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BUSINESS CASE:

REDUCING DIRECT SUPPORT TO BUSINESS

KPMG

Manitoba Fiscal Performance Review

Phase 2 Report
Business Case – Reducing Direct Support to Business

Notice

This Phase 2 report (the "Report") by KPMG LLP ("KPMG") is provided to The Province of Manitoba's Treasury Board represented by the Minister of Finance ("Manitoba") pursuant to the consulting service agreement dated July 14, 2016 to conduct an independent fiscal performance review (the "Review") of Core Government spending (except the Department of Health) for Manitoba.

If this Report is received by anyone other than Manitoba, the recipient is placed on notice that the attached Report has been prepared solely for Manitoba for its own internal use and this Report and its contents may not be shared with or disclosed to anyone by the recipient without the express written consent of KPMG and Manitoba. KPMG does not accept any liability or responsibility to any third party who may use or place reliance on our Report.

Our scope was limited to a review and observations over a relatively short timeframe. The intention of the Report is to develop business cases for select areas of opportunity. The procedures we performed were limited in nature and extent, and those procedures will not necessarily disclose all matters about departmental functions, policies and operations, or reveal errors in the underlying information.

Our procedures consisted of inquiry, observation, comparison and analysis of Manitoba-provided information. In addition, we considered leading practices. Readers are cautioned that the potential cost improvements outlined in this Report are order of magnitude estimates only. Actual results achieved as a result of implementing opportunities are dependent upon Manitoba and department actions and variations may be material.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the Chartered Professional Accountants of Canada, and we have not otherwise verified the information we obtained or presented in this Report. We express no opinion or any form of assurance on the information presented in our Report, and make no representations concerning its accuracy or completeness. We also express no opinion or any form of assurance on potential cost improvements that Manitoba may realize should it decide to implement the options and considerations contained within this Report. Manitoba is responsible for the decisions to implement any options and for considering their impact. Implementation will require Manitoba to plan and test any changes to ensure that Manitoba will realize satisfactory results.

Table of Contents – Reducing Direct Support to Business

1.1 Organizational Needs and Desired Outcomes

Manitoba engaged KPMG to conduct an independent fiscal performance review. In the 2016 Budget and subsequent announcements, Manitoba's intent is to reduce the *growth* of Core Government spending, not *overall* government spending itself. This objective will be achieved primarily by increasing value for money and better allocation of fiscal resources, without adversely impacting front-line services.

During a Phase 1 Scoping engagement, KPMG – in collaboration with the Manitoba Steering Committee – identified several areas of opportunity for cost improvement. One of the opportunities is reducing direct support to business.

This business case is part of a Phase 2 engagement with KPMG. Phase 2 involves further investigation and development of business case opportunities identified during Phase 1 with the Manitoba Steering Committee. Specifically, there is an opportunity to review business support programs:

- To identify what is being spent and how performance is measured;
- To clarify where there may be overlap, duplication or contradicting objectives; and
- To consolidate and/or refocus resources to align with current Government priorities and increase efficiency and effectiveness.

The Minister of Growth, Enterprise and Trade ("GET") received direction in a Ministerial mandate letter (dated May 3, 2016) to serve as the lead in reviewing Manitoba "job creation programs." Several of the observations and considerations proposed herein may contribute to those efforts.

During times of fiscal pressure and spending restraint, governments across Canada and internationally have a difficult time justifying increasing spending for support and subsidies to business, particularly to large corporations. This business case focuses on incremental improvements to business support programs to constrain the growth of core spending.

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1.2 Description of Approach

Reducing Direct Support to Business	
Description	Business support programs provide public financial assistance – or other assistance with a fiscal cost – to individual private sector companies. Support to business can be delivered either directly (e.g., grants, loans, subsidies) or indirectly (e.g., marketing, consulting, counselling). Tax credits are typically considered indirect. In keeping with the Government's clear objective for the Fiscal Performance Review to identify potential areas of opportunities to eliminate inefficiencies and improve cost effectiveness, this business case focuses on reducing *direct* support to business, specifically programs and services that provide private sector, for profit enterprises, as well as programs funding other economic development agencies that in turn support and/or service companies and sectors: **1. Direct financial assistance**, such as grants, loans, government-backed loan guarantees, cost-sharing arrangements or similarly structured subsidies delivered by Growth, Enterprise and Trade ("GET"); **2. Workforce development assistance**, such as financial incentives for hiring, training or skills development, or wage subsidies, that were until recently delivered by GET but moved to Education and Training ("E&T"); and **3. Regionally targeted business support**, such as Urban Development Initiatives ("UDI"), Rural Economic Development Initiatives ("REDI"), and the Economic Growth Funds that are funded through Indigenous and Municipal Relations ("IMR"). This business case includes observations, opportunities and options to: – Reduce Core Government spending related to direct support to business; – Consolidate business support to improve central oversight and accountability; – Streamline the program landscape for easier navigation by businesses seeking assistance; and – Increase GET's agility to scale up or wind down business support in response to economic conditions.

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1.2 Description of Approach

Reducing Direct Support to Business	
Scope	The scope of the Fiscal Performance Review includes all Core Government spending (excluding the Department of Health). Therefore the scope of this business case is confined to business support programs delivered by GET, E&T and IMR as described above. Special Operating Agencies ("SOA"), such as Entrepreneurship Manitoba and the Industrial Technology Centre, are not in scope. Given that several SOAs deliver business support programs or services and are directly accountable to GET, several of the findings and options described herein would be applicable. Generally available tax credits, preferential tax rates and tax exemptions available to companies are not within the scope of this business case. However, we do provide commentary and direction on select boutique tax credits that are narrowly focused on very specific sectors and a narrow band of companies, which should be reviewed and considered by Government.
Key Assumptions	Key assumptions related to this business case include: – Potentially significant annualized cost savings/improvements ranging from \$5M to \$10M over the medium-term within a total yearly spend on direct business support of approximately \$100M; – This includes operating efficiencies and economic benefits to Government and business resulting from less administrative burden related to the delivery of business support programs; – Overlap or duplication exists with similar types of federal, municipal, SOA or other intermediaries' providing economic development support and services; and – Front-line services to Manitoba are not adversely affected. However, reducing direct support may lead to elimination of ineffective programs and/or significant reductions in certain programs, and result in less staff required to deliver such direct support programs. This business case seeks to better inform discretionary spending decisions, and therefore recommendations can be implemented immediately. Limitations that may reduce potential savings for 2017/18 include: – Existing contractual agreements in place for some recipients; – Statutory requirements related to some programs or intermediaries; – Application periods under existing business support programs may already be open; – Previously announced public commitments; and – Deteriorating economic conditions that may increase the demand for business support.

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2.1 Problem/Opportunity Statement

Every government delivers some form of direct or indirect support to business. This occurs at the national and sub-national levels and across political parties. An extensive body of economic and public policy literature has examined the pros and cons of these types of interventions in the economy, but few argue governments could or should eliminate all support to business entirely.

Frequently Cited Pros and Cons of Business Support Programs

Pros
- — Market failure requires government intervention
- — Stimulative effects on GDP and employment growth
- — Jurisdictional competitiveness
- — Attract and leverage new business investment

Business Support Programs

Cons
- — Distortive effects on the market
- — Government picking "winners & losers"
- — Incentivizes lobbying efforts
- — Large firms receive disproportionate amount of assistance

In the current era of fiscal restraint, governments around the world are examining ways to reduce expenditures (or its rate of growth) associated with business support. Leading practice suggests governments can simultaneously improve value for money and economic competitiveness through a number of approaches, including:

— **Better targeting of funds** to those businesses or activities most requiring assistance (e.g., small and medium-sized enterprises ("SMEs"), exporters, productivity-enhancing capital investments);

— **Streamlining the program landscape** (e.g., consolidating the overall number of programs and departments delivering them, alignment with other levels of government, "one window" approach, single back-office function);

— **Strengthening oversight and accountability** (e.g., standard policy definitions, single inventory of recipients, consolidated data sets, sunset clauses, interim reviews, baseline assessments), performance and results-based reporting requirements from recipients; and

— **Improving overall transparency** (e.g., explicit criteria, public disclosure, reporting on outcomes and results).

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2.1 Problem/Opportunity Statement

KPMG interviews revealed a lack of coordination across Government for economic development, notably business support programs delivered by multiple departments and SOAs. Programs are frequently created or sustained at current levels, but infrequently evaluated – either individually or as a whole – to assess alignment, outcomes and value for money. Relatively small amounts of funding may require lengthy applications and process times, while large amounts sometimes "go out the door with only a letter."

Program descriptions of "Expected Results" are often vague and output-based, as opposed to explicit and outcomes-based. Criteria for approvals of business support are sometimes flexible, unclear or unaligned with Government strategy.[1] Monitoring of recipients is decentralized and often lacks consequences. Senior decision-makers lack the consolidated information necessary to make information-based decisions.

Output versus outcomes-based objectives

Output-based *Examples from GET 2016/17 Estimates*	**Outcomes-based** *Illustrative examples*
- Provide new loans, typically in the size range of $500,000 or more - Provide cost sharing assistance up to $250,000 - Partner on Manitoba venture capital development initiatives - Provide incentives and programs to raise incremental equity capital to help small and medium-sized businesses grow and create jobs	- Improve private sector investment leveraged with loans from $X to $Y - Increase number of new jobs linked to assistance by target amount - Leverage venture capital investments to raise Manitoba's relative ranking from 9th to 5th by 2020 - Increase the number of exporters and the $ of exports from SMEs

These challenges are not unique to Manitoba. Reviews within Canada[2] and beyond frequently reveal that policy-makers lack the data, tools and frameworks required to make evidence-based decisions related to direct business support. KPMG found there is a significant opportunity to eliminate inefficiencies and improve cost effectiveness in the immediate term, resulting in cost savings for 2017/18 and thereafter. This business case presents options to consider in this area.

[1] *Office of the Auditor General of Manitoba, "Report to the Legislative Assembly: Performance Audits," December 2010 and "Follow-up of Previously Issued Recommendations," May 2014.*

[2] *Expert Panel Examining Ontario's Business Support Programs, "Final Report," June 2014; Alberta Government and Future iQ Partners, "The Way We Work: Systems View of Alberta's Small Business Programs and Services"," May 2013; Commission on the Reform of Ontario's Public Services, "Public Services for Ontarians: A Path to Sustainability and Excellence," February 2012.*

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2.2 Strategic Alignment with Government Priorities

Reducing direct support to business is consistent with the Government's direction to bend the cost curve of core spending without impacting front-line workers in public services.

Criticism is to be expected from past and current recipients of business support for alleged negative impacts on economic growth. These concerns should be assessed within the Government's broader economic development goals, other types of assistance provided to business and Manitoba's current fiscal and economic context, including but not limited to:

— Manitoba already provides small businesses with approximately $320M a year (2015/16) in corporate income tax relief. Between 1999 and 2010, Manitoba reduced its corporate income tax rate on small businesses (currently defined as business income < $450,000) from 8% to 0%. On January 1, 2017, this income threshold will increase to $500,000, benefiting 3,600 small businesses at an annualized cost of an additional $6.6M.[1]

— The Province makes available numerous other forms of material tax relief aimed at increasing the competitiveness of private sector companies, including the Manufacturing Investment Tax Credit ($42.8M), Research and Development Tax Credit ($36.8M), elimination of general Corporation Capital Tax ($145.5M), as well as several "boutique" tax credits and retail sales tax exemptions targeted at specific sectors of the economy.[1] (All figures for 2015/16)

— Manitoba's intention is to invest at least $1 billion annually on "strategic infrastructure" (e.g., roads, bridges, colleges, universities, hospitals) for the expressed purpose of stimulating the economy by increasing employment, productivity and household/ business incomes. Continued investment in economic infrastructure is planned for the near-to-medium term.

— Current levels of spending on business support programs may no longer reflect local employment conditions. According to Budget 2016, "Manitoba has the most stable labour market in Canada, with modest changes from year-to-year in annual growth rates and an unemployment rate that is second lowest among provinces."[2]

— The Government has announced a suite of additional economic initiatives that will directly and indirectly improve the provincial business climate and should be considered alongside current spending levels on business support programs. These initiatives include membership in the New West Partnership trade agreement, increasing tourism promotion, "Red Tape Reduction Task Force," among other initiatives.[2]

[1] *Ministry of Finance, "Economic and Fiscal Outlook," March 2016.*

[2] *Ministry of Finance, "Budget 2016," May 31, 2016.*

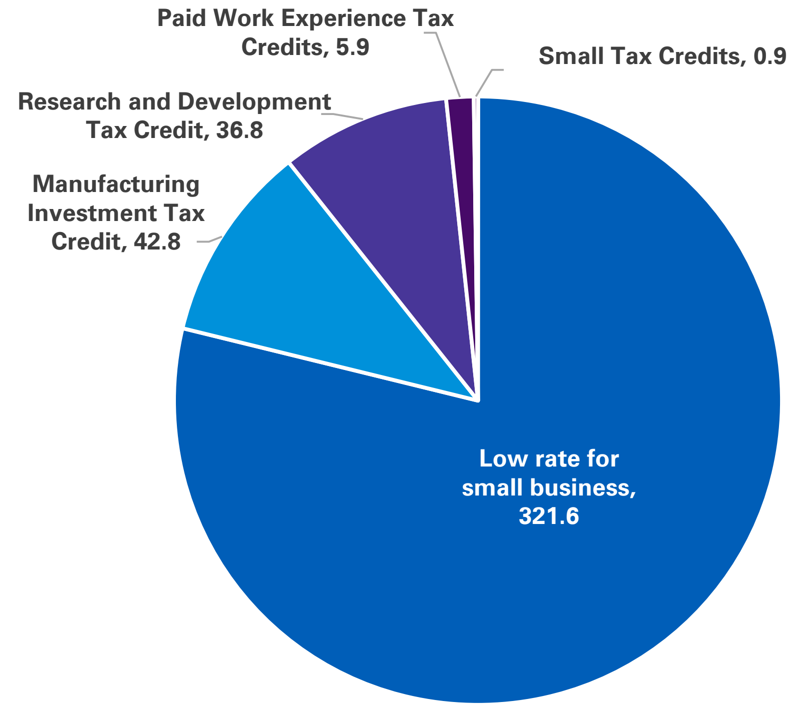
2.2 Strategic Alignment with Government Priorities

The key point is that the overall business and tax competitiveness environment is significantly more influential on market growth and job creation than direct support programs to business. Furthermore, a pro-growth tax structure, trade policy, infrastructure, regulations and a skilled workforce promote a level playing field for all business.

Manitoba's additional support to business includes various tax credits to corporate income tax. The chart opposite illustrates that general support through the tax system provides a far greater level of business support than discretionary business support programs.

Economic competitiveness is an ongoing issue and concern for all governments. The various levels of corporate and other tax rates relative to competing jurisdictions is one of several factors. Manitoba has tended to have higher corporate tax rates than other western provinces and Ontario. However, Manitoba tends to have relatively low business costs in certain areas. As other provinces such as Alberta and Saskatchewan have recently raised corporate tax rates, the relative gap has narrowed as Manitoba holds the line on corporate income taxes. There are several factors that affect competitiveness and company decisions on an individual basis. Governments can assist by providing tax stability, a positive business environment and a more level playing field.

Manitoba Tax Expenditures, Corporate Income Tax, 2015/16 ($ millions)



Source: Manitoba Economic and Fiscal Outlook, March 2016.

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2.2 Strategic Alignment with Government Priorities

Competitiveness Factors

— Business costs are important to a jurisdiction's economic competitiveness, but a wide range of other factors are involved in business site selection and investment attraction decisions as well.

— Overall, a positive business environment is fundamental to economic growth. The matrix below highlights key factors that influence company site selection.

Key Company Site Selection Factors

	Cost Factors	Other Key Factors
Business	**Business Costs** — Facilities: industrial, office — Labour: wages, salaries, benefits — Transportation and distribution — Utilities — Financing — Federal, regional, local taxes	**Business Environment** — Labour availability and skills — Access to markets, customers, suppliers — Road, rail, port, airport infrastructure — Utility, telecom, internet services & reliability — Suitable sites and facilities — Regulatory environment
Personal	**Cost of Living** — Personal taxes — Cost of housing — Cost of consumer products and services — Healthcare costs — Education costs	**Quality of Life** — Healthcare facilities — Schools and universities — Crime rates — Climate — Culture and recreation

Source: Competitive Alternatives, KPMG's Guide to International Business Location Costs, 2016 Edition.

2.2 Strategic Alignment with Government Priorities

Manitoba Economic Outlook

— Manitoba is projected to experience relatively stable economic growth in the medium-term, above the Canadian average and better than most of the provinces. Manitoba benefits from a highly diversified economy and stability.

— GDP growth is forecast to slow somewhat in 2016, with relatively no change in employment.

Economic Indicator	2015	2016F	2017F	2018F
Population	1,292,000	1,311,000	1,327,000	1,343,000
Population Growth (% change)	*1.1%*	*1.4%*	*1.2%*	*1.2%*
Real GDP Growth	2.3%	2.0%	2.3%	1.7%
Consumer Price Index (% change)	1.2%	1.5%	2.1%	2.1%
Employment	636,000	635,000	642,000	648,000
Employment Growth (% change)	*1.5%*	*-0.2%*	*1.1%*	*0.9%*
Unemployment Rate	5.6%	5.9%	5.5%	5.4%
Retail Sales Growth	1.5%	5.9%	2.3%	2.8%

Source: Conference Board of Canada. Provincial Outlook, Summer 2016; Statistics Canada; F=Forecast

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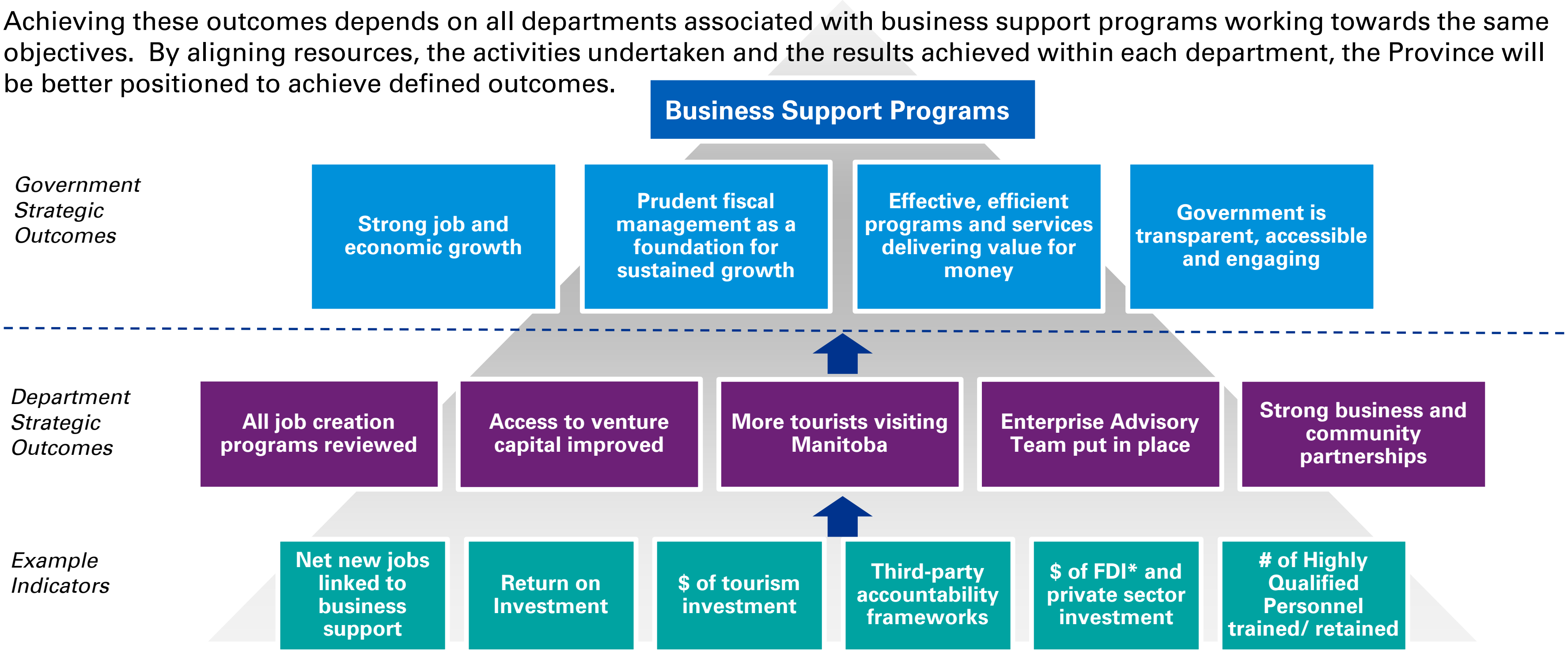
2.2 Strategic Alignment with Government Priorities

Focused on Results

Evidence-based accountability requires measuring performance against clearly defined and communicated outcomes that are strategically aligned to Government priorities. Outcomes provide leaders and staff with tools to design programs and services, and to measure how those programs and services (or entire department or business units) perform. Outcomes can be used to better inform annual funding decisions. They also enable an understanding of how departmental initiatives fit within and align to broader Government outcomes.

The figure below presents a set of strategic outcomes to consider related to direct support to business to demonstrate alignment with Government priorities. These outcomes are based on a variety of sources, including the Speech from the Throne, Ministerial mandate letters and subsequent announcements.

Achieving these outcomes depends on all departments associated with business support programs working towards the same objectives. By aligning resources, the activities undertaken and the results achieved within each department, the Province will be better positioned to achieve defined outcomes.



*FDI = Foreign Direct Investment

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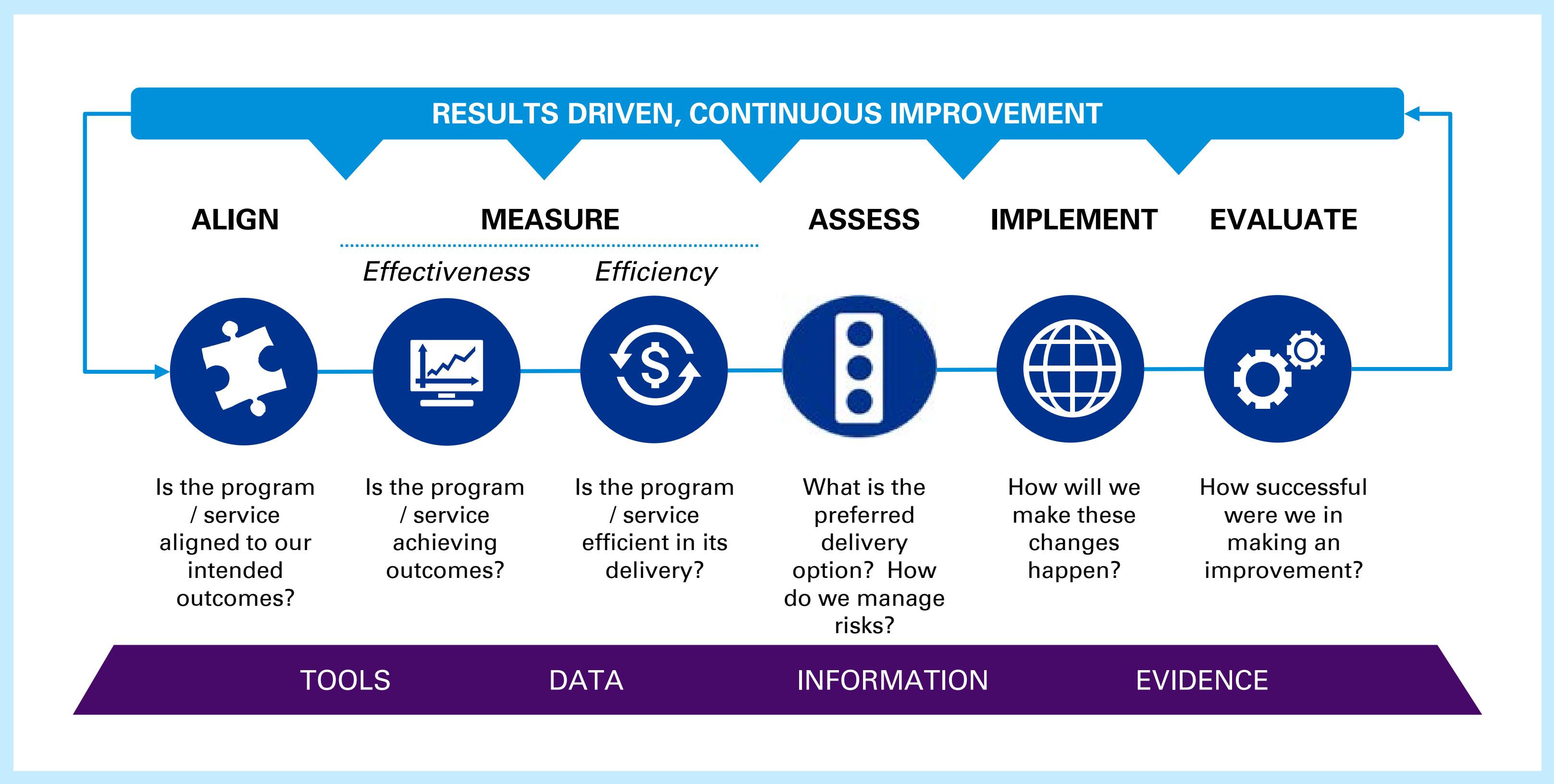
3.1 Fiscal Performance Review Framework and Evaluation Criteria

The Fiscal Performance Review Framework is applied across a series of steps that consist of a set of questions that decision-makers are expected to ask, and provides a guide for how analysis should be approached and evidence-built. The use of reliable evidence, supported by standards and tools, will determine the successful application of this framework.



In addition, two key components of the framework include continuous improvement and results driven. “Continuous improvement” takes the learnings and informs changes to drive consistently better and better outcomes. “Results driven” refers to a set of common Government outcomes that should be considered in all decisions.

3.1 Fiscal Performance Review Framework and Evaluation Criteria

The figure below presents a dashboard approach to provide a summary overview at a high level for decision-makers in applying the Fiscal Performance Review Framework and evaluation criteria to reducing direct support to business.

Key Evaluation Criteria for Reducing Direct Support to Business		
Alignment		Consistent with Government's direction to reduce core spending without impacting front-line workers.
Economy and Efficiency		Potentially significant annualized cost-savings, less administration time from consolidating programs and eliminating ineffective programs.
Effectiveness		Budgetary savings realized in the short-to-medium term. Tax competitiveness and a positive regulatory environment for all business are far more influential and effective than discretionary subsidies to business.
Implementation/ Transition Risk		Program consolidation and/or reductions would take place after an initial review and restructuring. Expect criticism from past and current recipients of business support from government for alleged negative impacts on economic growth.

Rating Scale: Strongly Positive (5) Moderately Positive (4) Neutral / Uncertain (3) Moderately Negative (2) Strongly Negative (1)

Supplementary to utilizing the Fiscal Performance Review Framework, we outline additional tools ("Dimensions of Analysis") that are designed for economic development/business support programs for the Department(s) to use in future review of the effectiveness and results of their programs.

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3.1 Dimensions of Analysis

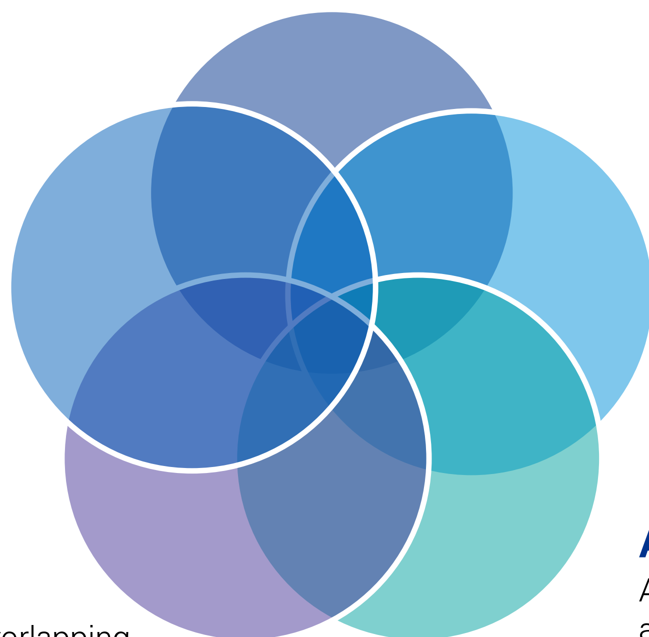
To further supplement the use of the Fiscal Performance Review Framework, for GET and other Departments with economic development programs to evaluate programs in the future, the following charts provide a logic model approach to reviewing business support programs. The logic model approach below includes the key evaluation criteria of alignment, efficiency, effectiveness and risks, and adds a dimension of, "overlap and stackability," which is a common issue in business support and economic development programs where recipients combine support from programs of different levels of government and/or among different departments within a provincial government.

Effectiveness

To what extent is the program achieving its goals?

Risks and Potential Impacts

What is the degree of risk or impact if the program is significantly changed?



Efficiency

To what extent is the program being delivered efficiently?

Overlap and Stackability

Are there programs with overlapping objectives? Are there related programs with common target clients?

Alignment and Relevance

Are the objectives of the program aligned with government priorities?

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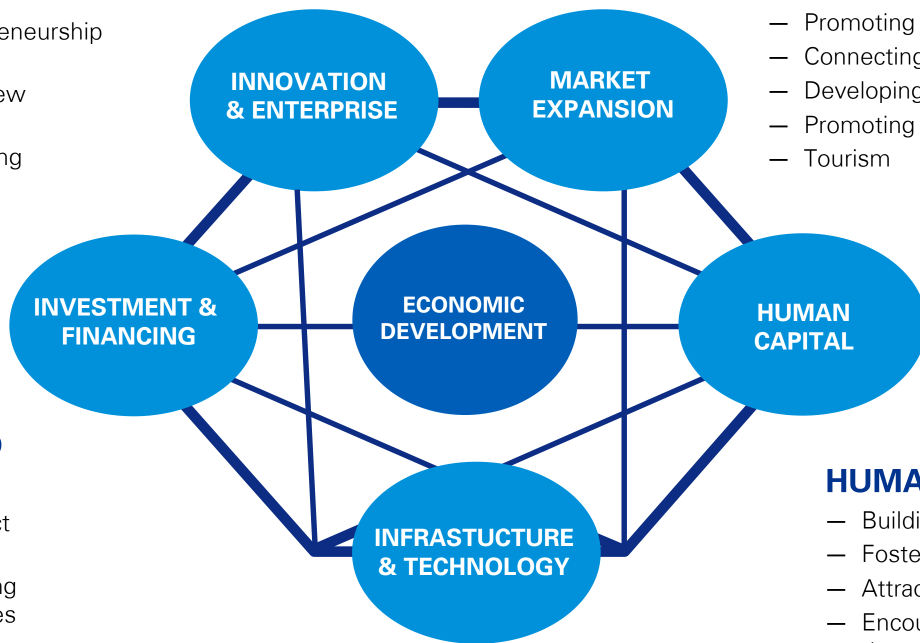
3.1 Dimension 1: Program Effectiveness

Another element of a logic model approach is to categorize programs and link performance measures by major type of business support.

Categories for Level of Effectiveness Analysis



INNOVATION & ENTERPRISE

— Supporting entrepreneurship and new business
— Commercializing new products
— Advancing emerging technologies
— Strategic growth

MARKET EXPANSION

— Promoting trade and market expansion
— Connecting to new markets
— Developing new business relationships
— Promoting cultural and commercial exchange
— Tourism

INVESTMENT AND FINANCING

— Attracting Foreign Direct Investment
— Marketing and facilitating investment opportunities
— Expanding and protecting strategic industries

Performance measures specific to each category are developed

HUMAN CAPITAL

— Building talent
— Fostering new knowledge
— Attracting a skilled workforce
— Encouraging diversity and dynamism
— Promoting regional economic development

INFRASTRUCTURE & TECHNOLOGY

— Providing enabling infrastructure
— Connecting communities through technology

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3.1 Dimension 1: Program Effectiveness

The following part of the logic model approach links types of key performance indicators to each major category or type of business support.

Draft Indicators by Category

Market Expansion	Innovation & Enterprise	Infrastructure & Technology	Human Capital*	Investment & Financing*
— # of new or expanded exporters of goods or services and associated \$ — # and \$ of new customers — Value (\$) of exports from funded or supported firms — Dollars of tourism investment — # of jobs created and maintained	— # of new companies and jobs created — # of new products or services brought to market — Dollars of investment leveraged in innovation and commercialization	— # of individuals accessing infrastructure or technology — Dollars of investment leveraged in infrastructure and technology — # and \$ of major infrastructure projects — Associated # of construction jobs	— # of people trained — # of Highly Qualified Personnel (HQP) hired or retained — Total estimated salaries and wages of new jobs created/retained — # of jobs created in priority sectors, regions or populations	— % of firms that succeeded in obtaining follow-on investment — Dollars of leveraged investment — Dollars of leveraged investment in targeted sectors and regions — \$ of Foreign Direct Investment attracted — # of jobs created and maintained

3.2 Current State

Manitoba delivers a very broad range of direct business support programs, ranging from individual grants of $5,000 to loans exceeding $500,000. Some programs have fewer than 10 recipients per year, while others have well over 100. This range is similar to sub-national jurisdictions across North America but presents several challenges toward achieving alignment, measuring effectiveness and efficiency, and ongoing assessment, implementation and evaluation.

This business case uses the Fiscal Performance Review Framework to present a current state description of direct business support programs. This analysis is followed by a presentation of quantitative and qualitative assessment, based on program information and data provided by Manitoba.

Align

Is the program/service aligned to our intended outcomes?

- Inconsistent reporting across business support programs makes it difficult to evaluate alignment.
- Many programs assess their alignment with Government/ Departmental priorities at a very high level.
- Below these high-level descriptions, programs appear to be highly discretionary in nature.
- Broad discretion at the program level is intended to provide flexibility in serving Manitoba's diversified economy.
- Given the Government's direction to contain growth in core spending, there is considerable opportunity for GET to more rigorously assess alignment and explicitly target programs toward recipients that require assistance the most while yielding comparably better value for money to meet Government outcomes.

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3.2 Current State

Measure

Effectiveness: Is the program/service achieving outcomes?

- High-level performance analysis was most often presented in the number of dollars provided and/or jobs created.
- With exceptions, most of the GET business support programs we reviewed relied on anecdotal evidence to demonstrate program-level effectiveness.
- Programs appear to measure the effectiveness of assistance provided to individual recipients (e.g., number of jobs created for a recipient), but not the same level measurement of the program itself as a whole.
- Where program-level measurement was available, descriptions of effectiveness was reported as a quantification of total program spend (sometimes dating far back into the past) against one of the programs outputs.[1]
- Except for a basic template table in the Jobs & Economy Annual Report (2015/16), we did not observe the use of standardized tools or processes to measure program-level effectiveness across the portfolio of programs.

Measure

Efficiency: Is the program/service efficient in its delivery?

- Cost accounting was presented in total annual expenditures and number of FTEs delivering the program.
- We did not observe the use of other standardized tools or processes (e.g., benchmarking, market assessment, process improvement, value for money review) to measure efficiency.
- There was no evidence on a program-by-program basis that programs were actively considering whether delivery could be improved to reduce costs or whether there are alternative delivery mechanisms that would be more cost effective.
- It was unclear how GET, E&T and IMR decided each year what annual funding levels should be, how to allocate funds across sectors (e.g., SMEs, R&D, sector), etc. Funding appears carried over year-to-year at the same level or very similar levels in most cases.

[1] *For example, "From March 31, 2000 to March 31, 2016 the MIOP Program has approved loans totaling $276 million for 53 business expansion projects, program financing has levered $916 million worth of private sector investment and approximately 11,297 jobs."*

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3.2 Current State

Assess

What is the preferred delivery option? How do we manage risks?

— We were not provided any program documentation that rigorously assessed whether a given business support program should end, change, reduce or expand based on its outcomes when compared to dollars spent, alignment with Government priorities or other similar programs/services that may contribute to the desired outcomes.

— Tools like cost/benefit analysis, value analysis (e.g., comparative economic/ social impact), jurisdictional review, market assessment and financial analysis do not appear to be used to identify options, assess options or to identify a preferred delivery option.

Implement

How will we make these changes happen?

— In the Fiscal Performance Review Framework, the Department should develop implementation plans including key actions, roles and responsibilities, and timelines for ongoing program performance reporting and improvement.

— Implementation plans are outside the scope of the Review, but KPMG outlines an implementation plan roadmap at a high level to assist the Department in getting started.

Evaluate

How successful were we in making an improvement?

— In the Fiscal Performance Review Framework, evaluation would use an implementation plan and associated performance metrics to evaluate the extent to which changes are having the desired effect on performance.

— This information would then be utilized on a go-forward basis to manage the program/service and continually inform the design and operation of others.

— We were informed that there are no evaluations of these types for direct business support programs.

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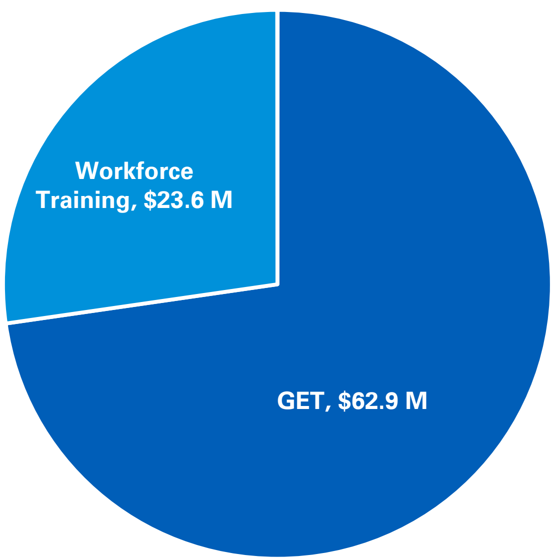
3.2 Current State

GET and Workforce Training Programs

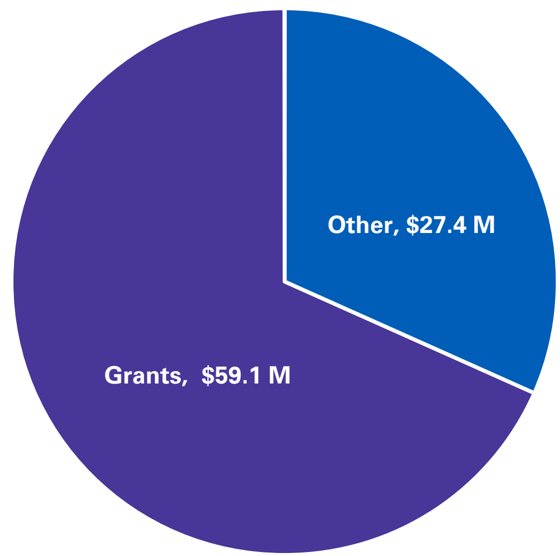
Manitoba provided KPMG with program profiles and associated data on direct support to business for Growth, Enterprise and Trade (GET) and the Workforce Training Division of Education and Training (E&T) for review. The following charts present current state findings, following an initial triage to assess in-scope and out-of-scope programming. A list of these various programs is outlined in Appendix A.

Direct Support Programs to Business from GET and Workforce Training (E&T), 2015/16



Total for 2015/16: $86.5 M

Direct Support Programs to Business from GET and Workforce Training (E&T) by Type of Support, 2015/16



Source: Based on program profiles provided by Manitoba.
Note: “Other” includes targeted tax credits, loans and services. Actual costs were not provided for several programs, understating actual costs.

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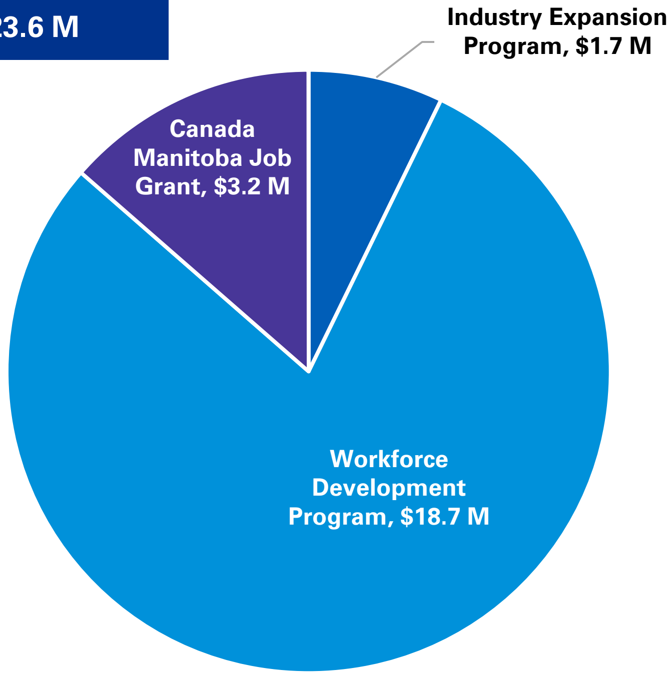
3.2 Current State

Workforce Development Assistance

In-Scope Direct Business Support Provided through Workforce Training (E&T), by Program, 2015/16

Total for 2015/16: $23.6 M



Source: Based on program profiles provided by Manitoba.

Program name	Program description
Industry Expansion Program	— Contributes to training new workers and up-skilling existing workers for jobs that will be sustainable over the long-term
Canada Manitoba Job Grant	— Employer-driven training support program that assists employers to obtain skilled labour to meet their needs and helps Manitobans gain skills they need to fill available jobs
Workforce Development Program	— Assists companies to develop a comprehensive approach to HR management through needs assessment, analysis and training support to achieve business goals — Brokers the range of services, programs and supports available from government and other organizations that support employer needs — Offers a wage subsidy in Winnipeg to assist employers to hire new employees who require extended on-the-job training and/or work experience to meet job requirements.

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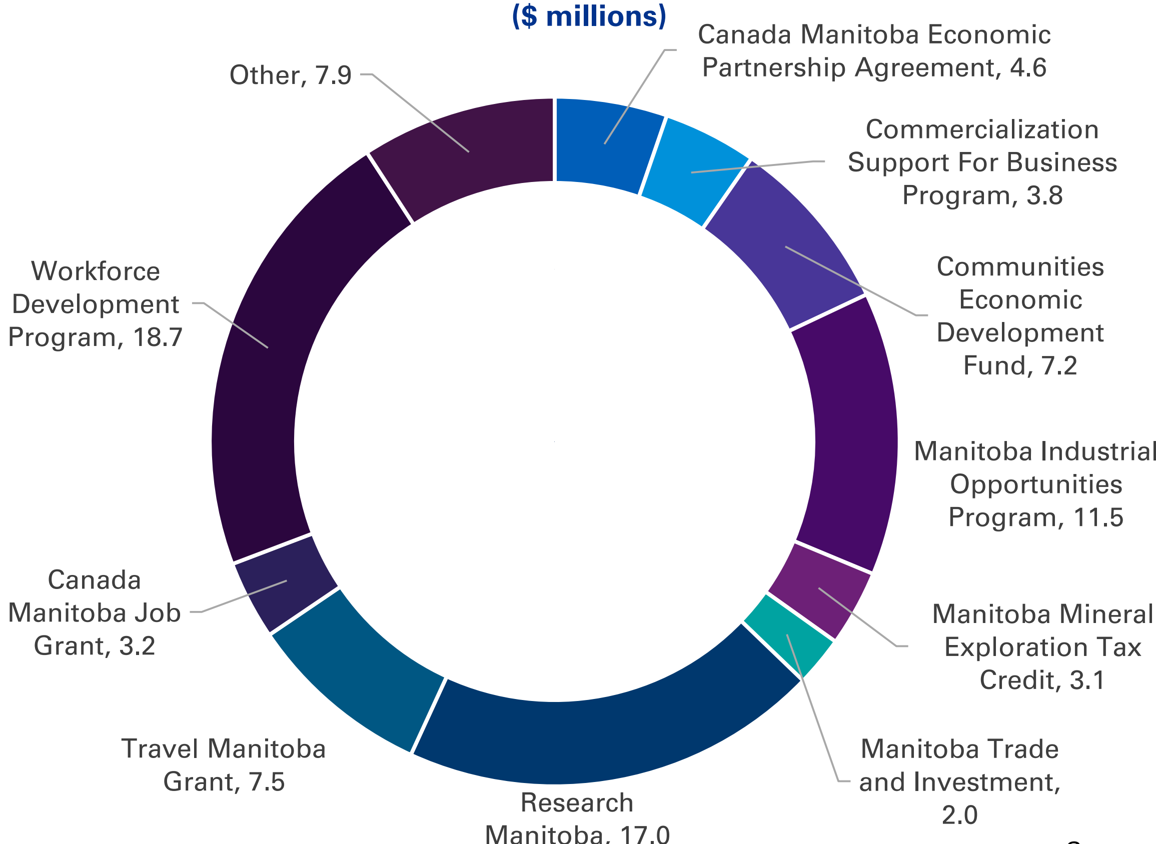
3.2 Current State

Between GET and E&T (Workforce Training), Manitoba operates at least 52 programs providing some type of business subsidy. For the 29 programs where budgetary data was made available to KPMG, total expenditures were approximately $86.5M for 2015/16. The largest 10 programs in terms of program expenditures were all over $2.0M each, with the three biggest envelopes being Workforce Development ($18.7M), Manitoba Industrial Opportunities Program ($11.5M) and Research Manitoba ($17.0M). The 19 programs under $2.0M totaled $8.1M and are summarized in the table below.

Ten Largest Programs Operated under GET and Workforce Training (E&T), 2015/16 (under $2M included in "Other") ($ millions)



"Other" Programs (Under $2M)	2015/16 ($M)
Churchill Gateway Development Initiative	0.20
Community Enterprise Development Tax Credit Program	0.30
Cooperative Loan and Loan Guarantee Board	0.02
Cooperative Promotion Board	0.02
Indigenous Tourism	0.10
Innovation Growth Side Car Fund	0.50
Journeyperson Business Start Program	0.03
Labour-Sponsored Investment Funds Program	0.10
Manitoba Interactive Digital Media Tax Credit	1.91
Mineral Exploration Assistance Program	1.70
Minister's Mining Advisory Council	0.25
Small Business Venture Capital Tax Credit	0.30
STAR Attractions/Celebrations Grant	0.05
TechFutures Program	0.06
Third-Party Investment Funds Program	0.00
Tourism Development Fund	0.20
Vehicle Technology Centre	0.50
Industry Expansion Program	1.70

Source: Derived from information provided by Manitoba.

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3.2 Current State

Observations

- Leading practice and shift in many jurisdictions is toward less grant programs.
- Manitoba, like other jurisdictions, requires a flexible loan program such as MIOP for major expansion and case-by-base consideration. MIOP serves a purpose and has assisted a number of important expansions and provided necessary bridge financing for sizable Manitoba-based companies over the years. MIOP can be improved with better reporting and due diligence on each prospective opportunity.
- A review of grant recipients revealed many of the same companies receiving funds year after year, and also to some large multinational companies that are not based in Manitoba or with relatively little investment in Manitoba.
- Generally, based on our experience with leading practices and trends in economic development in North America, workforce training programs (which are often grants) are viewed as more effective support than most other types of direct business support grants, particularly when targeted at strategic sectors and skills.
- Programs should be aligned with Government priorities for strategic sector support.
- During interviews and from our experience, a general comment is there are too many programs (Appendix A lists approximately 70 programs, which does not cover all business support across departments). A wide variety of direct business support programs scattered across departments are not coordinated, and this leads to duplication and overlap in delivery and processing. Consolidation and streamlining would help for both internal administration costs and customer service.
- Other jurisdictions such as Ontario, Saskatchewan and Alberta have reduced their array of direct business support programs. In 2012, Ontario started to streamline its direct business support programs and reduce overall funding for direct business support.
- Most grant programs involve relatively inefficient administration time and discretionary decisions on which companies and organizations receive grants.

3.2 Current State

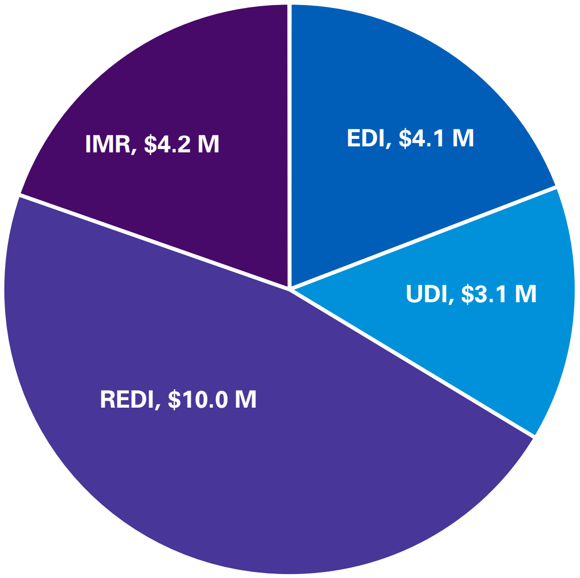
Intermediaries

- In addition to grants, Workforce Training and other types of business support described in the preceding pages, Manitoba provides several third-party intermediaries (e.g., economic development agencies, industry associations, business incubators, economic growth funds) with annual grant funding that goes toward business support initiatives benefiting private sector enterprises.
- Tables on the following pages present organizations and programs that receive funding through GET's Economic Development Initiatives (EDI) and Urban Development Initiatives (UDI), the Rural Economic Development Initiatives (REDI) delivered by GET, Agriculture, and Indigenous and Municipal Relations (IMR), and IMR's Economic Growth Funds.
- The following chart presents approximate annual expenditures for these intermediaries.

Observations

- Based on interviews and information, there appears to be some overlap of Manitoba efforts with certain intermediaries such as CentrePort Canada, World Trade Centre Winnipeg, Economic Development Winnipeg, and Canadian Manufacturers & Exporters. There is good collaboration between the Province and these agencies on many projects, however, clearer roles and responsibilities and accountabilities should be established with a line of sight to reduce unnecessary overlap.
- Initiatives such as the Composites Innovation Centre have been successful and aligned with efforts to support strategic sectors, such as aerospace. Food Development Centre and related programs are directed to support the agri-food sector, another strategic sector.
- Over one-half of REDI funding is related to a multi-year funding agreement with the Manitoba Jockey Club to 2023/24 with a declining level of grant funding.

Funding to Economic Development Agencies, 2015/16



Source: Based on program profiles provided by Manitoba.

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3.2 Current State

GET Economic Development Initiatives (EDI)

Recipient Name	2015/16 ($)
CentrePort Canada Inc.	374,500
World Trade Centre Winnipeg (WTCW)	990,000
Composites Innovation Centre (CIC)	1,365,000
Canadian Manufacturers & Exporters (CME)	553,500
Conseil de Developpement Des Municipalites Bilingues Du Manitoba (CDEM)	159,400
Entreprise Riel (ER)	91,500
Manitoba Music	231,100
On Screen Manitoba (OSM)	295,600
Total	**4,060,600**

Source: Derived from documents provided by Manitoba.

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3.2 Current State

Urban Development Initiatives (UDI) and Rural Economic Development Initiatives (REDI) programs

Program	Lead Department	2016/17 UDI Notional Allocation ($ 000)	2016/17 REDI Notional Allocation ($ 000)	Length of Time	Project/Program Description
Provincial Projects/Programs					
Food Industry Development – Food Marketing and Distribution	AG	–	250	Since 2015/16	Provides funding for the development of models for collaborative marketing in the small scale food sector. This initiative is based upon a January 2015 report titled "Advancing the small scale, local food sector in Manitoba: a path forward" from the Small Scale Food Manitoba working group.
Food Industry Development – Commercial Community Kitchens	AG	–	100	Since 2015/16	Commercial Community Kitchens Food Enterprise Program supports the purchase/lease and installation of food processing equipment for small-scale food entrepreneurs. This program has received applications and approval letters are ready to be sent out to various proponents.
Rural Entrepreneur Assistance (REA)	AG	–	592	Since 1992	Under REA, the Manitoba Agricultural Services Corporation (MASC) provides loan guarantees for business loans between $10,000 and $200,000 to new and expanding, full-time, small and home-based businesses in rural Manitoba. Salaries and benefits, administration costs related to the program and loan loss provision adjustments are recovered from REDI. As of June 30, 2016 there were 183 outstanding REA guarantees on $11.6M of loans (of which the guarantee portion was $10.2M). MASC has paid $28,000 in REA losses as of June 30, 2016.
Rural Opportunities 4 Growth (operating)	AG	–	150	Since 2014	Funding is to be used for rural business and strategic sector development. This has supported the Rural Economic Development Strategy and the ongoing operations of the strategy steering committee.
Rural Opportunities 4 Growth – Partners 4 Growth	AG	–	400	Since 2013	Provides cost shared funding for regions to identify and pursue economic development opportunities. It is intended to assist communities and regions to strengthen or diversify economic activity. Letters of approval have been sent to approved projects in 2016/17.

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3.2 Current State

Program	Lead Department	2016/17 UDI Notional Allocation ($ 000)	2016/17 REDI Notional Allocation ($ 000)	Length of Time	Project/Program Description
Provincial Operating					
Food Development Centre	AG	–	2,020	Since 2014	The Food Development Centre is a Special Operating Agency that assists the agri-food industry in the development and commercialization of conventional and functional foods and ingredients. Agriculture provides operational funding support to this agency. The SOA's activities form part of Manitoba's share under the Growing Forward 2 agreement with the federal government.
City of Winnipeg Initiatives					
Economic Development Winnipeg – Operating	GET	1,277	–	Since 1994/95	Funding for operating costs of Economic Development Winnipeg. Funding is matched by City of Winnipeg. Since 2009, City funding is based on a share of the City of Winnipeg's Accommodation Tax and exceeds provincial funding.
Economic Development Winnipeg – Yes! Winnipeg	GET	135	–	Since 2010/11	Yes! Winnipeg is a division of Economic Development Winnipeg (EDW). It is a private sector led investment initiative to create jobs and economic growth. The project's focus is investment attraction and local business retention/expansion. Funding is subject to Yes! Winnipeg securing a minimum of $0.8 million per year in private sector support.
RBC Convention Centre (formerly Winnipeg Convention Centre (WCC))	GET	1,406	–	Since 1994/95	WCC was formed through Legislative Authority - The Convention Centre Corporation Act (S.M. 1988/90, c.39). Annual operational funding is cost-shared with the City of Winnipeg.
City of Brandon Initiatives					
Renaissance Brandon – RB Strategic Plan	IMR	–	250	Since 2011/12	Supports two Downtown Brandon economic development and urban revitalization projects: The Redevelopment Grant Program and The Storefront and Façade Improvement Program. RB Strategic Plan is paid from UDI and recovered from REDI.

Source: Derived from documents provided by Manitoba.

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3.2 Current State

Program	Lead Department	2016/17 UDI Notional Allocation ($ 000)	2016/17 REDI Notional Allocation ($ 000)	Length of Time	Project/Program Description
Ongoing/Multi-Year Projects/Programs					
Centrallia 2016	GET/IMR	250	–	Funded Centrallia 2010 and Centrallia 2012	Funding to World Trade Centre Winnipeg (WTCW) in support of Centrallia 2016 for WTCW to hire three staff to help organize the event, translation services, professional fees, marketing and developing participant guides.
Keystone Centre Inc.	GET	–	375	Since 2002	The Province and the City of Brandon agreed to provide an annual grant of $375 for operating ($250) and debt servicing ($125).
Rural Development Institute (Brandon University)	GET	–	125	Since 2003	Provides support to the Rural Development Institute (RDI) hosted by Brandon university, which undertakes research, educates and performs related services in areas affecting rural community and economic development and advance departmental priorities. RDI undertakes research projects with the funding.
Manitoba Horse Racing Commission – Manitoba Great Western Harness Racing Circuit Inc.	AG	–	350	Since 2002	Provides support (equivalent to 15% of pari-mutuel levy revenue) for the operations of the Manitoba Great Western Harness Racing Circuit for the annual harness racing season. A new agreement is signed each year. The 2016/17 agreement will be signed late in the year as these funds are for the 2017 hardness racing season.
Manitoba Jockey Club (MJC)	AG	–	5,400	Since 2013/14	Manitoba has entered into a funding agreement with MJC to provide financial support for live horse racing through a declining level of grant funding over the course of ten years (2014/15 to 2023/24). Funding was provided in 2015/16 and 2016/17 from REDI. The first payment of $1.28M for 2016/17 was also made from REDI.
Totals		**3,068**	**10,012**		**Total for UDI and REDI related to business support: $13.1M**

Source: Derived from documents provided by Manitoba.

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3.2 Current State

Indigenous and Municipal Relations Economic Growth Funds

— IMR funds two targeted business support initiatives: the Metis Economic Development Fund and the First Peoples Economic Growth Fund.

— In 2015/16, IMR's total expense for Economic Growth Funds was $4.2M.

— The Metis Economic Development Fund (MEDF) is a multi-year program established in 2011 and currently up for renewal.

— The First Peoples Economic Growth Fund is a joint initiative between Manitoba and the Assembly of Manitoba Chiefs established in 2008 and renewed in 2014.

— Both programs seek to address barriers faced by Metis and First Nations entrepreneurs and other businesses in accessing sources of private capital.

Observations

— From information provided by Manitoba, KPMG understands that both programs were evaluated in recent years and found to be delivering on stated business objectives.

— The MEDF did conduct an external program review recently which was generally positive. MEDF follows a similar model in place in Saskatchewan and Ontario. Funding is focused on small and medium-sized businesses, the program is unique and focused for the Metis business community, and appears to be leveraging private sector investment and activity.

— There is a venture capital aspect to these funds, which should be considered and reviewed in the context of Manitoba's intention to develop a broader venture capital strategy.

— Potential federal government involvement may be considered to share operating costs or leverage more investment for future viable opportunities.

Source: Derived from documents provided by Manitoba.

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3.2 Current State

Select Boutique Tax Credits

In addition to grant and loan programs, Manitoba provides a considerable level of generally-available support to business through the corporate income tax system, such as the low rate for small business ($321.6M*) and the R&D tax credit ($36.8), which effectively reduce revenue to the Province in the near term to achieve longer-term economic policy objectives (as discussed in Strategic Context for more information).

While those preferential tax rates/credits are broadly available to different types of businesses in different types of sectors, there are also several "boutique" tax credit programs that provide support narrowly to a small subset of business and that are accounted for as expenditure items. (See accompanying table.)

Manitoba Tax Credits to Business Accounted for as Expenditure Items, 2015/16 ($ millions)	
Film and Video Production Tax Credit	15.0
Cultural Industries Printing Tax Credit	1.1
Interactive Digital Media Tax Credit	1.9
Book Publishing Tax Credit	0.7
Co-operative Development Tax Credit	0.1
Total	**18.8**

Source: Manitoba Economic and Fiscal Outlook, March 2016.

Observations on boutique and other targeted tax credits

- KPMG interviews found that most of these programs have been in place for several years without review as to the achievement of intended outcomes or value for money.
- Manitoba has more of these type of boutique tax credits than most provinces.
- These boutique tax credits go to a relatively small group of companies each year.
- Neither Alberta nor Saskatchewan provide the Interactive Digital Media Tax Credit, and there are less generous rates in British Columbia, Quebec and Prince Edward Island.
- Both Saskatchewan and Nova Scotia eliminated their film tax credits, and Manitoba is recognized as having the most generous film and video production tax credit of the provinces. A low Canadian dollar and Manitoba's other competitive advantages will influence the local sector. Manitoba's Film and Video Production Tax Credit provides either 45% of eligible Manitoba labour or 30% of eligible Manitoba production costs. In addition, it provides an additional 5% regional credit, a 10% frequent filming bonus, and a 5% local producer bonus.
- In comparison to other provinces, B.C.'s tax credit is 33% of eligible B.C. labour, and Ontario's is 35% of eligible labour.

* All figures for 2015/16.

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3.3 Options at a High-level

Options analysis is presented in two parts:

Portfolio Level	— The first set of options presents potential macro-level changes to the portfolio of direct business support programs. (These options are not intended to be mutually exclusive but rather to illustrate strategic choices.) — A decision at the strategic level will ultimately influence the scale and pace of change, and corresponding fiscal savings.
Operational Level	— The second set of options to consider are operational in nature and based on a review of leading practice. — These should be carefully consider regardless of strategic decisions. — These reforms would result primarily in administrative savings, stronger oversight and bending the cost curve over time.

A summary of the options that follow is presented in the tables below and described in more detail in the next pages.

Portfolio-level options

1. **Deep Freeze**: Eliminate/ across-the-board reductions to all uncommitted funds for the current fiscal year; going forward, all lowest-performing programs ended.
2. **Full Consolidation**: Bring all direct business support programs within GET to enable a single point of delivery and accountability.
3. **Fewer Windows**: Significantly consolidate all existing business support programs, including a "single window" within GET; e.g., all programs serving start-ups and small businesses delivered by Entrepreneurship MB; all innovation/R&D supports to be delivered by Research MB, etc.
4. **Targeted Approach**: Perform a value for money review on largest $ value programs to identify program-specific options.
5. **Incrementalist Approach**: Review all programs individually and address performance results/ reduce spending on lowest performers accordingly.

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3.3 Options at a High-level

Portfolio-level options:

Deep Freeze

Eliminate or reduce all uncommitted funds for current fiscal year; all lowest-performing programs ended

Approach:
— To achieve immediate savings, all business support would freeze
— For ongoing savings, use Fiscal Performance Review Framework to end low performers

Pros:
— Relatively straight forward to implement
— Immediate, material savings

Cons:
— Sudden, rigid with no flexibility to respond to in-year opportunities

Other considerations:
— This approach is likely more drastic than is required

Full Consolidation

Bring all direct business support programs within Growth, Enterprise and Trade

Approach:
— Create single access point for support
— Central hub used to connect clients to services

Pros:
— Consolidated program landscape for clients and delivery
— Economies of scale/ centralized expertise

Cons:
— May not adequately account for the distinctiveness of sectors/ support types

Other considerations:
— Ontario Expert Panel on Business Support rejected this approach, arguing support is more effective when integrated with target communities

Fewer Windows

Significantly consolidate existing programs with "single window" approach within GET

Approach:
— Similar to one window
— Move all small business support to within Entr. MB; all tourism support to Travel MB; all science/ innovation to Research MB, etc.

Pros:
— Streamlined program landscape for clients and delivery
— Economies of scale/ centralized expertise

Cons:
— A significant reform that may take time to implement

Other considerations:
— GET will likely need to undertake some degree of consolidation and reduction to its programs to truly bend the cost curve

Targeted

Value for money review on largest $ value programs to identify program-specific options

Approach:
— Given fiscal pressures, zero in on biggest programs, such as MIOP, CSB and training supports

Pros:
— Likely to result in material savings

Cons:
— Short-term fix leaving other identified issues unaddressed

Other considerations:
— Being a large program does not necessarily imply they are low performers

Incrementalist

Review all programs individually before proceeding

Approach:
— An evidence-based decision process

Pros:
— In line with Fiscal Performance Review Framework

Cons:
— A significant, long-term reform which may take time to implement
— Longer time period before savings are realized

Other considerations:
— A "go slow" approach

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3.3 Options at a High-level

Operational-level options

1. Assemble a single inventory of existing direct business support programs (including all recipients).
2. Quantify the current annual spend on direct support to business to establish a baseline.
3. Consolidate all data sets related to business support programs.
4. Use the Fiscal Performance Review Framework to identify recent trends and correlation to economic/ business outcomes to inform annual funding decisions.
5. Disclose annually descriptions of all business support programs, their cost to Government (including outstanding loans), recipients and results achieved.
6. Develop standard policy definitions for key terms (e.g., business support program, client, entrepreneurs).
7. Establish consistent criteria for the creation, continuation and annual evaluation of all business support programs.
8. Review economic development mandates spread across multiple departments and SOAs to identify overlap, duplication or contradiction.
9. Consolidate and streamline programs.
10. Consolidate administration and back-office functions like processing applications, payments and record keeping.
11. Following evaluation, focus financial assistance towards small and medium-sized business, exporters, expansions from larger businesses based in Manitoba and invested in the Province, and Manitoba businesses making productivity-enhancing capital investments.
12. Large multinational businesses, particularly those based outside Manitoba without a track record of established investments in Manitoba, should receive more scrutiny and higher-levels of approval.
13. Reduce the number of access channels.
14. Incorporate rolling sunset review clauses in all business support programs to institutionalize re-assessment.

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3.3 Options at a High-level

A scan of leading practices helped inform the identification and assessment of gaps and the development of operational-level options for Manitoba. These are presented in the table below.

Leading Practice	Observations at Manitoba	Options to Consider
Centralized inventory	— No centralized inventory of business support programs, total cost or all recipients available to senior decision-makers within Government — Lack of a "systems perspective" (i.e., how the various programs and services work together) — While much of this information/ data is available across a variety of sources (e.g., Annual Reports, Estimates), there is no consolidated report or dashboard for executive decision-makers to evaluate	— Assemble a single inventory of existing direct business support programs (including all recipients) — Quantify the current annual spend on direct support to business establish a baseline — Consolidate all data sets related to business support programs — Use the Fiscal Performance Review Framework to identify recent trends and correlation to economic/ business outcomes to inform annual funding decisions
Transparency	— Inconsistency across programs as to the amount of information available either internally or publicly — Many decisions around grants and loans appear discretionary in nature	— Disclose annually descriptions of all business support programs, their cost to Government (including outstanding loans), recipients and results achieved
Standard policy definitions and consistent criteria	— Not observed	— Develop standard policy definitions for key terms (e.g., business support program, client, entrepreneurs) — Establish consistent criteria for the creation, continuation and annual evaluation of all business support programs

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3.3 Options at a High-level

Leading Practice	Observations at Manitoba	Options to Consider
Streamline program landscape	— Similar to many jurisdictions, support available to businesses in Manitoba is varied and provided across dozens of distinct programs	— Review economic development mandates spread across multiple departments and SOAs to identify overlap, duplication or contradiction — Consolidate and streamline programs
Consolidated back office functions	— Not observed; however, interviews revealed progress has been made in recent years on this issue	— Consolidate all administration and back-office functions for business support (e.g., processing applications, payments, record keeping)
Targeted funding	— Currently programs serve a multitude of businesses and purposes (e.g., SMEs and strategic sectors; attraction and retention; innovation and subsidization) — Funding should be better targeted to bend the cost curve over time	— Following evaluation, focus financial assistance (shifting away from grants except for training) towards small business, exporters, and Manitoba businesses making productivity-enhancing capital investments — Big businesses should receive more scrutiny and higher-levels of approval
Unifying platform to access supports	— Businesses currently access Manitoba business support programs through a variety of channels	— Reduce the number of access channels
Sunset review	— Almost all of the Manitoba business support programs reviewed were open-ended in nature — Some pilot programs were observed	— Incorporate rolling sunset review clauses in all business support programs to institutionalize re-assessment

4.1 Viable Options

To determine the viability of each of the options outlined in section 3.3, the following criteria from the Fiscal Performance Review Framework were used to assess:

- **Alignment** – the extent to which the option is aligned with Government's direction and priorities.
- **Economy** – the extent to which the option will create addition value and affordability, and the extent to which there are cost savings to be realized.
- **Efficiency** – the extent to which the option will reduce and/or optimize the cost of delivery and administration.
- **Effectiveness** – the extent to which the option will improve the system's ability to achieve the expected results and intended outcomes for target recipients.
- **Risk** – the extent to which there are any major 'showstoppers' that could affect the option from being successfully implemented.
- **Capacity and Capability** – the degree to which the Department and stakeholders have the necessary capacity and capability to implement and operate the option effectively and efficiently.

Of the five options, it was determined that the options at each end of spectrum, i.e., deep freeze and incrementalist ("go slow" approach) were neither viable nor aligned with Government and Department direction. The remaining three options are assessed further in the following pages.

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4.2 Assessment of Viable Options

Option	Option A	Option B	Option C
	Full Consolidation – Bring all direct business support programs within Growth, Enterprise and Trade	**Fewer Windows –** Significantly consolidate existing programs with “single window” approach within GET	**Targeted** - Implement multi-year funding grants linked to performance indicators through formula

Summary Assessment – Direct Support to Business

	Lowest			Highest
Alignment			C	B A
Economy			C	B A
Efficiency				C B A
Effectiveness				A B C
	Highest			**Lowest**
Risk		A	B C	
Capacity and Capability			B	A C

A detailed assessment is provided on the following pages.

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4.2 Assessment of Viable Options

Assessment – Direct Support to Business

Criteria	A Compared to Status Quo	B Compared to Status Quo	C Compared to Status Quo
Alignment	▼ New Government reorganized departments from 18 to 12 and shifted divisions and resources.	▲▲▲ This change will better align with government's intended outcomes with GET as the Lead and collaborating with other Departments on dealing with business.	▲▲ This change will align with government's intended outcomes for linking funding to performance, reducing costs and focusing on results.
Economy	▲ This could help to improve the way that funds are distributed, and better allocate resources. If performance indicators are identified and measured around cos controls/ reductions, there are additional opportunities to better control overall funding.	▲▲ This could help to improve the way that funds are distributed, and better allocate resources. If performance indicators are identified and measured around cost controls/reductions, there are additional opportunities to better control overall funding.	▲▲ This would better tie performance to funding and ensure that those that are high performing are continuing to use those funds for improving their overall performance.
Efficiency	= Could improve efficiencies in cases where direct support is required to include training, but less efficient in managing overall Canada-MB Workforce Development Program that covers several components.	▲▲ This will enable the Province to better streamline and target funding and approach to business in an efficient manner.	▲▲ This will better enable the Province to target funding towards programs that contribute better performance to the system in an accountable manner.

Legend
▲ - Positive impact relative to Status Quo
▼ - Negative impact relative to Status Quo
= - even with A
Number of ▲ or ▼ indicates magnitude of impact

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4.2 Assessment of Viable Options

Assessment – Direct Support to Business

Criteria	A Compared to Status Quo	B Compared to Status Quo	C Compared to Status Quo
Effectiveness	= Could improve effectiveness in cases where direct support is required to include training, but less efficient in managing overall Canada-MB Workforce Development Program that covers several components.	▲▲ This would better enable the Government to collaborate around each case and collaboratively identify ways to better improve.	▲▲ This would better enable the Government to reallocate funds to more effective and efficient programs, and eliminate/reduce non-performing programs.
Risk	▼▼▼ Higher risk of redoing recent reorganization and moving of resources and personnel.	▼ Relatively consistent with GET's conceptual plans.	▼▼ Necessary, but require GET to refocus and change its culture towards program review and value for money.
Capacity and Capability	▼▼ New capabilities around performance management, and the definition and monitoring of key indicators would need to be established. Capacity would also be needed to manage the process towards single window, new way of doing business, and reducing program costs.	▼ New capabilities around performance management, and the definition and monitoring of key indicators would need to be established. Capacity would also be needed to manage the process towards single window, new way of doing business and reducing program costs.	▼▼ New capabilities around performance management, and the definition and monitoring of key indicators would need to be established. Capacity would also be needed to manage the process towards single window, new way of doing business, and reducing program costs. Internal resources are limited to conducting program reviews.

Legend
▲ - Positive impact relative to Status Quo
▼ - Negative impact relative to Status Quo
= - even with A
Number of ▲ or ▼ indicates magnitude of impact

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4.3 Cost-benefit Analysis

Reducing direct support to business requires minimal additional cost. Costs (fiscal and other) may include:

— Reducing the number of FTEs required for business support program delivery.

— Many business support programs are long-standing with ongoing application windows, which may inhibit consolidation or elimination, or result in sunk costs.

— Stakeholder criticism and pressure to continue existing programs, regardless of performance evaluations.

— Several programs involve a federal, municipal or other partner (e.g., economic development agencies), and reduction/ consolidation may result in foregoing certain contributions from these sources.

The benefits of reducing direct support to business include:

— Streamlined program landscape for businesses to navigate.

— Faster processing of applications and awarding of direct business supports.

— Better targeting of funding (e.g., SMEs, exports).

— Increased agility to scale up or wind down business support programs in response to economic conditions.

— Fewer programs would increase consistency in awards, evaluations and measuring outcomes.

— Consolidated business support across Government enables stronger central oversight and personal accountability.

— Better alignment with federal or municipal programs, reduced risks of program stacking from other provincial departments and other levels of government.

5.1 Preferred Option

The preferred option is fewer windows, as GET is currently moving towards its reorganization. At the operational level, the following items should be undertaken. Manitoba should proceed with an immediate reduction in direct support to business. Potential financial impacts and cost improvements are outlined. At the same time, begin to take measures both to reduce the number of business support programs and the number of channels delivering similar programs. This should be followed in the next 2 years with a targeted review of larger programs using the Fiscal Performance Review Framework and a results-based approach to identify further opportunities for value for money reductions of programs not achieving satisfactory outcomes.

Fewer Windows

Significantly consolidate existing programs with "single window" approach within GET

Approach:

- "Single window" approach reorganization within GET
- GET coordinates business deals, and draws on other support within Government as necessary, such as Workforce Training and Infrastructure.
- Move all small business support to within Entrepreneurship MB; all tourism support to Travel MB; all science/ innovation to Research MB, etc.
- Streamlined program landscape for clients and delivery
- Economies of scale/ centralized expertise
- GET will need to undertake some degree of consolidation and reduction to its grant-based programs.

Operational-level Considerations

1. Assemble a single inventory of existing direct business support programs (including all recipients).
2. Quantify the current annual spend on direct support to business to establish a baseline.
3. Consolidate all data sets related to business support programs.
4. Use the Fiscal Performance Review Framework to identify recent trends and correlation to economic/ business outcomes to inform annual funding decisions.
5. Disclose annually descriptions of all business support programs, their cost to Government (including outstanding loans), recipients and results achieved.
6. Develop standard policy definitions for key terms (e.g., business support program, client, entrepreneurs).
7. Establish consistent criteria for the creation, continuation and annual evaluation of all business support programs.
8. Review economic development mandates spread across multiple departments and SOAs to identify overlap, duplication or contradiction.
9. Consolidate and streamline programs.
10. Consolidate administration and back-office functions like processing applications, payments and record keeping.
11. Following evaluation, focus financial assistance towards small and medium-sized business, exporters, expansions from larger businesses based in Manitoba and invested in the Province, and Manitoba businesses making productivity-enhancing capital investments.
12. Large multinational businesses, particularly those based outside Manitoba without a track record of established investments in Manitoba, should receive more scrutiny and higher-levels of approval.
13. Reduce the number of access channels.
14. Incorporate rolling sunset review clauses in all business support programs to institutionalize re-assessment.

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5.2 Potential Financial Impacts and Cost Improvements

Considerations

— Reduce GET funding to grant-based business support programs by 10%. This excludes tourism grants which have been identified as a strategic priority. The main GET grant-based programs are Research Manitoba and Commercialization Support for Business.

— Reduce funding to economic development agencies where there is overlap by 10%. The Department is committed to controlling costs, improving value for money and improved performance. In turn, the Department expects agencies that it funds to find efficiencies and savings. This can also lead to agencies making concerted efforts to eliminate activities that overlap with GET efforts and eliminate activities that do not add value. There also needs to be an accountability framework for provincial funding to all third-party intermediaries (public or private) – this is outlined in 5.3.

— At this time, the Metis Economic Development Fund and First Peoples Economic Growth Fund are relatively recent, have demonstrated some success and leverage, and are not duplicating GET efforts. Manitoba may consider maintaining funding levels and/or encouraging other partnership support to control operating costs. Accountability frameworks and performance reporting should be required as outlined in 5.3.

— Boutique tax credits that are so narrowly focused and directed at a small group of companies should be reduced, and in some cases, eliminated. Consider eliminating or phasing-out the long-standing Cultural Industries Printing Tax Credit and the Book Publishing Tax Credit (combined cost of $1.8 million). The Film and Video Tax Credit has been enriched over the years without demonstrated evidence of significant growth in the sector. Consider adjusting back the level of support to levels in other western provinces, i.e., from 45% of eligible Manitoba labour to 35%, and simplifying other requirements. We understand that the tax credit has been extended in 2019, and at that time, should undergo a value for money review.

— Within GET, an estimated 70 FTEs with salaries and benefits of over $6 million are involved in the delivery and administration of direct business support programs. Through streamlining and reductions, a corresponding level of less resources should be necessary for delivery and administration. GET may target an overall reduction near 7 positions and $0.5 million.

— Workforce training programs are components of Canada-Manitoba agreements and funding levels should be maintained. Consider re-allocating dollars to encourage more support to SMEs and strategic sectors, and less to multinational corporations with relatively little investment in Manitoba.

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5.2 Potential Financial Impacts and Cost Improvement

Program-specific options for consideration	2017/18 (approximate $ millions)
Reduce GET funding to grant-based business support programs by 10% (excluding Tourism): — Research Manitoba — Commercialization Support for Business (Streams 1-3) — Others	$2.0M to $3.0M
Reduce the envelope of funding to third-party economic development agencies* where there is overlap by 10%: — EDI (GET) — UDI (GET) — REDI (Various) — Commercialization Support for Business (Stream 4)	$0.5M to $1.5M
Reduce envelope and/or levels of current support of "boutique" tax credits targeted to specific business by 10-20%: — Film and Video Production Tax Credit — Interactive Digital Media Tax Credit — Cultural Industries Printing Tax Credit — Book Publishing Tax Credit	$2.0M to $4.0M
Associated FTE reductions from "single window" option and other reductions to grant-based support	$0.5M
Maintain workforce training programs but re-direct support to SMEs and less to large enterprises — Workforce Development Program — Industry Expansion Program — Canada-Manitoba Jobs Grant (employer component)	(re-allocation)
Total	**$5.0M to $9.0M**

* Manitoba funds a diverse array of business support third-party intermediaries ranging from business incubators and industry associations to economic growth funds assisting Métis and First Nations entrepreneurs. To reflect these and other important distinctions, consider reducing the overall envelope of spending, rather than an across the board reduction.

5.2 Potential Financial Impacts and Cost Improvement

"The fiscal management strategy acknowledges the importance of controlling spending growth as the key element in restoring fiscal discipline. Manitoba's New Government is committed to reducing spending growth to sustainable levels…"

– Manitoba Budget 2016

Managing with a Business Culture

KPMG research and interviews revealed an insufficient focus at both the program and portfolio levels on tracking and measuring performance on a regular basis against final outcomes and alignment with current Government priorities.

Several business support programs appeared to be "legacy" programs, funded each year because they were funded the prior year. GET business units, SOAs and other departments appear to work in silos, with considerable discretion as to awarding grants and loans, and for evaluating desired outcomes. Information presented to senior departmental decision-makers was often inconsistent, inhibiting data-driven decisions.

A cultural change is required to sustainably incorporate performance management into direct support to business. The need for performance targets, and to monitor progress against objectives, reinforces the need to embed a business culture across business support program delivery.

Consider:

— Take a corporate finance view toward providing support to business.

— Focus on the fundamentals of building, growing and investing in Manitoba, and ensure that all direct support to business is aligned to these Government priorities.

— Reduce the amount of grant support going to large corporations, recognizing that in some circumstances such as expansions, support to larger corporations is warranted, but such support should not be grants or non-repayable contributions.

— Zero in on the number of small scale grants/loans being given out to assess value for money of delivering these types of programs within GET versus through an intermediary with a standardized accountability framework.

5.3 Accountability Framework

> **"Open and transparent financial reporting means that financial management plans, actions and results should be clearly described and readily available to the public."**
>
> **– Manitoba Budget 2016**

Implementing a Consistent Accountability Framework for Intermediaries

Going forward, SOAs, partners and other intermediaries that receive funding from GET and other Departments to provide direct support to business should be expected to produce a standardized annual business plan and performance reporting.

Some entities already do this in some form. However, consistency is generally lacking – especially in presentation of financial data, performance evaluation and program alignment with Government and GET priorities. Standardization would improve efficiency and accountabilities. It would also enable comparability across intermediaries, and stronger oversight and accountability for results.

Prior to receiving funding from GET, each intermediary should prepare a business plan that includes:

- A detailed description of each of its alignment with Government and GET priorities
- Key performance indicators, organized into recent annual results and go-forward targets (e.g., ROI, dollars levered)
- Analysis of broader economic impacts to Manitoba (e.g., jobs, investment, trade, real estate, tax revenues)
- A financial plan (pro forma) for next 3 years, including (as applicable):
  - Income statement
  - For the income statement, a note for every line item in both revenues and expenses with explanation and assumptions
  - Balance sheet and cash flow statement at a high level
  - Capital plan
- Revenue and cost drivers
- A plan to reduce reliance on provincial funding over the next 3 years
- Cost-benefit analysis at the program level (e.g., delivery options, assistance levels)
- Initiatives underway to improve operational efficiency and effectiveness and ensuring value for money at the program level
- Key partnerships other than GET

5.4 Risks

Several risks could arise as the options are planned for and implemented. Below, a list of risks is outlined, along with the potential likelihood and impact that the risk occurs and some mitigating actions that Manitoba could take to manage them.

Risks	Likelihood	Impact	Mitigating Actions
Governance — Uncoordinated efforts across departments to implement reductions, consolidation and/or Fiscal Performance Review Framework — Inability to achieve consistency in reporting across departments, inhibiting evidence-based decisions	**Medium**	**High**	— A robust change management and communications strategy will be required. — Leadership and change agents are necessary to drive change. — Responsibility and accountability for executing Government directives and priorities.
Programs — Lack of capacity/ capability at the program level to implement the Fiscal Performance Review framework to assess outcomes accurately and consistently	**Low**	**Medium**	— Instruction and training supports where required. — Program managers need to work with recipients to ensure responsibility and accountability for performance reporting and results.
Financials — Open application windows may affect short-term fiscal savings from consolidation, reduction or elimination — Deteriorating economic conditions may increase the demand for business support	**Low**	**Medium**	— Continual monitoring of program performance against stated objectives. — Reporting and tracking of financial and operational results.

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5.4 Risks

Risks	Likelihood	Impact	Mitigating Actions
Stakeholders — Stakeholder pressure to continue existing programs at current funding levels regardless of performance evaluations — Partners or intermediaries (e.g., Federal, SOAs, EcDev agencies) may reduce flexibility to make immediate changes	Medium	Low	— Development of communications strategies for internal and external stakeholders affected by changes.
Culture — Inability to break down "silos" within and between departments/SOAs may inhibit coordination and reduce benefits from performance-based decision-making — Based on changes outlined, there will workforce reductions and/or redeployments required that could be negatively viewed by the civil service	High	Medium	— Public Service will be directed to utilize the Fiscal Performance Review Framework. — A change management strategy will be required to assess the institutional/ workforce impacts, and to appropriately identify where reductions are required and/or where staff redeployments could be used.

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5.5 Implementation Plan Framework at a High-level

Roadmap to deliver

This business case presents a variety of options to consider. The figure below provides guidance on how a high-level implementation plan might be phased-in to is to rapidly achieve a consistent, systemic framework for looking at spending and evaluating business support programs across and within departments.

12 MONTHS

Strengthen Foundation & Controls

The first year should focus on action-oriented activities to strengthen governance and eliminate duplication.

Consider:
- Assemble a single inventory of existing direct business support programs (including all recipients)
- Quantify the current annual spend on direct support to business to establish a baseline
- Consolidate all data sets related to business support programs
- Development of communications strategies for internal and external stakeholders affected by changes

YEARS 2-3

Results Driven

The next two years should link program funding decisions to recent outcomes to reduce growth in spending.

Consider:
- Consolidate and streamline programs
- Reduce the number of access channels
- Incorporate rolling sunset review clauses in all business support programs to institutionalize re-assessment
- Consolidate administration and back-office functions like processing applications, payments and record keeping

ONGOING

Continuous Improvement

Use the Fiscal Performance Review Framework to instill a culture of fiscal discipline and continuous improvement.

Consider:
- Identify recent trends and correlation to economic/ business outcomes to inform annual funding decisions
- Focus financial assistance towards small business, exporters and Manitoba businesses making productivity-enhancing capital investments
- Big businesses should receive more scrutiny and higher-levels of approval

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Appendix A - Summary of Select Business Support Programs

Appendix A

Summary of Select Business Support Programs

Listed here in alphabetical order by program.

Dept	Program Name	Type of support	In-Scope?	Target Sector	Cost FY 2015/16 ($M)
GET	Business Start Loan Guarantee Program (Entrepreneurship MB)	Loans	N*	SMEs	0.215
GET	Canada Manitoba Economic Partnership Agreement	Grants	Y	Industry	4.561
GET	Churchill Gateway Development Initiative	Grants	Y	Rural	0.2
GET	Commercialization Support For Business Program	Grants	Y	SMEs	3.8
GET	Communities Economic Development Fund	Loans	Y	Rural	7.2
GET	Community Enterprise Development Tax Credit Program	Tax credit	N	Rural	0.3
GET	Cooperative Community Strategy Research Grant Application	Grants	Y	Rural	N/A
GET	Cooperative Loan and Loan Guarantee Board	Loans	Y	Rural	0.024
GET	Cooperative Promotion Board	Grants	Y	Rural	0.02
GET	Francophone Tourism	Services	N	Tourism	N/A
GET	Indigenous Tourism	Grants	Y	Tourism	0.1
GET	Innovation Growth Side Car Fund	Equity investment	Y	SMEs	0.5
GET	Journeyperson Business Start Program (Entrepreneurship MB)	Grants	N*	SMEs	0.032
GET	Labour-Sponsored Investment Funds Program	Tax credit	N	SMEs	0.1
GET	Manitoba Development Corporation	Loans	Y	Industry	N/A
GET	Manitoba Drilling Incentive Program	Tax credit	N	Resources	N/A
GET	Manitoba Industrial Opportunities Program	Loans	Y	Industry	11.5
GET	Manitoba Interactive Digital Media Tax Credit	Tax credit	N	Industry	1.905
GET	Manitoba Mineral Exploration Tax Credit	Tax credit	N	Resources	3.099
GET	Manitoba Opportunities Fund	Equity investment	Y	Industry	N/A
GET	Manitoba Trade and Investment	Services	Y	Industry	2.028
GET	Mineral Exploration Assistance Program	Grants	Y	Resources	1.6968

*Not in-scope because program is delivered by an SOA.

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Summary of Select Business Support Programs

Dept	Program Name	Type of support	In-Scope?	Target Sector	Cost FY 2015/16 ($M)
GET	Mining Community Reserve Fund	Grants	Y	Resources	N/A
GET	Mining Economic Development Corporation	Services	N	Resources	N/A
GET	Minister’s Mining Advisory Council	Services	N	Resources	0.25
GET	New Investment Tax Credit	Tax credit	N	Resources	N/A
GET	Off-site Exploration Allowance	Tax credit	N	Resources	N/A
GET	Processing Allowance	Tax credit	N	Resources	N/A
GET	Progressive Mining Tax Rate	Tax credit	N	Resources	N/A
GET	Research Manitoba	Grants	Y	Industry	17
GET	Rural Development Institute – Agreement with Brandon	Grants	Y	Rural	N/A
GET	Rural Regional Tourism Initiative	Services	N	Tourism	N/A
GET	Small Business Venture Capital Tax Credit	Tax credit	N	SMEs	0.3
GET	STAR Attractions/Celebrations Grant	Grants	Y	Tourism	0.05
GET	Sustainable Tourism Initiatives	Services	N	Tourism	N/A
GET	Tax Holiday For New Mines	Tax credit	N	Resources	N/A
GET	TechFutures Program	Grants	Y	Industry	0.058
GET	Third-Party Investment Funds Program	Equity investment	Y	SMEs	0
GET	Tourism Development Fund	Grants	Y	Tourism	0.198
GET	Tourism Training Initiatives	Services	N	Tourism	N/A
GET	Travel Manitoba Grant	Grants	Y	Tourism	7.5
GET	Vehicle Technology Centre	Services	N	Industry	0.5
Workforce Training	Canada Manitoba Job Grant	Grants	Y	Industry	3.2
Workforce Training	Industry Expansion Program	Grants	Y	Industry	1.7
Workforce Training	Workforce Development Program	Grants	Y	Industry	18.7

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Summary of Select Business Support Programs

Dept	Program Name	Type of support	In-Scope?	Target Sector	Cost FY 2015/16 ($M)
GET (EDI)	CentrePort Canada Inc.	Grants	Y	Industry	0.374
GET (EDI)	World Trade Centre Winnipeg (WTCW)	Grants	Y	Industry	0.990
GET (EDI)	Composites Innovation Centre (CIC)	Grants	Y	Industry	1.365
GET (EDI)	Canadian Manufacturers & Exporters (CME)	Grants	Y	Industry	0.554
GET (EDI)	Conseil de Developpement Des Municipalites Bilingues Du Manitoba (CDEM)	Grants	Y	Industry	0.159
GET (EDI)	Entreprise Riel (ER)	Grants	Y	Industry	0.092
GET (EDI)	Manitoba Music	Grants	Y	Cultural	0.231
GET (EDI)	On Screen Manitoba (OSM)	Grants	Y	Cultural	0.296
IMR	Metis Economic Development Fund (MEDF)	Grants	Y	SMEs	1.5
IMR	First Peoples Economic Growth Fund	Grants	Y	SMEs	2.7
AG (REDI)	Food Industry Development – Food Marketing and Distribution	Grants	Y	Industry	0.250
AG (REDI)	Food Industry Development – Commercial Community Kitchens	Grants	Y	Industry	0.1
AG (REDI)	Rural Entrepreneur Assistance (REA)	Grants	Y	Rural	0.592
AG (REDI)	Rural Opportunities 4 Growth (operating)	Grants	Y	Rural	0.15
AG (REDI)	Rural Opportunities 4 Growth – Partners 4 Growth	Grants	Y	Rural	0.4
AG (REDI)	Food Development Centre	Grants	Y	Industry	2.02
GET (UDI)	Economic Development Winnipeg –Operating	Grants	Y	Urban	1.277
GET (UDI)	Economic Development Winnipeg – Yes! Winnipeg	Grants	Y	Urban	0.135
GET (UDI)	RBC Convention Centre (formerly Winnipeg Convention Centre (WCC))	Grants	Y	Urban	1.406
IMR (REDI)	Renaissance Brandon – RB Strategic Plan	Grants	Y	Urban	0.25

Appendix A

Summary of Select Business Support Programs

Dept	Program Name	Type of support	In-Scope?	Target Sector	Cost FY 2015/16 ($M)
GET (REDI)	Keystone Centre Inc.	Grants	Y	Rural	0.375
GET (REDI)	Rural Development Institute (Brandon University)	Grants	Y	Rural	0.125
AG (REDI)	Manitoba Horse Racing Commission – Manitoba Great Western Harness Racing Circuit Inc.	Grants	Y	Industry	0.350
AG (REDI)	Manitoba Jockey Club (MJC)	Grants	Y	Industry	5.4

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