



**First Session - Thirty-Sixth Legislature**

of the

**Legislative Assembly of Manitoba**

**Standing Committee**

on

**Economic Development**

*Chairperson*  
*Mr. Mike Radcliffe*  
*Constituency of River Heights*



**Vol. XLV No. 2 - 10 a.m., Thursday, October 5, 1995**

**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Sixth Legislature**

**Members, Constituencies and Political Affiliation**

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**LEGISLATIVE ASSEMBLY OF MANITOBA  
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

**Thursday, October 5, 1995**

**TIME – 10 a.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Mike Radcliffe (River Heights)**

**ATTENDANCE - 11 – QUORUM - 6**

*Members of the Committee present:*

Hon. Mr. Downey

Messrs. Ashton, Evans (Interlake), Laurendeau, McAlpine, Newman, Penner, Radcliffe, Sale, Struthers, Tweed

**MATTERS UNDER DISCUSSION:**

Annual Report of Manitoba Development Corporation for the fiscal year ending March 31, 1993

Financial Statements of Manitoba Development Corporation for the fiscal year ending March 31, 1994

\* \* \*

**Mr. Chairperson:** Good morning, everyone. I will call this Standing Committee on Economic Development to order.

We have before us two reports for consideration this morning. They are the Annual Report for the Manitoba Development Corporation for the fiscal year March 31, 1993, and Financial Statements for the Manitoba Development Corporation for the fiscal year March 31, 1994.

Does everybody have a copy of the report? Good. At this time I would invite the honourable Minister for the Manitoba Development Corporation to make his opening statement and to introduce the staff.

**Hon. James Downey (Minister charged with the administration of The Development Corporation**

**Act):** Mr. Chairman, we have Mr. Jim Kilgour, who is with the Department of Industry, Trade and Tourism; Mr. Stephen Kupfer as well, who is with the Department of Industry, Trade and Tourism; and myself as minister.

We have two reports that I think are pretty much self-explanatory. I hope that we can deal with them and pass them this morning. I will try and provide all the information that is requested of me and do it as quickly as possible so we can get on with the passage of these reports.

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

Mr. Sale, do you have any opening statement as the opposition critic?

**Mr. Tim Sale (Crescentwood):** I think that we are looking forward to discussing the two reports, Mr. Chairperson. So as far as I am concerned, if we have a reasonable discussion and get the information that will help us to understand some of our questions, I can see no reason why we could not pass these reports this morning.

Could we, before we start, talk about the question of adjournment time?

**Mr. Chairperson:** Yes, I would entertain any suggestions at this point for the appropriate hour for adjournment.

**An Honourable Member:** Twelve o'clock.

**Mr. Chairperson:** Twelve o'clock.

**An Honourable Member:** Why do we not wait and see how far we get into the reports?

**Mr. Chairperson:** Well, I anticipate Mr. Sale's concern is a cut-off time, but obviously if the discussion is terminated and issues are completed prior to that time, we do not obviously have to sit until the appointed time.

**Mr. Marcel Laurendeau (St. Norbert):** Mr. Chairperson, I would recommend that if you check what the will of the committee is at twelve o'clock to see if it is opportune if Mr. Sale is finished at that time, and if he is, we can wrap it up; if not, we can possibly sit till 12:30 p.m. if he would like.

If you could just canvass the committee at twelve o'clock, I think that would be appropriate, and we will be finished.

**Mr. Chairperson:** Is that the will of the committee?

**Mr. Sale:** Mr. Chairperson, that is fine with us. I think that we should say that we will not sit any later than 12:30 p.m., though, and if we are not finished by then, then we are not finished, but if we are finished before, as the minister said, then so much the better. We can have a more leisurely lunch.

**Mr. Chairperson:** So agreed. Good.

Next I would appreciate some guidance from the committee how you would like to consider the reports, given that we have two reports here. Shall the reports be considered one at a time? Shall there be a general discussion of the two reports? What is the will of the committee?

**Mr. Gerry McAlpine (Sturgeon Creek):** I would suggest that we deal with the committees one at a time and all the questions be directed to the specific reports and passed when we have completed our questions on the first report and so on until we rise today.

**Mr. Sale:** Mr. Chairperson, generally speaking, I have no problem with that. I think, though, the minister has always been gracious in allowing us to do some wandering where it seems necessary, because obviously the affairs and functioning of the corporation spread over many years. So any one year captures the activities that go back quite a long way and have multiyear implications.

With that kind of proviso I have no problem with the general approach suggested by the member for Sturgeon Creek.

**Mr. Laurendeau:** I might be able to make a suggestion, Mr. Chairperson. If we pass the '93 report, we can then deal in general with the '93-94 at the same time within the '94 statement, if that would meet with the honourable members. I mean, that way we will have the '93 out of the way and the '94 is the only one we will have to deal with, and we can deal with '93-94 within that report. I am sure the minister would be in agreement with that.

**Mr. Chairperson:** All right, so the Chair hears at this point in time that we will start with the '93 report first with a certain degree of flexibility. Is that the will of the committee? [agreed]

Mr. Sale, I presume you have a question.

**Mr. Sale:** I do, Mr. Chairperson. I wonder if the minister could comment on the Loans receivable. I am looking at the Balance Sheet. I am going to walk—for clarity, I am going to just walk through the report, and if we need to come back to things, we will. But I am going to try to go through it in an orderly way and clear up some questions that we have.

Could the minister indicate for us the nature of the change between 1992 and 1993 in the Loans receivable and the doubtful accounts allowance? Could he indicate what was paid in '93 that made the difference? The doubtful account seems exceedingly small.

**Mr. Chairperson:** Mr. Sale, you are referring to one particular page of the statement.

**Mr. Sale:** I am sorry. They are not numbered, unfortunately. It is the problem with having audits done in the private sector, Mr. Chairperson. They tend not to number their pages. It is the page immediately following the attest opinion, and it is under the heading Long Term Investments. Would it help Hansard if we agreed at this point to take a moment and number the pages?

**Mr. Chairperson:** Perhaps, that would be appropriate.

**Mr. Sale:** Is that helpful? Let us do that then for Hansard's sake.

**Mr. Chairperson:** We are referring to the Annual Report, March 31, 1993. The face page shall remain unnumbered. The Auditors' Report page being the certification will be page 1. Is that agreed?

**Some Honourable Members:** Agreed.

**Mr. Chairperson:** And the numbering will follow thereafter. I have nine pages plus the cover page for 10, and your remarks, Mr. Sale, were addressed to page 2. Is that correct, sir?

**Mr. Sale:** Yes, Mr. Chairperson. The sixth line down, Long Term Investments, Loans receivable—made prior to 1977 less allowance for doubtful accounts, that is a very small amount. Could the minister comment on the difference between '92's and '93's figures and on the doubtful account?

**Mr. Downey:** The difference being a repayment on a monthly basis from a loan that was provided to McCain Foods.

**Mr. Sale:** Mr. Chairperson, could the minister just tell us what the doubtful account of that small amount of money is just for interest's sake?

\* (1010)

**Mr. Downey:** It was a small loan to a hotel, which has subsequently been repaid.

**Mr. Sale:** It has been repaid.

**Mr. Downey:** Yes.

**Mr. Sale:** So it is no longer—the balance sheet gets better next year.

**An Honourable Member:** Let us get on with '94's.

**Mr. Sale:** Thank you very much.

I think then in terms of the Balance Sheet, those were the questions on the asset side that I had, Mr. Chairperson, but could we ask the minister just to walk us through the divestiture Note 7.(b) under liabilities on page 1. The issue, Mr. Chairperson, is the Flyer

Industries question. We did discuss this somewhat in Estimates, but I wonder if the minister could update us on Flyer and the current situation in regard to Note 7.(b).

**Mr. Downey:** Mr. Chairman, what took place there was, there had to be an allowance made by MDC to carry any liability for buses manufactured prior to 1986 by the provincially owned bus-making company. That is what that allowance is for, and it is prior to 1986.

**Mr. Sale:** I understand that, as it is disclosed clearly in the notes. Could the minister update us on whether the litigation levels or any significant problems are arising now that were not part of the 1993 statement? Are we seeing any change here, or are we basically out of the woods on this one?

**Mr. Downey:** Mr. Chairman, thank you to the member. There are no new claims since early 1994, and so one would expect that it is fairly stable as it relates to any claims coming forward in that area.

**Mr. Sale:** Mr. Chairperson, we could clear up the question of the claim in '94 now rather than waiting until the '94 statements that we are going to discuss later in the meeting. What was the scale of that claim? Is it material or is it small? What is the status of it?

**Mr. Downey:** I am told by the department staff that it was in the neighbourhood of \$24,000 for material and was an out-of-court settlement.

**Mr. Sale:** Mr. Chairperson, I thank the minister for that response.

The issue of accrued pension liabilities arises, I understand, because the staff of MDC in the past, though not at present, were not members of the Civil Service Commission and therefore were not part of that pension fund. Year over year, when I went back and looked through the statements, the pension liability amount increases substantially each year, and yet those staff have not been around for a long time.

Could the staff explain what is causing it to accrue if in fact provision was made for this many years ago? Why is it getting larger?

**Mr. Downey:** I guess the reason, Mr. Chairman, was the fact that the Manitoba Development Corporation was no longer going to be carried on as an arm's-length, so to speak, entity of government, that the decision was taken to account for the pension liabilities within and in the balance sheet of the corporation, and with no new employees coming in, it was decided, for the purposes of this corporation, to report it in this way on the understanding that there will be another increase, but basically, from there on, it will not be that in fact the responsibilities will eventually start to drop off. It was a decision taken as it related to basically the change in mandate for the MDC and the operation of it not being any longer a separate entity from outside government.

**Mr. Sale:** Essentially then, to the minister, was this a 100 percent unfunded liability at the earlier statements? I cannot give you the exact date, but it would be back in the 1980s, and you have been gradually increasing the accrual to fully fund the pensions for which you are liable. Is that the process?

**Mr. Downey:** Repeat the question, please.

**Mr. Sale:** Mr. Chairperson, the question was, when the employees in question left—let us establish that first. When did the employees in question leave MDC?

**Mr. Downey:** Mr. Chairman, 1992.

**Mr. Sale:** Then, when the employees left in 1992, did we have a completely unfunded pension liability at that point or a partially funded liability? Is this process leading us to a fully funded pension liability?

**Mr. Downey:** It was partially funded prior to 1992, and it will lead us to a fully accountable and accounted-for unfunded pension program and will be paid off—it is basically amortized over a 10-year period.

**Mr. Sale:** That strikes me that you must be looking at building up a capital fund of something in the order of over a million dollars. Would that be correct?

**Mr. Downey:** No, not in the magnitude of a million dollars. I am told by staff in the neighbourhood of half a million dollars, and there will be an actuarial report being brought forward of which at this particular time

it is anticipated that it is \$60,000 short, but with the new report being developed as of December it would be fully funded.

**Mr. Sale:** I presume that report will form an Auditor's note for 1995. Would that be fair to assume?

**Mr. Downey:** Presumably.

**Mr. Sale:** Mr. Chairperson, under the Manitoba Development Corporation Act, it is a fairly long act, as the minister, I am sure, knows. It goes on and on, and that is fine. It needs to do that to be clear. But there are two main parts of the act, Part I and Part II. The major operations of the corporation have been under Part II for the last number of years. I believe since 1977. Am I correct? The beginning of the Lyon government, 1977?

\* (1020)

Nevertheless, there are remaining Part I operations. I am wondering whether the minister could walk us through the current situation of Part I loans as at the end of March 31, 1993. Some, I believe, are being paid back. Some are not yet.

**Mr. Downey:** They are all being paid back.

**Mr. Sale:** I ask the minister as well if he could indicate what those loans were at the present time, what the status of them was. He has indicated they are all being paid back. Perhaps I am not finding them accurately in the statement, but I do not see a list of Part I operations.

**Mr. Downey:** One was the McCain loan that I referred to earlier, which was paid back in 1994. There are three others of which I will, if the member wants, get the names of those companies.

**Mr. Sale:** Mr. Chairperson, I would appreciate the names of the companies, the status and condition of the loan. It is just the basic information that is provided in regard to Part II loans, for example, on Schedule 1, which is our page 9. The list of loans is there with the partially forgivable terms, the rates, the amount of the loan, et cetera.

**Mr. Downey:** Yes, Mr. Chairman, the larger one which I referred to was the McCain loan. It was 4.1, which has been paid back completely in 1994; the other at 3. The member has to appreciate, these loans were made out prior to 1988 and under the former administration, so if there are any questions or comments, maybe we could ask some of those colleagues of his who were involved as to why they were made, but they are being paid back on a monthly basis.

**An Honourable Member:** They must have been good loans then, since they are being paid back.

**Mr. Downey:** Well, there were maybe one or two good ones. There are three here that are being paid back on a monthly basis. What is this one? Valley Motor Hotel in Dauphin. The second one is a hotel in the community of Garson, and the other is a mortgage on a brick plant in East Selkirk. Those are the three outstanding but are being repaid on a monthly basis.

**Mr. Sale:** I thank the minister for those answers.

I wonder if the minister would consider asking the auditors to provide Part I loans information as a regular part of the audit, as the auditor provides Part II loans. The Part I section, which is on page 4, Mr. Chairperson, simply rolls together all of the activities as opposed to identifying the loans, whereas Part II loans are identified at least in their original shape. They are not identified in terms of whether they are current or not current at this time.

Would the minister consider the auditor to indicate the Part I loans status?

**Mr. Downey:** I would have no difficulty with that, Mr. Chairman.

**Mr. Sale:** Again, I thank the minister for that.

If we could move to page 3, Mr. Chairperson, in terms of the overall income, I am not clear on this, but the income at the top of the page, is that income only on Part I, or is that total income?

**Mr. Downey:** I am told only on Part I.

**Mr. Sale:** Again, the same comment then to the minister. Would the minister ask the auditor to so indicate in future, because it is confusing when we see two kinds of income, and it is not clear whether it is net, gross, Part I, Part II, et cetera.

**Mr. Downey:** I would have no difficulty with that, Mr. Chairperson.

**Mr. Sale:** I thank the minister for that.

The loan interest and guarantee revenue amount, this is presumably—I should not say that. I should not presume anything. Could the minister indicate whether this is purely interest or whether the principal is shown somewhere else that I am not clear on?

**Mr. Downey:** This is strictly interest that the member is referring to?

**Mr. Sale:** Could you just indicate where the principal flows back, in what part of the statement? Perhaps you could just point out what page it is on.

**Mr. Downey:** Page 2 and it is, in our long-term investments, the difference between the 5.4 on page 2, and the 4.9 would be the capital portion that is repaid.

**Mr. Sale:** Mr. Chairperson, you have to excuse me. I read a lot of balance sheets for a nonprofit housing manager that I have been treasurer for, and I do not recall that being a normal convention, to require someone to do the subtraction to find out what principal was received during the year.

The interest is indicated, but it does not seem to me to be transparent that that would be the principal repayments. There could have been cancellations of loans.

There could have been any number of things that would have changed the \$5.4 million to \$4.9 million in a year, at least in other statements that I have reviewed. Could the minister comment?

**Mr. Downey:** Yes, I could maybe be helpful. That is spelled out in detail on page 4, where it says, "Loan principal payments," the middle of the page.

**Mr. Sale:** So that is in fact the difference. I had not realized that those two would reconcile like that, and I should have realized that.

Back to that question then about loan interest and guarantee fees—I might say, Mr. Chairperson, I have no problem with the staff if it is easier to have the staff just answer directly rather than having to slow down as we go through this. That certainly would be fine. Could the minister indicate the guarantee fees, the nature of the guarantee fees and the breakdown between interest and guarantee?

**Mr. Downey:** Mr. Chairperson, I am not able to lose my voice. I need the practice to answer the questions to the member so I can not get rusty, so until I get into—[interjection] I will proceed to try and cover the ground.

On the '93 report, on the top of page 3, of the \$726,195, \$62,500 is a guarantee and the rest is interest income.

\* (1030)

**Mr. Sale:** Mr. Chairperson, let me expose my own ignorance here a bit. Could you indicate what the role of, or nature of, the guarantee fee is? This is a fee charged, presumably, to the recipient for the process of the government guaranteeing this loan.

**Mr. Downey:** Basically, it is bonding guarantees to New Flyer.

**Mr. Sale:** Note 8 talks about cost recoveries, Mr. Chairperson. I wonder if these are simply indicated as a net amount. These are recoveries from other programs into Part I income. It is on page 8. I was just puzzled why they are in Part I income.

**Mr. Downey:** Basically, Mr. Chairman, the numbers here were payments received by the department for work carried out by MDC as they wound down their operation.

**Mr. Sale:** Mr. Chairperson, it seems to me that they are perhaps not that. Tourism agreement, Manitoba Industrial Opportunities Program, MAP, Manufacturing Adaptation Program for a total of 63.2, and the Note 8 talks about them as being Part II programs, but they are

showing under Part I income, and unless there is just a huge coincidence, that 63.2 is something different, then I am puzzled by the minister's answer.

**Mr. Downey:** Basically, Mr. Chairman, under Part I, the administrative fees were charged through to the MDC.

**Mr. Sale:** Mr. Chairperson, I understand that that is what the minister has said and he has repeated it twice, and I am not being horribly critical here, but we indicated earlier that the income figures on page 3 started with Part I income. The note on page 8 refers specifically to Part II programs. So I am just wondering whether—and this is not a major issue, but should this income in fact show under Part II income and not under Part I? The note is at least confusing on that count.

**Mr. Downey:** As is indicated, it is open for debate. I do not think there is anything certainly that is not explainable on it.

**Mr. Sale:** I agree.

**Mr. Downey:** It could certainly be, I guess, accounted for in a different way, but the outcome would not be any different.

**Mr. Sale:** Mr. Chairperson, I completely agree with the minister. The bottom line would not be different, but it is a minor but important point, because staff and the minister make the point in their notes that the corporation operates under Part II only now and is simply winding up activities under Part I.

I do not think that the MIOP program is winding up and I do not think the Manufacturing Adaptation Program is winding up. I am concerned that if we are going to in fact wind up Part I and remove the arm's-length obligations which were implicit in Part I of the corporation under the act, then we should not be including income that belongs in Part II under Part I. Again, I would ask the minister to consult with the auditor as to the appropriateness of that.

**Mr. Downey:** Mr. Chairman, it has been noted and the department will make sure it is corrected for next year's report.

**Mr. Sale:** Thank you, Mr. Minister. I do not want to make quibbling points, but I think it is important if you are going to wind up Part I operations that we not confuse current operational income into that part because, presumably, sometime in the near future you are not going to show any income under Part I anymore and it will be essentially wound down. If these mortgages expire in the reasonably near future then Part I will be wound up.

Mr. Chairperson, I wonder if the minister could comment on the winding up essentially of all of the liabilities by the transfer I believe of \$49,999,900 I think it was—anyway it was a nice round figure shy of \$50 million—leaving the corporation on the books a surplus at the end of that adjustment. The corporation has written off \$44 million basically. This is a long list of items presumably from the past.

**Mr. Downey:** Mr. Chairman, the losses that were written off are basically ones that the member should be relatively familiar with, predominantly the Flyer bus company which was owned by the province. I think there was an aircraft company which was also written off which would go back before his history in government and my history in government but prior to 1977. Those are basically the major write-offs.

I do not know whether the Chinese food experiment that the Schreyer government were in on at that time was part of that or not. It could have been, but the airplane experiment of which the Schreyer government embarked upon, the bus company, those are the ones that were the major write-offs.

**Mr. Sale:** Mr. Chairperson, I admire the minister's tact and restraint in answering the question which I knew—

**Mr. Downey:** I can get all the details and stuff . . .

**Mr. Sale:** I am sure the minister would be prepared to provide lots of detail and then we could do the same thing for Hazardous Waste and ARCOR and then we would spend a lot of time spending very little useful time. We would not want to do that. We certainly would not want to go back to Churchill Forest Industries at all. We would be here for a long, long time. [interjection] Could be.

My question, Mr. Chairperson, is were there any things within the last eight years written off or were these all obligations that were entered into prior to 1977?

**Mr. Downey:** I am not aware of any, Mr. Chairman, but I will have staff check—some of them have just been involved recently—and if there are any I would inform the member.

**Mr. Sale:** Mr. Chairperson, I thank the minister for that. I would just also note for the record that at least some of the Flyer operations spanned a number of different governments and that MDC's role in maintaining that company to the point where it now is not only viable but very profitable and providing a good number of jobs and exporting Manitoba buses to many parts of North America I think is one good argument for what was Part I of the act and provided through several political administrations the possibility which has now come to pass with den Oudsten's efficient operation of this plant. So I think that the minister would acknowledge that that was a long-term process over several governments that has ultimately benefited Manitobans.

**Mr. Downey:** My only comment, Mr. Chairman, is I will have more to say on that in the future after we are through with these reports.

**Mr. Sale:** I can hardly wait.

**Mr. Downey:** Let us pass the reports. Let us pass the reports then.

**Mr. Sale:** Could we then move to the notes, Mr. Chairperson. I want to, first of all, ask whether the remaining loans under Part I—perhaps we could just first indicate the scale of what is left after McCain has paid back. It is now fully paid back, I understand—not in this set of statements, but in what is left.

**Mr. Downey:** Some place between—approximately three-quarters of a million dollars, I believe, seven hundred and some thousand.

**Mr. Sale:** Mr. Chairperson, the minister has indicated that all those loans are now current and being paid

back. Could the minister indicate when he expects, assuming they remain current, them to be cleared off?

**Mr. Downey:** I can get that detail for the member, Mr. Chairperson, but they are all current, and we anticipate full repayment. I am not sure what the repayment schedule, when it concludes, but I will get that information for the member.

\* (1040)

**Mr. Sale:** I am not being critical or questioning that. I am wondering approximately when the legal obligations under Part I would end.

**Mr. Downey:** I am told by the departmental staff it could be five to six years.

**Mr. Sale:** I ask that because it seems to me that at some point it would be useful to not just amend the act slightly but to bring it up to where the department intends to operate.

I understand fully that different governments have different views on the appropriateness of a corporation such as MDC, but, currently, the corporation is operating in an act where most provisions pertain to Part I, but most of its actions are under Part II. Increasingly, it seems to me that you are stretching the act to accommodate a new style of operation.

Is the government considering bringing this act up to conform more closely to what it actually intends to use MDC to do?

**Mr. Downey:** Mr. Chairperson, I do not consider that we are stretching the act. We do have to maintain Part I as we are still doing business out of Part I of the act.

Again, as to the future operations of Part I, it will be up to the department and government to decide, and when it is deemed necessary to make a legislative change, it will, in fact, be dealt with.

**Mr. Sale:** I wonder then if you could comment under Item 1.(b) on page 5. We will talk about McKenzie Seeds under 1994's statements, so I do not want to comment on them now, but perhaps you could indicate

the Linnet Graphics investment and clarify for us what that consists of. The item is on page 7, and it is not clear to me what the \$1 investment means. That is a heck of an investment if it can earn \$45,000 in return. That is not a bad return on investment. So it obviously is one of those legal agreements where for \$1 and other good and valuable considerations—what were the other good and valuable considerations, and what is the status of that loan or investment?

**Mr. Downey:** I appreciate the member's vote of confidence in the activities and the involvement of government in Linnet. It is a good deal for the province. There is a considerable amount of new technology being applied. People are being employed here in Manitoba, and it is a company that is doing well. It is also in the export of technology business, and so for the province we are being rewarded through our involvement.

**Mr. Sale:** Mr. Chairperson, I did not comment on the effectiveness of the investment. I asked for the details which the minister has not yet provided. What is the equity investment? What is the nature of the investment, and what is the province's equity in this corporation at this point?

**Mr. Downey:** Mr. Chairman, the province owns 24 percent of Linnet Graphics.

**Mr. Sale:** Mr. Chairperson, what is the market value of that investment today?

**Mr. Downey:** It would be a speculative answer, if I were to give one.

**Mr. Sale:** Well, one is tempted to remark that that is the business of this government is to speculate on a number of things. However, I will not say that.

Could the minister indicate how much money has been invested to purchase the equity investment of 24 percent of Linnet Graphics?

**Mr. Downey:** One dollar, Mr. Chairman.

**Mr. Sale:** I know that is what the books say. What was the other good and valuable consideration for

which 24 percent of equity in this corporation was purchased?

**Mr. Downey:** Mr. Chairman, I would have to get some additional information for the member. I do not have that at my fingertips at this particular time, but I am prepared to provide that to the member.

**Mr. Sale:** Could the minister indicate, at least in general terms, what was the nature of the investment?

**Mr. Downey:** Because of the new technology and the fact that it was being based here in Manitoba and a developing new technology and a considerable amount of work being done for different departments of government, it was deemed advisable that there be a participation by the province. Again, by participation by the province it also demonstrated in the international marketplace, and I can say this from my own experience, particularly doing business in Mexico and also I believe in Chile where there has been some recent discussions with the Geomatics program, that it was deemed that it was in the public interest, in demonstrating that it was the right way to go in the kind of activities being carried out and we were spending some money as a province in the work that was being done, that we participate in a way which we are participating.

That is really the reason for it, and the company has grown. It has grown because the province has been part of it, but there also have been some government projects that have been carried out with this organization. It is very much new technology which is developing, and I think one which we are pleased to see expand and grow. We are equally pleased to see it be part-owning part of the shares.

**Mr. Sale:** The minister has indicated that he will provide the detail of the nature of the equity investment that purchased the 24 percent of the shares. Can I ask the minister, is the \$45,000 essentially a quarter of the net profit of Linnet Graphics?

**Mr. Downey:** On their books, yes, Mr. Chairman.

**Mr. Sale:** Could the minister clarify what he means by "on their books"?

**Mr. Downey:** That is what is being indicated as a profit. That is our share of the earnings on their financial statements.

**Mr. Sale:** Mr. Chairperson, will the minister table the financial statements of Linnet Graphics for the House?

**Mr. Downey:** Mr. Chairman, I do not know whether I am able to under a contractual arrangement and/or because it is a privately controlled company. I will do what I can to get as much information for the member as possible, but I do not want to put the company in a position where strategic information—because it is a company that is doing business in the marketplace, and we do not in any way want to disclose information which could put them at a disadvantage to their competitors.

\* (1050)

**Mr. Sale:** Mr. Chairperson, I would not want to put any Manitoba company at a disadvantage, but I suspect that there is a good deal of information which is not proprietary that might be made public. The people of Manitoba have, I believe, made a significant investment in this corporation in a number of ways. They have given over monopoly rights in regard to mapping, and they have in effect privatized a monopoly for the people of Manitoba and many others which used to be work performed by government departments.

Could the minister indicate what other grants from other programs in Manitoba have been received by Linnet Graphics for any purpose, whether it is purchase of technology, training or other purposes? Have there been any other grants received by Linnet?

**Mr. Downey:** I will have to take that question as notice for the member and check for him, Mr. Chairman.

**Mr. Sale:** Mr. Chairperson, could the minister also indicate what fees or purchases or payments were made by government departments to Linnet during the fiscal periods that we are looking at today, '92-93 and '93-94, for which Manitoba earned the sum of \$45,000 this year and some other sum in the next year?

**Mr. Downey:** Mr. Chairman, again, I will attempt to get the information that is available to him through

questioning of different departments as it relates to the Estimate process as to where their monies have been spent. So, the information is available. I will attempt to provide him with it. I will try and co-operate as much as I can. Again, I think it is a matter of making sure that, particularly when they are dealing in the international marketplace there is some information which should and should not be made public as it relates to companies doing business in the marketplace. I do not have the answer for the member right at this particular time. I will endeavour—but I do have to remind the member that the information that would be looked at cannot jeopardize the company as it is doing business in this country and in the international marketplace.

**Mr. Sale:** Mr. Chairperson, I fully appreciate, and I have already put on the record I appreciate that concern. My question is, we can see through Public Accounts some purchases, some payments to Linnet. I am not certain whether we will see all of the departmental arrangements with Linnet that might be made by other departments, such as Mines, Natural Resources, Agriculture, other government departments who have contractual or other arrangements with Linnet to provide services to the department.

I am not entirely certain that those would all show in the normal process of Public Accounts. So I am asking the minister to try and ascertain what the total involvement with Linnet is over the period of a year for which he is saying we are providing some employment for Manitobans, we are earning some money in world markets. That is all very well. We are earning \$45,000, but I think, as the minister knows, we are paying to Linnet considerably more than that in payments for services rendered which are being rendered by virtue of money that Manitobans already invested. So it is a bit of a mugs game, and we would like to understand more clearly the virtue of this investment at this point.

We move onto the Contingent Liabilities, note 7. I first ask the minister—I have not had a chance to look this up—who is the auditor for the Vision Capital Fund?

**Mr. Downey:** I am informed by department, Deloitte and Touche.

**Mr. Sale:** Mr. Chairperson, I could also ask who is the auditor for the tourism agreement?

**Mr. Downey:** I am told by the department that it is departmental. I think the Provincial Auditor.

**Mr. Sale:** Mr. Chairperson, are any of the other three audited by someone other than the Provincial Auditor? I know I have the list of the Auditor's activity here, but I need to look it up and did not have a chance to do so.

**Mr. Downey:** Not that I am aware of, Mr. Chairman.

**Mr. Sale:** Mr. Chairperson, this brings me to a concern that I have that I think there might be some reasonable reason to have some discussions with the Provincial Auditor about, and that is the practice of government having some pieces of some departments audited by the private sector and some audited through the Provincial Auditor.

I find this statement somewhat less than satisfying in terms of its detail in some little areas that we have pointed out already, some absence of detail. I am concerned that we have a situation where a private auditor is auditing two pieces of activity which interact but is not auditing all the pieces that interact.

We have five Contingent Liability disclosures here. We have a Deloitte and Touche audit of this corporation and of Vision Capital but not of the other four which the Provincial Auditor audits.

The Provincial Auditor in her report simply notes several different places but, for example, on page 63 of Volume 3 and in other places, it is simply that she does not audit this. She does not say anything about it. She does not say anything about the interactions between this corporation and these others.

I am very concerned that anything that is operating within government, as opposed to at arm's length, ought to be audited by the Provincial Auditor. I would like to ask the minister if that consideration is on the table for discussion at this time.

**Mr. Downey:** Mr. Chairman, I note what the member is putting on the record. I am not going to enter into

any debate or extended dialogue with him at this particular time. I guess, personally, I am satisfied with the reporting system and the auditing systems that have been carried out within government and those that have been provided by external auditors, and I think the public interest is being looked after. I do not think there is substantive evidence that would persuade one to move in a greater direction that he has put on the record. If he does, then it would be government's prerogative to take the recommendations and to proceed further with them.

I think the main objective though is to make sure that all public funds are being fully accounted for and the uses of those funds are being fully explained, and there is an opportunity or process to do that. At this point, I am satisfied with the reporting we are doing with this and other departments and/or corporations that are the responsibility of the government, that it is being done adequately and properly.

We could get into an extended dialogue in which I am sure we have many qualified members of our caucus who would love to roll their sleeves up in a philosophical way and debate the issue with the member. There would be a more appropriate time to do it, I believe, than at this particular legislative committee, but, again, I do not think there would be any—I can assure him that there would not be any one of our members of our caucus that would mind debating, in a philosophical way, the issue.

He may find some in agreement; he may find some who are opposed, but, again, I think there is another arena in which this could be debated.

**Mr. Sale:** Mr. Chairperson, could the minister indicate what the other arena might be?

**Mr. Downey:** There are many opportunities. There is an opportunity for him to bring a resolution in private members' hour before the Legislature, which he is fully aware of. I am sure in throne speech debates, I am sure in budget debates, those are areas of which broad-ranging debates can in fact carry out and are the opportunities for members to express their philosophical bents as it relates to this and a whole realm of other matters.

**Mr. Sale:** Mr. Chairperson, the proper time to debate this, I think, is when we debate the statements of the Manitoba Development Corporation, since this is the auditor of the corporation. One of the things that one does at the end of each year is to reappoint an auditor, and I presume that that has been done.

My concern, and perhaps you can see the pattern here, is that you are moving this corporation into an internal operation by government. You are moving amendments to the act which make civil servants the officers of the corporation and in fact the only officers of the corporation. There is no longer an arm's-length operation here. This is entirely internally directed. The loans that are being processed under Part II of this corporation, Mr. Chairperson, are all loans that are at the direction of cabinet ministers and the Lieutenant Governor in Council, the cabinet.

\* (1100)

There is considerable discretion in the act under Part I and Part II for the officers of the corporation to make decisions. The minister is asking, in the amendments that he has proposed for this year, Mr. Chairperson, the right to approve the routine by-laws of the corporation, again, perhaps a reasonable request, but I would like, as a matter of principle, and I think members opposite, particularly the fiscal conservatives among them, would probably agree that, where something is entirely within the operation of government, it is appropriate that the Provincial Auditor have oversight of all of that.

Where there is an arm's-length corporation that is clearly an arm's-length corporation, then it is debatable whether private or public auditors might appropriately do the work. It is not a question of who are good and who are bad auditors, it is a question of: Does the Provincial Auditor have the full scope of audit of all government operations under the operating and capital account, Volume 1 of Public Accounts?

In this situation, the Auditor does not because the Auditor is missing two critical areas, the Vision Capital Fund, which is fully 80 percent of the loans of the corporation, the undisbursed balances and commitments, and the corporation itself, which has on its books significant assets and liabilities. The

Provincial Auditor has to audit four of the programs flowing through the corporation, so presumably has to be familiar with the corporation but does not ever express an opinion on the corporation.

On the other hand, Deloitte Touche is responsible for the two biggest pieces of this corporation, the corporation itself and the Vision Capital Fund, but presumably must also be aware of what is happening under MIOP and the other programs that flow through Part II, so essentially one of the things this government has talked a great deal about is duplication, waste. We have two different auditors with two different staffs having to be at least aware of operations for which they are not responsible to provide an audit, and I think this is a very important question of accountability, Mr. Chairperson.

I am not alleging that there is not accountability. I am simply saying that the current setup of having some partial private auditing, some provincial auditing within one corporation's activities is not an appropriate way to provide full public accountability, and it undercuts, I believe, the role of the Provincial Auditor in fully assuring herself that all operations of Part I of the Public Accounts, the ordinary Estimates of government, are fully accounted for in her audit. She has got a hole here in this audit in that the venture, Vision Capital Fund, the venture fund of the government and the Manitoba Development Corporation—the latter, which is operating now entirely under civil service direction and entirely under ministerial direction, has no arm's-length operations at all, we are told. Nevertheless, it is not audited by the Provincial Auditor.

That gives us considerable concern, and it is not a question of the political perspective of private versus public. It is a question of whether it is appropriate to have some governmental, departmental operations audited by a private auditor and not others. I think there is a role problem here, and I would ask the minister to comment on that.

**Mr. Downey:** Not to prolong the discussion and/or the debate, Mr. Chairman, the way I would perceive it, not being an accountant, not being in that profession, but I would have anticipated and expected and basically

have seen that when statements are audited, whether they be government auditors, provincial auditors, or whether they be private-sector auditors, they have a set of accounting principles which they adhere to, of which I would expect the professionalism of inside and outside accountants and their activities to be consistent with one another. Anyone's professional integrity, if not carried out following those principles, would certainly ruin their career and put in jeopardy the whole process of auditing of accounts of government and/or arm's-length and/or private-sector companies.

So, if he is bringing into question, the capability of the auditors that are being used for the Manitoba Development Corporation, I would expect him to say so. If not, then he is fully entitled to his opinion as to whether he would like greater involvement with the Provincial Auditor for the reasoning which he has stated. I certainly am satisfied with the work that is being done by the Provincial Auditor and also by the private-sector auditors that have been employed to do the kind of work that has been done on behalf of the government. I note what he has said. I note his concern that when there is—that he feels there should be a greater involvement in MDC as it relates to the auditing of the responsibilities of MDC. As I say, I will note it.

We have other members of our cabinet and government which are part of the Treasury bench, which are also members of the accounting business, the legal business, and very credible individuals throughout our caucus. So this government, I believe, is satisfied that the principles of accounting have been carried out in a responsible and professional manner, and I am not convinced that there should be a change. However, I have noted what he has put on the record.

**Mr. Sale:** Mr. Chairperson, I thank the minister for noting that. I want to underscore what I have already said and to make sure that the minister is not under any misapprehension. I am not commenting on competence. I am not commenting on professional standards. I did not comment on either of those issues, and I somewhat resent the minister implying that I may have, because I think the record will show very clearly that I did not comment on the competence. I commented purely on the question of the advisability of

having civil service, cabinet-directed operations not audited by the Provincial Auditor. We are not talking about arm's-length corporations here anymore, which we were when MDC operated under Part I.

We are not now doing that, and explicitly the minister is changing the officers of the corporation so that that will not happen in the future, at least under this government, so my comments were directed to the appropriateness of having two major operations entirely directed by cabinet and civil servants, not audited by the Provincial Auditor.

I would ask the minister further: Will the minister undertake to have his deputy and assistance deputy have a very frank discussion with the Provincial Auditor on the advisability of the separation of the audit and to report to the minister the Provincial Auditor's views on this question? Obviously it is a matter of policy and the minister can make whatever decision cabinet and the minister wish to make, but will the minister undertake to have his senior staff have that discussion with the Provincial Auditor?

**Mr. Downey:** Mr. Chairman, I did not mean to reflect on the member that he was in fact questioning the integrity, although I think it was important that he clarify that. The other point I would make is—

**An Honourable Member:** I did not have to clarify it because I did not ever say it.

**Mr. Downey:** The bottom line, Mr. Chairman—and one could take this whatever way they want to take the debate, but there are those that, I am sure, would say that you would maybe get a more critical audit from outside of what government is doing than from—I am saying there are those—

**An Honourable Member:** Do not go down this road. You do not want to say that.

**Mr. Downey:** Okay. I will—

**An Honourable Member:** I am sure in fact you want to retract those—

**Mr. Chairperson:** Order, please.

**Mr. Downey:** What I will say, Mr. Chairman, is that there are those that would say there are debates on both sides of this issue as it relates to where audit services are provided for. I mean, that is a debatable issue.

I am satisfied, as I have said, that the Provincial Auditor carries out a very capable and competent job, which we are very satisfied with, and I have no evidence to indicate to me that for MDC there has been any work carried out by the private sector auditors, has been anything different than what the standards and principles established by the audit and accounting firms of this country, so there is no question, we are satisfied with the work that is being done.

The question the member raised is, would we be prepared to have senior staff talk to the Provincial Auditor as it relates to auditing more of the work of MDC, as it relates to the fact we have more employees now doing the work rather than at arm's length? Is that correct?

I have no trouble with asking for that discussion to take place.

**Mr. Sale:** I think that we have agreement on this. I will say just once more, I am not and did not at any point comment on the quality or skills of public or private sector auditors but merely on the question of the wholeness of an audit activity to cover, in particular, activities of civil servants and the minister and cabinet that are entirely directed within government. That was the only point.

I think the minister understands my point.

Thank you, Mr. Chairperson. Could we go on to Schedule 1 now of these statements? It is on page 9.

\* (1110)

Mr. Chairperson, could the minister indicate the status of each of the loans down this page, whether they are current or not current, and we just will have a sense of how these loans are going? In fact, some of them may have some developments that may mean that they are completely repaid. If the minister could just bring us up to date on those, I would appreciate it.

**Mr. Downey:** The first ones listed a third of the way down the page are all current, on page 9, right to the \$6,875,000.

**Mr. Sale:** Sorry.

**Mr. Downey:** On Schedule 1, page 9, the first four.

**Mr. Sale:** Oh, \$6,800,000—sorry, I beg your pardon.

**Mr. Downey:** Current to that point.

**Mr. Sale:** Those are all current. Okay.

**Mr. Downey:** The next one, \$300,000, has been repaid with interest. As far as we know, the next one is current. I am told by staff that we believe all of these are current at this particular time.

**Mr. Sale:** Mr. Chairperson, do you mean by all, do you mean under the Manufacturing Adaptation Programs?

**Mr. Downey:** That is correct.

**Mr. Sale:** Mr. Chairperson, could you just comment—I will withdraw that question and ask it under the next year.

Mr. Chairperson, if other members of the committee have any questions on this year's statements, perhaps we should do those now. Otherwise, I am prepared to pass the 1993 statement.

**Mr. Chairperson:** Shall the annual report for the Manitoba Development Corporation for the fiscal year March 31, 1993 pass?

**Some Honourable Members:** Pass.

**Mr. Chairperson:** So agreed.

Now we are moving on to consider the Manitoba Development Corporation financial statements ending March 31, 1994. Is that correct? That seems to be the consensus.

Perhaps the first thing we could do for clarity then would be to number the pages of the next report.

Starting with the Auditors' Report page, No. 1, and then sequential. The total, eight pages plus the face page—nine in total.

Mr. Sale, do you have any questions on this matter?

**Mr. Sale:** Mr. Chairperson, I notice that the term deposits are up substantially. Presumably that is capital being held by the corporation subject to loans in the future. Could the minister comment on the sharp increase in current assets?

**Mr. Downey:** Yes, that is the repayment of the McCain loan that went into a term deposit.

**Mr. Sale:** Mr. Chairperson, has that amount been kept in the books of the corporation or has any other payment been made back to government other than the \$750,000? I believe there is a \$750,000 item somewhere of a dividend. No, sorry, the dividend had not been paid at the end of '94.

**Mr. Downey:** It is currently being held for this year, the year we are reporting, in this account, but it is anticipated to be paid to the province as a dividend.

**Mr. Sale:** Mr. Chairperson, can the minister indicate how those funds will be treated when they are paid? Will that be general revenue, operating revenue?

**Mr. Downey:** That would be an appropriate question for the Minister of Finance, Mr. Chairman.

**Mr. Sale:** Mr. Chairperson, I think you can be assured that we will ask that question of the Minister of Finance (Mr. Stefanson).

I just say for the record that this indicates one of the very real concerns we have with the balanced budget legislation, that a corporation such as the Manitoba Development Corporation could recover a loan that had been made many years ago and treat that loan as current revenue to the government for operating purposes, thereby distorting significantly the question of whether the budget is or is not balanced in any normal understanding of the word. So it will be interesting to see how these funds are recovered and whether they are applied to liabilities or whether they

are simply dumped into the operating account of government.

A minor question, Mr. Chairperson. Long-term investments, these are the loans that are remaining that the minister indicated in questions for the last statement of about three-quarters of a million dollars. He also indicated that that little doubtful account had been recovered. Was it recovered subsequent to this statement?

**Mr. Downey:** Yes.

**Mr. Sale:** In terms of the divestiture, the minister has already indicated that there are no further accumulated liabilities, I think he indicated \$24,000, \$25,000 under the den Oudsten agreement. Is that correct?

**Mr. Downey:** Yes.

**Mr. Sale:** I do not have any other questions on that page, Mr. Chairperson. On to page 3, the same comment in regard to Note 8, Cost recoveries. I do not think there is anything different here. I think we have agreed earlier that this probably belongs under Part II income, and so there is nothing different in those programs except the Business Start Program shows up in '94 and it was a new program.

**Mr. Downey:** Basically, as the member indicated in the last report—holds for this one.

**Mr. Sale:** Mr. Chairperson, the Pension benefit costs have shown up here, I think, differently—perhaps I am mistaken, but I think differently. We have this year, Salaries and benefits and Pension benefit costs. Is this what was in the previous statement some accrual process for the pension liabilities?

**Mr. Downey:** Mr. Chairman, I am told that it is both, it is both the accrual and the current pension costs.

**Mr. Sale:** Could the minister explain that a little further? I am not clear what the change from '93 to '94 has been.

**Mr. Downey:** There are employees who have retired who are receiving pension benefits which have to be

accounted for; also, the accrual of outstanding pension liabilities that are being accounted for.

**Mr. Sale:** I am sorry to be confused about this, but there is a very substantial difference between the statement of '93 and the statement of '94 in this regard. I am hoping the minister can shed some light on it. I will indicate the differences. Under page 3, there is a new item this year called Pension benefit costs. It is stated as having occurred in 1993, but in 1993 on page 3 there is no such line. There is no pension benefit cost. We will stop there, so perhaps we can first clarify that.

\* (1120)

**Mr. Downey:** It has been lumped together in the past, Mr. Chairman. So, if you go back and look at it, it will be—if you go to the 1993 year, it says \$159,125. That is the 1993 report. In the 1994 report, it is in two areas: one is \$119,248; the other is \$39,877—which basically comes to the same number. It is broken down in the 1994 report, while it is in the 1993 report all on one line. So, if you go to the 1994 report, on page 3, add the 119 to the 39, you will come very close to the 159 that is on the 1994 report.

**Mr. Sale:** I do not think so, Mr. Chairperson. I am confused. Administration appears in both years as \$49,250 on both statements. Pension benefit cost appears in the 1994 statement and is restated for 1993 as 119. So the 49s on both sides, I do not understand how it can be combined to make a number that is on only one side.

**Mr. Downey:** If we go to the 1994 report, halfway down the page, you will find the figure in total expenses in this category of \$234,973. If you go to the 1993 column, you will find total expenses of \$234,973. They are reported differently on the two reports, but the total number is the same.

**Mr. Sale:** The minister is saying that it is the \$39,000 Salaries and benefits that were added, not the 49.

**Mr. Downey:** Correct.

**Mr. Sale:** Thank you.

Mr. Chairperson, in 1993, the salaries and benefits of \$39,000, I had understood the minister to say that the staff had left the corporation in 1992. Could the minister indicate what salaries and benefits were paid out in 1993-94?

**Mr. Downey:** Basically severance payments, Mr. Chairman.

**Mr. Sale:** Could the minister then help us to understand what has happened from page 4 of the 1992-93 statement, in which there is an accrued—it is interesting. There is a typo; it is "accrued" as opposed to "accured." [interjection] It is a new term, "accured pension liability."

We had talked about a much larger amount under the balance sheet, now up to \$520,000 in this year, Mr. Chairperson. We have now got pensions being paid out in an actual amount, and we have an addition for pension liability which is falling from \$74,000 to \$56,000. Could the minister just walk us through that mathematics a bit?

**Mr. Downey:** No.

**Mr. Sale:** I could not either.

**Mr. Downey:** The answer is no. I will have staff do that one.

**Mr. Sale:** I at least have this much in common with the minister, that I do not understand the pension liability process, but, if you could do a reconciliation, it would just help me to understand it for future years. I would appreciate it.

**Mr. Downey:** We will—and not at the committee, but we will attempt to give the information to the member. It will take a little more time than we have at this particular time to explain it to the member, and I will also sit in on the briefing.

**Mr. Sale:** Mr. Chairperson, again, I find this statement—not referencing competence or anything else, but I do find this statement unhelpful when changes like that are made, where items which were formerly reported separately or formerly lumped together

suddenly become separate, and it is up to the reader to try and figure out what it is that has happened.

I think it would be very helpful if the Auditor would provide notes when accounting headings or practices are changed. I just make that comment.

**Mr. Downey:** It might be helpful, Mr. Chairman. I think, certainly, in explanation for the department, there was a shift from an outside arm's-length entity of government to an in-House handling of the affairs of the MDC.

I think that may explain some of the differences in the reporting which is before us. If that is not the full explanation, I will get the full explanation, but that would be my understanding as to what has taken place here.

**Mr. Sale:** I would take the minister's answer. I agree that that is probably what happened. It simply would be helpful if the Auditor would disclose that that change has had a material effect on the way in which the statements of the corporation are presented and on some of the expenditures, and I think the Auditor would serve us better if that were done.

Mr. Chairperson, on page 4, the dividend payable, has it subsequently been paid to the province—it is just held on the books at this point at the end of the year?

**Mr. Downey:** It has been paid, Mr. Chairman.

**Mr. Sale:** Mr. Chairperson, a great deal of the capital the corporation is now administering on behalf of the province is the Vision Capital Fund, and the Vision Capital Fund is discussed on page 6. I am unclear, and this may again just be my inability to read the statement clearly, whether the Vision Capital Fund is entirely captured under item 4, Note 4, or whether some of the loans or other activities under item 3 also interact with that item.

**Mr. Downey:** I am told the answer is no, Mr. Chairman.

**Mr. Sale:** Mr. Chairperson, the losses under the Vision Capital Fund, could the minister indicate where those losses occurred?

**Mr. Downey:** Could you repeat that question again, Mr. Chairman?

**Mr. Sale:** Mr. Chairperson, on page 6, item 4, the share of losses under the Vision Capital Fund is noted as \$747,354. Could the minister indicate where the losses occurred?

**Mr. Downey:** Basically, Mr. Chairman, it is the booking of operational costs of the fund and also the interest owed to the province on monies that are invested in the fund. The returns of those monies expended will not be shown until an entity which they have invested in is sold and a repayment made to the province.

**Mr. Sale:** Mr. Chairperson, I am not entirely clear with the minister's answer. Is the minister saying that the advances made by the Vision Capital Fund have a proportional write-down of the value that is shown as a provisional loss and it is not an actual loss? I really do not understand the minister's answer, with apologies to the minister. I do not understand.

**Mr. Downey:** I am told there are two separate issues here, Mr. Chairman. The cost of the operation of the fund and the booking for the cost of the interest is in the first portion of it under Vision Capital. That is the first part of it. That is the booking of the interest and the cost that they owe the government on the monies that are put into the Vision Capital plus the operational costs of Vision Capital, staff, administration and overhead.

The next one is an accommodation for if in fact they have to write down an investment. That is what is accounted for in that column, the writing down of an investment if in fact a loss is incurred.

\* (1130)

**Mr. Sale:** I thank the minister. I was misreading the line. I should have realized this was a two-line item, net of pro rata share of losses. I understand now. So the actual pro rata share of the loan write-downs is \$1.8 million. At this point, those are the estimated losses under the Vision Capital activities?

**Mr. Downey:** That is correct.

**Mr. Sale:** Mr. Chairperson, could the minister then indicate where those losses have occurred at this point?

**Mr. Downey:** You mean specific projects?

**Mr. Sale:** Yes, Mr. Minister, I mean the specific companies.

**Mr. Downey:** Mr. Chairman, again, because we are only a small portion of some privately operated companies, that was the intent, to help create employment and assist with investment to capital. I would be reluctant at this point to disclose the involvement of the province. However, I think there may be an ability to accommodate the member with it. In fact, we would not be putting in any jeopardy information which private companies are being participated in with the Vision Capital corporation. It is not that there would not be a willingness; it is a matter of doing it in an appropriate manner.

**Mr. Sale:** Mr. Chairperson, I am sure the minister and his staff know that if you are a small partner in a capital venture fund of whatever kind, the various partners who fund the companies, whether they be development banks or private capital venture capital funds or, in this case, the public sector venture capital fund, they all know what each other is saying.

That is the only way they have of protecting their investment, and the notion that disclosing the companies for whom loan write-downs or investment write-downs have occurred would somehow jeopardize the company, I think, is unrealistic. The company and its bankers and its funders already know this, have participated in the process.

It seems to me that, as a matter of accountability, Manitobans have a right to know the good investments the province has made, such as Standard Knitting and the ones that have not worked out. That is the nature of venture capital fund. You do not have 100 percent winners, or it would not be a venture capital fund, it would be a bank, unless it was Robert Campeau's bank, Mr. Reichmann's bank.

**Mr. Downey:** Mr. Chairman, I do not fully agree with the member, because I believe there are situations which could in fact send a signal that would not be in the interests of the company that we are involved with through Vision and through the investments that are made. So what I am working on or would be prepared to work on is an accommodation for members who for their information and for the public interest would be able to be provided with adequate information.

Again, I do not feel I am at liberty today to provide information, because it may put in jeopardy the companies that are being dealt with.

So again, it is a matter that I will take under notice for the member. I would be more than pleased to provide as much information as possible to make sure that there is a full accounting of what is being carried on. Again, there is a word of caution that I am putting on the record, that I want to make sure that I am not in any way jeopardizing an investment that taxpayers have made through Vision Capital and a company that is providing employment and economic opportunities for the province.

**Mr. Sale:** Mr. Chairperson, I thank the minister for the answer. I take his point. I hope that we will be able to learn more clearly how our Vision Capital Fund is doing without jeopardizing any companies or Manitoban's employment. I certainly would not want to do that.

Mr. Chairperson, I wonder if the minister could comment on the allowance for doubtful accounts, approximately the same amount in both years, \$4.4 million under Part II. That is under Item 3 on page 6. It is roughly \$4 million out of about \$20 million of loans, so roughly 20 percent of the loans, the statement is indicating, have been set aside as doubtful accounts. Could the minister comment on that level?

**Mr. Downey:** Again, Mr. Chairman, in the public interest, because there is public investment, I do not feel that, again, to protect the interest of the public that we could or should disclose as to whether or not we have made an allowance for writing down of any of the funds that have been provided to any corporations because of the message that it may send. I would hope

to accommodate the member without in any way jeopardizing the relationship between the province and the companies and/or individuals, because it could in fact cause for us not to be able to fully collect funds which are owed to the province.

**Mr. Sale:** Mr. Chairperson, the minister has used this reason a number of times, and I think I have agreed a number of times that in principle it is a valid concern. Nevertheless, the minister and his staff indicated in regard to the 1992-93 statements that none of the list of loans under various programs on Schedule 1 in the year '92-93 were not current, that is, all were current, and yet in both years, and I did not ask this question for the previous year, but it is the same question, very substantial amounts have been set aside for doubtful accounts. So I am puzzled. We have current loans, nobody is not current. That is great. Why have we got almost \$5 million in doubtful accounts?

**Mr. Downey:** Mr. Chairman, again, it is a judgment call that staff have to make for properly reflecting to this committee and to the public of Manitoba as to the status of monies of the taxpayers that have been put in to support or to work in some way with the business entity. If in fact that judgment is that a company is struggling or for some reason they feel that it is appropriate to put it in a doubtful situation, then that is what is being reported here. To name that specific company and to say publicly that we have put them in a doubtful account situation does two negative things, in my estimation, at least two negative things. It says that the government is not expecting to be paid back and so it certainly takes the emphasis off the need for them to be aware of that, that probably being the most one. The other one is to try to accurately reflect for the public, through this system, to be told an accurate statement, so it is difficult to fully disclose that information. Again, I think, in a private way, one which would not endanger the province's ability to recoup funds and/or do something that is not in the public interest, I would be prepared to work out some mechanism to do that, but I am reluctant to put it on the record because it may put us in a vulnerable position as it relates to recouping taxpayers' money.

**Mr. Sale:** Mr. Chairperson, I entirely agree with the minister. I have no difficulty with the point he is

making. Can the minister indicate who makes the judgments that result in an accrued doubtful account of \$4.5 million, specifically who makes the judgment and the level at which the account is established?

**Mr. Downey:** The question, as I understand it, is: Who makes the judgment call? I am told by the department, it is the management within the department in consultation with the auditors.

**Mr. Sale:** So "management within the department" meaning the deputy minister, or meaning whom? Could the minister indicate what he means by management?

**Mr. Downey:** Basically, the three senior people within the financial services, two of them sitting at the table and another individual by the name of Mr. Ian Robertson.

**Mr. Sale:** Mr. Chairperson, do any of the doubtful accounts relate to the Manitoba Industrial Opportunities Program, the Industrial Recruitment Initiative, the Tourism Agreement or the Adaptation Program? Do any of the doubtful accounts relate to those?

**Mr. Downey:** The answer is yes, Mr. Chairman.

**Mr. Sale:** Mr. Minister, then I would simply go back to the comment I made in regard to the '92-93 statements. Here we have a situation where civil servants are working with senior staff to be diligent in protecting the interests of Manitobans. They are being audited by an auditor who is not responsible for the programs under which some of the loans are made.

\* (1140)

The Auditor for whom that is a responsibility, The Provincial Auditor, is presumably having to do the same thing. Presumably the Provincial Auditor is also setting up doubtful accounts in programs and trying to understand that issue so that she and her staff can do their due diligence in the four audits for which they are responsible within this overall program.

So I would say again, Mr. Chairperson, through you to the minister, that I think this is another type of indication as to why it may not be wise to separate out

the audits of the Vision Capital and the corporation from the programs and the operations of the department for which it is responsible.

**Mr. Downey:** I am told by the department that there is dialogue between the department and the Provincial Auditor, as well, through the department, so that it is not there.

Another point I would like to make is that because they are in a doubtful account category does not mean to say that we do not anticipate getting all of the money back. In fact, at the time this was printed and the report made, I can inform the member there was a judgment call made on one account that was probably equal to half the amount we are talking about that today is in a totally different category.

We will be able to talk about that at another time. It has changed. For the purposes of this report, it was felt the responsible thing to do was put it in this category.

Today, as we sit here, and I do not want to get into the new report until its appropriate time, it would be a different story as it relates to that one company.

**Mr. Sale:** Could the minister indicate, under item 4 on page 6, A.E. McKenzie at cost, what the final sale price for McKenzie was, and what effect then that will have on this statement of value and net value?

**Mr. Downey:** Basically, I think the cash value which will be shown as a sale price will be \$10 million, of which we will be showing—I guess it is \$4.5 million in our accounting and the balance the province will be.

**Mr. Sale:** I am not sure I understood the last part of the minister's comments, the balance the province will see. I would have thought it would result in a restating of the subtotal of \$4.5 million, showing essentially a capital recovery here.

**Mr. Downey:** Our involvement in McKenzie Seeds was through the amount shown here on page 6. There are preferred shares which will be paid out in full and will come to zero for MDC. The balance of the shares which were sold were common shares which are held by the province.

**Mr. Sale:** I believe the minister is referring to the Stabilization Fund. Are they held in the Stabilization Fund? Is that where MDC or McKenzie's shares are held?

**Mr. Downey:** That would be an appropriate question to ask the Minister of Finance (Mr. Stefanson).

**Mr. Sale:** I have no further questions. If any other members do, otherwise, I would be prepared to pass the accounts.

**Mr. Chairperson:** Any further questions?

**Mr. Downey:** Just a comment, I thank and appreciate the questioning and the manner in which they proceeded to pass these two reports.

**Mr. Chairperson:** Shall the Financial Statement for the Manitoba Development Corporation, Financial Statements, March 31, 1994, pass-pass. So recorded.

**Mr. Sale:** Mr. Chairperson, I would like to thank the minister and his staff for the forthright answers and the attempt to provide additional information. I think this is the spirit in which these kinds of things ought to be conducted, and I appreciate that very much.

**Mr. Chairperson:** This completes the business before the committee today. Shall the committee rise?

**An Honourable Member:** The committee shall rise, and we shall have lunch.

**COMMITTEE ROSE AT:** 11:45 a.m.