Overall Conclusion

The Ministry of Economic Development and Growth (Ministry) provided us with information in spring and summer 2017 on the current status of the recommendations we made in our 2015 Annual Report.

The Ministry has fully implemented 37% of our office’s recommendations, including the recommendation to monitor performance measures beyond the term of funding contracts. The Ministry has revised its contracts for all funds to require annual reporting of results for three years after a project is completed.

In addition, 43% of our recommendations are in the process of being implemented. The Ministry is developing performance measures to assess results of projects under the Jobs and Prosperity Fund, including export sales in new markets and annual spending on research and development.
Also, the Ministry expects to have access to the new cross-ministry Transfer Payment Common Registration system by March 31, 2019. This will allow the Ministry to access applicants’ organization profile information and identify them by unique identifying numbers. With access to the system, the Ministry will be able to view all funding received by an applicant from other provincial programs, which will help inform decisions on whether the applicant has need for funding.

The Ministry has made little or no progress on 7\% of our recommendations and will not be implementing 13\% of our recommendations. Since our 2015 Annual Report, the Ministry has not sought to become the lead for overseeing all direct-to-business supports because it does not currently have access to information on other ministries’ funds. Once the Ministry has access to such information—which is expected to occur by March 31, 2019, when all ministries are included in the Transfer Payment Common Registration system—it will consider whether it should seek to be the lead of economic development programs. The Ministry will not be implementing our recommendation to integrate activities of other key ministries responsible for areas that impact the Ontario economy, such as corporate income tax, immigration and electricity rates, since it does not have authority to do so. Also, the Ministry will continue to keep the Jobs and Prosperity Fund an invitation-based fund and will not make the application package publicly available.

**Background**

To help support economic development and employment, the provincial government provides multi-year grants and interest-free loans to businesses for projects ranging from expansion to export growth to research and development.

Several ministries deliver these supports, but the funds that focus entirely on existing businesses flow through the Ministry of Economic Development and Growth (Ministry), formerly the Ministry of Economic Development, Employment and Infrastructure.

The Ministry’s funds assist projects involving information and communication technology, clean/green technology, financial services, life sciences, and projects in the automotive, manufacturing, and research and development sectors.

In January 2015, the government announced it would fold many existing programs into a new $2.7-billion Jobs and Prosperity Fund, with $2 billion administered by the Ministry and $700 million by other ministries. A new funding stream was added to the fund in September 2015, resulting in the following four streams: New Economy, Food and Beverage Growth, Strategic Partnerships, and Forestry Growth.

In the period from our last audit in 2015 to March 31, 2017, the Ministry committed $398.3 million to 25 projects in this fund: $396.3 million in grants and $2 million in loans. Over this time, the Ministry disbursed $282.1 million, with the remaining $116.2 million to be paid over the next five years.

During this same period, the Ministry committed $71.6 million—$68.8 million in grants and $2.8 million in loans—to 98 projects in the two regional funds that the Ministry oversees: the Eastern Ontario Development Fund and Southwestern Development Fund. Of that amount, the Ministry disbursed $34.9 million, with the remaining $36.7 million to be paid over the next seven years.

At the time of our 2015 audit, the Ministry generally performed well with respect to the approval process in administering and overseeing its own economic-development and employment-support programs. In addition, the projects had success in leveraging investments by businesses in Ontario and in creating and/or retaining jobs.

The following are some of the significant issues we noted in our 2015 Annual Report:

- The Ministry had not attempted to measure whether the almost $1.5 billion it had provided to Ontario businesses since 2004 had
actually strengthened the economy or made recipients of the money more competitive. As well, the Ministry’s new Strategic Investment Framework did not include a plan for measuring outcomes from future economic development and employment supports, including for its new Jobs and Prosperity Fund. Although the Ministry measured actual investment achieved, actual jobs created and retained, total contracted investment leveraged and total cost per job per year, it had not set a goal for minimum gross domestic product (GDP) growth or unemployment rate reductions, either at the local level or for the overall economy. Other provinces had set such goals to guide their economic development efforts.

- Even though Ontario, like most other provinces, had shown improved economic performance in each of the previous four years, the need for the Ministry to ensure its programs benefit the economy was still important. Many expert reports questioned whether such programs and funding actually achieved any economic benefits.

- While the Ministry recognized the economic benefits of promoting key regions and establishing industry “clusters”—geographic concentrations of interconnected businesses, suppliers and associated institutions in a particular field—it was just beginning to develop strategies for its involvement in each region and cluster that identified key strengths and barriers or weaknesses that it could help to address.

- Expert reports over the previous several years had also highlighted the importance of small- and medium-sized businesses (those with fewer than 500 employees), which account for about one-third of Ontario’s GDP. While 40% of the number of projects funded by the Ministry related to existing small- and medium-sized businesses, the dollar value of that support amounted to less than 4% of its total funding. The Ministry had neither assessed how many small- and medium-sized businesses lacked access to supports, nor made it clear why its funding was targeted primarily to large businesses.

- The Ministry’s mandate is to support a strong, innovative and competitive economy that provides jobs and prosperity for all Ontarians; however, nine other ministries independently also provide similar funding to businesses. As such, the Ministry does not have the authority to co-ordinate with other ministries, which deliver $1.8 billion of additional economic development and employment support funding. Although the new Strategic Investment Framework outlined an “all-of-government” approach, each of the other nine ministries still continued to deliver support funding without the overall co-ordination that could ensure the best use of funds. Expert reports had recommended this type of funding be consolidated across ministries to achieve administrative efficiencies and help government target funding to certain sectors or areas of the province.

- There was a need for more transparency in how invitation-based funding was awarded. Since 2010, about 80% of approved funding was committed through non-publicly advertised processes, in which only select businesses were invited to apply. The Ministry determined internally which businesses were to be invited, but it could not provide us with the criteria it used to identify the businesses it invited to apply, or a list of those whose applications were not successful.

- Past funding was often awarded without a proper needs assessment. The Ministry almost never assessed whether businesses needed public funding in order to achieve the proposed project. Furthermore, some projects were approved for funding even though there was evidence they would have proceeded without government help.
The Ministry did not monitor recipients to see whether jobs that were created or retained during the life of the funding contract continued after the contract expired. Contracts were normally for five years, but the Ministry had no information on whether the jobs the recipient offered to create or retain during those five years were maintained afterwards.

As of January 2015, the government had publicly announced almost $1 billion more in economic-development and employment-support funding projects by re-announcing the same available funding under different fund programs.

Among other things, we recommended that the Ministry should do the following:

- develop a comprehensive strategy for economic development and employment that establishes targets by industry sector and geographic region;
- seek to become the lead ministry responsible for overseeing and achieving a comprehensive provincial strategy for economic development and employment programs;
- add greater transparency in accepting applications and selecting the qualifying businesses to which it provides funding; and
- expand performance measures beyond investment and employment results to include whether benefits to the economy continue after project completion.

We made nine recommendations, consisting of 15 actions, to address our audit findings.

We received commitment from the Ministry that it would take action to address our recommendations.

### Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017 and July 27, 2017, and obtained written representation from the Ministry of Economic Development and Growth (Ministry) on September 1, 2017 that it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

#### Planning and Co-ordination of Economic Development Support Funding

**Recommendation 1**

*To foster the best use of government funding to help businesses succeed within a prosperous Ontario economy, the Ministry of Economic Development and Growth should develop a comprehensive strategy for economic development and employment programs that:*

- establishes and publicly communicates targets by sector and geographic region to enable an evaluation of the effectiveness of the funding it provides;

**Status:** In the process of being implemented by March 31, 2018.

**Details**

As was the case at the time of our 2015 audit, the Jobs and Prosperity Fund targets specific sectors, and the Eastern Ontario Development Fund and Southwestern Ontario Fund target geographic locations. More recently, the government set a target in the 2016 Ontario Budget that 300,000 jobs would be created by 2019. In the same budget, the government announced the Ministry’s new strategy—known as the Business Growth Initiative (Initiative)—to help achieve this target. However, the Ministry did not establish any specific targets through the Initiative, such as investments and job creation or retention. The Ministry has committed to creating and retaining about 85,000 jobs under the three active funds that it administers: the Jobs and Prosperity Fund, Eastern Ontario Development Fund, and Southwestern Ontario Development Fund. However, it did not set out how many jobs...
were committed for individual Ontario sectors or geographic regions.

The Ministry is in the process of developing key performance indicators for the three active funds to measure the impact of the funded projects on the provincial economy overall. The Ministry is planning to publish the indicators by March 31, 2018. These indicators will include:

- business expenditure in research and development in Ontario;
- foreign direct investment in Ontario;
- the number of patents filed per million people in Ontario; and
- the number of high growth firms (defined as firms with a minimum annual revenue of $10,000 that have achieved average annualized growth of 20% or more in revenue, over the most recent three-year period) as a proportion of all firms in Ontario.

- *considers the benefits of financial supports for small- and medium-sized businesses;*

  **Status:** Fully implemented.

**Details**

Some financial support is provided to small- and medium-sized businesses through the two regional funds: the Eastern Ontario Development Fund and Southwestern Ontario Development Fund. However, as noted in our [2015 Annual Report](#), the Ministry does not track how many of the regional funds' recipients are small- and medium-sized businesses. The Jobs and Prosperity Fund provides funding only to larger businesses.

Two programs that target small- and medium-sized businesses were launched under the Business Growth Initiative: the Small Business Innovation Challenge and Scale-up Vouchers.

The Ministry partnered with the Ontario Centres of Excellence to launch the Small Business Innovation Challenge in March 2017. This fund of $28.8 million is targeted at innovative start-ups and small- and medium-sized businesses and was created to encourage the development of business solutions for current challenges in Ontario. For example, the Ministry will provide funding to, and has received submissions from, small- and medium-sized businesses to develop innovative solutions for the following challenges:

- to verify identity online and to be used to support ServiceOntario's online activities, including driver's licence and licence-plate-sticker renewals; and
- to help ensure that high-occupancy-vehicle and high-occupancy-toll lanes are used appropriately.

The funding submissions for these two challenges are currently in the review process. The Ministry plans to provide funding of approximately $7.5 million to 12 small- and medium-sized businesses for these challenges. No other challenges have been identified for funding.

The Scale-up Voucher Program launched in June 2017. It is a four-year, $32.4-million program that will provide grants to high-growth companies in sectors including information and communications technology, advanced materials and manufacturing, clean technology, and life sciences. To administer the program, the Ministry has entered into an agreement with MaRS, a not-for-profit corporation that established a research and innovation hub in Toronto. While the program is targeted at high-growth companies, rather than small- and medium-sized businesses, the Ministry anticipated that the majority of the applicants would be small- and medium-sized businesses. At the time of our follow-up, based on the number of employees, five applicants were medium-sized and 28 were small-sized businesses.

In January 2017, the government established a new ministerial role, the Minister Responsible for Small Business, to “accelerate the government’s work in helping small businesses compete, grow and create jobs in the province.” Part of this includes helping small businesses identify export markets.
identifies and develops strategic partnerships between stakeholders such as universities, manufacturers and suppliers, and centres of excellence to leverage their expertise and help further promote and develop effective industry clusters;

**Status:** Fully implemented.

**Details**
In December 2015, the Ministry published Cluster Guidelines that explain to companies how to work with the government on a cluster plan under the *Partnerships for Jobs and Growth Act*. The guidelines are applicable to various industries across Ontario’s economy.

The Ministry had not approved any Jobs and Prosperity Fund projects when we completed fieldwork for our audit in 2015. The Strategic Partnerships Stream of the Jobs and Prosperity Fund provides funding for industry partners (companies, research institutions, suppliers, investors and customers) to work together and develop industry-driven clusters.

The Ministry is continuing to review and approve applications for this funding stream in the 2017/18 fiscal year and until 2024. At the time of our follow-up, two projects under this stream had been approved:

- **In February 2016,** $22.8 million was provided in funding for a partnership between the Ontario Centres of Excellence and IBM in the information and communications technology sector. The project is to help 500 small- and medium-sized businesses create jobs by giving them access to IBM’s expertise and tools.

- **In September 2015,** $19.4 million was provided in funding for a partnership between the University of Toronto, MaRS, and Johnson 
  & Johnson in the life sciences sector. The project will give 50 new life sciences and health-sector businesses access to laboratories and equipment on-site at Johnson & Johnson.

The Ministry also established the Cluster Development Seed Fund in January 2016, which is delivered by the Ontario Chamber of Commerce. About $160,000, of a total of $198,000, has been committed to five projects that are nearing completion. No funds have been disbursed to any projects to date because funding is provided at the end of the project. Examples of projects include the Sudbury Mining Technology Cluster and Ontario’s Aerospace Cluster Development. The fund will close upon completion of the projects.

integrates the activities of other key ministries responsible for areas that impact on the economy, such as training, research, agriculture, northern Ontario development, corporate income tax, immigration and electricity rates.

**Status:** Fully implemented (0.5); will not be implemented (0.5).

**Details**
As was the case at the time of our audit, the Ministry works with other ministries during the assessment and evaluation process of projects under the Jobs and Prosperity Fund, Eastern Ontario Development Fund, and Southwestern Ontario Development Fund. Recommendations for funding are approved by two multi-ministry committees: one of Assistant Deputy Ministers, and one of Deputy Ministers.

The Ministry has helped the Ministry of Advanced Education and Skills Development by providing it with industry information to create the Planning and Partnership Table (Table). The Table is a committee established to make recommendations on skills and talent development for the government regarding program development. The Table consists of representatives from employers, the education sector and government.

With respect to northern Ontario development, the Ministry is supporting this region by working with the Ministry of Northern Development and Mines to create regional economic development plans.

The Ministry has informed us that it does not have the authority to integrate corporate income
tax, immigration and electricity rates because these activities are under the mandate of other ministries. The Ministry informed us that it collaborates with these other ministries through working groups and committees.

**No Lead Appointed for Economic Development and Employment Programs across Ontario**

**Recommendation 2**

To ensure appropriate oversight and co-ordination of economic development and employment funding, the Ministry of Economic Development and Growth should seek to become the lead ministry responsible for overseeing and achieving a comprehensive provincial strategy for economic development and employment programs and corporate income tax incentives for businesses.

*Status: Little or no progress (0.5); will not be implemented (0.5).*

*Details*

The Ministry has not sought to become the lead for overseeing all direct-to-businesses supports because it does not currently have access to information on other ministries’ funds. For example, the Ministry does not oversee the Indigenous Economic Development Fund—Regional Partnership Grant or the Tourism Development Fund—Tourism Investment Attraction stream. However, it has become more involved in other ministries’ direct-to-business supports.

Ontario Shared Services is helping the Ministry to gain access to the new Transfer Payment Common Registration system by March 2019. This new system launched in November 2016. The system contains organization profiles for all government-funding recipients and will help inform the Ministry’s funding process. The Ministry expects to be able to use this system to determine whether an applicant has applied for or received other provincial funding, excluding corporate tax credits. Once it has access to this information, the Ministry will then consider whether it should seek to be the lead of economic development programs.

The Ministry is also consulting with the Ministry of Research, Innovation and Science; Ministry of Agriculture, Food and Rural Affairs; Ministry of Natural Resources and Forestry; and the Minister Responsible for Small Business to determine whether or not to transfer responsibility for their funds to the Jobs and Prosperity Fund. For example, the Forestry Growth Fund was transferred from the Ministry of Natural Resources and Forestry to the Jobs and Prosperity Fund in September 2015. The Ministry is currently incorporating the Rural Economic Development Program—previously administered by the Ministry of Agriculture, Food and Rural Affairs—into the Jobs and Prosperity Fund. This funding will be transitioned into another stream under the Jobs and Prosperity Fund by fall 2017.

As noted under the fourth bullet point of **Recommendation 1**, the Ministry has indicated that it does not have the authority to integrate corporate income tax into its oversight of economic development and economic programs in the province.

**Lack of Centralized Administration Results in Inefficiencies**

**Recommendation 3**

To ensure direct-to-business support funding is administered efficiently and cost effectively, the Ministry of Economic Development and Growth should seek government approval to take on the responsibility to centralize the back-office administrative functions of all other ministries that provide direct-to-business support. It should also work toward ensuring all businesses have a common unique identifying number that is used throughout government to allow for tracking of government support by various ministries.

*Status: In the process of being implemented by March 31, 2020.*
Details
As was the case at the time of our audit, the Ministry delivers business support programs under the various streams of the Jobs and Prosperity Fund on behalf of other ministries. Other ministries continue to administer their own funds. For example, the Ministry of Indigenous Relations and Reconciliation provides administrative support for its Indigenous Economic Development Fund—Regional Partnership Grant’s direct-to-business funding, and the Ministry of Tourism, Culture and Sport provides this for the Tourism Development Fund—Tourism Investment Attraction stream. This back-office support can include reviewing applications for funding, monitoring contract results, and processing and tracking payments and budgeted costs.

Similar to the previous recommendation, the Ministry indicated that, when it has access to the Transfer Payment Common Registration system by March 31, 2019, it will then consider whether it will perform office administration functions for direct-to-business support programs administered by other ministries, and make a decision by March 31, 2020.

Regarding the use of a unique identifying number, starting in November 2016, companies receiving government funding are required to register on the Transfer Payment Common Registration system using their Canada Revenue Agency business number. This number will be used as a common unique identifying number across the provincial government. The Ministry expects to gain access to the new Transfer Payment Common Registration system by March 2019. The Ministry will then be able to use this system to determine whether an applicant has applied for or received other provincial funding, excluding corporate tax credits.

Recommendation 4
To ensure an appropriate amount of grant and loan funding is calculated for each project, the Ministry of Economic Development and Growth should take measures to ensure program staff are aware of all sources of government funding available for a given project, including corporate income tax credits, and consider these amounts when determining grant or loan funding.

Status: In process of being implemented by March 31, 2019 (0.5); little or no progress (0.5).

Details
As was the case at the time of our audit, applicants for the Jobs and Prosperity Fund, Eastern Ontario Development Fund, and Southwestern Ontario Development Fund, must sign and certify that they have disclosed all sources of other government funding. The contract terms and conditions permit the Ministry to terminate an agreement with a business if it is found that the company has not disclosed all such information.

The Ministry has increased opportunities for government staff to identify other sources of government funding that applicants have received. For example, starting in March 2016, the Ministry began sharing a list of fund applicants with the Ontario Ministry of Agriculture, Food and Rural Affairs.

By March 31, 2019, when the Ministry has access to the Transfer Payment Common Registration, it will be able to view all funding received by an applicant in other provincial programs, except for corporate income tax credits.

While the Ministry has indicated that it does not have responsibility over corporate income tax, and does not plan to integrate this area into its oversight of economic development and employment programs, it is in preliminary discussions with the Ministry of Finance on whether it can access information on corporate income tax credits to ensure program staff are aware of all funding.

Administration and Oversight of Ministry Programs

Recommendation 5
The Ministry of Economic Development and Growth should consider adding greater transparency in
accepting applications from all qualifying businesses. Such an approach could entail publicly communicating information on funds to the general public, associations, and targeted industries to ensure that all qualifying businesses are aware of the programs.

**Status:** Will not be implemented.

**Details**

As was the case at the time of our audit, the Jobs and Prosperity Fund’s eligibility criteria are publicly available; however, an application package is still not publicly available. The Ministry has indicated that the Jobs and Prosperity Fund will remain an invitation-based process because the Ministry intends to target organizations that it believes are good candidates for funding, and that meet the program eligibility criteria. The Ministry contact information, consisting of its telephone number and email address, is still publicly available, and the Ministry indicated that interested applicants can make inquiries to the Ministry about the fund. The Ministry has also added a “request a conversation” button on its website. We continue to recommend that the Ministry should add greater transparency to the application process by publicly posting the application package so that all eligible companies may apply.

> It should then use a fair and consistent process for selecting businesses to provide funding based on the merits of the applications, and ensure that the process used is clearly documented.

**Status:** Fully implemented.

**Details**

Applicants that meet the Jobs and Prosperity Fund’s eligibility criteria may be considered, but are not guaranteed to be invited to progress to the next stage of the process. However, the Ministry now documents which projects were declined and the reasons they were declined. In the period between our 2015 audit and our follow-up ending March 31, 2017, the Ministry approved 25 projects and declined seven; others were withdrawn or are being reviewed.

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**Ministry Did Not Establish Whether Recipients Actually Needed Help**

**Recommendation 6**

In ensuring that business support funding is allocated to companies that need it and have the largest impact on growing the economy, the Ministry of Economic Development and Growth should establish evaluation criteria that better assesses whether funding for projects is needed in order for the project to proceed.

**Status:** Fully implemented.

**Details**

Since our audit, as part of the evaluation process for the Jobs and Prosperity Fund, the Ministry has included quantitative factors to assess a company’s need for funding, such as its debt-to-equity ratio. Also, the Ministry indicated that it faces competition from other jurisdictions for strategic investments. Therefore, it assesses whether government funding is necessary for the project to proceed and whether funding is necessary to secure the project in Ontario over competing jurisdictions.

**Recommendation 7**

The Ministry of Economic Development and Growth should establish project evaluation criteria that identify circumstances where it should require equity in projects in return for funding.

**Status:** In the process of being implemented by March 31, 2018.

**Details**

The Ministry is in the early stages of analyzing the cost/benefit and feasibility of taking royalties or equity in exchange for funding projects or companies through its three funds. An internal Ministry project team has been formed to carry out this work. The Ministry is working with the Ontario Financing Authority, Ministry of Finance and Ontario Capital Growth Corporation (an agency of the Ministry of Research, Innovation and Science) to determine available options for a new contract structure that would include taking equity as part
of the funding arrangement, as well as examining practices in other jurisdiction. The Ministry plans to decide by March 31, 2018 if it will require royalties or equity in future contracts.

Benefits of Support Programs Should Be Monitored, Reported on

Recommendation 8
In order to measure the success of its programs in strengthening the Ontario economy and achieving sustainable benefits, the Ministry of Economic Development and Growth should:

- expand its current performance measures to include factors other than a project’s investment and employment targets;

Status: In the process of being implemented by fall 2017.

Details
The Ministry is developing performance measures to assess results of projects under the Jobs and Prosperity Fund. These proposed measures are expected to indicate the effectiveness of funding and impact on the province’s economy, in addition to the current practice of measuring investment and job creation targets. The Ministry plans to have key performance indicators ready for further discussion and planning by fall 2017. Interim performance measures being considered include, but are not limited to:

- investment in training, equipment and machinery, and information and communications technology;
- annual spending on research and development; and
- export sales into new markets.

At the time of our follow-up, the Ministry did not have plans to apply these key performance indicators to the Eastern Ontario Development Fund and Southwestern Ontario Development Fund since the primary goal of these projects was job creation and retention.

- consider monitoring performance measures beyond the term of funding contracts to assess whether benefits to the economy continue after project completion.

Status: Fully implemented.

Details
Under the three active funds, the Ministry has revised all funding contracts drafted as of July 2016. Fund recipients must now provide annual reports of results for three years after the project is complete. The recipient is required to report financial results related to the project, including cash flow from operations, net income and total sales. The recipient is also required to report the number of active employees at the project facility.

The Ministry has hired a third party to assess the impact of a sample of projects since their completion. This review is limited primarily to the Eastern Ontario Development Fund because the fund launched in 2009 and typically projects span four years; the other two funds do not have complete projects yet. The review is currently being finalized.

More Care Needed in Reporting Results Publicly

Recommendation 9
To ensure that communications of project results to the public are accurate and complete, the Ministry of Economic Development and Growth should publicly report on its website:

- all funding commitments and the names of all projects and companies contracted with, including clarifying whether announcements are duplicate to previous ones made; and

Status: In the process of being implemented by March 31, 2018.

Details
Starting in September 2016, information related to the Ministry’s completed projects became available online under each of the current three
funds administered by the Ministry. Publicly available information includes the funding program, organization name, organization location, fiscal year the contract was signed, dollar amount of the government funding commitment, and the total commitment for the number of jobs to be created and retained. By fall 2017, the Ministry is planning to publish the same information for funds it previously administered that are now closed.

Also, for current projects that are not completed yet, the Province plans to make commitments regarding investment and job creation and retention publicly available through the Open Data initiative by March 2018. If new funds or funding streams under the Jobs and Prosperity Fund are announced, the Ministry informed us that it will work with its communications branch to ensure there will be no duplicate funding announcements.

- **accurate actual results for each project compared to commitments and targets previously announced.**

  **Status:** In the process of being implemented by March 31, 2018.

**Details**

As was the case at the time of our audit, the Ministry does not make public the actual results of funded projects, such as the actual number of jobs created and retained compared to the contract commitment. It cited concerns regarding commercial sensitivity. Consequently, the Ministry does not intend to release individual project results. However, the Ministry informed us that it will make public the overall actual results by fund and by industry by March 31, 2018.