



ISSN 1180-4327

Legislative Assembly
of Ontario
Second Session, 37th Parliament

Assemblée législative
de l'Ontario
Deuxième session, 37^e législature

Official Report of Debates (Hansard)

Thursday 21 February 2002

Journal des débats (Hansard)

Jeudi 21 février 2002

**Standing committee on
public accounts**

2001 Annual Report,
Provincial Auditor:
Ontario Innovation Trust

**Comité permanent des
comptes publics**

Rapport annuel 2001,
Vérificateur provincial :
Fonds ontarien pour l'innovation

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Published by the Legislative Assembly of Ontario



Service du Journal des débats et d'interprétation
3330 Édifice Whitney ; 99, rue Wellesley ouest
Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Thursday 21 February 2002

Jeudi 21 février 2002

The committee met at 1041 in room 151.

2001 ANNUAL REPORT, PROVINCIAL AUDITOR ONTARIO INNOVATION TRUST

Consideration of chapter 2, Towards Better Accountability.

The Chair (Mr John Gerretsen): Good morning. I wonder if we could call the meeting to order. This hearing is to deal with chapter 2 of the 2001 annual report of the Provincial Auditor, dealing specifically with the Ontario Innovation Trust.

We have with us this morning Mr David Bogart, the executive director of the Ontario Innovation Trust, Bryne Purchase, the Deputy Minister of Energy, Science and Technology, and Mr Bob Christie, the Deputy Minister of Finance. Gentlemen, we await your opening comments. Who would like to take the lead on this?

Dr Bob Christie: I'll begin.

The Chair: Could you identify yourself, please?

Dr Christie: Yes, I'm Bob Christie from the Ministry of Finance. With me is Gabe Sékaly, the assistant deputy minister of our fiscal and financial policy division.

We've handed out some material just to give you some background on the innovation trust. I'll talk about the financial reporting and accountability issues that have been raised and then Bryne will follow up with some information on the operation of the trust itself.

Where we start, I think, with the Ontario Innovation Trust is with the creation at the federal level of the Canada Foundation for Innovation, the CFI, which was an arm's-length body created by the federal government to invest in innovation technology, R&D technology and infrastructure, primarily in our post-secondary institutions and research institutions like hospitals. The CFI was founded on the basis of looking for matching donations. So the province faced an issue of how to respond to that. There were certainly concerns, I think, from some parts of the research community that the province be able to respond in order to ensure that we got our share of the CFI money.

The OIT, as a vehicle to assist in that response, at any rate, was announced in the 1999 budget to help hospitals, universities, other research institutions etc renew their research infrastructure and work with the Canada Foundation for Innovation in partnership to do that. It

also works co-operatively with the Ontario research and development challenge fund, which funds the human resource requirements of research. Four members of the trust board also sit on the challenge fund, as a way for them to coordinate their activities and make the most effective use of the resources they have.

The OIT and the CFI also work together and the government has, over the years, provided initially \$250 million in the 1999 budget and \$500 million in the 2000 budget to the trust. As of February this year, the trust has awarded over \$430 million for projects. In terms of financial reporting, these amounts were reported in the year the decision was made and the year in which the grant or the trust was made. This was consistent with our understanding of the guidelines of the public sector accounting board, and the public accounts for those years did receive an unqualified treatment.

We recognize that these are areas where the accounting profession will likely continue to do research and continue to look at the ways of best reporting these kinds of transactions, whether they're multi-year grants or the use of trusts etc. At the moment these are the rules, and we've presented our financial accounts consistently.

In terms of accountability issues, because this is an arm's-length trust, it's set up with a trust indenture that governs what it does, and the structure of it is such that if the money isn't used, it goes to the beneficiaries, so it has been put at complete arm's length from government. So some of the traditional accountability measures that would apply to annual grant recipients aren't applicable here because of the difference in structure. The board itself, however, has implemented a number of accountability mechanisms. It is, of course, directly accountable to the beneficiaries and to the general public. They currently issue financial statements, which are audited by an external firm, and an annual report, and they have a Web site that explains the trust structure, its criteria for project approval and the awards made. There's a substantial amount of reporting and disclosure on the part of the trust.

The interest generated is reinvested in the fund, used to operate the trust and fund continuing investment into research. As noted, the funds are only available to the beneficiaries and can't be, according to the trust indenture, recaptured by the province. Under the indenture there's a very clear definition of eligible recipients, eligible projects, eligible costs etc, which are part of the

foundation of the trust and aren't open to the board to change. So there's a very well specified set of rules for the operation of the trust.

They follow a similar accountability framework to that proposed by the Public Sector Accountability Act, which was tabled this May for first reading. That framework is proposed to apply to the broader public sector. The proposal is that organizations table and make public a business plan for the year, a description of their progress toward achieving their publicly stated goals, audited financial statements and a business plan for the next year. They are also required to develop, within their business plans, statements of mission, goals, activities etc. This is all to be disclosed so that the public will benefit from transparency and will be able to hold the organizations accountable for their actions.

I think the OIT largely conforms to these requirements at the moment. Obviously, this legislation has not been passed yet. Depending on its future, it's unclear at this point the treatment of OIT, but there is provision within the act, as currently drafted, to have it apply to the innovation trust.

I've talked about the establishment of the trust and the indenture, the financial reporting of it and the way in which the trust is approaching the issue of accountability. I'd like to turn it over now to Bryne to talk about the OIT from a policy perspective, and also to talk to it from his role as a board member.

1050

Dr Bryne Purchase: Thank you, Bob. As Bob indicated, I'm here not just as the Deputy Minister of Energy, Science and Technology, but also as a board member of the Ontario Innovation Trust. I'd like to introduce Dr Tim McTiernan, who is the assistant deputy minister of the science and technology division.

In your handout, you'll notice that the first slide deals with the importance of innovation to the Ontario economy. In the last 10 years, two out of every three Ontario jobs have been created in research-intensive industries. It is widely recognized that innovation is the key driver to increased productivity and higher real income for Ontarians.

Given the importance of innovation to our economy, Ontario needs a science and technology strategy. Ours is based on three primary investments: investment in the creation of an innovative culture, investment in people and other research infrastructure, and investment in the incentive structure which encourages laboratory knowledge to be brought to the marketplace.

The Ontario Innovation Trust, as Bob indicated, was created in 1999 as a trust at arm's length from the government of Ontario. Its initial capitalization was \$250 million, which was subsequently raised by another \$500 million in the 2000 Ontario budget. The trust leverages funds from the Canada Foundation for Innovation and other institutions and it complements other Ontario research programs, such as the Ontario research and development challenge fund.

The trust was created through a trust agreement with Royal Trust Corp. The trustee has since been changed to the Northern Trust Co. It's governed by a seven-member board of directors who make the final investment decisions. It is administered through the Innovation Institute of Ontario, and Mr David Bogart is here representing the IIO.

As Bob indicated, there are seven members of the board. Those are indicated on the next slide. You'll notice there are two representing the universities. Those are nominated by the Council of Ontario Universities. One representing community colleges, Gerry McGuire, is nominated by the community college association. Dr Bette Stephenson is nominated by the Ontario Hospital Association. The rest are government-appointed members.

As Bob indicated, the trust was initially established to help leverage monies from the Canada Foundation for Innovation, which was established by the federal government in 1997 to support capital infrastructure for research. The CFI had an initial endowment of \$700 million and has a current endowment of over \$3 billion. The current commitment is over \$1.5 billion. The selection for projects: there is a competitive process based on peer review of scientific excellence. The current commitment to Ontario is \$527.8 million and 704 awards. That represents 34% of the total commitments to date.

The Ontario Innovation Trust may invest in eligible projects such as capital equipment, scientific collections, computer software etc. Eligible institutions represent universities, colleges, hospitals, research institutions and not-for-profit organizations. For-profit organizations are ineligible.

The funding level is up to 40% of approved cost, to a maximum of \$10 million. In exceptional cases the board of the trust may award up to 60%, to a maximum of \$15 million.

The project proposals considered by the innovation trust are evaluated on a competitive basis. OIT uses expert peer review to assess scientific merit of a proposal unless it has already been reviewed by another co-sponsor, in this case the CFI. We accept CFI peer review as equivalent to our own.

The OIT board further considers the project's potential to enhance Ontario's capacity for innovation, economic growth, health and environmental quality; the project's ability to contribute to the province's existing strengths—does it marry up institutions in joint ventures, for example, in a way we think enhances their overall capability? Also, we consider the complementariness with other provincial investments and the sustainability of the particular research initiative being proposed.

Incidentally, I'm here today in full knowledge of my other board members, who are very anxious and welcome the idea of coming and reporting to this committee at any time you wish.

The Ontario Innovation Trust board is directly accountable to its beneficiaries and to the public of Ontario. The Ontario Innovation Trust maintains a publicly acces-

sible Web site, in French and English, which lists investment decisions we have made, by institution, by project and by amount. So you can get all the information you want on each individual investment decision that the board has made. There is an annual audited financial statement. As well, you can of course access the backgrounds and details of each of the board members, the application forms if you wish to make application to the trust, news releases and other program information.

Just briefly, to give you an idea of the overall types of investments we have made to date, in terms of awards matching the Canada Foundation for Innovation investments, we have made commitments of \$323 million; in terms of non-CFI-matching awards, that is, awards that have other types of institutional matching required under our trust agreement but not federal government CFI matching, over \$87 million; the Ontario Distinguished Researcher Awards. The CFI provides a capital infrastructure grant to the Canada Research Chairs and we match that infrastructure grant to the Canada Research Chairs with something we call the Ontario Distinguished Researcher Awards—again, it's capital; it's not operating as it were—at slightly over \$19 million.

The total commitment is over \$430 million to date.

That is my formal presentation. We're open for questions.

The Chair: Thank you very much. We start off today with the Liberal caucus. I'm suggesting 15 minutes as an opening round and we can see where we go from there.

Mr Bruce Crozier (Essex): Thank you and good morning, gentlemen. First, I just want to briefly address the formation of the board of the trust. Are these appointments made by order in council?

Dr Purchase: Yes.

Mr Crozier: And the term is?

Dr Purchase: The term varies. It's in the trust agreement. There are three-year terms and two-year terms. It's actually specified in the agreement, I believe, that one from each community is allowed to be a three-year term and then the other person from that community is a two-year term. Yes, here it is. One of the individuals appointed pursuant to paragraph 8.2 which—I think that must be a designation of 8.2(a) as those who are appointed by the government. One of those shall be appointed to a one-year term and one shall be appointed to a two-year term and the other to a three-year term. Then it goes through, for example, those appointed by the Council of Ontario Universities—one is a two-year term and one is a three-year term—and so on. The same is true for the hospitals. The individual—in this case, Dr Stephenson—was appointed to a two-year term from the hospitals, and Gerry McGuire from the community colleges had a two-year term as well.

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Mr Crozier: I was asking because it's my understanding that the trust has a 10-year life. Under the terms of the trust, it's wound down after 10 years.

Dr Purchase: Yes, that's correct.

Mr Crozier: I was just curious whether any of the board members were appointed for the full term.

Dr Purchase: No, no one is appointed for life; that is, for the life of the trust.

Mr Crozier: Dr Christie, in your opening remarks, under accountability it says, "The board ensured best practices in accountability were implemented." How does the board do that? To put it in some context, you're not a member of the board, but Dr Purchase is, and I wonder how you could make that comment rather than a board member?

Dr Christie: The comment is with respect to the disclosure practices of the board and their relation to the requirements that have been laid out in the Public Sector Accountability Act and other expectations of good reporting.

Mr Crozier: But does the Ministry of Finance get involved to assure itself that this board operates under the best practices of the Public Sector Accountability Act—

Dr Christie: The act hasn't been passed yet.

Mr Crozier: —or at least the intent of it? To what extent does the Ministry of Finance get involved in seeing that the trust board is accountable?

Dr Christie: The Ministry of Finance does not have authority over the board or its accountability practices. We're certainly aware of and monitor what the board does.

Mr Crozier: I appreciate that you don't have any authority. But how it is then that you can say "the board ensured best practices"? To what extent can you make that statement without reservation or concern?

Dr Christie: The statement is made with respect to the degree of disclosure that the board has made. It can be made by examining the nature of the disclosure and the nature of the information. It's in that sense that the statement is made.

Mr Crozier: So that's kind of an observation you have made because you have an interest in where the money goes.

Dr Christie: In both accountability and in the operation of what's an important contributor, as Bryne says, to innovation and the economy.

Mr Crozier: You've also said, under accountability: "The board is directly accountable to the beneficiaries of the trust ... and to the general public." You don't mention the government, accountable to a ministry or to any administrative part of the government. It seemed a bit odd to me that the trust is accountable to the beneficiaries—those who receive it—as opposed to those who give it and how it's given.

Dr Christie: That relationship reflects the way in which the trust was set up. The degree of control, aspirations, objectives etc that was desired of the board was written directly into the articles of the trust. So rather than monitoring every year to see that this was done, to see that these objectives were being met, they were written directly into the requirements of the trust, and those are the rules under which the trust has to function.

Mr Crozier: I certainly don't mind that another ministry is looking at this trust and how it operates. Perhaps you can explain to me just a little further how the Ministry of Finance gets involved. For example, I fully expected and knew that the Ministry of Energy, Science and Technology would be appearing this morning. When I learned that the Ministry of Finance would be appearing as a witness, I just thought, "What's the Ministry of Finance got to do with it, quite frankly?" So maybe just to sum up, could you tell me what the Ministry of Finance has to do with it?

Dr Christie: The Ministry of Finance comes into this in a couple of respects. One is with respect to financial reporting. Because the innovation trust received public money in two years, it had to be accounted for in a certain way. The Ministry of Finance is responsible for preparing the public accounts of the province and the financial reporting of the province. As a result, we have to deal with bodies like the Ontario Innovation Trust, which, although arm's-length, has received public money and it has to be accounted for a certain way, depending, as I mentioned earlier, upon the rules and guidelines of the public sector accounting board. So the Ministry of Finance is involved with the innovation trust and most other bodies in the public sector and the sphere over which we consolidate operations. We're involved with them to the extent of reporting on their financial information and preparing the public accounts of the province.

With respect to accountability, our office of the controller has an interest in the broader practices of accountability in the public sector from a policy perspective, both by the province itself and certainly in the broader public sector in terms, again, of disclosure, transparency of reporting etc, the kinds of things that were addressed in the Public Sector Accountability Act, which was tabled with the budget this spring. I hope that—

Mr Crozier: I think so. Does this, then, apply to all kinds of arm's-length, third party boards or commissions or entities that receive funds eventually from the province of Ontario?

Dr Christie: If they receive public monies, we will be involved in terms of reporting on them. Again, depending on the size of the entity, if and when the proposed Public Sector Accountability Act passes, then depending on likely the size and the regulations under that act, the Ministry of Finance, together with the responsible line ministry—because all these bodies typically report directly through an operational ministry—would be concerned more with the broad level of practice and seeing to it that it was disseminated through the broader public sector and working with ministries to improve the overall accountability practices of the broader public sector.

Mr Crozier: Dr Purchase, I could ask you essentially the same question that Dr Christie has assured us of; that is, "The board ensured best practices in accountability were implemented." How does the board do that?

Dr Purchase: We've had discussions at the board about accountability. It has been raised in a number of annual reports of the Provincial Auditor. He has men-

tioned accountability. I was in the Ministry of Finance when the trust was created. We've known these concerns all along, and we have attempted, as a board, to adjust these and have, as I say, had a number of discussions at the board to ensure that my other colleagues on the board are attuned to the need for us to live up to the full letter of our responsibilities in the trust, but also to go as far as we possibly can to reassure legislators that we are accountable and that we are transparent in everything we do. So, as I said, I'm here really representing my colleagues on the board and representing their sincere interest in making sure we take every step to satisfy the Legislature that we are indeed not just living up to the terms and conditions of the trust but that we are seen by the Legislature as being accountable, in some sense, to the general public that you represent.

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Mr Crozier: Yes. In your role as deputy minister I assume that you have a great deal of influence in the ministry. I certainly hope you do.

Dr Purchase: I wish, sir, I had more.

Mr Crozier: With your ministry responsibilities, how do you balance that when you act as a board member?

Dr Purchase: I do consciously think about the responsibilities that I have as the Deputy Minister of Energy, Science and Technology and the wishes of the minister and the government in respect of its overall science and technology strategy. So in many ways, when I speak at the board, I speak out of my knowledge of what the government is attempting to do in its overall strategy. I certainly am free to communicate all of those things that I know in terms of what's going on in the Ontario research and development challenge fund or the Premier's Research Excellence Awards or the Ontario centres of excellence, the Premier's platinum awards and many of the other programs that we run, in which I simply try to talk to my colleagues, and when we're talking about the broad activities, if you like, and strategic interests of the trust, I try to bring as much information to the table as I can given my unique position as the deputy minister.

When it comes to individual investment decisions, however, I am not a scientist and I don't as a board member, although we make those investment decisions, bring any unique scientific knowledge to the table. I take the peer review that is done by scientists who have the appropriate credentials as sufficient evidence of the worthiness and the quality of the science that it is being proposed we invest in.

Mr Crozier: How am I doing, Chair? I have a question that may take—

The Chair: You've got two minutes left.

Mr Crozier: OK. I don't know whether we can do this in two minutes or not, but we'll continue on after.

We've established that we hope you have the influence in the ministry. Are you there—this trust acts at arm's length, yet the arm has some fingers on the board, and that's you. Are you there to see that the trust board carries out the ministry or government policy? Do they take your advice and then go on about their business, or

do they say, “Wow, the deputy minister has spoken and we’d better do it”?

Dr Purchase: I think if you look at the other members of the board, sir, you would appreciate that—

Mr Crozier: Well, how do you feel that they feel? What’s the body language in the room?

Ms Shelley Martel (Nickel Belt): Ask Bette Stephenson that.

Dr Purchase: I used to work for Dr Stephenson back when I was in the old Ministry of Treasury and Economics and she was the minister.

Mr Crozier: She has roots in Essex county, so that’s why. Anyway, that’s fine. Thank you.

The Chair: Ms Martel.

Ms Martel: Thank you to all of you for coming here today, and I want to say at the outset that I do appreciate the need to have government fund research and development. I also am not here to undermine the credibility of the board members, but I have to say at the outset that I really don’t believe for one moment that the trust vehicle was necessary to facilitate the government providing grants for scientific research and development. I just don’t.

I heard you, Dr Christie, say—and I thought this was a reason for the establishment; you’ll correct me if I’m wrong, I know—that it was established to help leverage money from the Canada Foundation for Innovation. That’s fine, except that the government itself could have just as easily established a mechanism within the ministry to match federal funds that would still have allowed the ministry and, hence, the government to retain control of the funds, that would still have allowed the minister to be accountable to the Legislature and that would still have allowed the Provincial Auditor to do value-for-money audits. So why was this vehicle used to support grants for research and development? It clearly could have been done within the ministry, either yours or Mr Purchase’s.

Dr Christie: I’ll ask Bryne to comment on this as well, because he has direct knowledge of it. Many of these projects are multi-year projects. What the foundation or trust vehicle permits both the CFI to do and the innovation trust to do is make secure multi-year commitments. Because we operate here on an annual appropriation process, it’s more difficult to make multi-year commitments because they have to be voted on every year.

The second factor, I think, is the degree of expert decision-making that one wants to bring to bear and is seen to bring to bear, which certainly the trust vehicle facilitates as well. I’ll ask Bryne to comment on that as well from his knowledge.

Dr Purchase: I think Bob hit the two primary considerations in the creation of the trust vehicle as a vehicle with unique features for science and technology. We run many programs, and we basically run them off a concern for the highest-quality science. These trust vehicles certainly reinforce that as the primary concern. As board members, what we do—literally, the scientists

tell us what is, in their opinion, the highest-quality science, and that’s what we are required to invest in. That’s a unique feature of a trust vehicle, if you like.

Ms Martel: I’m going to challenge both of those. The auditor said earlier that in fact the government provides multi-year funding commitments right now through the Ministry of Agriculture and Food to the University of Guelph, and mentioned a specific project. I don’t know how widespread that is, but I know that it’s being done currently in government.

Second, with respect to expert decision-making, I have two points: the ministry could well have established its own advisory committee, with the same board members, right within the ministry, to be under the accountability of the ministry. You could have still provided that level of expertise. The other thing I note is that over \$300 million of the \$400 million that has been spent has come because of federal matching funds, and I assume the peer review was done at the federal level, not the provincial level. You’re going to correct me if I’m wrong. So I hear what you’re saying, but I don’t buy it. Maybe you want to try again.

Dr Christie: On the matter of multi-year commitments, governments do, as you know, make multi-year commitments. Governments also change multi-year commitments fairly regularly; sometimes up, sometimes not. The degree of security behind a multi-year commitment, which is technically based on year-by-year appropriation, is less than is delivered through this particular vehicle. Because the CFI was able to make these secure, longer-term commitments, the degree of security provided by the trust vehicle let the innovation trust make the same kind of commitment that the CFI could make but that a grant program couldn’t make because it would be subject to year-by-year appropriation.

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Ms Martel: If I hear you correctly, you were concerned that your government or another might not—what’s the word I’m looking for?—respect an allocation that was announced over a multi-year period?

Dr Christie: I’m not aware of any thought process to that regard. As I noted earlier, these multi-year commitments can be varied in both directions. But for planning purposes, the trust simply provides certainty.

Dr Purchase: As Bob was saying, I was there so I could present material evidence in a sense that we really were driven very much by the creation of this vehicle at the federal level, that they had created a trust which had these features that Bob was trying to outline for you. Had there not been a CFI, would we on our own have invented the trust at that time? As I go back and try to think about it, I can’t think that we would have invented it, other than that it existed at the federal level and we needed to find a vehicle to effectively make sure that we got, if I might say, our fair share of the federal money. In a sense they set the table for us and we were following through and trying to make sure that Ontario research institutions and researchers received a reasonable share.

Ms Martel: I appreciate your intention. I guess I would just make the argument again that in a former time period when I was Minister of Northern Development and chair of the NOHFC, where there was accountability because there was a specific act and the chair had to be the minister, we did the same thing. We asked proponents all the time to access federal funding through FedNor or other federal programs, and then they came to us and we could match. But we did it with a vehicle that remained within the ministry.

I appreciate your explanation, but I think what you gave up—and I'm not saying you directly because I respect this is a political decision—what the government then compromised on was accountability. You have set out for us the accountability mechanisms within the board. I'm not disputing those and I'm not disputing the integrity of the board members to try and be accountable. The problem for me is, the minister is not accountable back to the Legislature. He may have tried to say that in the Legislature this December, but there is not a bill that established this trust; there is nothing in the trust agreement, as I read it, that makes him responsible. So there is no government accountability back either to the Legislature or to the auditor or, I would argue, to the public—because it's taxpayers' money at the end of the day—as a result of using the trust.

Mr Christie, you are right, it really is at arm's length, and as a result of being at arm's length all of those things are lost. I'm wondering, at the time that the decision was made, were those considerations carefully reviewed?

Dr Purchase: We did at the time discuss this matter with the Provincial Auditor, as I recall. I'm not sure whether Mr Sékaly was with me at the time or not. We were conscious, as I recall, a bit ago of the uniqueness of the trust. I don't know that we had anything else like this.

Going back to that situation, I think we were trying to find, as I recall the discussions around that, a vehicle to make sure that we could somehow be there. That was probably the principal, if you like, substantive reason for this mechanism of the trust.

Ms Martel: OK, fair enough.

Let me ask—either one of you can answer. You talked about the proposition that the Public Sector Accountability Act is proposed to apply to the trust, if I heard you correctly. There's a proposal that it, if passed, would apply to the trust.

Dr Christie: The Public Sector Accountability Act is a framework and provides the capacity to include an organization like the Ontario Innovation Trust. That would depend on the drafting of the regulations.

Ms Martel: Now, if that were to occur, there was a decision made to have that act apply, would that change anything in terms of accountability? I'm specifically thinking would it make the minister accountable to the Legislature for the activities of the trust? Would it then allow for a value-for-money audit by the Provincial Auditor? Do any of those changes in accountability come if the trust comes under this act?

Dr Christie: The impact on accountability is with respect to accountability to the public. And there are requirements in the Public Sector Accountability Act for the way in which broader public sector organizations are to be accountable to the public and the form that that accountability takes. So it doesn't provide for accountability to the minister; it provides for accountability to the public.

With respect to the auditor in value-for-money audits, the Public Sector Accountability Act would not be the vehicle for that; the vehicle for that would be the Audit Act. The government has announced an intention to change the Audit Act in that regard, and it would be those changes and the specific nature of those changes that would address the innovation trust. Those are still under discussion, I think, with the Provincial Auditor.

Ms Martel: But they're a long time in coming, those changes.

You recognize—I'm sure you do, Mr Christie in particular, because you've been before this committee before—there's a substantial difference between the audit that appears on the net of the trust versus the auditor's value-for-money audit and that there's a substantial difference in terms of ensuring that a major amount of money, three quarters of a billion dollars, is being used in the best public interest.

Dr Christie: I certainly recognize the difference, and I think it's a difference that applies not only to this trust but to a number of other transfer payment recipients, which is, I think, the reason why the auditor has raised the concern from time to time about audits and transfer payment recipients. It's less a function of it being a trust than the scope of the value-for-money audit role of the Office of the Provincial Auditor.

Ms Martel: I guess where I was coming from is the minister has essentially tried to justify accountability to the public and to the Legislature by declaring that these statements are audited on an annual basis. We appreciate that, but I think there's a big difference between that audit and what we would expect the auditor to do if indeed he had authorization to look at the trust.

Right now, you have \$750 million that has been transferred. I gather there wasn't a transfer in fiscal 2000-01 or 2001-02. When would you do the transfer?

Dr Christie: The year is not finished. If there were to be a transfer in fiscal year 2001-02, it would have to be decided before the end of March.

Ms Martel: In that regard, because the auditor has essentially said that the government has to cease its multi-year funding in terms of showing as a current year expenditure, if you were to flow money, how would you respect the auditor's statement that in fact the multi-year funding and showing it in a current year has to cease? How do you do that now?

Dr Christie: That is to date a hypothetical question and a decision on that hasn't been made. The form that any future support to the innovation trust will take I think will be decided by the substance of the business and policy case for supporting the trust, rather than by the

reporting issues that surround it. I think anyone would agree that it's the business need behind the transaction that should drive how you do it, not the reporting of it. I think that would be true of any future transaction with the trust. We account for these things, as I said, under the guidelines of the public sector accounting board, and we would have to discuss that with the auditor and determine how that ought to be approached.

1130

Ms Martel: Yes, I know, because you're following their rules, but he has also made clear that he has concerns with respect to their rules and how that funding shows up in the public accounts of Ontario.

Dr Christie: Typically, when there are issues and concerns with the rules of the public sector accounting board, we will express our concerns to them about it, the auditor will express concerns to them about it and they will study ways of improving the reporting. I'm not aware that they've taken up this one. Gabe?

Mr Gabriel Sékaly: I'm Gabriel Sékaly, the assistant deputy minister. The Provincial Auditor could correct me, but I think PSAAB is forming a task force to look at this issue as well as other issues relating to a reporting entity. But I think there is a task force that's going to be formed.

Mr Erik Peters: There are actually two task forces, one dealing with transfer payments and one dealing with a reporting entity. They were touched on in different areas.

Mr Sékaly: Based on the recommendations from PSAAB and the new rules that may come out, new changes to the accounting handbook—obviously we followed the PSAAB rules. As the auditor knows, we do have discussions with him when things are in grey areas. As always in things on paper in terms of accounting, there are grey areas, so there is always lots to discuss. But we do endeavour to follow the accounting rules of the public sector accounting board.

The Chair: I'll turn it over to the government side now.

Mr Raminder Gill (Bramalea-Gore-Malton-Springdale): Thanks to everyone for coming in this morning. As all of my colleagues said, I think it's very important to have this kind of innovation fund. I personally think it should be, as it is, arm's length, because I don't think the government should be deciding where this fund is going to be spent as, similarly, we don't want to be deciding what sort of research universities should be carrying out. So it's important from that point of view.

Let me ask a question. It seems from your handout that we have several kinds of funds out there: there's the Ontario research and development challenge fund, \$500 million; the Ontario centres of excellence, \$32 million; the Premier's Research Excellence Awards, \$95 million; the Ontario Innovation Trust, \$750 million. In your opinion, do you think it should all be consolidated and run as one, rather than having so many different funds?

Dr Purchase: One of the things we depend upon a great deal in the operation of all of these programs is the

efforts of others, experts in the community who work pro bono. They receive no compensation from the government. They spend a great deal of serious hard work and time to make sure that the allocations to individual researchers or research projects are done in a way that reflects the highest quality, with the biggest scientific bang for the buck, if you like, that we can get. We could not do that. There are simply too many different programs and foci of those programs, putting them all in one big organization—other than the ministry itself, which attempts to coordinate the overall activity of these programs—to make it work. We need too many volunteer hands to produce the best quality allocation we can get. Each of these programs has its own unique features, so I would not recommend that we put it all in one lump and say, "Here is the one science and technology program for the province." I think it works quite effectively as it is.

One of the things, to grant you your point, is we do have the chairs of each of these programs sit down with the minister, myself and other senior officials to have broad discussions about the direction of science and technology policy and the kinds of investments overall we seem to be making as a result of what's bubbling up, as it were, from each of these individual investment decisions being taken by these organizations. We do have a coordinating mind, if you like, to try and make sure that we, from a holistic sense, are maximizing our investments as well.

Mr Gill: Are there any board members that sit on the CFI as well as on the OIT?

Dr Purchase: Yes, there are. I think in the handout I indicated that there are at least three of us: Michael Gourley, who is the chair—

Interjection: The CFI.

Dr Purchase: CFI, did he say?

Mr Gill: CFI.

Dr Purchase: Oh, I'm sorry, sir.

Mr Gill: Yes, if there's an overlap.

Dr Purchase: No, there's no overlap with the CFI. The CFI is chaired by Dr John Evans, and Dr Strangway is the CEO. It's a uniquely federal program. We do talk to them and there are, I would say, connections between the organizations, but no, it's a uniquely federal initiative.

Mr Gill: Since it's a matching type of fund, do we assume that anything approved by CFI is automatically going to be approved by OIT?

Dr Purchase: No.

Mr Gill: Should it not be, because of matching—

Dr Purchase: We talk about this quite a lot because we're anxious to make sure—we have, in a sense, the clear notion that the government obviously wants us to make sure our research institutions get a share of that federal money, so not matching would be a huge decision. We are reassured, of course, that it is quality science. It does go through the federal peer review system and so forth. So it would be quite a significant decision not to match the federal.

Mr Gill: So we assume 99% of the CFI approvals will be approved by OIT?

Dr Purchase: I think that's probably a reasonable assumption. It's not something that the board is compelled to do, though.

Mr Gill: Is \$750 million a cap? Is that the max or is there going to be more money? Do you know?

Dr Purchase: I can speak, I think, as a board member, although I'm in the kind of curious position of also being a deputy minister in the government. We'd love to see more money devoted to science and technology for sure. I don't think that would come as a surprise to my colleague.

1140

Mrs Julia Munro (York North): I wanted to ask you about the question with regard to the money that's been set aside that has been disbursed, because that has certainly been one of the issues that the auditor has raised, that the money has shown up on the books in one year and it hasn't been spent in that year. I wondered if you could give us some idea of the sort of practical reasons why that would be done and why you would see that as necessary.

Dr Purchase: Again, I think this goes back to our earlier conversation about when we created the trust and the decision to utilize the vehicle of the trust. I might add, incidentally, in response to that, and this is because I was there and I do know, that never was there a discussion, and I don't think I'm breaking any confidentiality rules when I say this, which said, "Gee, we'd like to keep this out of the Legislature." It just did not happen. We never thought of that as an issue; we didn't. Maybe we should have, in retrospect, but it was never consciously considered.

The advantage, again, comes back to that we can act in a similar manner with secured—you know, that we can match exactly the federal trust money allocation, if you like, and do so without concern for, "Maybe next year we won't get that allocation," and so forth; perhaps there would be a change. So that is a significant advantage, I would think.

Mrs Munro: My second question again has to do with one of the other major issues that I think the auditor has raised, and that is the question of the accountability within the framework of the situation we have today. I just wonder, given that your recipients, the beneficiaries, are those institutions which are recipients of other government monies, would you see that in the new proposed Audit Act, some of the concerns that have been raised would then be dealt with in what would be the auditor's new role with regard to those institutions?

Dr Purchase: I'll take a first shot at that. Again, speaking from the point of view of a director of the trust—I'll let my colleagues speak to the proposed legislation itself, but speaking as a director, I think we want to see this vehicle, because we think it is an effective vehicle—we're very anxious and very open, I believe, to attempt to emulate the best practices that exist and to maximize, if you like, our accountability. I'm not

going out on a limb, I don't think, in saying that for my colleagues. If it would mean that we would get more money, we would be happy to do whatever is required. But I mean that quite seriously. The accounting world and accountability is an ever-evolving feast, if you like, and we will continue as an organization, as the Ontario Innovation Trust, to try to make our accountability even better. So I think we're open to something that would—as I say, if that act doesn't apply to us, we might take a look at some of the things that it does and say, "Why wouldn't we choose to somehow try to reproduce the same result here?"

Dr Christie: Just to add a comment to Bryne's, the Audit Act would deal with the value-for-money concerns that the auditor has expressed; the Public Sector Accountability Act would deal with the financial reporting issues and the disclosure issues. Between the two of them, they would certainly deal with a lot of what would be at issue in terms of the recipients; they would deal with how the final recipients of the money spent the money. Of course, the trust itself is not a final spender; it's a granting agency, in effect. You're absolutely right that the final spenders of these monies are the universities, colleges and research institutions.

The Chair: You've got one minute left, Mr Maves.

Mr Bart Maves (Niagara Falls): I'll ask just a quick question that I had already posed to the auditor, and I'll pose it to you. As I see it from what your comments have been, the chief benefit to setting up a trust fund and flowing the money in the years that the government flowed the money into this fund is in fact that it enforces a type of discipline on the government to make sure it has the money available to make these investments, because it's already flowed the money. The money now sits there and is utilized for this purpose. So it kind of enforces the discipline that when these projects come up to get the funding the money's there, whereas if it was funding out of revenues, there might be annual revenues and it would be tempting for the government to not flow the money because they were having a particularly difficult budget year and decided not to participate in the program with the federal government.

So, number one, it enforces discipline. It provides certainty, was the way you talked about it. The other thing is that it allows us to flow the money actually when the government has the money in a fiscal year, whereas in future years it may not be able to flow the money because of fiscal pressures. Is there any benefit in flowing this money into a trust beyond that, that you can see? Is there any business benefit to the money being in a trust rather than being in government revenues?

Dr Christie: I would cite a couple of other things. You've identified the major ones. The trust vehicle lets the decision-making be delegated in effect to experts in the field. The policy basis of the decision-making and the objectives of the fund were expressed by the government and written into the indenture. But to get down to the micro-decision-making, the trust allows for an organized

framework within which experts can exercise their expertise.

It's also the case that the trust can invest any money it has not flowed and give itself some extra flexibility by earning interest on that money over the period of time, which is a practice the federal government's followed, not only with the Canada Foundation for Innovation, but the Canadian millennium fund, both of which function in that way.

Mr Crozier: I'll address this to both Dr Purchase and Dr Christie. I usually do that when I don't know to whom I should address it.

I understand that the Auditor General, the federal watchdog, as well as our Provincial Auditor, do not encourage and in fact do not want governments to flow funding as, for example, has been done here, where it's multi-year funding that's accounted for in a particular year. I guess they've both expressed that.

In fact, there hasn't been any money transferred to this trust fund in the last two fiscal years, or at least the last fiscal year and this year to date. And yet, Dr Christie, you said, in answering Ms Martel about this year, that that's hypothetical. So that leads me to believe that there could be money transferred this year and that maybe you then don't necessarily agree with the Provincial Auditor and also the federal Auditor General that this is the correct way to do it.

Dr Christie: With respect to this year, I was reflecting the fact that these are decisions made by governments and not made by persons like myself.

Mr Crozier: Yes, that's no trap or anything. I understand that.

Dr Christie: I'm just being cautious there. With respect to how we would treat that and the concerns raised by the Auditor General and by our auditor, I think we understand the concerns both around accountability and reporting. I would describe the choice that would have to be made in that instance as one between the existing accounting guidelines that we have from the public sector accounting board and the preferred direction in terms of reporting and disclosure that the various Auditors General have expressed, and how that would be, because that has not yet occurred. I've described the merits of both approaches.

1150

Mr Crozier: So the government hasn't made a decision not to use this method any more.

Dr Christie: I'm not aware of such a decision.

Mr Crozier: OK. When an applicant comes to the board, Dr Purchase, does the board look at the application and say, "It's a good application, we like it, but we're not going to approve it before you at least attempt to get money from the Canadian innovation fund"?

Dr Purchase: I would probably defer to Mr Bogart on this, but typically the applicant would already have a CFI award and would be coming to us post or would apply simultaneously to both programs. However, if someone comes to us without a CFI award, which does happen—as you know, we do make these allocations. We can't

fund more than 40% of their projects with the caps that we're talking about, so they do have to have other partners. That's clearly a requirement. We would not totally fund a project ourselves. We have to see other people's money invested, that they're convinced this is good, as well as having to convince ourselves that it's good.

Mr Crozier: I guess I was trying to go toward the independence of our fund as opposed to the federal one. I know it would be difficult for you to say that in 100% of the cases they always have federal funding, because there may be circumstances under which they wouldn't.

Dr Purchase: There are certainly circumstances under which they wouldn't. We are very conscious of our ability to invest in those things which advance the interests of Ontario in science and technology, subject to the other conditions that constrain our investments. If, for whatever reason, the CFI was not interested in a particular project, that does not preclude us from being interested. However, again, whoever is coming forward to us for money has to have some other money at risk—not at risk, we don't risk money per se, but certainly other people's money funding the research.

Mr Crozier: I think the popular word today is "partnerships."

Dr Purchase: Partnerships. Ideal.

Mr Crozier: Back to the accountability question, to what extent does the board physically go about assuring themselves that the beneficiaries are spending the money the way it is intended and the way it was applied for?

Dr Purchase: We do have an audit process. Maybe I'll ask Dr McTiernan to—

Dr Tim McTiernan: There's a project contract process that speaks to the deliverables and the cash flow arrangements for interim payments which provides a tracking process. Then, as Dr Purchase said, the audit process would do the review at the end.

Mr Crozier: There would be another professional firm that would audit the beneficiaries' expenditures, just like the trust has its audited. Is that the case?

Dr McTiernan: I just want to confirm that with my colleagues, but I believe so. Yes.

Dr Purchase: If they're not doing what they agreed to do, then we have the power to cease funding.

Mr Crozier: Dr Purchase, I want to go back again to your role on the board, just to clarify that. When I ended my last round of questioning, we were alluding to Dr Stephenson. I take it you were saying you don't go in there, even as a deputy minister and a representative of the minister, and tell Bette Stephenson what to do.

Dr Purchase: Absolutely. I can guarantee you that—

Mr Crozier: That's why I said I understood, because of her background.

That was a way of assuring me—notwithstanding the fact that you can bring information to the board as to how the government feels, you have to weigh whether you are the ministry representative trying to direct the board or whether you're there for information. Or I suppose another role is you're there because you're interested in

seeing that the trust operates efficiently and effectively as well. Just to sum up, what you're saying is this board, with the membership makeup, including yourself, in your opinion can act as efficiently and effectively toward the objectives as any board would even if you weren't there.

Dr Purchase: I think that goes without question, I really do. My colleagues on this board are exceptional people and are totally dedicated, to a person, to the public good and the interests of the province, I'm absolutely certain of that, and contribute so much of their own time to this. As I said, they don't get paid. They can be compensated for expenses, whatever it takes to get to a meeting. There is no doubt in my mind that this is an effective device.

If I could go back to an earlier question you had about Auditors General in Canada, pointing to a particular issue with the creation of trusts, I can understand that, and I think as legislators you have to ask yourselves, "What do we do about it? Do we throw the baby out with the bathwater and say we never want trusts any more?" I think that would be unfortunate, I really do. As I said, I think we need accountability and governance as an ongoing kind of thing, where we can learn what we need to do next. What I think we need to do next is, we can have trusts with all of their benefits but we need to make sure we can find ways at the same time to satisfy the legislators' need for accountability.

The Chair: We're getting close to 12 o'clock. I understand there's unanimous agreement to carry on, unless you gentlemen have an objection to that, for maybe another half an hour, 45 minutes at most, and then there won't be any necessity for us to return this afternoon. Is that correct?

Mr Maves: Mr Chair, I don't want to prejudge Mr Crozier. He was speaking, so I couldn't talk to him.

The Chair: I guess you were speaking at the time.

Mr Crozier: That's fine with me.

The Chair: Ms Martel.

Ms Martel: Mr Christie, I want to return to some of the comments you were making with respect to the question that Mr Maves asked. Part of what you identified as a benefit was that for money that is not flowed, the trust can then gain interest on that money, but the flip side of that is, that is money that essentially the province loses and could use for other purposes. Correct?

Dr Christie: That's certainly correct and that is consistent with regarding the money as having passed to the trust at the time the commitment is made. It is then theirs to deploy as they see fit and for them to benefit from interest on unspent money, because the money has been passed to them for the purpose of being spent and invested in research and development. If it is spent later, there will be a little bit of interest, so they can spend a little bit more. But there's a very clear decision made in creating the trust that they would retain that interest and be able to use it also for investment and those purposes.

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Ms Martel: Can I ask you what the rationale was for the amounts that have been selected to be forwarded to

the trust? Is that something you can explain to the committee in terms of the \$750 million?

Dr Purchase: It's really much like any other budgetary process. You decide how much—the government has a priority list of things that it wishes to invest in, and ministers make the decision as to, "How much have we got? What's our budget? How much do we want to put into each one of these things?" It really is made on that kind of basis rather than—you know, it's not a corporation. We don't say, "Well, the rate of return on this would be X and the rate of return on that would be Y." Therefore, these allocations are made by the government according to its multitude of criteria.

Ms Martel: At the time the decision was made was there consideration given to the fact that clearly that was going to be money, then, lost from the consolidated revenue fund that the government might otherwise need? Mr Christie, you might like some of that money this fiscal year; you might be wondering if it was such a mistake to have that much transferred up front, particularly when the trust has just been established and you're relying, as I read it, predominantly on people to go to the feds first, then come to you. There must have been fairly clear recognition that you just weren't going to need that much money in the start-up phase.

Dr Christie: There was certainly recognition that money granted to the trust in this fashion was money that would stay with the trust. That's been clear from the start. I think, with respect to the pace at which the trust was funded, in addition to what Bryne has mentioned, the only other criterion that I'm aware of is the federal commitments to the Canada Foundation for Innovation. Bryne referred to a fairly substantial increase in money in the CFI and certainly, given the relationship between the CFI and the Ontario Innovation Trust, I'm sure that a factor in considering where the government would want the innovation trust to be positioned would be its ability to continue to work with and match the CFI.

Ms Martel: Would I assume that a specific analysis was done of the allocations that were being made at the time you were considering establishing this trust, a consideration of what the feds had already allocated and what they were likely to do if they had a pattern of an allocation over a couple of years? Was it that specific?

Dr Purchase: I can't recall exactly those calculations, but I do recall in general that, yes, we did ask ourselves, here's this federal money, which was X millions of dollars. We would hope that we would get—maybe we over-estimate how—the province of Ontario should at least get 40% of any federal money. That we don't is another issue, I suppose, but in terms of research excellence you'd think we'd even get more, quite frankly. In terms of research universities, we have a bigger concentration of research universities and of excellent researchers in this province than our share of the population or our share of GDP. I think we did do that kind of calculation; I don't recall what the numbers were, but I remember that they put their initial sum of money in

there, I think \$700 million, of which 40% is \$280 million, so we came close at \$250 million.

Ms Martel: That doesn't explain the second allocation, however.

Dr Purchase: Then it goes back to this other budgetary constraint. If they happen to have a lot of money available and they say, "Well, gee, why don't we put \$2 billion in?" it might be a bit of a stretch for us to have tried to keep our target at 40% of the federal money.

Ms Martel: The trust agreement itself, is it patterned after the federal agreement?

Dr Christie: I'm not aware of the answer to that question but I'll ask one of the architects.

Mr Sékaly: The Canada Foundation for Innovation was established not using trust law. They did it through specific legislation in the federal Parliament. In Ontario, we used the existing trust law. I'm not familiar with all the ins and outs of the CFI trust agreement or their legislation. What we use in Ontario is basic trust law, so what we have in the indenture for Ontario follows that pattern.

Ms Martel: So you could have organized this under legislation?

Mr Sékaly: No, what I'm saying is that the federal government organized theirs under legislation.

Ms Martel: And what I'm asking is, could Ontario have done something similar and actually established the trust but via legislation?

Mr Sékaly: I wasn't around at the time that the decision was made. The decision was made to utilize this vehicle as the vehicle for establishing the Ontario Innovation Trust.

Ms Martel: Does the fact that the federal trust comes under legislation provide any more accountability to federal Parliament?

Mr Sékaly: I'm not the expert. I believe that the Canada Foundation for Innovation provides an annual report to the federal Parliament.

Dr Purchase: If I may, to my knowledge, yes, I think they do provide an annual report. I think that the CEO has appeared before a parliamentary committee but I'm not sure which committee he would go to. But we could find that out for you.

To answer your question about, "Could it have been established in legislation?" I presume it could. If the federal government can create legislation, I'm sure that provincial governments have an equal capacity to create legislation. I'm probably speaking without really solid information, but I would assume they could. Does it create more accountability? Is that—

Ms Martel: That's exactly where I'm going. I was going to say, does the federal legislation make whatever minister—I wouldn't presume to know what federal ministries are involved—does that make that minister accountable to the Legislature for the activities of the federal trust?

Secondly, and I apologize to the auditor if you've already answered this, does that make the trust

reviewable by the federal auditor in terms of a value-for-money audit?

Dr Purchase: I'm assuming that a trust has to operate according to the conditions of the trust. It is a trust at the federal level, and therefore it is prescribed to do certain things and not others. It's a rather curious animal. It wouldn't be like any old federal program that's embedded in legislation, because of this notion of a trust. This is just from my own personal point of view, if I'm allowed to have one.

To me, it's a matter of, do you get more accountability to the Legislature in that federal model? If you do, is it possible to retain our own model but amend it in certain ways? As I said, this is not something that's not doable. The board of the trust is certainly open to something that would be equal to anyone else's model, if you like, in terms of accountability.

Ms Martel: Deputy, I want you to understand, I'm not here to undermine the board members or question their integrity. I'm curious about the political decisions that were made. If we patterned this after a federal trust but in fact a federal trust was done via legislation, which I would presume, and I say only presume, to provide for some accountability back to the Legislature and to make the minister accountable for the operations of the trust, why wouldn't we have done that in Ontario to try and guarantee the same level of accountability back to the Legislature, back to taxpayers?

Dr Purchase: I'm going back to my recollection of the decision-making. We did pattern elements of our trust on the federal trust; that is to say, those related to selection criteria and so forth. Obviously, since one of our purposes was to make sure that we could match CFI funding, we had to have the same criteria of what was an eligible investment. So there are elements that we have matched. We did not match legislation. I, myself, don't recall any conversation about legislation in that time. There was no discussion in my presence. I don't think I ever even knew the federal trust was embodied in legislation and wasn't identical to ours until a little while ago when this committee invited us to speak and someone told me how the federal program worked. I don't recall a discussion around what you're asking.

1210

Ms Martel: You said that the Ontario trust is patterned after the federal agreement, and I appreciate that. Does the federal agreement also have the proviso that the funds provided to or earned by the trust are available only to the beneficiaries, that if the trust winds down, money does not come back to the federal government, or was that something specific that Ontario put in?

Dr Christie: That is our understanding of how that functions. For example, the Canadian millennium scholarship fund functions that way. They're financing an extra year or so of scholarship delivery by the interest they earn. I haven't seen these financial statements for the CFI, so I couldn't assert 100%, but that's our understanding.

Ms Martel: Presumably, then, it's a legal document, and you have the ability to determine the terms and conditions of this particular legal document. What was the rationale on the part of the province of Ontario for having a similar proviso that says the money goes back to the recipients versus back to the consolidated revenue fund to be used for other programs etc by government?

Dr Christie: I'll ask Bryne to comment on this as well because I wasn't directly a party to it so I can't speak to it first-hand. My understanding of the principle is that we were making a commitment of a certain amount of money as at a certain time. In effect, like any endowment, we were endowing a function. Like any endowment, we would expect that the administrators of the endowment would be able to manage and deploy the interest as well as the principal for the purposes of the endowment. That's the common approach to administering those sorts of transactions. The philosophy behind this was to put a certain amount of resources into the hands of experts, subject to a government-determined framework and objectives, and to permit them to use their expertise to accomplish the objectives set out by the government. The approach taken was that of an endowment. As a result, all of the consequences of that follow, including retaining the interest for the purposes of the trust.

The Vice-Chair (Mr Bruce Crozier): Thank you. Unless you have some comments—

Dr Purchase: Actually, I have some additional information which we will confirm. In terms of how the CFI operates and its accountability to the Legislature, apparently, the federal Minister of Industry reports to the Legislature on the CFI but is not accountable to the Legislature. This issue of accountability has arisen with Mr Peters's counterpart at the federal level. The federal government doesn't appoint the board members. There is some other appointment process that's embedded in the legislation. Also, the federal Auditor General does not audit the CFI. Yes, they had legislation which is different than our model, but there are obviously some issues that are not different, perhaps.

The Vice-Chair: The government caucus?

Mr Maves: I guess this is kind of two-part. Mindful of the HRDC billion-dollar loss, the federal government fiasco that we went through, I only raise this for two points. The first is, the good news was that their auditor—it was an in-house thing, it was an in-government process, and because of that the auditor was able to uncover all kinds of irregularities.

The other reason I raise it, though—and therefore I'm betting that our committee will come up with some kind of recommendation about the auditor and the OIT—is that \$323 million of your awards are matching CFI awards. What I want to be assured of is that CFI, which is a group that the federal government sets up, come up with all these awards on their criteria, whatever their process is, and then you match it. What I'm a little concerned about with the HRDC in the back of my mind is, how are we being vigilant in making sure that these

matching awards that we're doing with the CFI are properly vetted awards, that they're effective, that they're in the long-run interest of Ontario?

Dr Purchase: We have our own audit process once we have made the awards, in terms that we can, as our trust agreement allows us to do, take someone else's scientific peer review as sufficient review, if you like. I'm trying to recall the specific instances of misallocation of funds under the HRDC. These are highly qualified, highly credible scientists in the peer review process. They are really, truly scientists. Because that's how they themselves are evaluated, they tend to evaluate their peers on the basis of the quality of their science.

I trust that process. We don't look behind it and ask, "Is there something else going on behind that scientific review?" That's fair enough. We do not do that.

I think that, again, our ultimate reassurance on this is that we do in fact follow up to make sure that monies are spent as they were described to us as being spent. That's what we can do. We rely then on that that particular project, that particular scientific project, had a solid basis in science to proceed.

Mr Maves: You answered my next question partly. When you follow up on the use of the grants, you follow up on the use to make sure that they were spent as they were intended to be spent, how do you measure the success of the awards? I know there's probably not many that have come to completion yet and so on, but is there a process, a plan to measure success of these expenditures?

Dr Purchase: You raised a good point of just exactly how we will, as a board, evaluate the success of our investments, if you like, of our decisions. Aside from the fact that people carried out the project that they described to us—that we can do—was it successful in some other respect? Did it contribute ultimately to increased knowledge or to some improved product, or did some other commercial benefit arise from that? That is something that I think we could legitimately ask ourselves in the future when we get to the point where projects are in fact being completed. As you can see, our actual flow of money to projects is well behind our commitment.

1220

Mr Maves: Which is my next question. What are some of the typical reasons for the delay? You say you've got \$430 million awarded but you haven't flowed that amount of money. So can you give the committee some of the typical reasons for delay in the actual flowing of the dollars to these awarded projects?

Dr Purchase: In part it represents just how much due diligence we do around these projects, because we have to be assured that others' money is actually there and we have to be assured that the researchers who were on the application to be involved are involved and so forth. So there are a number of things like that.

The other thing is, this is capital. So it does take time to acquire the assets or to make construction changes if that's what's needed, the planning process and so forth for undertaking that. But it is another reason to account for the delay between the commitment to do something,

that our money is there, and then making sure that the contract is nailed down and we are reassured that everyone else's money is there too and, as I say, just simply the physical delays of getting something like this going.

Mr Maves: Last, there are \$750 million that have been flowed to the OIT already. If the federal government through the CFI program flows more money that's going to accrue to Ontario, and in order to match their additional dollars with our 40%, if we can't do that with your existing resources, do you have the flexibility to say to the federal government, "Look, we can't fund all those projects at 40%; we'll fund them at 30%," or do you just have to say, "We can't fund them; forget it unless we get more money added to the fund from the provincial coffers"?"

Dr Purchase: We can certainly fund the institution to a lower amount, but the federal government is constrained still only to fund 40%. So the institution would then have to go out and find other funding partners other than the OIT. Obviously, this is a difficult task for our universities and hospitals and other research institutions, because everyone is trying to do the same thing: basically find money to support research. In a period where the economy has slowed down, that becomes increasingly difficult for institutions.

The Vice-Chair: Any others in the government caucus? You have about seven minutes. No? OK, Mr Gerretsen.

Mr John Gerretsen (Kingston and the Islands): I have a few questions. Again, this isn't intended to disparage the board members or the amount of money that's going into research and development. We all realize it's important; there probably should be a lot more. The real question here is accountability. That's really what it's all about and it seems to me that the more agreements you set up, the more arm's-length bodies you set up, you're just taking the accountability aspect farther and farther away from the elected representatives of this province. That's the bottom line.

I assume that prior to this fund being set up there was research money flowing as well to individuals, and I take it that was done through the various ministries. Am I correct in that?

Dr Purchase: Yes, and of course there are other programs that in fact flow money, the Ontario research and development challenge fund, for example.

Mr Gerretsen: Right, and I can well understand how from the research and development community and from everybody's viewpoint the knowledge that there are so many dollars there and that there's a consistent program going over the next number of years gives them some sort of satisfaction or some sort of comfort level that they don't have to come begging for money each and every year. I can totally understand that but, on the other hand, setting up all these different mechanisms—it's like saying we don't give hospitals or boards of education any commitment that we're going to fund them at all next year and yet we all know that we're going to. Wouldn't

that same sort of principle apply here as well? Why do you need this arm's-length body, these trust agreements and things like that? I think to the average person it just means that the accountability level is further and further away from the elected representatives. Maybe you're not the people to answer this; maybe it's more of a political answer that should come from the minister or from cabinet. But do you not agree with that?

Dr Purchase: First of all, I think that these vehicles have benefits and that the benefits, as we indicated, are related to the certainty of funding that they create. I would even go a bit further and say that research and development is an area where that is even more desirable than, say, other government programming, largely because it's so intangible for most people. It's not like adding more money to a hospital emergency ward. It's something that's far enough in the future that it's easy to say, "You know what? There are too many other competing demands." It would be normal for an organization to do that. It's certainly done in the private sector.

Mr Gerretsen: But here we had a government that, in effect, spent \$750 million, and the auditor finds out a couple of years later that only \$119 million has actually been spent. To my way of thinking, that means that about \$600 million was put into a reserve fund to be used at some point in time in the future. There seems to be, to my way of thinking, a lack of accountability there. What kind of management fee does Royal Trust get on an annual basis, in managing \$750 million?

Dr Purchase: I'm sorry. I'm going to have to defer to my—

Mr Gerretsen: I'd be very interested in that. What's the total fee they take out of this?

Dr Purchase: Fifty thousand dollars.

Mr Gerretsen: That's all?

Dr Purchase: Yes.

Mr Gerretsen: I know I said "management fee." We're talking about total fees in everything.

Dr Purchase: I think that's all they do for us. That's all they do.

Mr Gerretsen: OK. That's less than I would have thought on an amount like that.

Mr Purchase, you're a board member as well, as you indicated. I realize that sometimes puts you in a delicate situation. Are most of the board decisions unanimous?

Dr Purchase: There is always discussion. I can't recall.

Mr Gerretsen: There are no votes taken?

Dr Purchase: No, no, there are votes, but I can't recall. It's a very vigorous discussion. If people find something that doesn't really make sense—again, if you look at the people on the board, they're not people who don't look at the deal.

Mr Gerretsen: But there are not too many 4 to 3 votes, and then it sort of carries by one vote as to whether or not a particular project should be funded.

Dr Purchase: I don't really recall that kind of contention.

Mr Gerretsen: I notice that \$430 million has been committed, and Mr Maves asked this earlier. How much has actually been spent, as of today? I realize all you can do is give me a ballpark figure.

Dr Purchase: In terms of the money that has actually flowed—my apologies. I don't have this.

Mr Gerretsen: From what you said earlier, if it's a large project, the money will not be given in lump sum payment, but it will be funded over a period of time, will it?

Dr Purchase: I'm sorry. I've got multiple conversations going on here.

Mr Gerretsen: OK, go ahead.

Dr Purchase: Roughly \$150 million has actually been flowed to the researchers.

I'm sorry, sir. I didn't hear your question when I was listening to—

Mr Gerretsen: I think that answered it. We've already heard about the difference between the federal situation and the way it was set up and your doing it by way of a trust agreement. I would suggest this is a very standard trust agreement. There's nothing all that complicated or difficult about that.

Under the federal legislation, from a comment that was made earlier, an annual report is to be filed by the minister, if I'm correct. Does the board intend to file an annual report as well?

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Dr Purchase: Yes.

Mr Gerretsen: Will it be timely filed? Many of the reports we get around here are sometimes for time periods that are three or four years in the past. This isn't a shot at the present government. I understand that it's been like that for years and years. We're getting reports now of situations in particular programs that finished in 1998, or what have you. I'm not sure what relevance it has today. Anyway, are you going to do it in a timely fashion, hopefully?

Dr Purchase: Yes, it's our intention to do that. We post everything on our Web site, all the information that would be in an annual report. We have had discussions about the whole notion of an annual report as a physical document. Many of us get hundreds of annual reports and then never read them. We have talked about how one makes sure that an annual report is simply more than, "Yes, we produce an annual"—

Mr Gerretsen: I can assure you that most of the members of the Legislature read these reports from cover to cover.

Do you know how the other board members are selected by, let's say, the hospital community, the university community and the community college community? Is there some sort of process in place there?

Dr Purchase: I think my colleague knows.

Dr McTiernan: Sir, I've just come from the college sector. I was president of a community college until a couple of months ago. The selection process in the college system involves a peer nomination process from among presidents, and that's what occurred in this

instance. I would assume it was similar within the university sector.

Mr Gerretsen: Finally—and I think there was some comment made about this earlier as well; I just want to make sure I have it correct in my own mind—do you actually internally audit the books of the organizations that you give the various grants to? In other words, what kind of reporting mechanism is there back to the board that these projects you're funding are actually being done? It's not as if I'm asking you to evaluate the results of the research, but how do you know it's really happening?

Dr McTiernan: Again, if I could speak from my understanding from an operational context, there are two levels of audit. There's a project audit that can be conducted. Institutional audits are made publicly available, whether they're university audits, college audits or hospital audits, which speak to the financial management and sustainability of the host organization or institution. There are two levels of audit information that are available for tracking and monitoring purposes.

Mr Gerretsen: Finally, Mr Purchase, since you are one of the key persons in this in all these various roles that you have in this system, I really implore you and your board to make this process, which I believe is flawed the way it is right now and it doesn't really address the issue of accountability the way I would like to see it, from the board's viewpoint as accountable as possible by providing not only us as elected people but the people of Ontario with full and updated reports as to what's happening, because it's an awful lot of money being spent there. Even as of today, out of the \$750 million, I take it only \$150 million has actually been spent. There's still an awful lot of money not being utilized for it.

If I could just ask one question, at various times it has been referred to as an endowment fund. We had some discussion about this earlier. It isn't intended to be an endowment fund, though, that only the interest on this money is being utilized, is it?

Dr Christie: That's correct, although it does have the characteristic of an endowment fund, that they retain the capital and the interest. It's there for the purpose of the endowment or the indenture, and the decisions are made by the board. Those are points of commonality.

Mr Gerretsen: The interest that you're earning on the \$600 million that you haven't spent right now presumably will be added on to the \$750 million so that in fact you'll have more money.

Dr Christie: That's correct.

The Vice-Chair: Just one quick kind of an administrative question from the Chair: what support staff does the trust have? How many people does it take to operate it?

Dr Purchase: The trust has an agreement with the Innovation Institute of Ontario. David, can you tell me what the support arrangements are? David Bogart is an executive of the institute.

There are basically five staffers with the trust directly and then there's a shared-services arrangement with other organizations that the Innovation Institute of Ontario is associated with.

The Vice-Chair: Members, how are we? We've finished our rounds of questions. I'll turn this over to the real Chair.

The Chair: Thank you very much for attending today. Was there any further documentation that was requested? I don't believe so. Thank you very much for being here today and good luck.

There is one issue. Apparently, there was a letter that was suggested on Tuesday. Did you want to deal with

this matter first thing on Monday? This is the letter to the Ministry of Consumer and Business Services. The committee wanted to take a look at the letter first. Maybe what we'll do is deliver it to the subcommittee members, and then we could take—

Interjection.

The Chair: All right, if you've got a draft for everybody, why don't we have a draft for everybody and we could take a look at it and make a decision on it on Monday, OK?

The hearings are adjourned until Monday at 10 o'clock.

The committee adjourned at 1237.

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