go back to the auditor's report and there's the breakdown of the three areas where the money has been allocated, page 82 of the report if you want to have a look at that. I just wondered if you could provide a bit of an update in terms of where those particular funds are now.

Mr. Eliasson: Of the six funds that have been invested in since the program's inception in 1996, all six are still in existence. All of them have either invested all of their money or have curtailed their investing activity at this point in time and so all are in at varying stages of leading towards a winding up. It's a long process with venture capital funds. They have venture–they have investments that don't have a public market exit and so the liquidity of those investments, in some cases, is not very liquid. And so it's a long process to divest of some of their investments and they're in that process now.

Mr. Cullen: Thank you very much for that.

So are any of those six funds, then, are they currently completely resolved or is all six still outstanding?

Mr. Eliasson: At this point in time none have been formally dissolved so they still exist as legal entities. One is getting very close to completing that formal wrap-up process. They all, with the exception of one, hold some investments still at this point in time and until those investments are either disposed of or if the funds come to the conclusion that there's no prospect of recovery of any funds in those investments, then, at that time, they would wrap up.

Mr. Cullen: Is there an expectation then when everything will be wrapped up in those funds? Do you have a kind of a time frame in mind?

Mr. Eliasson: The timing isn't of our control. One fund is very close to wrapping up and for some others it's probably not too far in the future that they will wrap up. Others may well be in existence for quite some period of time from this point on.

Mr. Cullen: There's an annual report under MDC. Will those funds be reported in the annual reports by MDC?

Mr. Eliasson: The investments in the funds are certainly reported in the annual report and, off the top of my head, I can't tell you how much detail is in there. But it does list the government's investment in each of the funds. And as the funds are wrapped up, obviously, that will be reported, and it has some performance detail in terms of the number of investments that have been made by the funds in total and the number of those investments that have been placed in Manitoba companies out of the total number of investments that the funds have made.

Mr. Cullen: And, clearly, the Province is going to be having to write off some of the funds that were allocated there. Do you have any idea of what kind of dollar figure you're looking at?

Mr. Eliasson: I can get that. We have up–we have–to date, I'm not sure if anything's been written off to date. We have certainly made provision for our investment in each of those funds in the anticipation of a writeoff at some point in time. We have not yet formally written off. The one fund that I made reference to that's very close to wrapping their affairs up, there'll be a writeoff associated with that investment.

Mr. Cullen: Just to clarify, then, so once the funds are closed, then that's when the Province will realize what they will have to write off on those–each particular fund then.

Mr. Eliasson: The funds sort of fall into one of two categories. In the three earliest funds that were done, the Province used as an incentive to encourage private investments in the fund a vehicle where the Province would absorb the first X million dollars of losses for a fund, and that varied by fund, but it was, you know, roughly, like, $5 million out of a $20-million fund, the Province would absorb those losses. So for those funds, the Province's loss is capped at its level of investment, and we know that the funds have lost that amount or very close to that amount. So our expectation is that all of that money will be written off once the funds are wrapped up.

The other funds, the Province participated on the basis of equal limited partner, on the same terms and conditions as other limited partners in the fund, and the Province's sort of first-up commitment to participate in the fund provided the fund managers with some momentum in their marketing activities to attract private investments into the fund. And so in those cases, we–the Province participates on the same terms and conditions as the limited partners, and so any realization out of the funds will be shared with the limited partners on that basis, and so it won't be until all of the investments have been dealt with one way or another before we'll know with certainty what the Province's investment experience has been.

Mr. Cliff Graydon (Emerson): There was a recommendation that internal guidelines be set for MIOP interest rate penalties for failing to meet agreed-upon job targets and administration fees. I'm just wondering if, first of all, that was achieved, and at the same time, with that achievement, is it clearly demonstrated to prospective applicants?

Mr. Eliasson: The recommendation was that the program develop internal guidelines on interest rates, and we do have internal guidelines, and any variation from those guidelines is specifically approved in the Treasury Board submission dealing with that specific loan. And as internal guidelines, those aren't available to the public. Each MIOP loan is an individually negotiated loan, and so there's sort of general guidelines associated with MIOP loans that are public, and sort of the number of criteria that provide a starting point for negotiations are available. But at the end of the day, each loan is a negotiated agreement and so there's commercial confidentiality considerations in terms of what information is made public.

Mr. Graydon: If I understand right, then there would be a range of interest rates applied. Is that a fairly wide range? Or can you comment on that?

Mr. Eliasson: There's a interest rate formula which is–has a base of the Crown corporation borrowing rate with then an addition to it that is approved by Treasury Board, and any variation to that rate in any particular loan, whether it's a little bit higher or a little bit lower, is approved in the–for that specific loan.

Mr. Graydon: I want to be clear. The interest rate could be lower than the Crown rate? Is that what you just said?

***** (14:20)

Mr. Eliasson: No, that's not what I said. As a matter of policy, the MIOP program has not written a loan at a rate below the Crown rate since 2001 or something like that, or '2. Certainly, in–for the past number of years, it's been the policy not to do that. And so every loan that has been written since then has been at Crown rate plus something, and that something is sort of the–what's at issue for negotiation in every case.

Mr. Graydon: And, you'll have to excuse me I do have a hearing impairment. But you talked about skill management teams and could you expand on that a little bit what that entails. Is that private and government or is it just private management teams?

Mr. Eliasson: I'm not quite sure of what your reference–

Mr. Chairperson: Mr. Graydon, would you restate the question?

Mr. Graydon: There is a partnership between MIOP and private sector and you did talk about skill management teams. So how are they put together?

Mr. Eliasson: The Manitoba Development Corporation is–acts as an agent for the Province of Manitoba in the delivery of MIOP and so it's a corporate entity. It really doesn't have any staff of its own. So the team that negotiates the loans are from the Financial Services branch in the Department of Entrepreneurship, Training and Trade and they would work–they lead the team. They're supported by lawyers in the civil legal services in the Department of Justice and across government within the Department of E, T and T; Innovation, Energy and Mines; Manitoba Food and Agriculture. There are sector experts, and so those experts are brought into the team depending on the nature of the industry that the company is in and the nature of their business, but the team is led by the Financial Services section of ETT.

Mr. Graydon: Obviously, and I agree that we–you do need to have a skill management team. Is that also then–comes out a part of the interest? There has to be some type of renumeration for that.

Mr. Eliasson: The employees that are on that team whether they're from that Financial Services or the Department of Justice are employees of the Province of Manitoba so their salaries are funded by the appropriations that are approved by this Legislature.

Mr. Graydon: But what about–what if there are some individuals from the private sector on that committee?

Mr. Eliasson: Generally, the team is made up of civil servants. In particularly complex cases or in cases where time is of essence we will from time to time engage professional support from chartered accountant firms or management consultants or engineering firms within the province to provide a particular expertise that may not be resident in that team or to provide additional capacity to deal with matters if they are required to be dealt with on an urgent basis, and those representatives of those firms are compensated for in a manner that you contract with a consulting firm to provide services, so.

Mr. Graydon: Thank you.

Do you source some of this expertise outside of Manitoba as well?

Mr. Eliasson: In some very rare circumstances we have employed expertise that's not resident in the province to assist in the process, but that's quite rare that that occurs.

Mr. Graydon: The conflict of interest–I see that the Auditor General had recommended that there be some work done to prevent conflict of interest, and because I understand that companies don't necessarily have to operate in Manitoba and there could be two or three or four companies who are involved in a portfolio or two or three parts of that company and sourcing from different areas. Have you developed a system of tracking that so that you can eliminate to the best of your ability the conflict of interest?

Mr. Eliasson: At the time of the auditor's report there were two funds that were still actively investing and issues had been raised within both of those funds amongst limited partners and the investment committee. One of those funds developed and adopted their own conflict of interest guidelines at that time. The other fund had a provision within their articles of incorporation or–I don't know what you call it for a limited partnership–that dealt with situations where there was a non-arm's-length transaction, which provided a measure of conflict of interest guidelines, probably not as fulsome as we would like today.

Then, following up on the auditor's recommendation, we developed a conflict of interest policy that's been approved by the board of the Manitoba Development Corporation, and that will form the basis of discussion with any future funds that we may engage with. Obviously, funds will have their own perspective on the conflict of interest policy that the MDC board has approved, but it–that will form, sort of, the–at least the starting point for discussion with any new fund that we may invest in to ensure that there's a conflict of interest policy in place in that fund.

Mr. Graydon: If there is a perceived conflict of interest and someone brings that to the MDC's attention, are there penalties, and how do you police that?

Mr. Eliasson: The Manitoba Development Corporation is a limited partner in the same way as other investees in the organization are limited partners. If there is a conflict of interest situation, we certainly have the ability to raise that with the general partner of the fund and determine whether a conflict exists or not, and our experience has been when a conflict has–or a potential conflict of interest has been identified, that the limited partners, the investment committee and the general partners have worked to find a way to avoid that conflict.

Mr. Graydon: If you don't come to a satisfactory resolution–and I'm sure that you've had those situations where the individual that–or the company that was perceived to be in conflict–is there an appeal process if you do make a decision from MDC, you make a decision that says yes, you are–is there an appeal process that–or the company that is perceived to be–or have you had that situation?

Mr. Eliasson: There has not been a conflict of interest situation in any of the funds that I'm aware of that wasn't successfully resolved through negotiation with the investment committee, the other limited partners and the general partner.

Mr. Graydon: In your opening statement, you talked of–there was 11 per cent writeoff. That's current?

Mr. Eliasson: That was as of March 31st, 2009.

Mr. Graydon: Then, with the recommendations–a culmination of the recommendations that the Auditor General put forward, has that lowered that default percentage?

Mr. Eliasson: The recommendations of the Auditor General relate to–sort of, largely to policies and procedures and don't have a direct bearing on the writeoff experience with the MIOP program. Our experience with the MIOP program is that the stage of development of a company is one of the primary determinants of whether a writeoff may or may not occur. The writeoff experience as of today is about 12 per cent. So it's a little bit higher than the 11 per cent that existed on March 31st, 2009, but not a dramatic change from where we were at that point in time. And that 12 per cent is from the inception of the program, so every dollar written off is going to increase that percentage from where it was at March 31st, 2009.

***** (14:30)

Mr. Graydon: I understand that there is always going to be a certain amount of failures, but with the evolution of the whole program from conception to today, is it reasonable to assume that we should be able to see a decrease in the default?

Mr. Eliasson: According to that measurement you will never see a decrease in the dollar value of defaults because once they've been written off, they're written off and there's no going back. So you can only add on to them when you're measuring from the date of inception to a point in–any point in time. So it's not going to go down based on that measure.

Mr. Graydon: I'm probably not as well versed in this as you are. But at the same time, if we're continuing to do partnership loans and finance start-up companies and existing companies, that we will get much better at the job and there'll be a lot more dollars invested in the province of Manitoba or in the companies, and that I would assume that we should be able to lower that.

Mr. Eliasson: The rate of writeoffs compared to new loans can go down and the percentage of writeoffs as a percentage of the total portfolio can go down as the portfolio gets larger. So if that's your question, that's quite possible, yes.

Mr. Cullen: Just to follow Mr. Graydon's logic here, could you provide us numbers, up-to-date numbers, in terms of where you're at with the MIOP program now in terms of the number of loans you've made currently and the dollar figure you're at?

Mr. Eliasson: I can do that. That's actually beyond the scope of this audit. This audit examined the period up to March 31st, 2009. But I can tell you we're writing loans at the rate of about one or two a year, and so the loan portfolio today–to make it simple, at the end of 2009–March 31st, 2009–I think there was $249 million that had been invested through the MIOP program from inception to that point in time. Today we're at $294 million. So that's–whatever that increase is. And since March 31st, 2009, there have been two loans that have been written off. One was Shape Foods, and the writeoff in that case was $3.9 million, roughly, I'm just going by memory; and the Hecla resort loan to the Paletta Group was written off, and that loan was $5.5 million.

And so that brings the total writeoffs from inception to today to $36,350,000, and at the end of March 31st, '09, it was sitting about $25 million, roughly.

Mr. Cullen: In your comments, you talked about a school program that was a MIOP loan to a school to operate a school program. Could you expand on that for us?

Mr. Eliasson: Not easily. There were loans made to some school divisions. I could get more detail if you want. But there was a time when loans were provided to some school divisions to support their efforts to attract international students, and the loans were of a 20 or 25-thousand-dollar amount and all of those loans have been repaid.

Mr. Cullen: I'm going to go into a line of questioning that I think is relevant to this report given that there's some legislation has been passed that allows the government to mirror the MIOP program in another department. And, clearly, the auditor's pointed out some issues here with MIOP that, you know, have to be addressed moving forward. And it's in the Innovation, Energy and Mines portfolio that they're going to establish MIOP–similar MIOP programs, loan programs, for innovation and energy sector.

Is MDC going to be administering that program as well?

Mr. Eliasson: I'm not exactly sure what IEM program you're talking about. There was an election commitment to establish a loan program to support companies that were participating in energy development in Manitoba, and that–the loans under that program will be administered by MDC.

Mr. Cullen: Yes, that's right, and there was legislation passed to allow for that framework. So, just to confirm then, MDC will be administering that loan program as well?

Mr. Eliasson: MDC will act as the agent to the Province in the administration of that loan, and the Financial Services group within E, T and T will be responsible for the due diligence of those loans. And as I had mentioned in answer to an earlier question, there's expertise in several government departments related to different sectors in the economy, and the expertise related to the energy sector is resident in Innovation, Energy and Mines.

Mr. Cullen: So then the recommendations that the min–that the–sorry, the auditor has put forward here, those will be carried forward to when you're dealing with, you know, setting up and establishing that particular loan program as well?

Mr. Eliasson: Yes. The recommendations in the auditor's report are specific to the MIOP program and the venture capital program, but that is the bulk of what the Manitoba Development Corporation does, and so we've embraced those recommendations to guide all the activities of the Manitoba Development Corporation.

Mr. Graydon: I've talked to some individuals that have MIOP loans or that have been involved, and their comments have been good in many cases. The staff was very competent, very co-operative and easy to work with. They were open to suggestions and very helpful. One of the major complaints was the red tape with the legal contracts was a nightmare in–compared to private enterprise.

What do you say to that?

Mr. Eliasson: I would say that that's the very first time that I've heard that criticism of the Manitoba Development Corporation. I've heard from other companies–obviously not that one–and I don't know which one it was and you might mention to it me later if you want to talk about it–exactly the opposite, that they have been very impressed with the speed with which MDC and the staff in E, T and T and Financial Services have dealt with their requests and at a pace at times much faster than the private entities with which they were dealing, so.

Mr. Graydon: The review process for borrower's management expertise and follow-up concerns, the–do we have the management expertise to evaluate the–all of the businesses that come forward? Do we have that currently now, or do we have to go outside the system to find some of that as well?

Mr. Eliasson: We make an assessment on a case-by-case basis whether we do or do not have that capability and capacity within the government, and if we don't we are not at all shy about retaining the expertise that's necessary for us to do proper due diligence and structure an agreement that's in the best interests of the Manitoba taxpayer.

Mr. Graydon: Do you do that all within the province or is it outsourced as well outside of the province if it's necessary?

Mr. Eliasson: You know, a very, very high percentage, it's people within Manitoba. We have utilized expertise from outside the province, but in very special and exceptional circumstances.

***** (14:40)

Mr. Graydon: Where do we get the capital to hire these individuals?

Mr. Eliasson: The Department of Entrepreneurship, Training and Trade has a division called Financial Services, and they have operating funds that are budgeted and voted on and approved by the Legislature.

Mr. Graydon: The–one of the recommendations is that E, T and T obtain documented current and complete business plans information. What would have been missing in the past to bring a recommendation like this forward? What would we have been missing, and has it been corrected?

Mr. Eliasson: There are circumstances that we deal with companies where a full and complete business plan is not available, and that can be for any one of a number of reasons.

At times, we deal with companies that are part of a much larger national entity, and we're dealing with an operation that exists in Manitoba but could be part of a much larger organization and dealing on a project that's very, very specific to a small line of their business. It could be financing a piece of equipment to allow them to upgrade their technology to perform work that they're currently not capable of doing, and in those instances, that doesn't lend itself to what we would describe as a traditional business plan when you're dealing with a circumstance like that.

There are circumstances where we've been–we're dealing with companies that we have a long relationship with. We've had previous MIOP loans with them and an update of an existing business plan may be sufficient for our staff to perform the necessary due diligence.

And in some cases we deal with companies that are in a crisis situation with very compressed timelines in terms of decision making, both in terms of the Province of Manitoba's ability to participate and support them and their dealings with other financial entities, and at that–in those particular times, a complete business plan with a spiral binding and everything may not be available.

But in all cases, our staff are confident when they make a recommendation that they have received the adequate information that they require to confidently make a recommendation. And I think that, you know, part of the auditor's recommendation was, in those instances, we have–we need to do a better job in documenting what that information is, and that's a discipline that we've embraced.

Mr. Graydon: When we run into these situations where time–the timeline is a major factor and the company could be in crisis and so then the business plans can be incomplete, the–do the–then is there a follow-up to get that complete business plan and put that in a file when this–after the loan has been made, if you decide to do that?

Mr. Eliasson: After the loan is made, we're engaged in a process of monitoring the performance of that company, and we regularly get updates on their financial information, their market information, et cetera, et cetera. I don't–I'm not aware of us putting someone through the paces of putting together a business plan post facto. That's almost–that's a little like closing the barn door after the horse is gone, but they–our interest from that point on, we've–once we've made a decision and we're confident that the decision was made based upon an adequate volume of information to do due diligence, then our efforts are directed towards the monitoring and performance of that loan.

Mr. Graydon: If there's a scenario where the Manitoba government may well be in a partnership or a proposed partnership in a business, and then you are approached–MIOP is approached for a loan in that same business, how do we deal with that at arm's-length?

Mr. Eliasson: I can't think of a situation sort of in current history where the government has had an equity interest in a business that it has then provided MIOP financing to. I just–I can't think of an instance where that has occurred.

Mr. Graydon: How would you deal with it then?

Mr. Chairperson: Mr. Deputy Minister, this is all speculative, but–

Mr. Eliasson: Well, I–you know, I should go back because there are instances where the Province has been a limited partner in venture capital funds and that fund has made an investment in a business that the Province has had a MIOP loan with, and so that has occurred. It hasn't been a direct investment by the Province and, in those instances, we track what the overall exposure of the Province is in that case.

That was one of the recommendations that came out of the Auditor General's report was to have a more vigorous, formal process in doing that, so there's an annual review that occurs now. We had been doing it but not on as formal a basis as is currently being undertaken. But that doesn't–that–that the existence of an equity interest and a loan doesn't necessarily present a problem, so it's–you know, we're conscious of that fact and that's a consideration, but it's not necessarily an impediment to providing a loan to that entity.

Mr. Graydon: If the government is currently invested but not necessarily with a MIOP loan, and an investor comes forward applying for a loan in the same industry, how do you deal with that?

Mr. Eliasson: It would help if you gave me a specific example. That's a fairly–I'm not sure if you're talking about a Crown corporation or–

Mr. Chairperson: Mr. Graydon, is this relevant to the report we're dealing with, or is it–

Mr. Graydon: Mr. Chairman, I think it is, from the conflict of interest angle.

Mr. Chairperson: Do you have–Mr. Graydon, do you have an example for the deputy minister?

Mr. Graydon: I do have an example, Mr. Chairman. I'm thinking that we have a company that is 90 per cent owned by the provincial government, and if you want I can name the company or I can do that privately with the deputy minister but however you would like me to do that. But the company is 90 per cent owned by the Province of Manitoba and there is a private company right now with a MIOP loan who is in the same business.

Mr. Chairperson: Any comments, Mr. Deputy Minister, or do you wish to confer on the side prior to answering, or–

Mr. Eliasson: I don't know–I'm not sure of the situation you're referring to. If I had more detail I could–

Mr. Chairperson: Mr. Graydon.

Mr. Graydon: I'm referring to a provincial company called MCEC. It's 90 per cent owned by the provincial government, and their proposal is or was–and they collect a lot of private money to be invested in a slaughter facility in the province of Manitoba–and they apply for X number of dollars. How do you deal with that?

Mr. Eliasson: We evaluate every proposal from MIOP financing that's put before us on a case-by-case basis and a review of the market within which that company is operating is a part of that review, and that is the basis upon which we make a decision to recommend or not recommend a loan to Treasury Board.

***** (14:50)

Mr. Graydon: And so when you recommend a loan and the applicant has applied for X number of dollars, do you have the ability to say we're only going to give you W amount of dollars? We will not give you what you applied for, but we will participate at a lower level?

Mr. Eliasson: Every MIOP loan is a subject of negotiation between the company and the team within government that is trying to put the loan agreement together, and there are a variety of considerations that go into determining the value of that loan and it is not always the amount that the company has requested. We're very conscious of the level of equity investment in a company; we're very conscious of the availability of other sources of capital. We're not in the business of competing with private lenders when that lending is available, and so the amount of the loan is a negotiated amount and it depends on those factors and the security that is available for that loan. So there's a host of factors that influence what the final loan amount is, and it may or may not be what the company originally requested. But, at the end of the day, there's an agreement to form a MIOP loan, and that's two parties entering that agreement willingly.

Hon. Stan Struthers (Minister of Finance): Yes, I think maybe I can be helpful, and may–it may serve Mr. Graydon well to maybe meet on the side with the deputy minister. But the MCEC is the Cattle Enhancement Council; it's not the cattle enhancement company. It's a council that's been put in place to help facilitate slaughter improvement in Manitoba. But if he's making the case that the Cattle Enhancement Council is a company in competition with a private company, then that's just not correct. So I'm hoping that that may be helpful for the MLA for Emerson, and it may be even more helpful if he would just speak to the–at the side with the deputy minister in terms of details on that. But I don't want it to be left on the table that somehow we're backing a public company against a private company.

Mr. Graydon: I–the point that I was making was, is there a preception of conflict of interest and how do you deal with this then? And when the honourable member says that this is an enhancement council, at the same time it's 90 per cent owned by the government and it is in direct competition or perceives to be in direct competition. So I'm just wondering when we talk about conflict of interest, it's–and it's very, very important, and I know that it's difficult to follow that through from company to company, but when it is situated in this situation, how do you deal with it?

And I'm satisfied with the response.

Mr. Struthers: Well, just to be clear, I mean, the Cattle Enhancement Council is funded through a voluntary collection of a levy that's placed on each head of cattle in the province of Manitoba, so for the member to characterize this as a 90 per cent government-owned company, he needs to be very careful with that. I don't imagine cattle producers in his area would want to be referred to as government civil servants or part of a government company that they're funding. This is a cattle enhancement council that takes money from–on a voluntary basis from cattle producers in Manitoba in order to improve slaughter facilities in Manitoba. So I hope that that's helpful for the member from Emerson to get some of those facts injected into this discussion.

Mr. Chairperson: Thank you for that clarification, Mr. Struthers.

Mr. Graydon–meets it.

Mr. Cullen: We certainly look forward to the day when we have enhanced slaughter capacity in the province of Manitoba.

I want to get back to the auditor's report dealing with MIOP loans, and one of the points that came out of the report was dealing in the analysis of business plans. And it's–the auditor flagged the issue that potentially when MDC were reviewing these business plans, they were reviewing them in, maybe, an over-optimistic view. And the auditor made some recommendations in terms of doing the analysis on those business plans.

I'm just wondering what steps your MDC has taken in terms of doing the analysis on those business plans.

Mr. Eliasson: I don't recall the auditor saying that the business plan was being reviewed with an overly optimistic perspective. I think they noted that sometimes business plans contain overly optimistic projections and that a rigorous analysis is required to determine the impact of various scenarios on those projections. And we have a very skilled team that analyzes all of the information that's available in order for us to do the due diligence, and that includes testing things against different scenarios that might unfold and what impact that might have on the assumptions that are made behind the business plan.

Mr. Cullen: So it is the practice now of MDC to have a look at different scenarios that may unfold over the course of that loan.

Mr. Eliasson: It has long been the practice of MDC to do that. There's probably–wasn't and may still not be as rigorous a framework to do that as the Auditor General might have liked to see, but it's not a new practice to MDC by any means.

Mr. Bidhu Jha (Radisson): Well, I'd like to go to the section of venture capital area. And we hear a lot in the media and all over that Canada, in fact, is not that aggressive in venture capital funds and our economy could have grown much more if there were more venture capitals available. Now, could you compare Manitoba with other jurisdictions, see how we are doing in terms of the venture capital?

Mr. Eliasson: Well, I can make some general comments. I think it's true that there's not an abundance of venture capital available in Canada compared to some other jurisdictions; sort of the most notable point of comparison is with some particular geographic areas of the United States. And there are a lot of reasons behind that.

The experience in venture investment in Canada has, regardless of the form it's taken, has not been as strong as it has been in some areas, particularly in the United States. And so, in speaking broadly, in terms of venture capital as an asset class for investment, it currently is attracting less money than it has at some times in Canada's past and certainly less money than some areas of the United States is attracting right now. And there's a whole host of reasons for that, and some of it relates to the institutional investment–investing practices of large pension funds in Canada compared to some of their US counterparts.

Some of it relates to, sort of, the spread-out nature of wealth across a 60-mile band along the 49th parallel in Canada compared to larger concentrations in some geographic areas of the United States; it stimulates more angel investing and venture capital investment.

So there's a myriad of reasons for it, but I think it's an accurate statement.

Mr. Jha: Well, just a supplementary question. How are we doing compared to the Canadian jurisdictions on this aspect?

Mr. Eliasson: You know, I think most jurisdictions in Canada are struggling with venture capital now. There's not a jurisdiction in Canada that has been successful in attracting venture capital investment without some form of government intervention or incentive to do that. In Manitoba we have a venture capital tax credit, sometimes referred to as the angel investor tax credit, that tries to incent sophisticated investors not in the Securities Commission definition of sophisticated, but investors that have sufficient means to put money at risk in those kinds of investments, and some years that program has performed much better than in other years. We certainly don't have any difficulty in attracting companies that want to use that as a vehicle to raise money. In some years they, as a group, are more successful than at other times.

***** (15:00)

We still have a couple of labour-sponsored venture capital funds that operate within the province. Their success in attracting retail investment over the past number of years has substantially diminished from prior periods, and that's an experience that's not unique to Manitoba. That, in fact, is happening right across the country in the labour-sponsored venture capital area, with the one exception being Saskatchewan where they have some funds that are doing very, very well and they've actually got a pretty good track record of–on their investment performance largely related to small resource plays in Saskatchewan. So that's a bit of an outlier within the country.

So it's mixed across the country, but there is a reason why the federal government has announced a $400-million program to try and stimulate venture capital investment in Canada and that's because it's a problem that is of national proportions.

Hon. Jon Gerrard (River Heights): Yes, my question is to the Auditor General.

In the report, you state that the two programs stimulated economic development. It is my understanding that–I mean, the 15 loans that you looked at, there were specific job targets. There were specific targets in terms of economic growth and there was a specific discussion in some of them in terms of multiplier effects.

To what extent were those job targets, the economic growth and the multiplier effects achieved?

Ms. Bellringer: It's correct that we did say that. That was not one of our objectives of doing the audit was to–we did not do a measurement of the outcomes.

Mr. Gerrard: I find that difficult to understand why you didn't look at whether the loans achieved their objectives. Why was that?

Ms. Bellringer: We actually never look at the effectiveness of programs. We look at whether or not a department is measuring it themselves. We had elements of that, but we looked at it in the context of how well the department was itself measuring the effectiveness of the program. So our–I think it was our first recommendation. No, that was into the lending. Let me just find it. I'm not finding the specific recommendation, but we did recommend that the Province look to see–sorry, I don't know why I'm not finding it because it was right on to the question that you're asking.

We had recommendation 8 on the venture capital fund that they assess the results achieved by the differing venture capital fund approaches, and so that's an assessment that we would not–we did not make. I mean, when I say we don't, I mean, I suppose we could. It doesn't–there is nothing in our legislation that says we can't, but you'll rarely see an audit report where we're doing the external evaluation. We're looking to ensure that the department's doing that. So that number 8 one and, as well, the number 9 recommendation on, again, the venture capital funds that the Province look at its analysis of the potential economic benefits to Manitoba.

So those are–I mean, just back to–there's no real reason as to why not. When we designed the audit we didn't choose to do that.

Mr. Gerrard: One of the things that the Auditor General–one of the things that you mentioned was that you look to see what–to what extent the department was looking at whether targets were met, all right, targets in terms of jobs, et cetera. Now, I mean, I looked through the report and the only reference that I saw to meeting job targets was on page 78, and that was actually a loss of 1,500 jobs not a gain of 1,500 jobs. And so I'm having trouble in terms of figuring out to what extent the department actually achieved the objectives that it set out in terms of jobs that were to be produced as a result of these 15 loans.

So maybe–you did say that you were going to assess, or you did assess, how well the department was doing in evaluating–maybe you could start with that premise.

Mr. Chairperson: So the question for the Auditor General then, Mr. Gerrard, would be?

Mr. Gerrard: How well the department is assessing whether job targets were met.

Ms. Bellringer: I'm sort of stumped because I don't know how to say that we didn't choose to design an audit to do that, and I don't have a particular reason for having–you know, we did what we did and that wasn't one of the things we did. I'm feeling like I'm sort of being put on the spot as to why and I'm sorry, I don't have a reason.

Mr. Gerrard: All right, let me just sort of wind up the comment. I mean, the reason that I was concerned about whether in fact job targets were met, and maybe I will ask the deputy minister whether job targets were met, if that's permissible.

Mr. Chairperson: Well, is this a question that's relevant to this particular report or is it better in another venue?

Mr. Gerrard: Well, I mean, in this report, we've heard that nine out of the 15 loans didn't have complete business plans. Only 40 per cent had described key assumptions and only seven of the 15 actually were designed to create new jobs. The rest were just to maintain some jobs. So, I mean, I'm left a little bit perplexed as to whether this program was effective. And I would have expected this to be part of an audit but maybe it isn't.

And can I at least ask the deputy minister to what extent the job targets, the economic growth and the multiplier effect proposed were met?

Mr. Eliasson: MIOP loans are provided in a number of circumstances, sometimes to assist with industries expanding in Manitoba; sometimes it's part of a package to encourage industries to locate in Manitoba. And sometimes we work with Manitoba companies that are facing challenges to try and preserve jobs in Manitoba. And success in each of those areas has positive economic benefit to Manitoba.

And so the fact that a company is in trouble and receives a MIOP loan as part of a package to restructure and continue their operations at some level in Manitoba is no less an important contribution to the economy than a new company locating and creating the same number of jobs that otherwise would have been lost. So all of those–in each of those instances there are positive economic effects for Manitoba.

The particular situation that was in the auditor's report on job targets related to a fairly well-known Manitoba company–so I can't sort of use their name directly and I hope not to stray into areas of commercial confidentiality–but, a substantive Manitoba company that was facing some very significant challenges at a point in its history. The US market represented the largest portion of their business. China was competing aggressively–companies in China were competing aggressively in that US market. And that was having an impact on the company. The Canadian dollar was appreciating quite rapidly against the US dollar at that time, and that was having an impact on the company. And, just to make things a little more interesting, the US housing market collapsed, and that represented–household growth was a major factor in influencing the market that they sold into.

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And so that company was challenged with a very substantial restructuring. The initial job targets that were there when we first began working with the company became irrelevant for a couple of reasons. One is that the company restructured and a part of the company was sold off to another Manitoba entity and so maintaining an accountability in the original company for jobs that were now lodged in another company didn't make sense and the company's overall level of employment was adjusting to the realities of the business environment that they were in. And so the job targets, the original job targets, weren't met and no penalty was applied, and that was sort of highlighted in the auditor's report. And no penalty was applied because we're not in the business of penalizing Manitoba companies that are doing their best to deal with a very challenging environment where there's strong, legitimate reasons why job targets aren't being met. We're not there to make the situation worse and so the penalty was waived in that instance. The company survives today and is employing a significant number of Manitobans today.

Mr. Gerrard: That was not really my question. My question was, I mean, you set initial job targets and maybe for these 15 loans that job target was 15,000 jobs, whether it's maintained or increased or what have you. Of that 15,000 job target, what was the eventual result? Do you know? *[interjection]* That you must have had some when you added up 15 loans and you had so many initial job targets, 2,400 here, 1,000 here or what have you, you know.

Mr. Eliasson: The key performance criteria for MIOP is amongst retention of the–repayment of the principal amount of the loan is stimulating capital investment and so we track the level of capital investment that is associated in projects where a MIOP loan is involved and is linked to the fact that MIOP is rounding out the financing package to make a project possible, and employment. And in cases where it's a job retention there's maybe a reduced level of employment target from where the company is today, but there's a floor that is the sort of the goal to stabilize the company, no lower than that floor.

Where companies are starting up or expanding then there's a increased number of jobs that's the target. So there's a job target in both cases, one going up, one minimizing the impact of reductions. We report on that in our annual report on an annual basis, and after the auditor's report we not only do it in our departmental annual report, but in the MDC annual report. So that reporting is there on an annual basis year after year after year for a while.

Mr. Chairperson: Mr. Gerrard, do you have another question?

Mr. Gerrard: Yes, to the Auditor General. How accurate are those numbers? Did you check?

Mr. Chairperson: Can you repeat the question, please?

Mr. Gerrard: Well, in the–MIOP provides annual report numbers in terms of their estimate of the jobs produced and the jobs saved. How accurate are those numbers? Is that something that you checked?

Ms. Bellringer: No, it's not included in the financial statements that we audit. They're in the annual report, as you mentioned. It's not something we verify annually and it's not something we verified when we did this audit.

Mr. Gerrard: A question on the–since one of the questions we were already talking about dealt with investment, this deals with the funding that was provided for venture capital efforts. And there were six funds that were invested on since 1996 and you've told us that all six have either invested all their money, run out of money or are winding down.

Was it the objective when these initial investments were made that you would have funds which would, you know, have a short life and then wind down, or was the objective that you would be starting a fund that would be able to grow and continue and build over time?

Mr. Eliasson: Each of the funds was a closed-end fund. It raised X number of dollars and then that's what they have to work with, and they invest that over a period of time. And then the next period of time is spent divesting of those investments, and that's the model that–of that kind of business. I mean there are venture capital companies that have been in existence for a long time and continue to grow and attract new capital on a regular basis based upon their performance. But the funds that Manitoba invested in were those closed-end kind of funds that do have a finite life. It's not a precise life in terms of 12 years or 10 years but they do have a finite life, and that's the model. That's their intent.

Mr. Wayne Ewasko (Lac du Bonnet): Just a quick question. On page 78 on the–Treasury Board approved all loan amendments but not waived fees and penalties. Has–since the audit's been done–has all fees and penalties that are being waived being reported to the Treasury Board in writing?

Mr. Chairperson: Mr. Deputy–sorry, go ahead.

Mr. Ewasko: That was one of the recommendations by the Auditor General?

Mr. Eliasson: The system that we have in place now is that any material changed to penalties or interest, et cetera, are approved with a Treasury Board– a written Treasury Board submission. They're improved–approved by Treasury Board. There's a Treasury Board minute and that minute is subsequently approved by Cabinet.

When the changes are not material, if they're like a 1,000 bucks or 1,500 bucks for this or that, staff phone their counterpart in the Treasury Board Secretariat and if staff at both levels agree that it's not material then the change is made, and if there is a sense that something that should be brought to the attention of Treasury Board, then it is.

Mr. Ewasko: So then what level would be–you know, what's the, I guess, the bar for where those things would be written down and reported to Treasury Board? So you said $1,000 or $1,500 or so, but where's the minimum?

Mr. Eliasson: Every change that's reported to Treasury Board–to the Secretariat and those changes that are significant are–have a formal Treasury Board submission and are brought before the board for decision.

Mr. Ewasko: In writing?

Mr. Eliasson: Yes.

Mr. Ewasko: So, then, in the past why if the Treasury Board would have to approve amendments why would those fees and penalties not be reported in the past? It didn't matter what sizable amount but why would they not be reported in writing to the Treasury Board for approval?

Mr. Eliasson: In the past changes of less than a material amount were decided within the department, and there was one instance where legal fees or a portion of legal fees were waived that I think was in the tens of thousands of dollars that was decided in the department, and I think, quite rightly, the auditor identified that as something that probably should have been brought formally in front of the Treasury Board, and so that would be a material amount.

Mr. Chairperson: Any further questions for the minister, deputy minister or Auditor General?

Seeing none–seeing no further questions, does the committee agree that we have completed consideration of Chapter 2 of the Auditor General's Report–Report to the Legislative Assembly: Performance Audits, dated December 2010? *[Agreed]*

So thank you to the Auditor General and her staff, the minister and deputy minister and their staff for appearing today and, of course, to the pages and our members and staff.

So this concludes the business before us.

The hour being 3:20, what is the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: All right, committee rise.

It would be appreciated if members would leave behind any unused copies of reports so they may be collected and reused at the next meeting.

Committee rise. Thank you.

COMMITTEE ROSE AT**:** *3:20 p.m.*

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