



Legislative Assembly of Manitoba

**HEARING OF THE STANDING COMMITTEE
ON
COMMUNITIES ECONOMIC DEVELOPMENT FUND**

Chairman

**Mr. D. James Walding
Constituency of St. Vital**



THURSDAY, MAY 12, 1977, 10:00 a.m.

IE: 10:05 a.m.

AIRMAN: Mr. D. J. Walding.

MR. CLERK: Order please. Gentlemen, we have a quorum. Because of the change in membership, chairman is no longer on the Committee and our first item of business is to elect a new chairman. Walding moved for Chairman of the Committee. Are there any further nominations? Hearing the, Mr. Walding, will you please take the Chair.

MR. CHAIRMAN: Order please. I am informed the first matter before the committee this morning consideration of the Communities Economic Development Fund Annual Report 1975-76. The chairman of the Board, Dr. Loxley, is with us. Would you continue, Dr. Loxley.

DR. JOHN LOXLEY: The report tabled today covers the activities of the Fund for the period April 1975 to March 1976. I have also tabled additional material covering the Fund's activities during the financial year 1976-1977 so that members will have a completely up-to-date picture of where the Fund stands at the present time.

In my report to the committee last year, I described the a number of measures instituted by our Fund to improve upon and strengthen the Fund's operations. These included new and improved control systems for a camps study, staff training and development, establishing the financial independence of the Fund from the MDC, rationalizing the capital structure of the Fund, expansion of client advisory services, changing our interest rate structure and actively pursuing the recovery of long outstanding bad debts.

I am sure the period 1974 to 1976 can amply be described as a period of consolidation. While many these initiatives are, of necessity, ongoing ones, I think it would be fair to say that in our last year of operation, we moved from consolidation to expansion of our activities, an expansion predicated on a much improved administrative and financial base. I shall elaborate on this in the course of my presentation.

Turning to the reports before you, members will recall that I dealt with the activities of the Fund during 1975-1976 in my submission last year. At that time, I was basing my remarks on preliminary and unaudited statements. Perhaps it will be useful for me to summarize the remarks I made then, with only one exception, the audited statements before you do not differ significantly from the unaudited ones I presented last year. In 1975-76, sixteen clients received approval for 14 loans totalling \$298,470 and before guarantees, totalling \$76,000, for a grand total of \$374,470 approved for that year.

Turning to Page 10 of the 1975-76 report, you will see that the most significant change in the Balance Sheet relates to movements of deposits from the chartered banks to the Department of Finance. The moneys represented payments made to the Fund in 1975 by the province on account of cumulative deficits. While these were initially deposited with the banks, they were subsequently transferred in the interests of sound provincial fiscal management to the province to be drawn upon as required to finance the operations of the Fund.

The income and expense position of the Fund during 1975-76 is to be found on Page 11 of the report and, with one exception, reflects my submission to the committee last year. The main difference is that the bad debt provision for 1975-76 has since been raised. This revision by about \$102,000 was made in the interests of conservatism recommended by management and the auditor and had the effect of raising the subsidy receivable from the province by the same amount. Later developments during 1975-76 are dealt with in the report and were, in summary, the decision to sever ties with the MDC, the restructuring of the finances of the Fund, the appointment of our own treasurer and the introduction of a new interest rate structure based on jobs created by clients. As pointed out in the report, we also gave assistance for the first time to a number of community-owned projects.

I would like to turn now, if I may, to report on our activities for the financial year 1976-77, the year that's just closed. The audit of the Fund's books for 1976-77 has been completed except for what the Provincial Auditor describes as "possible minor editorial changes in the accounts" and I am authorized by him to inform you that the final picture is not likely to differ significantly from the accounts I have presented to you.

Between April 1976 and March 1977, the Fund approved 38 loans totalling \$704,658, about double the value and quantity of business approved in the previous year. Total loans and guarantees outstanding by March 31, 1977 were valued at \$1.6 million after allowance for bad and doubtful debts, compared with \$1.2 million a year earlier.

Members may be interested to know that since the Fund's inception, we have made, i.e. approved and taken out by clients, a total of 175 loans and guarantees, totalling \$4.5 million, helping create or sustain 628 jobs, with a relatively low capital cost of \$7,200 per job. Of these loans and guarantees, 47 totalling \$0.7 million have been repaid in full and a further 67 totalling \$2.5 million are considered to be operating normally with repayment anticipated. Indeed, of this amount, \$0.9 million, or 36

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percent, has already been repaid. So, in total, 114 loans and guarantees amounting to \$3.2 million over 71 percent of total approvals, can be said to have been repaid or are likely to be repaid.

Of the remaining 61 accounts, 52 totalling \$1.06 million are, or have been, legal accounts and but 2, totalling \$37,000, were approved before 1975. Nine other accounts, totalling \$0.3 million of five of which were advanced prior to 1975, are encountering some difficulties. On these legal problem accounts, we have recovered or expect to recover about \$0.4 million, reducing our loss since inception to 22 percent of total approvals, a figure which many would consider quite reasonable for a lender of last resort, operating for the most part in a new untested and difficult business environment. Even then, it is important to emphasize that 90 percent of all our bad debt occurred prior to 1975.

In the three years since then, we have approved \$1.8 million in loans and guarantees and, of that amount, only \$152,000, or 8.4 percent, is experiencing difficulties. Of this amount, only two accounts totalling \$37,000 are in the process of legal action and we expect to recover \$25,000 of this. For the three years, therefore, our actual bad debt is less than one percent and, while it would be unreasonable to expect this rate to continue, there can be no doubt that the Fund's performance has shown a dramatic improvement over the last three years.

To summarize, our repayment record is now extremely satisfactory; our main problems were encountered before 1975 and since that time there has been considerable improvement in our recovery position. The fiscal year, 1976-77 was the first full year of the Fund's new control system of accounts under which a detailed monthly record of supervision is maintained for each client. This system has enabled us to have much greater control over our accounts. So much so that of 71 new legal accounts outstanding at the end of March, this year, all but three were entirely up to date with their payments. This system has also enabled us to give more constructive advice and guidance to borrowers whose problems are now seen when or even before they develop.

In his report to the Legislative Assembly for the year ending March 31, 1976, the Provincial Auditor made mention of our reporting system and "noted that positive steps have been taken in this regard resulting in the monitoring of borrowers' accounts by the development officers now being satisfactorily carried out."

From April 1, 1976 the Fund also became completely independent of the MDC with regard to financing and accounting. The books of the Fund are now kept in the Fund and, this too, has assisted in improving the management and control of the Fund's activities.

During the year, the staff of the Fund have been extensively involved in activities which do not find reflection in our loan activity but which are, nevertheless, important to the economic development of remote and isolated areas. Perhaps foremost among these was the Churchill Research Centre. The Fund's staff were instrumental in securing for this project the \$75,000 research grant from the Donner Foundation. The Centre will begin operation this year and much of the credit for this must be given to the general manager of the Fund who has played an important role in conceptualizing and promoting the idea of a Northern University Research Centre, and who always had a clear perception of the significance of this project for the community of Churchill.

The Fund has also acted as trustee and advisor to the community of Ilford with respect to investment of compensation funds, to the Bungees knitting machine and restaurant projects in the core area of Winnipeg and to the Northern Fishermen's Association on account of winter road construction. These and a number of other training and advisory services have entailed a commitment of Fund staff time but not of Fund capital finances.

This significant expansion in our activities and improvement in our control position has not been accompanied by any increase in administrative costs. On the contrary, I am pleased to report that in gross terms, our administrative costs last year were 15 percent under budget and \$56,300 or 15 percent below last year's operating costs. When it is considered that most of our expenditures such as salaries and travel are subject to fairly automatic annual inflationary expansion, this absolute decline in our operating costs is doubly satisfying to the board of the Fund and represents a real increase in the productivity of the Fund staff.

When allowance is made for the receipt of revenues from the Federal Government for activities such as business advisory services and training, which are cost-shared with them, then the net cost to the province of the Fund's operational expenses is even lower than indicated above and the declining costs over the last two years even more pronounced.

In 1975-76, the net cost to the Fund was \$394,000 while in 1976-77, it had fallen to only \$293,000—a reduction of over 25 percent in administrative costs to the Fund. In the coming year, we expect both our gross and net costs to be still below the levels incurred two years ago and we expect our lending to grow by about the same amount as last year.

I would like to take this opportunity to deal with a statement that was made in the House in mid-April to the effect that for every dollar advanced by the Fund, we spend one or two dollars in administration. This statement was made in reference to the 1975-76 Annual Report and is incorrect on several grounds, the main one being that new loans approved are not an accurate indicator of o

Administrative workload. Several factors must be considered.

First of all, loans approved are of course important and, once more, I emphasize that these have more than doubled since 1975-76.

In addition to new loans approved, there are also two guarantees approved. These are just as time consuming as loan approvals and were a relevant consideration in 1975-76.

(3) Loans and guarantees rejected or not taken up: These involved the Fund staff and directors in just as much work as those approved up to the time a final decision is taken. In 1975-76, our board considered and rejected 13 applications for over \$660,000.00. In 1976-77, the equivalent figures was 6 applications for \$902,000.00. Also last year, 6 loans valued at \$61,000 were approved but not taken up by clients.

(4) Inquiries which may not materialize into full submissions: There must be dealt with and involve staff time and other expenses. In 1975-76, total inquiries numbered 125 and in 1976-77, numbered 107.

(5) Administration and control over loans and guarantees approved in previous years: This is a major aspect of staff work. Monthly reports are required on each and the board insists on a detailed review of each account at least once a year. Problem accounts are reviewed in detail much more frequently.

(6) Advice to clients on all aspects of their operations and assistance in bookkeeping, marketing, recruiting and finding alternative or complementary sources of finance.

(7) Administration of legal accounts presents special time-consuming problems to staff, especially given the efforts devoted to this over the last two years, efforts which were once again commented upon favourably in the Provincial Auditor's 1975-76 Report.

Finally, non-loan activities of Fund staff are significant and are growing, taking the form of advice to communities on development vehicles, accounting and financial advice. Trusteeship of funds and assistance in negotiating with agencies which might locate in remote communities. Fund staff also participate in a number of research, evaluation, advisory and teaching assignments on behalf of the province.

It is therefore, quite misleading to focus attention simply on new loans approved; rather, I would urge members to gauge our productivity in the light of our total activities and by the fact that we employ only eight professional staff, including management and two trainees. Given the wide range of our activities, the rapid growth last year and the fact that our total operating expenses fell so significantly in absolute dollar terms, I would submit that not only does the province receive good value for our expenditures but that there is also a cause for satisfaction in the marked improvement in our efficiency.

Other points to note in the income and expense statements that I circulated are the decline in interest income, the disappearance of interest as an expense to the Fund and the decline in the bad debt provision for last year. Interest income has fallen partly because of our new interest rate policy, which lowered the average rate, and partly on account of suspension or termination of interest on some problem accounts. Interest payments to government are now zero since the introduction of our new financing arrangements, our capital takes the form of interest-free revolving grants.

The net bad debt provision for 1976-77 is negative because allowances made in previous years have been adjusted downwards in the light of the improved payment record and prospects of our active accounts. It is worth emphasizing that this provision has received the final approval of the Provincial Auditor.

Members of the committee can see from the accounts, that is the 1976-77 accounts, that the Fund also began making loans under the Manitoba Wild Fur Program. This program is designed to improve the well-being of trappers in Manitoba. It is sponsored jointly by the Federal Government, the Department of Indian and Northern Affairs, and by the Provincial Government, Department of Renewable Resources. The loan portion is but one part of the total program as administered by the CEDF under an agreement with the Department of Renewable Resources. Administrative costs, including bad debts, incurred under this program are fully recoverable from the department which cost-shares them 50-50 with the Federal Department of Indian and Northern Affairs. Loan capital is provided 100 percent by the Department of Renewable Resources.

Two types of loan are considered: Grub-stake loans to a maximum of 20 percent of the average of the last two years income from trapping, repayable within one year; and capital loans to a maximum of 50 percent of last year's fur harvest repayable within three years. Interest is charged at the rate the province charges Crown corporations for moneys advanced, currently 8 3/4 percent. Applications are scrutinized by local fur councils and forwarded through the local fur managers to the Fund and are dealt with by a special Loans Committee. Past trapping record, need and income from other sources are considered and security takes the form of a promissory note and an assignment of 25 percent of gross fur sales. Where large loans are given, the conditional sales contract is requested. This is a completely new area of business and the Fund has proceeded cautiously. Between September 1976 and the end of March 1977, the Fund received 212 applications totalling \$143,000 and approved 119

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for \$55,700.00. Actual loans dispersed were 82 for \$44,340 and by the end of March, \$8,500 had been repaid, including four loans fully repaid. The balance will be received after the major fur auction later this year.

We consider the first year to be a trial year in which to test all our lending criteria and a thorough review will be undertaken in conjunction with the department and trappers' representatives of our involvement in this program at the end of September 1977.

In this last year it has therefore seen both an expansion and a diversification of the Fund activities as well as a marked improvement in our operating efficiency. Much of the credit for this must go to the Board of Directors for the time and energy they have so willingly devoted to Fund affairs; for their commitment to the notion of a development bank for the more disadvantaged sections of society and for their determination to operate the Fund efficiently within the social parameters that development banking implies.

I would also like to express my appreciation of the efforts of the Fund staff in making possible last year's very pleasing progress. Thank you.

MR. CHAIRMAN: Are there any other questions on the report?

MR. SPIVAK: Mr. Chairman, I want to make one comment. I want to indicate something through you and to the Minister and to the Chairman. It would seem to me that there should be some consistency in the way in which we approach the matters we deal with in this committee. You know there is a lot of merit for the committee to be presented with the unaudited statement of the fiscal year ending in March or the year in which we sit. This simply would give us the opportunity to bring up to date the report and to deal with it in a current way rather than the year before. I have no objection to that.

But there is also merit that that position, the financial position be given to us to allow us the time to do an examination for proper evaluation. But there is no merit, Mr. Chairman, in having the Chairman come before this committee and meld the various statements of the year that is current and the year for which we are meeting to approve and to tie the statistics in such a way that without his notes in front of us and the opportunity to examine it, it becomes impossible to know what we are really talking about.

Now in many respects I have to suggest that it sounded like a snow job to this committee.

MR. GREEN: Not to me.

MR. SPIVAK: Well, not to you, but to the committee.

MR. GREEN: Well, then don't say it's the committee — to you, to you.

MR. SPIVAK: To me. It sounds like a snow job, because in effect, what we are really talking about we talk about five years, we talk about four years, we talk about next year, we talk about this year, we talk about last year, and frankly we throw statistics around and information . . .

MR. GREEN: Mr. Chairman, I'd like to talk on a point of order. Yes.

MR. CHAIRMAN: Point of order. What is the point of order?

MR. GREEN: You asked for questions of the Chairman. If we are going to debate on the report, suggest that the debate on the report can be made at the point that there is a motion that the report be received. We are now dealing with questions. I have many many things now to say about what Mr. Spivak has said, which has been entirely gratuitous, and we can have a debate for three hours on that and not get the questions from the Chairman. So I suggest that the honourable member confine himself to questions. The objections that have been raised in previous years is that the report is a year late and we are not getting current information.

Now, Mr. Chairman, I will have many things to say about this except, on a point of order, we are dealing with questions.

MR. SPIVAK: Well, Mr. Chairman, on the point of order, I agree that there have been objections raised and I have no quarrel with the procedure. But I think though there is a point in which the committee should be furnished with this information in advance so that we can intelligently deal with it and if the Minister of Mines doesn't think that that's required, that's his judgment.

But the fact is that in order to try and analyze the statement that's been made and even to ask any questions directly, it is very necessary either for us to have that statement in front of us or for us to have had the opportunity to review it because the statistical data has been melded and is all over the place. The Chairman knows that and so does Mr. Green.

MR. GREEN: Mr. Chairman, on the point of order. I object to the honourable member referring to the Chairman of the Corporation as having performed a snow job, when what he did is to try to clear up objections that were previously raised by the same member that stuff was a year late.

Now, Mr. Speaker, the honourable member can continue on the previous history by not dealing with the Chairman's up to date information and deal with the report which is before you, which you have had for over two months, and forget the new information. But I object to it being referred to as a "snow" job when all that the member was doing was trying to comply with members of the opposition's wishes, that there be current information. The information is not yet audited and if you feel it is of no use to you, you can discuss it next year when there will be an audited report before you

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I suggest, Mr. Chairman, that the period is now for questions and that members put questions to the Chairman, and not insult him by saying that there is a snow job.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Chairman, on the point of order. I have no disagreement with the fact that the unaudited statement should be presented to this committee. I think that's very important. I think the members of the committee, though, should be given some opportunity to have examined that before, prior . . .

MR. GREEN: Mr. Chairman, I move that the committee adjourn, that you examine it for a week and come back next week. I move that we adjourn so that the honourable members of the opposition can now examine the information that they have been given today and come back and be able to talk about it next week.

MR. CHAIRMAN: It is moved by Mr. Green that the committee adjourn. Is there a seconder?

A MEMBER: Seconded.

MR. CHAIRMAN: And it is seconded.

MOTION presented and carried.