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Public Accounts**

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Department of Tourism, Culture, Industry and Innovation

PUBLIC ACCOUNTS COMMITTEE

Department of Tourism, Culture, Industry and Innovation

Chair: David Brazil, MHA

Vice-Chair: Derrick Bragg, MHA

Members: Neil King, MHA
Pam Parsons, MHA
Barry Petten, MHA
Scott Reid, MHA
Gerry Rogers, MHA

Clerk of the Committee: Elizabeth Murphy

Appearing:

Office of the Auditor General

Terry Paddon, Auditor General
Sandra Russell, Deputy Auditor General
Jessica Nugent, Audit Manager
Trena Keats, Audit Principal

Department of Tourism, Culture, Industry and Innovation

Ted Lomond, Deputy Minister
Andrea Dicks, Acting Director, Corporate Services
Gillian Skinner, Director, Regional Economic Development
Larry Weatherbie, Acting Director, Accelerated Growth

Also Present

John Finn, MHA

Pursuant to Standing Order 68, John Finn, MHA for Stephenville – Port au Port, substitutes for Scott Reid, MHA for St. George's – Humber.

The Committee met at 2 p.m. in the House of Assembly Chamber.

CHAIR (Brazil): Ladies and gentlemen, can I have your attention. We're going to get started. This is the 48th General Assembly of the House of Assembly, the Public Accounts Committee. We're meeting this afternoon to address the Department of Business, Tourism, Culture and Rural Development, particularly under section 3.2 of the Auditor General's report.

I'll just explain the process that we'll use here. I'll introduce the Committee, or the Committee will introduce themselves. Then I'll ask the officials to introduce themselves and the Auditor General's staff will introduce themselves. I'll have the Deputy Clerk swear-in the officials and then I'll ask the Deputy if he would like to do opening remarks regarding the AG's recommendation and the letter that we had sent in response. Then we turn it over, I'll ask each of the – first, I'll start with the Vice-Chair to ask some questions.

There are normally five-minute intervals, but if a conversation is going on and it's to conclude a certain question or point, I'll allow that. And then we go back and forth to clarify anything until we're satisfied that things are moving the way that has been outlined. It's not a confrontational process; it's an information-gathering process.

At the end of it, the Public Accounts Committee does a report to the House of Assembly indicating if we're happy with the responses and that we support the move-forward process. And if we have any other recommendations that we'll send back to the minister and the department about how we feel things should change or the approach should be different than what's already outlined, to go from that process. At the end of it, I do ask the AG if he would like to have any comments about the information he's heard and the discussion that's gone from there.

I'll start by introducing myself. I'm David Brazil, the MHA for Conception Bay East – Bell

Island. I'm the Chair of the Public Accounts Committee.

MR. BRAGG: Derrick Bragg, I'm the Vice-Chair of the Public Accounts Committee and the MHA for Fogo Island – Cape Freels.

MS. P. PARSONS: Pam Parsons, I'm the MHA for the District of Harbour Grace – Port de Grave and a Member of the Public Accounts Committee.

MR. FINN: John Finn, the MHA for Stephenville – Port au Port. I'm substituting today for Mr. Scott Reid.

MS. ROGERS: I'm Gerry Rogers and I work for the lovely people of St. John's Centre. I'm also a Member of the Public Accounts Committee.

MR. PETTEN: Barry Petten, MHA for Conception Bay South and also a Member of the Public Accounts Committee.

MR. WEATHERBIE: Larry Weatherbie, Acting Director for Accelerated Growth, Tourism, Culture, Industry and Innovation.

MR. LOMOND: Ted Lomond, Deputy Minister, same department.

MS. SKINNER: Gillian Skinner, Director of Regional Economic Development, TCII.

MS. DICKS: Andrea Dicks, Acting Director of Corporate Services, TCII.

MR. PADDON: Terry Paddon, Auditor General.

MS. RUSSELL: Sandra Russell, Deputy Auditor General.

MS. KEATS: Trena Keats, Audit Principal of Performance Audit.

MS. NUGENT: Jessica Nugent, Audit Manager.

CHAIR: Okay. I'll ask the Deputy Clerk if she'll swear in the witnesses, please.

Swearing of Witnesses

Mr. Larry Weatherbie
 Mr. Ted Lomond
 Ms. Gillian Skinner
 Ms. Andrea Dicks
 Ms. Jessica Nugent

CHAIR: Thank you, Elizabeth.

Just to open, just a note that what we're dealing with here are the three recommendations from the Auditor General. We've had the responses and we've had a chance to review it. The Members will have some questions relevant to that for clarification and some explanation as to the process you're going to use to go forward.

I will tell you, in comparison to what we've dealt with for the last few days, some we had, I think 30 recommendations; 29 recommendations on one and 17 on another, so this one falls in line. There may be more general discussion and specifics around your process forward or it might be exactly just the specifics around what you have outlined and clarification on those. So I appreciate that.

I'm going to start with Mr. Bragg.

Sorry, yes, Mr. Lomond. I'll give you an opportunity if you want to talk to about an introduction to the recommendations of the AG and how you're going to approach (inaudible).

MR. LOMOND: Okay. Well, we didn't really prepare an opening statement, but I guess basically there are three recommendations that came out of the Auditor General's 2015 report.

One was around government departments establishing performance targets for all business financing programs and monitoring against those targets. I think the second recommendation was along the lines of taking corrective action where it was felt necessary where you weren't achieving the targets that you've established for the program. The third was around reporting to the House of Assembly on the performance against your targets.

We fundamentally agree with the Auditor General's three recommendations. I think we're making good progress towards addressing those.

I guess we'll maybe just open it up for questions and get into it.

CHAIR: Perfect. That's normally the approach.

Okay, Mr. Bragg.

MR. BRAGG: Okay, perfect.

I have one question, since it is only three headings. Once you finance a project and you roll it out, how do you follow it up and measure its success to see if we have a good bang for our buck or what the value was back to the province at the end of the day?

MR. LOMOND: Right.

There are a couple of things I'd mention. In terms of the recommendations, of course, that the Auditor General made, in 2013 we went through an amalgamation of programs. We had approximately 21 programs that we brought down to two programs. Those are programs with sort of general application.

What the programs were meant to do would give us more flexibility in dealing with the clients. So rather than make clients fit various sorts of criteria and jump through various sorts of hoops, the idea was that we could provide better client service by having more open programming. That programming would allow us to be more dynamic in responding to changing market conditions, we'll say. There were two programs. There was the Business Investment fund, which is the scope of what we're talking about here today. The other program was the Regional Development Fund.

At the time, we undertook, basically, two parts. The first part was we said we would engage in a model of continuous improvement. What we would do is we would go and we would monitor our investments on an ongoing basis and then use that information that we gather to tweak our programs and services.

The indicators that we were using since the inception of the program would be things like sector that the investment was in, maybe region of the province, type of investment, type of project, by program type, those sorts of pieces. We've been monitoring based on that

information. We've been using that information to tweak our offerings as we go.

We've got the business development support management committee, for example, used findings from that continual improvement process, that continual assessment, to change the way we delivered our travel stipend program. We found a way of delivering it that we felt was less onerous on the client in terms of reporting, less paperwork, more business friendly, we'll say. That was an ongoing piece.

When we rolled the programs out, we said that this year, 2017-2018, would be the first full year of evaluation on the program. So we're doing that evaluation this year and we're doing it as part and parcel to the review on business financing.

The review of business financing is a government-wide initiative. We have every department that provides some sort of financial assistance to companies is participating. For example, the Department of Finance, forest and Land Resources, Natural Resources, Research and Development Corporation, et cetera. So all of us will be meeting and tackling this together. What we're doing there is we're looking at the programs individually, how they function. We're also looking at the Government of Newfoundland programs as a basket and sort of how do they work together? Are they being effective?

The third piece we're looking at is how those programs operate within the broader financial ecosystem that's out there. Because when you think about it, there are a lot of players out there. There are commercial lenders; there are community business development corporations. There are federal government programs such as NSERC, Export Development Canada, Business Development Canada. So we're looking at the programs in the context of that broader ecosystem.

So really we're looking at two things, I think. We're looking at the effectiveness of our programs in terms of our outputs, our logic model outputs, and we're looking at our efficiency in terms of our – sorry, we're looking at our efficiency in terms of our outputs, and we're looking at our effectiveness in terms of

the outcomes that we're trying to achieve using our logic model.

To give you a sense as to what we're looking at in terms of efficiency, the outputs of what I'm talking about is basically our investments. It could be a loan guarantee. It could be an equity investment. It could be a conditionally repayable loan. It could be a secured loan.

We'll be looking at things like, have we reduced red tape? The timeliness of our decision, are we turning around financing in a time that businesses need it? Are our files properly documented? Is our security adequate? Are we duplicating what another agency is doing? Are we crowding out other funding? Because that's a real concern for us.

We want to leverage funding from commercial lenders, federal government and others. We don't want to supplant funding from those sources. We don't want to move the burden of financing businesses from the taxpayer of Canada to the taxpayer of Newfoundland and Labrador, or from the Bank of Montreal to the taxpayer of Newfoundland and Labrador.

In terms of the outcomes, we're looking at outcomes depending upon the goal of the investment. So we're looking at – GDP impact would be one of the things we'll be looking at. Revenue generation, top-line revenue generation, cost savings, productivity. If it's aimed at an innovation type of investment, you would probably see us measure start-ups, scale-ups. We'd also be looking at new market development which I think is going to be pretty important for companies, especially as we get into talking about some of the accelerated growth companies.

Some companies are growing fairly quickly. They may be chewing up the domestic market pretty fast, so our investments are meant to help open up new markets. If they're not opening up new markets, then they may not be successful. I guess that's sort of where we are in terms of our moving forward.

We do project and client monitoring. We do account status reports which would be produced, usually, I think, monthly. As part of that, we'd be grading our investments in terms of how

likely we are to get repaid, whether they're current with their payments, 30 days, 60 days, 90 days, that sort of thing. We gather client feedback through assessment on client feedback forms. We do financial reports on a monthly basis – that, again, our management committee, as I already referenced.

There's a lot in there. I'm probably going into too much here. Maybe it's better to step back and have a follow-up.

MR. BRAGG: Okay. No, I was more or less thinking, if we had a project – for argument's sake, I'll look at the chair in front of me. If there was a company that came to you with a proposal they're going to make chairs, is there a project that you might have done a final evaluation on where there's a report that says this was done, it was a great investment, we produced this many man hours or whatever. Is that being done or ...?

MR. LOMOND: It depends on the type of program, the types of measures that are used. For example, our Investment Attraction Fund would be very much focused on jobs. What would be done as part of that investment is we would go in and we would do baselining in terms of existing employment. We would look at where the employment is, what the wage levels are. We would then put in place a conditional repayable loan where we would then flow that money to the company based on job targets that we would negotiate with the company.

Where the company does not hit their job targets in that particular case, we would recover our funding from the client because, again, it's a secured loan. In some cases, that's the sort of piece we would be very focused on in terms of employment creation.

When we're doing investments in, say, more in the innovation space where you've got a young person who's just innovated, just developed a new patent on something, our measures might be a little bit different because it might take some time for that company to grow. So their ability to leverage funding from other sources might be something we would think would be important.

It really depends on where the company is in terms of its stage of investment. But we do have sort of across the board metrics such as if our

funding is debt financing, are we getting repaid? Are we getting the right sort of distribution of funds? Based on what we've looked at, are we seeing the types of outcomes we desire? Again, that could be employment creation. It could just as easily be top-line revenue or market development.

We have a stipend program that's aimed at opening up new markets. In that case, the success is measured in terms of an evaluation form that would look at things like whether or not the company has made sales during a trade activity, whether or not they introduced new potential clients that they think they can develop into customers over time, whether or not they've had to innovate their product or service to adapt to local climatic markets or regulatory environments, those sorts of things.

MR. BRAGG: Thank you.

Okay, let's move on.

CHAIR: Mr. Petten.

MR. PETTEN: Thank you, Mr. Chair.

I don't have a lot of questions as you gave a lot of detail there that time, which is a good thing.

Under the response from Minister Mitchelmore, he states there's a committee of deputy ministers and equivalents that have been established in various departments to, I guess, basically to review your performance indicators. So what are the timelines? I know the committee is in place, but what are your timelines for developing into something tangible?

MR. LOMOND: The committee has already started its work and the process to that, there are various stages. One is maybe an inventory of the existing financing programs that are out there. So looking at what different departments offer, what their criteria is and to what extent they overlap. In some cases it has involved bringing in people from outside to maybe educate some of the committee members because it's not everyone – unless you're into this on a daily basis dealing with the different funding sources, you may not be fully aware of the full range of financing programs that are out there.

So to help the people involved in that committee, again, to make determinations around either the effectiveness of the program in terms of whether it's achieving what it's desired to, is it actually growing the economy? Is it moving the needle? Is it creating new companies? Or in terms of efficiency, are we making turnaround times, that sort of thing?

I think overall, we've said by the end of this year, the information that is gathered through this process is going to inform the budget process for 2018-2019.

MR. PETTEN: Okay.

On that same topic, I know you have senior staff and the deputy ministers, was there any thought given to including stakeholders outside of government officials to get their view points, because sometimes that can be valuable as well?

MR. LOMOND: Yes. We've had meetings with a number of individuals, including Peter Hall, vice-president of Export Development Canada. We've had meetings as recently as, I believe, last week or the week before with Business Development Canada; we had Atlantic Canada Opportunities Agency. We do regular surveys of our clients. So we have a fairly good handle on what our clients' needs are.

Moving forward, as people know, I guess it's no secret, our department has gone through a significant restructuring this year, which we think puts us on pretty good footing. Now, there are a couple of things about that restructuring. One is we've created a new Division of Sector Diversification.

This Division of Sector Diversification is tasked with developing sector strategies. So that's meant to sort of quantify the sector, looking at what the challenges and opportunities are associated with the sector, looking at what the potential for GDP impact is and employment creation within the sector. Looking at the number of intermediaries that are out there within the sector; industry associations, other players and looking at the types of financing that are there.

That sector work I think goes a long way to addressing some of the concerns the Auditor

General has made around the program overall in terms of, what are the outcomes? What are the goalposts? What is it you're trying to achieve? I don't think that's going to come from the program so much as it's going to come from the sector strategies. That we're going to lay out sector strategies that are going to set these goals.

The other piece is we've created a Division of Sector Research, which is new. The idea behind a Division of Sector Research is they can in real time monitor what's happening with the sector. They can look at trends and we can revise our assumptions. We can revise our targets based on evidence, which is something – I'm not saying we haven't done it before, but we may not have had as much evidence as I would have liked. We would not have been doing as much primary and secondary research. We would not be doing, as a rule, lit reviews. The looking at what is happening in other jurisdictions and how people are dealing with problems. So we have a Sector Research Division.

The third division I think is of note is the division headed by my colleague here, Larry Weatherbie, is the Accelerated Growth Division. In that case we are targeting companies that have potential for high growth. What we've used is a fairly firm metric. We've said companies that have demonstrated on average 20 per cent growth year over year for three consecutive years, with minimum sales of \$5 million a year. So that is meant as a lead indicator. Given that I think right now in Canada over half the workforce currently works for what's considered to be a rapidly growing company, we believe that's a lead indicator to get at some of those things that I believe the Auditor General was looking for in his report.

The fourth change is the last one I'll mention, is we've created a new Division of Corporate Services, and what we've done there is we've taken the people who do the evaluation on these programs and we've combined them with the people responsible for the analysis and the management of information within the department. Now it seems like a small move but that hasn't been done before. It should, in theory, make it easier for the people doing an evaluation to have discussions with their colleagues in their division, jointly plan and use

the information management systems of the department to gather that for reporting purposes.

CHAIR: Perfect. Are you good?

MR. PETTEN: No, I have one more.

CHAIR: One more? Okay.

MR. PETTEN: The Auditor General recommended reporting periodically to the House of Assembly. I know in the response the minister states to the annual report, which is pretty standard across all government departments. The annual reports are submitted to the House of Assembly.

Based on a program like this with over \$100 million, it's different than a lot of other programs. Has there been any thought given to probably providing a different reporting mechanism outside the annual report to the House to get more detailed, based on the figure and based on the program, I guess.

MR. LOMOND: Well, it depends. We have the annual report that we report on by every – I think it's tabled by September 30 every year. We table a strategic plan, and then we table an annual report which measures our performance against that plan.

The other piece we do is we file a Business Investment Corporation annual activity report. It also comes out, is tabled by September 30. That report would also contain information on our investments, number of applications, number and value of applications and percentage of projected revenues collected. There's a collection function, again, because many of the investments we make are debt instruments. We capture that as well.

I think as we move forward with the sector plans, we are going to be communicating sector goals. For example, we recently did with our tourism; we said we were going to grow double over 2009 numbers by a certain date. The plan is once these sector strategies are developed is to set firm metrics around those as well and communicate those so that those plans will become public documents.

They're meant to be living documents. We want to move away from, I think, carving things in stone. We want to create a plan that gives us something to aim for, but is dynamic enough to respond to the realities of a changing economy as it happens.

MR. PETTEN: Thank you.

CHAIR: Are you good?

MR. PETTEN: Yeah.

CHAIR: Ms. Parsons.

MS. P. PARSONS: Good afternoon.

Thank you.

My question is with regard to Recommendation 2 and that's: "Where programs are not meeting performance targets, the department responsible should address whether program changes are required." As we know across our Province of Newfoundland and Labrador, many business programs are given assistance and partnerships with other agencies such as ACOA which is certainly a wonderful thing.

How has the department worked with agencies to ensure proper and effective reporting measures are in place? Now, I know you have given us a lot of information but if you could probably elaborate on that for us.

MR. LOMOND: Sure.

I think one of the pieces that's upcoming, maybe one of the most current will be in the next week, we'll be forming a regional trade network with the Global Affairs Canada, Atlantic Canada Opportunities Agency, Export Development Canada and a number of industry associations. So we'll be sitting at a table with everyone jointly developing work plans, jointly talking about what we can find and what we can support. What the limitations on our resources are and how we can work together because again our goal is to leverage funding from other sources.

We are too small, I think, to do all the heavy lifting ourselves and this is certainly too small a place to work in isolation. We need to have all

those players at the table. So I think that would be a good example of where we are, of something that is maybe current.

Over the last year, I think you'll see a lot more engagement with the federal partners than you've seen. You've seen it through the Atlantic Growth Strategy where you'll see – even in the case of the Accelerated Growth program, which my colleague here heads, we have with the federal government sort of a working memorandum of understanding as to how we'll approach those clients. So we'll basically approach them as more of a swat team.

Often in business financing, people wait for their clients to come to them. It's sort of a banker mentality, right. So what we're trying to do collectively is reach out and find those companies that have potential for growth and work together to provide a seamless one-stop shop for those companies to try to move them more quickly; but it's us, the provincial government, working hand in hand with the federal government.

In a recent project we were involved with our department would have provided business counselling, but we didn't have to provide any money, and we shouldn't have because the Atlantic Canada Opportunities Agency stepped in with a \$3 million loan. That provided more than sufficient – so there was no need, the company did not need more capital. What they needed from us was advice and market intelligence, and that's what we can provide.

So that's how we're looking and how we work together. It's a mix of financial instruments and non-financial supports, network development, business counselling, business retention and expansion, diagnostic tools, those sorts of things.

MS. P. PARSONS: Right. Also, how you measure success when a company comes forward. I use the example of Harbour Grace Ocean Enterprises, which is located in Harbour Grace, in my District of Harbour Grace – Port de Grave, there is shipbuilding and of course they have a lot of potential with expansion. They're very busy. There's a lot of international business that's certainly coming up on their doorstep.

So when a company like that reaches out to government, to this particular department, how do you measure success with successful applicants in the past and how it benefits our local economy all round? What can you give us, some feedback on successful applicants who have obtained these programs?

MR. LOMOND: Right. Normally, when a client comes in to us we do an assessment. We look at things like competitive impact. We want to make sure that any company we support – we do not want to use taxpayers' dollars to allow one taxpayer to gain some sort of advantage over another.

We'll do an assessment in terms of management. We'll look at how strong the management is in terms of financial expertise, marketing expertise, production expertise. Can they provide the service they want to provide? Can they control their costs? Are they able to sell the services and products they set out to do?

We do assessments in terms of pro formas and in terms of whether or not the financing that's provided can be debt serviced. We apply sensitivity analysis tools. So we do those sorts of things up front to try to gain some assurance that we're going to do a little bit better.

It's sort of like being at a baseball game – did you ever watch people who are at a baseball game. Somebody will practice in the batting cage. They might watch a tape of the opposing pitcher. They might do a number of things; it doesn't necessarily guarantee a home run, but it does significantly increase the likelihood of getting a home run. I think that's what these steps do.

Once we get into the funding arrangement there are number of criteria used. Generally if it's a repayable instrument, one of its success criteria is going to be us getting money back. It's the taxpayers' money. We don't throw it around willy-nilly. We want to make sure that it's recovered.

In terms of what we look at as success criteria, it really varies by the project. Obviously growth in exports is a big one for us. Gains in productivity would be a big one for us.

In the case of Harbour Grace shipyard, for example, it could very well be an initial sale to a new client or it could be access to maybe industrial technology benefit programs through the Atlantic Shipbuilding program. So if they haven't availed of ITBs in the past and this project was geared toward helping them obtain ITBs, their success in getting industrial technology benefits through the program would be considered a success.

Again, you're looking at things like contribution to GDP, employment creation, employment retention, which also often gets overlooked. Obviously, we want to see clients. We want to see businesses grow, but also we don't want to see companies wither away either. There are a number of criteria.

I guess what I'm trying to say is that the programs have gone from 21 to two, and there's one business financing program. It was meant to be fairly general and fairly open as to who can apply. Where the metrics come from are based on the sector and where the company is in terms of their life cycle, whether or not they're a new start-up, whether or not they're an experienced company. It pretty much varies. It's hard for me to say without sort of going through Harbour Grace, as an example, but I think I'm sort of getting to the in generality.

Also, in terms of level of risk would be something else we would consider which might shape our expectations. In some cases, it might be – I'm not saying we want to support a business to fail, we would never do that, but we don't want to become so risk adverse that potentially good projects are getting strangled in the crib.

MS. P. PARSONS: Okay.

Are you confident, too, that staff has the adequate training to get the maximum effectiveness, if they're working with these agencies through these programs.

MR. LOMOND: In the past year – and maybe I'll turn to my colleagues – but I can only speak since August since I've been here.

MS. P. PARSONS: Yeah.

MR. LOMOND: We've undertaken a program of training. The training is really maybe in three areas. The first piece of training was around awareness of what other programs were out there.

Often, we work very closely with the Atlantic Canada Opportunities Agency. I think many of our staff were comfortable with those programs, they understand them quite well. They may not be as familiar with the Natural Sciences and Engineering Research Council programs or the Export Development Canada pull-side programs, those sorts of things.

We did training where we brought in people from other departments, other agencies, to talk about what it is they can do, how it is they do it and what we can learn from them. So there's that piece.

The second piece was around the actual assessment of some of these projects. This was meant to be training for new employees and refresher training for employees that have been there for some time. Even though everyone in the department pretty much – if you look at the profile of who works there, you'll see there are a lot of commerce graduates, a lot of masters of business administration, lots of chartered accountants, those sorts of things. But we can all benefit from refreshers.

We did a program of training with those people and looked at things like the eligibility of investments, what exactly are criteria, but didn't get into the desirability. Once that is criteria of exclusion, what things should we not be doing; for example, I already mentioned competitive impact. There are certain things maybe you don't want to do.

Then, you may have more applications than you have resources, so how do you prioritize and how do you rank those things. Looking at criteria around desirability, technical assessments in terms of, again, pro forma, management capabilities, types of security arrangements that you would take, debentures supported by personal guarantees, fixed floating charges, those sorts of things. Look at marketing which is, I think, one of the areas that sometimes – I won't say it's been overlooked but maybe it needs more work.

Without solid market research, your pro forma statements are really just plug numbers. They don't really mean anything. They'll show that your debt will get repaid or that the company is going to grow, but you really need to get under and challenge the sort of assumptions on which the pro formas are based. Marketing, I think, is one of the big ones. Looking at how you validate the market information, I think, is another piece.

Find out what we would seek in terms of financial commitments from the companies. What we would look for in types of investment, whether it would be direct shares, shareholder loans, personal loans, intercompany loans, those sorts of things; looking at all the sort of pieces around that.

We would do a fair bit of assessment or training in that area with staff. I think it's as good for the person who has 20 years' experience as a chartered accountant, as it does for somebody that's new.

The third piece I'll just mention around training gets into our service standards, which is new. It is another piece, I should have mentioned, in terms of public reporting. The question was asked: Are there other forms of public reporting that we should do in addition to our annual report.

Another piece we do is we were the first department in government to set service standards. We've now set a service standard of seven weeks, once all the information has been received, to process a financing application. We've set a target or made a commitment within two days of being approached by a client to arrange a business counselling session.

Those targets have been communicated publicly; they are on our department website. We have committed to report on them on a yearly basis on our website, whether or not we've been meeting the targets that we've set. To do that work we would have engaged in baseline with the employees in terms of what the processes are now. It would involve process mapping and would involve very close monitoring in terms of where are the bottlenecks. At what stages in the assessment processes are things getting slowed down, or maybe we're not getting the information we need from the client because

maybe we haven't been as clear as we should be, those sorts of things.

MS. P. PARSONS: Thank you.

CHAIR: Okay, Ms. Parsons.

Ms. Rogers.

MS. ROGERS: Great.

Thank you very much.

That's a lot of information. It's great to hear.

Can you tell us a little bit now – because you said when we look at the sector diversification, sector research, so decisions can be made based on evidence – the accelerated growth division targeting companies with potential for growth, the new division of Corporate Services. Can you give us sort of a global picture, an overall picture of where you really want to see investment going? What are some of the industry areas, what are some of the targets, where is some of the potential growth, where are our accelerated growth areas? What are you looking at for the province in the near future and perhaps even further afield?

MR. LOMOND: All right. Well, in the case of firm types, I'll say maybe there are different types of entrepreneurs, right. So you have entrepreneurs out of necessity, somebody who works for a plumbing business that goes out of business but they still own their tools, so they start doing plumbing work on their own we'll say. We've got main street businesses, restaurants, dry cleaners, other businesses that would operate, and maybe if they ceased to operate somebody else might naturally move in to take over that share.

Another type of entrepreneur, which is the one I think we're increasingly interested in and we've committed to working on, on an Atlantic Canada basis, is around scalable entrepreneurs, those businesses that have potential for rapid growth. I believe one of the companies that we've – I think we've maybe announced; I'm pretty sure we've announced two of these companies publicly and people would be familiar with them, would be Bluedrop and Dynamic Air Shelters.

These are companies that are operating in Newfoundland and Labrador, have shown an ability to grow and create jobs, meaningful jobs, well-paying jobs for Newfoundlanders and Labradorians. So the question becomes, how do you help those companies grow faster? How do you proactively seek them out and work with them? If you operate as a bank, if you sit back and wait for people to come in through the door to meet with you, if you're letting your clients find you, you may not be getting those companies that have potential for rapid growth.

Maybe a poor analogy I'll use might be like a marriage counsellor, that some of the people coming in through the door may not have the strongest relationships with a marriage counsellor, the same way some of the companies that may be approaching our economic development staff, while they are still valuable in the overall economy and while we will still support them and help them with business counselling, they may not be the companies that have the potential to create significant amounts of employment in the province and wealth in terms of moving the GDP needle and whatnot. So will be seeking those companies out and working with them on a proactive basis. That is one area of focus I think you'll see, and that's by company type.

In terms of sector, what the sector diversification piece is meant to do is to help us put some metrics around the sectors and what the potential for those sectors are and what types of investments are needed. Again, I think, and I don't want to speak for the Auditor, but I think the Auditor General, when he's talking about the outcomes that he would like us to talk about – that he would like to see evidenced in our programming, are those sorts of things that are based on evidence. It's not a case of us just through producing numbers through systemic interaction and us talking to each other, it's about us working very closely with industry. It's about us doing literature reviews. It's about us gathering all the information that's needed.

Moving forward, I think what we'll be doing is we'll be prioritizing sectors and we'll be prioritizing some of those sectors for investment. That means we are not shutting down to other sectors, but it means we're proactively seeking clients in that space. At this point in time the

piece of work is still ongoing. So I don't want to get out ahead of it and prejudge what's going to come out of it, but that's what we've tasked everyone with doing.

Right now we have a number of sectors we support. Are we being effective? I don't know. How big are our sectors now? If we don't have that sort of base data, it's very difficult to measure your success.

MS. ROGERS: So at this point you're saying you really don't have targeted sectors. I guess my question is – because I would think it's probably not just piecemeal. Oh, there's a nice business there, there's a nice business there, but there might be an understanding of this is a sector that's a potential growth area that would work well with our geography, with our skill level, with our time in history.

Where is the direction right now? Because you don't want to simply sit as a bank and wait for people to come. So I assume you are doing outreach, you are doing work and trying to encourage certain sectors. Do you have a sense of what that is? What, sort of, your overall plan is –

MR. LOMOND: Yes.

MS. ROGERS: – and a direction that the province, the business community is going in that is healthy for the province and healthy for our public monies to be invested in?

MR. LOMOND: Sure.

We have programs in place with maybe seven or eight industry associations: the Newfoundland and Labrador Environmental Industry Association, the Newfoundland Alliance of Technical Industries, Canadian Manufacturers & Exporters, Newfoundland and Labrador Organization of Women Entrepreneurs, OceansAdvance. There are a number of areas.

In the case, for example, of OceansAdvance, oceans are an area we feel we have some advantage in. We are an island; a lot of our employment is created through ocean-related activities, whether that's offshore oil and gas, fishing, aquaculture. We are part of an Atlantic Canada cluster initiative proposal looking at the

recently announced \$950 million federal government proposal. We have a short document being prepared.

We are hopeful that, as Atlantic Canada, we'll be successful in leveraging that investment in the industry, but it's about developing new technologies, new sorts of sensors, integrated operations, ocean data, innovative uses of genomics. So, yes, that's somewhere where we feel we have some strength. I think that is somewhere, as we've already indicated, that we're looking at in a serious way.

In terms of some of the other sectors, you have to be careful. The sectors themselves are so broad. For example, if I were to talk about environmental industries, that could encompass everything from clean coal, back to sensor technologies, or environmental effects monitoring.

There may be areas within that sector that we would have competitive advantages. For example, I would think waste water management would be an area within the environmental sector that we've got some potential because we have a number of companies in that sector that have cutting-edge technology. We are living on an island, so we're pumping a lot of stuff into the ocean that we have to treat. So we have to get good at it.

We have new federal regulations that are coming in place that are increasing waste water standards, in terms of what can be raised. We have considerable federal government investment in clean tech. I think that, for example, might be an area we would go in.

I guess what I'm saying is even within the sectors themselves there might be a bit more refinement in terms of what we're looking at than what we've had in the past.

MS. ROGERS: Right.

Because we're dealing with public funding, I just want to look at, sort of, one area in particular. Last year, in 2016, the minister indicated that \$3.8 million invested in Gray Aquaculture has most likely been lost. That was an investment. Now, government is considering a \$45 million equity investment to Grieg Aqua.

It's a \$230 million aquaculture project, around that.

Going forward on a project like that, what would be the safeguards? That looks like that's money that's gone in terms of we've lost that investment in Gray Aqua. Going forward in potential with investment for instance – because I believe aquaculture is a targeted area for growth and investment. What safeguards are in place to ensure we will not lose that investment of \$45 million, for instance, in Grieg Aquaculture?

MR. LOMOND: I guess a couple of points. First, just as a disclaimer, I'll say that the aquaculture investment is made through Fisheries and Lands and whatnot.

MS. ROGERS: Yes.

MR. LOMOND: But I will say that in terms of how we would manage risk in that type of project for example, you're really dealing with two types of risk: you're dealing with technical risk and you're dealing with financial risk. If you're looking at technical risk, you're dealing with things like whether or not the fish can survive in the types of water conditions that you have, what are your stocking assumptions, can you fit that number of fish in a pen, are there supporting veterinarian services in the area, is there complimentary – those sorts of technical issues.

You would try to mitigate the technical issues, I think, as you go. You would try to look at – at least we would provide advice on how you might manage those, to some extent, with a lot of that advice coming from the line department itself because they would have the aquaculture specialists and whatnot.

In terms of financial risk, there would be a number of things you would try to do. Obviously, security is one we've talked about before. It's not uncommon for us to take security on an investment. Another thing you can look at doing is try to match the investment to return on Treasury. You can try to look at when are the investments flowing and when are the returns to Treasury accruing? There may be opportunities to match the outflow of capital with the anticipated inflows to Provincial Treasury

thereby negating the risk to the taxpayer, because if the activity didn't happen, the taxpayer wouldn't be – the benefits wouldn't happen either.

The other thing we would look at is terms of the overall funding program. Again, like I mentioned before in terms of our own training, you want to make sure the company has the management expertise, the technical expertise and marketing expertise to pull off a project like that. You're looking for international market connections and you're looking for capital.

This is one of the things, I think, you might want to look at or you might consider on that type of project. You would want to make sure the proponent's money flowed before yours or worst case, flowed pro-rated with yours, so that you're not in any circumstance getting Government of Newfoundland and Labrador money into a company before the investor themselves is committed and has skin in the game sort of piece.

Another thing you might do is you might build it – back to your technical risks, you might build off-ramps. You might say we're going to stage gate this project and we're going to flow money over maybe a four- or five-year period or a six-year period. Based on performance metrics, if you have not hit certain targets, then we may say we're out until such time as you're able to do this.

If Gillian has a company and she says she's going to have a barge and pen work completed by December 31, and it's December 31 and the work is only half done, before any more money flows from the Crown they have to put in place a plan to address that and we wait for that work to be completed. I think that's the point. You would see that in a lot of the commercial financing as well.

That's another thing we would look for is commercial financing at the table, because I think that brings an extra level of due diligence. You'll see those companies also build off-ramps into their funding programs, so you would try to parallel those off-ramps. I think those are just some of the things you might do.

MS. ROGERS: Okay.

The Auditor General is looking and addressing the issue of performance targets as well. Both, I imagine for the financial assistance to the programs but then also to individual companies that are financed through some of the programs.

You were saying it's too soon to do a full-scale evaluation because we've only just, in the past two years, consolidated all the number of departments. Where are we this year in terms of getting the money out through the door in terms of the budgets that have been allocated? You're looking forward in terms of what we might see by the end of the fiscal year, how is that?

MR. LOMOND: I think it would vary based on program type. I would think under the Investment Attraction Fund the bulk of the money would already be committed. I think the cultural funding generally flows pretty quickly. People have developed an expectation around the funding they use for different programs.

In terms of our Business Investment Corporation, that's a revolving fund. We're collecting funds and those funds are coming in, there are funds coming out. We have the capacity to handle varying amounts of activity but, I guess, to your question, even though maybe oil prices are not as high as people would hope and there are people that are no doubt feeling the pain as a result of that, we have not seen a decline in approaches to us, not yet. And I don't think we've seen – about the first quarter review?

WITNESS: (Inaudible.)

MR. LOMOND: Okay. The first quarter review actually is just about to be undertaken. Gillian will be part of that. But I haven't seen – yeah.

MS. ROGERS: Can you speak a little bit about the accelerated –

CHAIR: Ms. Rogers, sorry, do you have much left on this?

MS. ROGERS: No, my last question.

CHAIR: Okay.

Last question, then I'll go to Mr. Finn.

Okay, that's perfect. You can go ahead.

MS. ROGERS: Okay.

Can you talk to us a little bit about the Accelerated Growth division and what areas you see where there's a potential for accelerated growth?

MR. LOMOND: We can refer back and forth I guess.

MS. ROGERS: Yeah.

MR. LOMOND: In terms of what we see is companies that grow rapidly often face similar challenges. Somebody who's running a company with say 15 or 20 people might be able to run that company just by being very knowledgeable about their product offering, being very enthusiastic and about wanting to make their company work. When companies get larger they often require systems to run. They may require ISO systems; they may require Lean Manufacturing systems. Generally, we see there's a need for some sort of management improvement with rapidly growing firms.

We also see issues around working capital. Companies that are growing rapidly are pumping money into inventory development, new equipment, those sorts of things. They may reach a point where they're tight on cash and we don't want that tightness around cash to stall their development.

Another piece you'll see is around market development. If a company is growing rapidly locally and is based in, say, an Atlantic Canada market – I'll go back to waste water treatment systems, there are only so many communities that can afford a certain scale of waste water treatments. You can eat up the domestic market pretty quick, so you need to find ways to help that company diversify into new markets.

Again, back to the example of, say, Harbour Grace shipyard; it may be in the case of industrial technology benefit agreement transactions done through national shipbuilding, it might be through opening up of international markets through our trade activities. It might mean piggybacking on top of some of the consultancy work that would be supported

through the department by maybe marine institutes and others through maybe things that are funded through the World Bank or the Inter-American Development Bank, those sorts of things. That, I think, would be three areas you see where there would be needs for management improvement, working capital, and market diversification would be some. Again, it very much depends on the company.

Some of the companies we are talking to, highly qualified personnel becomes a real issue for some of them. If they have a certain type of coding they might be doing or a specialized computer technology-related skill that's not readily available, they can pretty well eat up who is available here and then they have to recruit.

MR. WEATHERBIE: Is it all right if I –?

CHAIR: Yeah, sure.

Go ahead.

MR. WEATHERBIE: Well, there's been significant work done under the Business Innovation Agenda and there's been significant stakeholder consultation. Publicly, there were round tables that took place over the last – I'm going to say about a year. I'm just new in this position, so I don't quite have the timetable worked out. But anyway, in that there were a number of questions that were asked of the stakeholders.

So in answer to your question about financing, one of the questions was access to capital. We are now currently evaluating those responses in consultation with *The Way Forward* and the more effective business financing. So it's a puzzle that's fitting together about the overall business financing and how government has access to capital for not only scalable high-growth, high-impact firms, but also in various sectors as well.

We've done significant work in the department through market development, and to Ted's example, talking about waste water; there were repeated missions to the Caribbean where they do have a need for this particular development. So we look at the markets, and when you look at these types of companies that we're talking

about, the scalable high-impact, for the most part the sales aren't coming from here. They're coming from elsewhere.

MS. ROGERS: From outside.

MR. WEATHERBIE: So we have a significant ocean tech conference or trade mission that goes on in China and UK, we will be participating in and bringing companies to. We provide the foundation for these companies to break into new markets and, of course, it helps when government is escorting them or bringing them along.

MS. ROGERS: Are there any particular company projects right now that you're really excited about in terms of looking into the future and what it might mean for business here in the province, or –?

MR. WEATHERBIE: Well, the two examples raised earlier by Mr. Lomond, talking about Bluedrop as well as Dynamic, that company came to Grand Bank a number of years ago and it has scaled itself up. We have been there at the very beginning, working with the company financially as well as providing advisory services wherever needed. We have local economic development officers there who have a connection with the vice-president of the operation there. So we have a very, pardon the pun, dynamic relationship with that company.

Bluedrop; well, I remember dealing with Emad Rizkalla back in the early 90s when he just got out of university and he had lots of ideas. He had various companies throughout. One company branched off into two, and now he's gone into Bluedrop. He's, again, a very interesting, very successful entrepreneur, and that's the type of individuals and companies we're seeking.

MS. ROGERS: Okay.

CHAIR: Thank you, Ms. Rogers.

Mr. Finn, anything that hasn't been covered?

MR. FINN: Yes, thank you very much, Mr. Lomond, a very thorough, in addition to Minister Mitchelmore addressing the three recommendations in his letter – that's certainly some great context there. I guess a lot of it was

primarily around reporting performance targets, and it sounds like you've certainly had a number of targets.

Just for clarification, the number of programs you said, it was 20-odd down to –?

MR. LOMOND: Twenty-one.

MR. FINN: Okay. Yes, very good.

MR. LOMOND: Twenty-one programs reduced to two; one of those being primarily a business financing program, the other one dealing with non-commercial. So you would often see community-based infrastructure that might support commercial development in some cases, but that would be through the other program.

MR. FINN: Okay. So in terms of the Auditor General's recommendation on performance targets and measurability and success and what have you, it's certainly a lot easier for you folks with two instead of 21, I guess.

MR. LOMOND: It depends, because based on the – I'll turn it over to the Auditor General there in a minute – but I think that maybe in terms of, if the programs are very compartmentalized it may be easier to put very specific performance targets around the program. The problem then becomes is that you end up with sort of a range of programs that are kind of confusing for the client. You end up with money that you need in one program, but that's unattainable for a good client in another. So you end up in those sorts of things.

I guess the trade-off has been now that we've gone to a more open, flexible process, is to make sure we do the other piece of work, which I'm talking about in terms of sector strategies and the sector research piece, to give us those targets that we can benchmark against and report on in terms of our performance. So we're looking at – in terms of ocean cluster development, that's going to impact us in a number of ways. It's going to impact – it will be setting targets and it will be influencing our thinking across a range of programs.

For example, in terms of investment attraction, we may not do broad-based investment attraction. We may be looking for specific firms

to complement or round out that sector, because again, if it's something that would add to the critical mass of companies in the region that would give us a competitive edge as a province or region, we might reach out on that specific piece. We may look at targeting investments towards high-growth firms again in a particular sector. So it's very much being driven by the sector strategies.

MR. FINN: Excellent.

Thanks very much.

CHAIR: Okay, thank you.

I'm just going to make a few last comments, and then the normal process is to ask the AG if he has any comments.

I'm pleased to hear you've moved things forward, particularly around stakeholder engagement, particularly around setting standards and timelines. I think it's very important for businesses to know exactly – if they've got an idea, if they've got a plan, the time frame to meet with somebody to see if it's viable and then the time plan to know whether or not they can move forward. Because, as you know, most businesses have a multitude of partners and different stakeholders they have engaged. It could be a municipality; it could be another financing partner.

I particularly also like the note of not working in isolation. Those days are gone. There are too many partners out there that have the same stake in the game and would like to obviously partner with you guys. So I think that's a great move forward.

The fact, too, that you're looking at why spend taxpayers' money in Newfoundland and Labrador if there's another funding source that can take the risk, and that you guys can spend your time and effort and your expertise in supporting the business in other ways. So I think that's another positive that addresses some of the issues here that will get to achieving what the Auditor General had noted were some concerns, particularly around evaluation and determining best return on the investment.

I also like the fact that the divisions are broken down. They would have specific needs or specific talents, but at the same time don't work in isolation, that there's a collaborative approach. As a former civil servant, I always advocated that everybody has to have their niche and have their role. You only confuse people, if everybody gets in a room everybody wants to have their say.

Once you get to a point where you've found you can help a particular business, then you bring in all the experts from different divisions and see how you collaboratively can do that. So I thought that was a very positive thing. Hearing things about evidence-based and collecting data, it's the only way at the end of the day we'll know whether or not we're going in the right direction. If we need to have to go left or right along the way, or don't fix what's not broken. If it's working, keep it moving that way.

So I see this as a positive. It's an older report; it's a two-year report. So there was an expectation that you guys would have moved it. We can see some real movement in the last year, particularly around what's changed within the department. I know whenever you redesign a department, reallocate, there's always a lull there until everybody gets comfortable with what they're doing and the connections.

What you've outline here, if you continue on that path I think we as a Committee will be very happy when we make our recommendations to the House of Assembly the fall around that this path forward will be a benefit to achieving the goals of the department.

So that's from my perspective. The last word I'll give to the AG before we thank everybody for coming.

MR. PADDON: Okay. Thanks, Mr. Chair.

I have just some general comments on this particular issue. Then with your indulgence, I have two other things I'd just like to mention to the Committee.

CHAIR: Yes.

MR. PADDON: Generally, I think what we found is that departments do a pretty good job

on the day-to-day management of the portfolios and those sorts of things. I don't think that was really the issue.

As a general theme over the five years I've been AG, I found we do a good job putting programs in but we don't do a good job of evaluating the effectiveness of the programs, and really that's what the theme of this is. If you don't know what you want out of a program at the beginning, how do you know whether you're successful? So having effective targets and objectives and those sorts of things, I think is key to ensuring that we have a quality program at the end of the day that achieves what we want to achieve.

Mr. Lomond was just talking about how to structure the objectives and those sorts of things. Really, whatever makes sense for the department, how you segment it, that's really your call as to what's the most effective way to deal with that. I don't want to be too prescriptive around that. We'll have a follow-up, as you know, within a year or two. So we'll report back to the Legislature on our findings on the implementation, the recommendations.

Just on two other things, somewhat separate; I did mention to some Committee members, but I'm not sure if I mentioned to all of them, that tomorrow we will be releasing our annual report, similar to the one we're talking about here. It will be available 9:30; I'll table it with the Speaker at 9:30. It will be available on the website, but a hard copy will be with the Speaker as well. So I'll be doing some media around 11 o'clock.

Last, but probably most significant and important for me, I visited the Speaker today and handed him my letter of resignation. I'll be leaving at the end of October. I have five years under my belt. I talked to my wife, I'm ready to go.

This could be my last Public Accounts Committee hearing. I have enjoyed every bit of it and going to miss it, but not miss it that much.

CHAIR: Well, I know on behalf of the Committee I can say, and I'm the longest standing one going back to your tenure, it's been a privilege working with you. It's been a good

collaborative debate back and forth. Sometimes we've had witnesses where we've attacked in the House of Assembly. Other times, like we have – I have to give credit. The last two days have been very indulging and very positive I think for the line departments coming back, showing that they're very proactive in moving things forward.

We'll miss you, but we will have New Brunswick – you will still make that trip, I assume?

MR. PADDON: Well, my timing was selected purposely (inaudible).

CHAIR: For a reason, yeah, that's late September, you leave in October.

MR. PADDON: Yeah.

CHAIR: Anyway, I do want to thank the department and the officials for coming out, Mr. Lomond, and I do thank the Auditor General and his staff. We'll have an opportunity to say goodbye officially down the road.

I thank the Committee and Elizabeth here at the table.

The last two days have been consuming, but some good information. Again, we look forward to putting our report to the House of Assembly the fall and acknowledging that things are moving forward, and we may have some recommendations around how we encourage things to go. As Terry has said, we're also the watchdog. So in a year or so when there's a follow-up, because yours is a two-year old report, we're looking forward to being able tick that one off and say everything is aligned the way it should be and keep doing what you guys are doing.

Anyway, thank you guys, have a great day.

A motion to adjourn – oh, before I do that, I need to adopt the minutes from yesterday.

Mr. Petten, Ms. Parsons.

All in favour of accepting the minutes?

SOME HON. MEMBERS: Aye.

CHAIR: Opposed?

Motion carried.

On motion, minutes adopted as circulated.

CHAIR: Motion to adjourn?

Ms. Parsons, Mr. Petten.

All those in favour, 'aye.'

SOME HON. MEMBERS: Aye.

CHAIR: Opposed, 'nay.'

Motion carried.

Thank you.

On motion, the Committee adjourned.