

WESTERN ECONOMIC DIVERSIFICATION CANADA

2005 - 2006

Departmental Performance Report

A handwritten signature in cursive script that reads "Carol Skelton". The signature is written in dark ink on a light-colored background.

**The Honourable Carol Skelton, P.C., M.P.
Minister of National Revenue and
Minister of Western Economic Diversification**

Table of Contents

SECTION I – OVERVIEW	3
Minister’s Message	4
Management Representation Statement.....	5
Program Activity Architecture (PAA) Crosswalk	6
Summary Information	7
Summary of Departmental Performance	11
Operating Environment.....	15
Context.....	16
Overview of the Western Canadian Economy.....	16
Economic Performance of the Western Provinces in 2005	18
SECTION II – ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME	21
Program Activity: Collaboration and Coordination.....	22
Program Activity: Advocacy	24
Program Activity: Research and Analysis	26
Program Activity: Community Economic Planning, Development and Adjustment	27
Program Activity: Infrastructure.....	32
Program Activity: Business Development and Entrepreneurship	35
Program Activity: Innovation	45
SECTION III – SUPPLEMENTARY INFORMATION	53
Organizational Information.....	54
Table 1: Comparison of Planned to Actual Spending (including FTEs)	55
Table 2: Resources by Program Activity	55
Table 3: Voted and Statutory Items	57
Table 4: Services Received Without Charge	57
Table 5: Sources of Respendable and Non-respendable Revenue.....	58
Table 6: Resource Requirements by Branch or Sector	59
Table 7: User Fees Act.....	60
Table 8: Policy on Service Standards for External Fees.....	60
Table 9: Details on Transfer Payment Programs (TPPs).....	60
Table 10: Foundations (Conditional Grants)	61
Table 11: Horizontal Initiatives	61
Table 12: Financial Statements of Departments and Agencies (including Agents of Parliament)	61
Table 13: Response to Parliamentary Committees, and Audits and Evaluations for Fiscal Year 2005–06.....	62
Table 14: Sustainable Development Strategies (SDS).....	63
Table 15: Procurement and Contracting	64
Table 16: Service Improvement.....	64
Table 17: Travel Policies	65
SECTION IV – OTHER ITEMS OF INTEREST	66
Official Languages.....	67
Annex I: Financial Statements.....	68

SECTION I – OVERVIEW

Minister's Message

On behalf of Canada's new government, my focus as the Minister of Western Economic Diversification is to ensure that the department's activities and investments support clear economic priorities that will build a stronger West and a stronger Canada.

In fulfilling its mandate for promoting economic diversification and advocating for western interests in the development of national economic policy and programs, Western Economic Diversification Canada (WD) works in collaboration with other orders of government, other federal departments, industry associations, the private sector, not-for-profit organizations and research organizations.



From April 1, 2005 to March 31, 2006, WD's strategic investments focused on policies that supported economically viable communities in Western Canada by ensuring a high quality of life, a competitive business sector and a strengthened innovation system in Western Canada.

In the area of Innovation, WD approved investments that supported the growth and development of technology clusters and the innovation system as a whole. Investments and policy approaches that promote innovative technology growth and commercialization will help all four western provinces capitalize on the emergence of knowledge-based industries such as life sciences, environmental technologies, and information and communications technologies.

Since my appointment as Minister of Western Economic Diversification, I have had the opportunity to review the range of initiatives delivered by the department and to discuss its priorities and strategic directions with western stakeholders and my Caucus colleagues. Although the results achieved by WD are clearly contributing to the West's economic growth and business success, I believe there is more work to be done.

We can build on the successes of WD by refocusing our role on the economic fundamentals in tandem with innovative ideas to spark future prosperity. I look forward to reporting on the outcomes of these new directions on behalf of all western Canadians who seek the security and well-being of a sound economic future.

A handwritten signature in cursive script that reads "Carol Skelton". The signature is written in dark ink on a light-colored background.

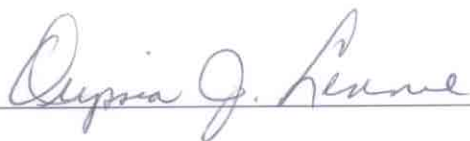
The Honourable Carol Skelton, P.C., M.P.

Management Representation Statement

I submit for tabling in Parliament the 2005-2006 Departmental Performance Report (DPR) for Western Economic Diversification Canada.

This document has been prepared based on the reporting principles contained in the *Guide for the Preparation of Part III of the 2005-2006 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*:

- It adheres to the specific reporting requirements outlined in the Treasury Board Secretariat (TBS) guidance;
- It is based on the department's approved Program Activity Architecture (PAA) structure as reflected in its Management Resources and Results Structure (MRRS);
- It presents consistent, comprehensive, balanced and reliable information;
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it; and
- It reports finances based on approved numbers from the Estimates and the Public Accounts of Canada in the DPR.



Oryssia J. Lennie
Deputy Minister
Western Economic Diversification Canada

Program Activity Architecture (PAA) Crosswalk

In June 2006, the name of WD's second strategic outcome (Sustainable Communities) was changed to Community Economic Development. This modification does not carry any financial or other resource implications. The definition for this strategic outcome, as well as its related program activities, remains the same as previously presented.

Previous Strategic Outcome	Current Strategic Outcome
<u>Policy Advocacy & Coordination</u> Policies and programs that support the development of Western Canada	<u>Policy Advocacy & Coordination</u> Policies and programs that support the development of Western Canada
<u>Sustainable Communities</u> Economically viable communities in Western Canada with a high quality of life	<u>Community Economic Development</u> Economically viable communities in Western Canada with a high quality of life
<u>Entrepreneurship & Innovation</u> A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system	<u>Entrepreneurship & Innovation</u> A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system

The current Departmental Performance Report reflects the above modification - henceforth, all references to WD's second strategic outcome will be presented as Community Economic Development.

Summary Information

Department's Raison d'être – WD was established in 1987 to lessen the West's (British Columbia, Alberta, Saskatchewan and Manitoba) economic dependence on natural resources.

Under the *Western Economic Diversification Act, 1988*, the department is mandated to “promote the development and diversification of the economy of Western Canada and to advance the interests of Western Canada in national economic policy, program and project development and implementation”.

To do this, WD organizes its programs and services to achieve the following strategic outcomes:

- policies and programs that support the development of Western Canada (Policy, Advocacy and Coordination);
- economically viable communities in Western Canada with a high quality of life (Community Economic Development); and
- a competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system (Entrepreneurship & Innovation).

WD's strategic investments in these areas will help to fulfill WD's vision of *A stronger West in a stronger Canada*.

Financial Resources¹

Planned Spending (\$ 000s)	Total Authorities	Actual Spending
\$503,784	\$398,482	\$306,649

Human Resources

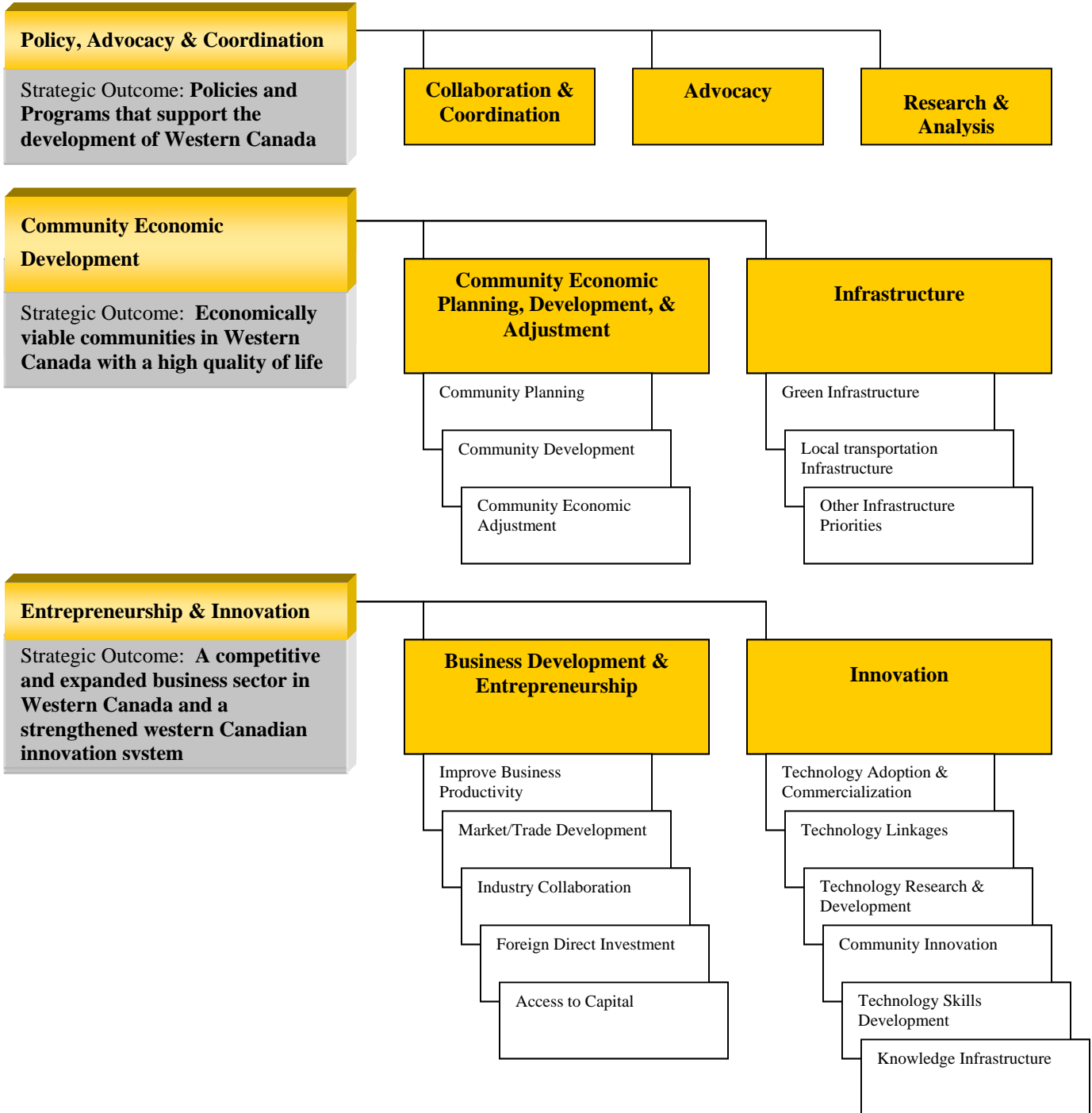
Planned (FTEs)	Actual	Difference
392	379	13

¹ Total Authorities are lower than Planned Spending due to the Supplementary Estimates A not being approved by Parliament. Actual spending is lower than Total Authorities, primarily due to the transfer of contractual commitments under the Infrastructure Canada Program to future years.

WD's Program Activity Architecture

WD Vision – A stronger West A stronger Canada

WD Mandate - To promote the development and diversification of the western Canadian economy, coordinate federal economic activities in the West, and reflect western Canadian interests in national decision-making.



Departmental Priorities and Alignment to Government of Canada Outcomes

			2005-2006 (\$ thousands)	
Status on Performance ²			Planned Spending	Actual Spending ³
Strategic Outcome: Entrepreneurship and Innovation – A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system				
Alignment to Government of Canada Outcomes: strong economic growth; an innovative and knowledge-based economy; diverse society that promotes linguistic duality and social inclusion; a strong and mutually beneficial North American partnership; and a prosperous Canada through global commerce.				
Priority - Increase investment and support for the commercialization of new technologies in Western Canada with a particular emphasis on emerging clusters, such as environmental technologies and life sciences/health innovation.	Program Activity – Innovation Expected Result - An increase in knowledge-driven and value-added economic activities, built on both traditional and emerging industries, that creates a more diversified and resilient economy in Western Canada.	Performance Status Exceeded investment target.	18,580	28,451
Priority - Promote trade and investment, including support for the US Enhanced Representation Initiative (ERI) and follow up to the WD led Western Technologies Study tour and other opportunities in Asia-Pacific and Europe.	Program Activity – Business Development & Entrepreneurship Expected Result - the growth of small business in Western Canada and their improved capacity to remain competitive in the face of rising global competition.	Performance Status Approved \$7.1 million in funding for more than 150 international commerce projects. WD collaboration with Department of Foreign Affairs and International Trade Canada to administer \$246,000 on 19 ERI projects.	7,166	6,305
Priority – Implement Social Economy initiatives, as announced in Federal Budget 2004, including building capacity within the social economy, and improving access to capital and federal government programming by social enterprises.	Program Activity – Business Development & Entrepreneurship Expected Result - the growth of small business in Western Canada and their improved capacity to remain competitive in the face of rising global competition.	Performance Status Under review at March 31, 2006; subsequent decision to not proceed with the program as social economy enterprises continue to be eligible to apply to existing WD funding programs, or to apply for loans from Community Futures Development Corporations like any other business.	6,750	0
Priority - Stabilize the Western Canada Business Service Network by negotiating and entering into new multi-year agreements.	Program Activity – Business Development & Entrepreneurship Expected Result - the growth of small business in Western Canada and their improved capacity to remain competitive in the face of rising global competition.	Performance Status Multi-year operating fund agreements put in place with approximately 100 non-profit members of the WCBSN .	28,732	33,095

² Additional detail regarding performance status for each priority is provided in the following section.

³ For greater accuracy, actual spending includes operating & maintenance expenses whereas planned spending reflects only planned grants and contributions forecasts.

Strategic Outcome: Policy, Advocacy, & Coordination – policies and programs that support the development of Western Canada				
Alignment to Government of Canada Outcomes: strong economic growth; an innovative and knowledge-based economy; diverse society that promotes linguistic duality and social inclusion; a strong and mutually beneficial North American partnership; and a prosperous Canada through global commerce.				
Priority – Create an advocacy strategy and continue to strengthen WD policy capacity to support WD’s efforts to influence national decisions on behalf of western Canadians.	Program Activity– Advocacy Expected Result: Advocacy - Improved understanding and awareness of western issues and increased access to, and participation in federal programs by the region.	Performance Status Advocacy Strategy drafted	N/A	N/A
Strategic Outcome: Community Economic Development – economically viable communities in Western Canada with a high quality of life				
Alignment to Government of Canada Outcomes: strong economic growth				
Priority – Enhance community development by implementing the new Municipal Rural Infrastructure Fund (MRIF) and engaging in the emerging cities and communities agenda through urban development agreements (UDA). ⁴	Program Activities – Community Economic Planning, Development & Adjustment; Infrastructure Expected Results: Community Economic Planning, Development & Adjustment - To ensure strong and viable communities in urban and rural areas of Western Canada capable of responding to economic and social challenges that hinder competitiveness, opportunities, and quality of life; Infrastructure - To improve and expand sustainable public infrastructure that enhances the quality of the environment and allows for long-term economic growth.	Performance Status MRIF Federal-Provincial agreements signed for Saskatchewan (95 projects approved) & Manitoba (37 projects approved). Discussions on MRIF agreements for Alberta and British Columbia well advanced by March 31, 2006. UDAs signed in Saskatoon and Regina. 10 projects with WD funding of \$8.4 M were approved under the Winnipeg Partnership Agreement. Vancouver Agreement renewed for five years until 2010.	N/A	2,444 ⁴
Strategic Outcome: N/A				
Alignment to Government of Canada Outcomes: N/A				
Priority – Implement key tenets of the <i>Public Service Modernization Act</i> including implementation of an Informal Conflict Management System and establishment of HR staffing guidelines and policies.	Program Activity – N/A	Performance Status All staff trained on <i>Public Service Modernization Act</i> (PSMA) and <i>Public Service Employment Act</i> (PSEA) Informal Conflict Management System established Staffing delegation instruments updated	273	498

⁴ Reflects actual spending (G&C and O&M) related to the Urban Development Agreements in Manitoba, Saskatchewan and British Columbia. Planned and actual spending does not include grants and contributions resources administered by WD on behalf of Infrastructure Canada (Municipal Rural Infrastructure Fund), as this amount (approximately \$6.6 million in actual spending) is reported by Infrastructure Canada.

Summary of Departmental Performance

In 2005- 2006, WD advanced its priorities and achieved results in its strategic outcome areas as set out in its Report on Plans and Priorities for 2005-2006.

Entrepreneurship and Innovation

To further its support for a competitive and expanded business sector and a strengthened innovation system in Western Canada, WD engaged in four priority areas in 2005-2006.

Priority: Increase investment and support for the commercialization of new technologies in Western Canada with a particular emphasis on emerging clusters, such as environmental technologies and life sciences/health innovation.

In 2005-2006, WD supported numerous phases along the technology commercialization continuum. This included support for organizations such as technology transfer offices at post secondary institutions that identify, protect and license technologies, as well as support for technology adoption and adaptation. Approximately 31 per cent of WD's total innovation-related project approvals in 2005-2006 were for projects that supported the adoption or commercialization of new technologies in Western Canada. For example, WD approved a contribution of \$1.5 million to MicroSystems Technology Research Institute in Edmonton, to accelerate the awareness of the microsystem and nanotechnology commercial potential it offers, as well as to identify and fund early-stage prototype development projects. Another example is WD's contribution of \$3.3 million to the Composites Innovation Centre (CIC) in Manitoba to support the growth of an internationally competitive composites industry in Manitoba. CIC's focus on product development and improvement has earned it a high level of support from industry participants and other research organizations.

WD's earlier investments in this area have led to numerous results including an increase in the number of technologies developed in research institutions having commercialization potential. To illustrate, in 2003-2004, WD approved funding of \$850,000 to support a \$1.28 million, multi-year project to enable the British Columbia Cancer Agency to establish its Technology Development Office (BCCA). As of March 31, 2006, BCCA's Technology Development Office activities have resulted in 93 new invention disclosures, 39 patent applications, 49 licensing deals, and the creation of two new spin-off companies.

WD's ongoing support of \$20 million since 1995 to Telecommunications Research Laboratory (TRLabs), Canada's largest information and communications technology research & development consortium, has proven an effective mechanism for increasing the investment for commercialization of new technologies in the West. With 51 partner members representing a unique synergy of industry, government, and university, TRLabs' research activities focus on seven strategic areas dedicated to building the network of the future, including: data networking, digital media, home technologies, network access, network systems, photonics and wireless communications. In its 20-year existence, TRLabs has trained 839 highly skilled university graduates and created over 300 technologies adopted for use by companies. In 2005-2006 alone, TRLabs created 100 new technologies, of which members have evaluated 29, generated eight patents issued or pending, and have had 15 technologies commercialized through new products or adopted by industry to improve productivity.

Priority: Promote trade and investment, including support for the US Enhanced Representation Initiative (ERI) and follow up to the WD led Western Technologies Study tour and other opportunities in Asia-Pacific and Europe.

During 2005-2006, WD approved \$7.1 million towards more than 150 projects that support international commerce activities including export readiness and advisory services, trade development, strategic support for trade missions and investment attraction activities, supplier development, conferences, and research.

In October 2004, WD led the Western Canada Technology Capabilities Study Tour that brought 18 representatives from Canadian trade offices in the US to Western Canada to showcase the innovation and science and technology capabilities of the region. The findings from that tour set the framework for WD's ongoing engagement in the five-year Enhanced Representation Initiative (ERI) (2003-2004 to 2007-2008) that has helped advance Western Canada's trade and investment interests in the US. In the context of the ERI, WD collaborated with the department of Foreign Affairs and International Trade Canada (DFAIT) including Canada's trade offices in the US to administer funds of \$246,000 for 19 ERI projects in 2005-2006. These projects included one with The Larta Institute, a California consortium of university technology commercialization offices, that heightened the profile of western Canadian companies, technologies and research capacity in the eyes of the US investment community and improved the opportunities for western Canadian companies to access US market, investment capital and business relationships. The ERI partnership has resulted in improved collaboration and coordination with the provinces and among federal departments and agencies responsible for trade, investment and economic development.

In addition, during 2005-2006 WD and Transport Canada collaboration led to the Federal Budget commitment of \$591 million in new funding for a national Asia-Pacific Gateway and Corridor Initiative to strengthen Canada's position in international commerce with that region. WD representatives also participated in events in Canada and Asian countries to advance western Canadian interests and opportunities in the Asia-Pacific region including meeting with Chinese and Japanese officials to exchange information and expertise in trade and investment opportunities.

Priority: Stabilize the Western Canada Business Service Network by negotiating and entering into new multi-year agreements.

In 2005-2006, multi-year contribution agreements were put in place with the ninety Community Futures Development Corporations (CFDCs), the four CF Associations, the four Women's Enterprise Initiative Centres (WEIs), and the four Francophone Economic Development Organizations (FEDOs). WD's total commitment under these agreements (\$139.9 million) will ensure that business services and access to capital by western small and medium-sized enterprises (SMEs) will continue to be offered. In addition, funding for Canada Business Service Centres (CBSCs), also members of the WCBSN, was extended until March 31, 2007. In 2005-2006, the members of the WCBSN reported delivering over 760,000 business services and provided lending of \$53.8 million that levered an additional \$81 million and resulted in the creation of approximately 4,400 jobs.

Priority: Implement Social Economy initiatives, as announced in Federal Budget 2004, including building capacity within the social economy, and improving access to capital and federal government programming by social enterprises.

The Social Economy initiatives announced in Federal Budget 2004 were under review by the Government at March 31, 2006. A subsequent decision was made to not proceed with the program as social economy enterprises continue to be eligible to apply to existing WD funding programs, or in rural areas, to apply for loans from Community Futures Development Corporations like any other business.

Policy, Advocacy and Coordination

Priority: Create an advocacy strategy and continue to strengthen WD policy capacity to support WD's efforts to influence national decisions on behalf of western Canadians.

The department advocates on behalf of the West by participating in federal interdepartmental discussions and processes, by working with regional partners, and by working closely with other regional development agencies. During 2005-2006 the department drafted an Advocacy Strategy to better target its resources to maximize the department's influence on initiatives that have the greatest impact on the West. Once finalized, the strategy will be reviewed and updated annually to ensure that it remains relevant and effective.

WD's advocacy work on the Asia-Pacific Gateway and Corridor Initiative is strengthening Canada's position in international commerce through deeper and broader linkages with the Asia-Pacific region. This initiative itself built on another of WD's successful collaborations leading to the conversion of the Prince Rupert Port Authority's Fairview Terminal to a specialized state-of-the-art container facility to be fully operational by 2007.

Community Economic Development

Priority: Enhance community development by implementing the new Municipal Rural Infrastructure Fund (MRIF) and engaging in the emerging cities and communities agenda through urban development agreements.

In 2005-2006, WD undertook a number of activities to support the realization of communities in Western Canada that are economically viable with a high quality of life. Efforts included the implementation of the new Municipal Rural Infrastructure Fund (MRIF) in Saskatchewan and Manitoba. As of March 31, 2006 approximately \$26 million (63 per cent of available funding) was approved for 37 projects in Manitoba and \$15 million (35 per cent of available funding) was approved for 95 projects in Saskatchewan. Although the results of these investments will not be known for some time, they are expected to improve and increase the stock of core public infrastructure in areas such as water, wastewater, culture and recreation, as well as improve the quality of life and economic opportunities for smaller communities. As of March 31, 2006 MRIF agreements were under negotiation with Alberta and British Columbia.

In 2005-2006, five-year, cost-shared tripartite Urban Development Agreements (UDAs) were signed by the federal, provincial and municipal governments for both Saskatoon and Regina. These UDAs will see an investment of \$10 million in each city targeted to promoting a positive business climate, enhancing competitiveness, developing strategic infrastructure and improving

the level of Aboriginal participation in the economy. In April 2005, the Vancouver Agreement was renewed for another five years, continuing the collaborative work of the federal, provincial and municipal governments to revitalize Vancouver's Downtown Eastside. Also in 2005-2006, 10 projects with a WD investment of over \$8.4 million were approved as part of the Winnipeg Partnership Agreement which is a commitment by the three levels of government to invest \$75 million over five years to improve the viability, prosperity and quality of life in Winnipeg.

Management Priorities

Priority: Implement key tenets of the *Public Service Modernization Act* (PSMA) including implementation of an Informal Conflict Management System and establishment of HR staffing guidelines and policies.

In 2005-2006, WD undertook the following activities to strengthen management capacity and respond to changing administrative requirements:

- training all staff managers and employees on the PSMA and *Public Service Employment Act* (PSEA);
- establishing an Informal Conflict Management System (ICMS) that will ensure all WD employees have access to resources to assist them in resolving conflicts and workplace issues informally at the earliest possible stage;
- updating staffing delegation instruments to reflect the new authorities and accountabilities for managers under the PSMA; and
- developing departmental staffing policies.

Operating Environment

Since 1995, WD funding for industry or business development has been provided primarily to not-for-profit organizations to support projects and activities that are generally accessible and will have systemic benefits, rather than benefit a single firm⁵. To maximize investment in Western Canada and to create alternative sources of funding for small-and-medium-enterprises (SMEs), the department works in collaboration with numerous partners including the private sector, other levels of government, academia, financial institutions and research centres. Through this collaboration, WD leverages both additional capacity and financing to support growth and development and ultimately extends the impact of its programs across the West.

WD's mandate is primarily delivered through grants and contributions (G&C) under a variety of programs that enable the department to contribute to the productivity and competitiveness of the West. Key among these is the Western Diversification Program (WDP) the terms and conditions of which have been used as the basis to renew the Western Economic Partnership Agreements (WEPAs). WEPAs are multi-year, joint federal-provincial initiatives aimed at promoting coordinated economic development in each of the four western provinces.

WD's mandate allows it to take a flexible and innovative approach to working with a wide network of partners to make strategic investments that promote economic development and diversification in the West. Through its support for members of the Western Canada Business Service Network (WCBSN), for example, WD assists new and existing entrepreneurs in cities and rural communities to create and grow their businesses while ensuring that western Canadians have access to capital and services that support their economic success.

Reporting on Performance

On April 1, 2005, WD re-aligned its strategic outcome statements to conform to new Treasury Board Secretariat (TBS) reporting requirements under the Management Resources and Results Structure (MRRS) and Program Activity Architecture (PAA). Each strategic outcome has two or more program activities that contribute to the overall achievement of the intended outcome. Most of the program activities also have sub-activities and these are explained more fully in Section II – Analysis of Program Activities by Strategic Outcome.

With implementation of the PAA, WD introduced a formal performance measurement strategy. As of April 1, 2005 all approved projects must align with at least one of WD's identified activities/sub-activities and contribute to the intended results.

Most projects approved by the department take more than one fiscal year to complete and results are often realized two or three years after project completion. The department monitors individual project success or failure with target dates and indicators for each project. The continuing challenge for the department is to find a cost-effective and meaningful way to 'roll-up' the results of these diverse, multi-year projects.

⁵ Exceptions to this include the now-completed Softwood Industry Community Economic Adjustment Program, and the discontinued International Trade Personnel Program and the First Jobs in Science and Technology Program.

WD has a strong public service values and ethics program, and operates in an open and transparent manner. The department has formal management accountability and performance frameworks and measures in place to ensure that:

- appropriate due diligence is exercised in the assessment, approval and monitoring of G&C investments;
- resources are deployed, managed and clearly linked to departmental objectives and priorities, planned spending and expected results; and
- departmental performance is regularly assessed and reported on through a variety of mechanisms.

As part of its performance measurement strategy, WD relies heavily on audits and evaluations of programs and initiatives. The Audit and Evaluation branch has started a program of continuous auditing of the management of grants and contributions that will identify issues and provide recommendations designed to continuously improve the department's operations.

During 2005-2006, WD conducted internal audits⁶ on Transfer Payments, Financial Management of Grants & Contributions, and Management of Physical Records. In addition, program evaluations were completed on the Service Delivery Network Program, Aboriginal Business Service Network, Entrepreneurs with Disabilities Program and the Urban Entrepreneurs with Disabilities Initiative. Through these and other activities WD continues to improve its accountability, performance measurement and, most importantly, its effectiveness in achieving positive results for Western Canadians.

Context

Many factors have influenced WD's priorities and activities for 2005-2006. Some internal factors were identified and incorporated at the beginning of the planning cycle, while other unanticipated factors required adjustments during the course of the year.

One of the most important determinants of departmental activities is the policy agenda of the Government of Canada. WD's annual planning process provides an opportunity to ensure that the activities of the department support the Government of Canada's agenda as outlined in the *Speech from the Throne*, and the Federal Budget. Another important factor is the ongoing government-wide expenditure review process. As of April 1, 2006, both the First Jobs in Science and Technology Program and the International Trade Personnel Program were discontinued as a result of expenditure review.

Overview of the Western Canadian Economy

As a region, the West has enjoyed strong economic performance in recent years compared to the rest of Canada, posting average real GDP growth of 3.4 per cent in 2004 and 3.9 per cent in 2005. In addition, individual provincial growth in each western province exceeded the national average of 2.8 per cent in 2005. This strong growth has been largely driven by high demand and market prices for many of the traditional resources that have anchored the western economy, including softwood lumber, crude oil, natural gas, minerals, and hydroelectricity.

⁶ Completed audit and evaluation reports are posted on WD's website http://www.wd.gc.ca/rpts/audit/default_e.asp

Given that the West is a relatively small player in the world commodity markets, its economic performance remains closely tied to the volatility typical for natural resource markets. This is true not only for direct output and employment within the resource sectors, but for many other sectors such as services and manufacturing whose economic performance is closely tied to the natural resource base of each province. Historically, Western Canada's reliance on the natural resource industries and cyclical trends of commodity prices has resulted in several significant economic downturns. As illustrated in Chart 1, with respect to manufacturing output as a share of GDP, the economies of all western provinces continue to have a smaller manufacturing base than Ontario and Quebec, leading to concern about the resiliency of the economy to price and demand shifts in the commodities sector. This suggests some caution is needed when assessing the long-term outlook for the region and the sustainability of current strong performance across the West.

The ongoing challenge for the western economy is to successfully compete globally on a long-term, sustainable level, and be able to maintain or increase the current standard of living in the region. The current strong performance of resource driven sectors, evident in individual provincial summaries included in this section, suggests an on-going need to encourage public and private investment that continues to diversify the economic base, hasten the transition to knowledge-driven industries, and increase the value-added and market penetration of western goods, services, and technologies.

Canada relies on trade for growth and jobs more than any other industrialized country. Exports account for almost 32 per cent of GDP, the highest percentage among G-8 countries. Exports are growing at twice the rate of the economy as a whole, and one out of every three jobs depends on international trade. A recent report by the Western Centre for Economic Research, *Revisiting Portraits of Small Business Growth and Employment in Western Canada* (May 2006), indicates small business is vitally important to the western Canadian economy, with approximately one half of all jobs in the West occurring in establishments of less than 50 people.

However, the lower participation of small businesses in export markets, research and development (R&D) and training means that promoting new investment into Western Canada and increasing the presence of western businesses in domestic and global markets will be key to improving the region's competitiveness.

Strong cooperation between industry and all orders of government is required to respond to a growing skills and labour shortage, and to ensure that the region's labour market conditions are conducive to attracting workers to meet a variety of needs. Although current labour shortages are most often associated with Alberta's large oil sands development, labour shortages across the West are severe in many sectors and have become a significant challenge for future growth and development in all four western provinces.

In this environment, emphasis must be given to increasing support for initiatives that focus on training and skills development, matching industry needs with available labour supply, and looking at opportunities for the adoption of new technologies and business practices to improve business productivity. To address this concern, considerable attention has focused in recent years on measures that would increase recruitment of skilled immigrants. Since Aboriginal people are the youngest and fastest growing population in Canada, their contribution to the western labour market can also help meet the demand for skilled labour while addressing some

of the persistent economic and social disadvantages experienced by Canada's Aboriginal peoples.

Chart 1: Comparison of Key Factors – 2005 (except where otherwise noted)⁷

Indicators	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD	CAN
Population – 2005	4,271,210	3,281,296	992,995	1,178,109	12,589,823	7,616,645	751,726	938,116	138,278	515,591	32,378,122
Real GDP Growth per cent	3.3	5.7	3.1	3.5	2.6	2.4	2.0	1.8	1.7	1.4	2.8
Total Real GDP Growth per cent 2000-2005	15.4	19.5	9.2	10.9	12.4	11.9	12.5	12.1	12.3	23.4	13.6
Real GDP Per Capita (\$'s)	30,778	42,270	31,780	28,608	35,402	29,575	25,936	24,941	22,816	26,718	33,118
Manufacturing Output as a per cent of Real GDP	12	10	7	13	21	21	16	11	13	7	17
International Exports as a per cent of GDP	21	39	33	24	37	26	44	18	19	22	32
Labour Productivity Growth per cent	2.1	2.6	0.2	0.6	2.5	2.2	0.4	-0.4	-0.8	0.0	2.2
Average Annual Labour Productivity Growth per cent 2000-2005	0.8	0.8	1.6	1.3	0.9	1.1	1.4	1.0	1.4	2.6	1.1
Unemployment Rate	5.9	3.9	5.1	4.8	6.6	8.3	9.7	8.4	10.9	15.2	6.8

Economic Performance of the Western Provinces in 2005

British Columbia

In 2005, British Columbia recorded a solid 3.3 per cent increase in real GDP. A major driver of this growth was strong prices for natural resource commodities, particularly natural gas, base metals, lumber, and coal. Employment in BC stood strong as provincial employment grew by 3.3 per cent in 2005, while the unemployment rate fell to 5.9 per cent. BC experienced continued growth on the retail side of the economy as consumer spending increased due to continued robust employment gains. The forestry sector remained stable driven by the increase in the annual allowable cut, a measure to help combat the mountain pine beetle infestation. BC's international exports were still dominated by forest products, particularly lumber, pulp, paper and construction materials. The economy of BC has also received a strong boost from the significant investment in public infrastructure in the lead up to the 2010 Vancouver-Whistler Winter Olympics.

⁷ Sources:

Statistics Canada's Quarterly Demographic Statistics, October to December 2005 <http://www.statcan.ca/Daily/English/060328/d060328e.htm>;
Data Sourced: Population
Conference Board Provincial Spring Outlook 2006; Data Sourced: GDP/Unemployment
Strategis Canada, Trade Data Online http://strategis.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html; Data Sourced: International Exports
Statistics Canada <http://www.statcan.ca/Daily/English/060509/d060509a.htm> ; Data Sourced: Labour Productivity

The level of international exports is expected to rise significantly as the Greater Vancouver Region begins enhancing its transportation infrastructure through the Asia-Pacific Gateway and Corridor Initiative to take advantage of Asia-Pacific trade. The provincial economy was also marked by significant growth in the construction sector spurred by residential and non-residential building, which is expected to remain strong over the medium term, particularly projects related to transportation infrastructure and the 2010 Winter Olympics. The construction sector represented 35 per cent of provincial employment gains last year; however, like the mining and retail sectors, the sector is facing a shortage in skilled labour that could soon prove a drag on overall economic performance.

Alberta

The energy sector anchored Alberta's exceptional performance in 2005 and was the driving force behind the province's nation-leading 5.7 per cent increase in real GDP. Strong world commodity prices boosted corporate earnings and led to record levels of investment in exploration, development and the construction of industrial facilities. An estimated \$8 billion of capital investments were made in oil sands projects alone. Increased demand for petrochemicals, primary and fabricated metals and machinery caused manufacturing output in the province to increase by 8.5 per cent in 2005 in spite of the increasing value of the dollar against the US dollar. High international demand for Alberta's energy-related products resulted in a record high value of exports.

In 2005, Alberta employers created almost 27,000 new jobs in the context of a tight labour market. The demand for workers drove the unemployment rate down to 3.9 per cent, the lowest in the country, and pushed labour income up by 9.7 per cent, the largest increase among all provinces by a wide margin. Low unemployment and high wages helped attract a net of 42,000 Canadians from other provinces to Alberta in 2005, a record 17,000 people in the fourth quarter alone. Alberta's population reached 3.3 million in 2005 and grew by 2.5 per cent to lead all other provinces.

Not all sectors of Alberta's economy showed strength however. The province's forestry sector's resilience continued to face severe tests. The appreciating value of the Canadian dollar and higher energy input costs made mill operation and transportation to market more expensive just as the rising demand for workers in the energy sector led to worker shortages and wage inflation. Profit margins in the agriculture sector were also squeezed by high input costs and low commodity prices. The combination of higher returns for livestock with lower levels of crop receipts and government support led to a 50 per cent drop in farm income.

Saskatchewan

In 2005, Saskatchewan recorded an increase in real GDP of 3.1 per cent, a decline from the previous year but still above the 20-year average of 2.2 per cent. The increase was the fourth highest in the country. On a GDP per capita basis, Saskatchewan is now third highest in the country.

Behind the strength in overall GDP growth were: high commodity prices for oil, gas and minerals; a strong demand for natural resources; and, growth in exports, manufacturing shipments and wholesale trade. While agricultural output volumes have stayed strong in the past three years, depressed prices have limited the contribution of the agricultural sector to overall growth. Retail sales were up 7.8 per cent but housing starts declined by 9 per cent. Nevertheless, economic growth is occurring despite a 0.6 per cent decline in population between April 2005 and April 2006.

While investment growth was below the national average in 2005, the forecast for 2006 suggests a 6.7 per cent increase, above the national average. Increases in labour productivity, at 0.2 per cent, are above the national average. Unemployment rates remain low at 5.1 per cent, while employment increased slightly by 0.8 per cent in the past year.

Manitoba

In 2005, Manitoba's economy grew by 3.5 per cent, ranking second nationally. The key driver behind economic growth in 2005 was the acceleration of domestic spending (consumer expenditure and construction), spurred by low interest rates. A stronger economic growth was predicted but summer rains and flooding devastated crop outputs in 2005. However, the utilities sector benefited from the wet summer months.

Housing starts in Manitoba (6.6 per cent) were well above the national average and second only to Alberta's booming housing market. Despite the rising Canadian dollar, the manufacturing sector grew 0.3 per cent and accounted for 13 per cent of the GDP.

Increased governmental spending on projects such as the Red River Floodway, the new Winnipeg Airport, and the new Manitoba Hydro headquarters building, helped public investment to grow 9.5 per cent in 2005. Private investment was up 2.2 per cent in 2005, demonstrating continued positive growth from 2004.

The US accounts for 76 per cent of Manitoba's international exports, with major trading partners such as Minnesota and North Dakota. After the US, Manitoba's top international trading destinations for 2005 were Japan, China, Mexico and Hong Kong. Exports only accounted for 29 per cent of the province's GDP.

One area of concern in Manitoba is the labour market. Net inter-provincial migration was estimated at a loss of 8,218 people, the largest loss since 1990 at the start of the recession. International migration was the greatest contributor to Manitoba's population gain of 0.6 per cent in 2005. Manitoba's low unemployment rate of 4.8 per cent does not indicate high job creation in Manitoba as employment grew just 0.6 per cent in 2005.

**SECTION II – ANALYSIS OF PROGRAM ACTIVITIES BY
STRATEGIC OUTCOME**

POLICY, ADVOCACY AND COORDINATION

Strategic Outcome: Policies and programs that support the development of Western Canada

WD's Policy, Advocacy and Coordination function includes a range of activities that result in effective strategies, policies and programs addressing the economic development needs, opportunities, and aspirations of Western Canada.

During 2005-2006, WD engaged in activities and funded projects that helped bring people, communities, ideas, and resources together. The department's efforts emphasized partnerships, collaboration and strategic investments, and endeavoured to link the views and concerns of western Canadians with national policies, priorities and programs.

Program Activity: Collaboration and Coordination

Financial Resources:

Planned Spending	Authorities	Actual Spending
\$4,674,000	\$5,095,605	\$4,805,056

Human Resources:

Planned (FTEs)	Actual	Difference
35	35	0

WD undertakes numerous collaboration and coordination activities, including organizing and coordinating meetings, conferences or other events with other levels of government, other federal departments, industry, academe, or the not-for-profit sector. This can involve developing policies and programs with other governments or partners, but is distinct from the department's advocacy efforts as it is more broadly based and less focused on specific issues and near term outcomes.

Program Activity Results

WD has played an important role in enhancing coordination between federal departments and agencies and promoting collaboration with provincial and municipal governments and key economic development players in the West. These activities range from brokering or leading the formation of partnerships to invest in an R&D project, to creating pan-western or provincial networks and alliances that support skills development, and new business formation. This effort maximizes resources, promotes joint planning and implementation of government programs and services, and minimizes administrative overlap and duplication.

On behalf of the Government of Canada, WD engages numerous partners in managing special projects and key initiatives in the region. For example, WD is actively involved in the provincial trade teams (Regional Trade Networks) in each of the four western provinces. These networks create a forum where federal and provincial departments can coordinate the planning and delivery of services to companies and communities, working together to fill gaps and avoid duplication. Federal members typically include Foreign Affairs and International Trade (DFAIT), Industry Canada (IC), Agriculture and Agri-Food Canada (AAFC), the National Research Council (NRC) and WD. In 2005-2006, federal and provincial ministers renewed five-year memoranda of understanding that provide the framework for joint planning and decision-making activities in the provincial trade teams in Alberta, Saskatchewan and Manitoba. The provincial trade team in British Columbia is also active but a federal-provincial Memorandum of Understanding has yet to be negotiated.

WD's ongoing engagement in the Enhanced Representation Initiative (ERI) has provided a coordinated and integrated approach to managing and advancing Canada's advocacy, trade, business development, science and technology, and investment interests in the US. Within the context of the ERI, WD collaborated with DFAIT to administer \$246,000 for 19 ERI projects in 2005-2006.

Since it was launched in 2003-2004, the ERI has seen the establishment and staffing of seven new or expanded government of Canada trade offices in the US, the upgrading of two others, and the recruitment of 14 Honorary Consuls. Strategic priorities for advocacy and business development have been defined, and incremental funding of over \$8 million dollars a year is being allocated to the expanded network of posts to fund activities. Finally, a strong partnership has also been forged among the ERI Partner departments and agencies and a smoothly functioning governance structure has been put in place.

Through the ERI, WD collaborated with the Canadian Consulate-General in Los Angeles to administer \$36,000 to the Larta Institute, a California consortium of university technology commercialization offices, who selected eight western Canadian technology firms to mentor and to attend a technology showcase and trade show in November 2005. The initiative heightened the profile of western Canadian companies, technologies and research capacity in the eyes of the US investment community and improved the opportunities for western Canadian companies to access US market, investment capital and business relationships. The participating firms were unanimous in their praise for the mentoring provided by Larta. Improved knowledge about western Canadian companies and investment opportunities has helped WD to support further growth and development of technology clusters and assisted the US posts to match western Canadian strengths with US opportunities.

Program Activity: Advocacy

Financial Resources:

Planned Spending	Authorities	Actual Spending⁸
\$2,405,000	\$2,540,888	\$3,413,866

Human Resources:

Planned (FTEs)	Actual	Difference
22	22	0

WD is mandated to promote the development and diversification of the western economy and to advance the interests of Western Canada in national economic policy, program and project development and implementation. To support this work, WD has drafted an Advocacy Strategy that, once finalized, will be reviewed and updated annually to ensure the department continues to strategically focus on its advocacy agenda.

Specific advocacy activities undertaken by WD during 2005-2006 include:

- participating in federal interdepartmental discussions and processes, including central agencies, to support economic policy issues that benefit Western Canada;
- collaborating with regional partners, including provincial governments, to advance western economic interests, such as:
 - leading a Deputy Minister's Economic Development Forum;
 - participating in federal-provincial trade teams, rural teams, and the Senior Western Innovation Officials forum that worked collaboratively to strengthen the Western Canada innovation chain; and
 - taking a leadership role in the Regional Federal Councils in all four western provinces to improve the effectiveness of federal initiatives.
- working closely with the other regional development agencies (Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions) to advocate for coherent and effective approaches to regional economic development; and
- strategically participating in the Industrial Regional Benefits process to ensure maximum participation by western Canadian suppliers in major procurements of the Crown.

⁸ The negative variance between Authorities and Actual Spending of \$872,978 is covered by the surplus variance against the Research and Analysis program activity.

Program Activity Results

Examples of results achieved through WD's advocacy include:

- Asia-Pacific Gateway and Corridor Initiative - During 2005-2006, collaboration between WD and Transport Canada led to the Federal Budget 2006 commitment of \$591 million in new funding for a national Asia-Pacific Gateway and Corridor Initiative. A key aspect of WD's role was to work closely with the Government of British Columbia, and to initiate discussions with the provincial governments in the other three western provinces to identify short and long-term priorities. This initiative will: enhance prosperity and strengthen Canada's position in international commerce through investments in transportation infrastructure, secure and efficient border services, and competitiveness. WD will play an on-going advocacy role in ensuring a strong western trade focus for this initiative while undertaking a variety of analytical and consultative activities that will explore how best to capitalize on the long-term opportunities provided by the Gateway.
- The Fort McMurray to La Loche Road Impact Study (October 2004) - This study illustrated the economic benefits of an all season road between the two regions. WD provided \$90,000 towards the cost of the study and facilitated the active participation of representatives from La Loche, Fort McMurray and the Saskatchewan and Alberta governments in the process. In September 2005, the Alberta and Saskatchewan governments formally announced their commitment to the construction of the \$29.5 million road which is expected to commence in 2006 and take three years to complete. An associated \$566,000 WD project, with the Aboriginal Human Resources Development Council of Canada, to implement a job placement strategy that markets northern Saskatchewan residents to the oil sands sector of Fort McMurray has seen 175 worker placements made in the Alberta oil sands sector in 2005-2006 from communities in northwest Saskatchewan with chronically high unemployment. The province of Saskatchewan also partnered on the \$755,000 project.
- Regional Municipality of Wood Buffalo - WD engaged the Government of Alberta and the Municipality in discussions regarding collaborative approaches to the economic and social infrastructure challenges facing the community resulting from the development of tar sands in the Fort McMurray region. In addition, WD increased federal understanding of the region's importance to Canada's economic performance and of the role that Alberta's oil sands can play in a continental energy security strategy.
- Ocean Action Plan (OAP) - Over the last two years, WD has worked collaboratively with other federal departments, including the Department of Fisheries and Oceans, to implement the first phase of the \$28 million OAP. WD has supported the development of the West Coast oceans technology cluster and its participation in the national Oceans Technology Network (OTN). Western Canadian coastal communities will remain engaged as the OAP continues to evolve through WD's participation on the Pacific Coast's Regional Implementation Committee. WD's efforts are expected to result in substantially more investment, overall and proportionately, in this area under the second phase of the OAP.

Program Activity: Research and Analysis

Financial Resources:

Planned Spending	Authorities	Actual Spending
\$3,830,000	\$4,132,904	\$2,912,138

Human Resources:

Planned (FTEs)	Actual	Difference
32	32	0

In order to understand the regional development issues facing Western Canada in-depth policy and economic research analysis has been undertaken and coordinated with other public and private stakeholders. In addition to facilitating dialogue and increasing the understanding of western Canadian challenges, opportunities and priorities, this research provides the basis needed to develop relevant policies and programs.

Program Activity Results

In 2005-2006, WD supported a total of 32 research projects and conferences. Some of these projects were dedicated to pan western issues while others focused on issues relevant to individual provinces. Examples include:

- *Next West* (http://www.cwf.ca/abcalcwf/doc.nsf/doc/proj_next_west.cm) - WD approved \$625,100 (35 per cent of the total project costs) to the Canada West Foundation for a three-year research effort to provide strategic insight and advice on the western Canadian economy. This research, consultation and communications project (April 2005 – March 2008) focuses on economic, generational and community transformations to provide strategic insight and advice for the four western provinces and their communities. The Canada West Foundation is using both quantitative and qualitative measures to present the benefits of this project including assessing the impact of the activities on policy development at the regional and national level.
- *Saskatchewan's State of Trade 2005* (http://www.wd.gc.ca/rpts/research/sk_sot/default_e.asp) - In August 2004, WD approved \$170,000 of a \$190,000 project to increase the knowledge of international trade, foreign direct investment and trade economic research in Saskatchewan. The first of four, this particular report assesses how Saskatchewan's exports and imports are competing in the global economy. Trade Team Saskatchewan partners (WD, Agriculture and Agri-Food Canada, and Saskatchewan departments of Trade and Export Partnership, Industry and Resources, Agriculture and Food, and Government Relations) have used this report to inform their work and policy development, and as research and baseline data for future program and project development and initiatives.

COMMUNITY ECONOMIC DEVELOPMENT

Strategic Outcome: Economically viable communities in Western Canada with a high quality of life.

WD's Community Economic Development goal is to develop western Canadian communities that are economically viable and that offer a high quality of life. Through activities and investments that build on local capacity, improve infrastructure and foster economic development, WD helps urban and rural communities sustain their economies and adjust to changing and often challenging economic circumstances. WD maximizes the impact of its investments through partnerships that leverage resources, network connections and knowledge from other federal departments and agencies, provincial and municipal governments, universities, non-government organizations and the private sector.

Program Activity: Community Economic Planning, Development and Adjustment

Financial Resources:

Planned Spending	Authorities⁹	Actual Spending
\$145,385,000	\$55,906,653	\$54,655,256

Human Resources:

Planned (FTEs)	Actual	Difference
89	76	13

WD addresses the needs of communities by assisting them to assess their strengths, weaknesses, opportunities, potential for new economic activity, and to implement community plans. The process involves community-based consultations/facilitation and includes providing support to projects that integrate federal programs and services to western Canadian communities. These initiatives include the Canada-Saskatchewan Northern Development Agreement, Urban Development Agreements (UDAs) and community economic development efforts in rural areas undertaken by the Community Futures Development Corporations (CFDCs).

WD also invests in initiatives that enhance available facilities and/or increase the participation of communities, assist communities to adjust to changing economic circumstances and identify options and plans for new economic opportunities.

⁹ Total Authorities is lower than Planned Spending due to the Supplementary Estimates A not being approved by Parliament.

Program Activity Results

WD's work in this area is contributing to the realization of strong and viable communities in urban and rural areas of Western Canada capable of responding to economic and social challenges that hinder competitiveness, opportunities and quality of life.

Examples of activities/results achieved during 2005-2006 include:

- Two \$10 million five-year, cost-shared, tripartite UDAs were signed in Saskatoon and Regina. These UDAs target priorities that are shared by the federal, provincial and municipal governments including the promotion of a positive business climate and competitiveness, the development of strategic infrastructure and the enhancement of Aboriginal participation in the economy. The Saskatoon UDA's first project was announced on March 24, 2006 with \$365,340 from WD towards total project funding of just over \$1 million. In bringing three lots up to commercial and residential standards, this project will assist the rejuvenation of Saskatoon's inner city.
- The enhancement of Winnipeg's inner city economy under the Winnipeg Partnership Agreement through two key community development projects:
 - The first will establish the Community Economic Development Technical Assistance Service (CEDTAS) an organization for non-profit and community groups needing assistance with business plan preparation, governance, accounting issues, legal issues, etc. From start up in late 2005 until April 2006, CEDTAS did preliminary work with 20 clients, undertook comprehensive projects with 12 and brokered no-cost services from other providers for nine clients.
 - The second will put in place a community financial services centre to reduce the dependence of inner city residents on payday loan companies and similar establishments. The centre has hired initial staff, conducted budgeting/financial management workshops, and assisted several low-income clients in accessing financial services.
- In 2005-2006, WD continued to deliver the Urban Aboriginal Strategy (UAS) in Vancouver, Calgary, Edmonton and Winnipeg and launched the program in Prince George (BC), Lethbridge (Alberta) and Thompson (Manitoba). WD is responsible for leading the UAS in Manitoba, Alberta and British Columbia, and Service Canada is the lead delivery organization in Saskatchewan. In British Columbia, the initiative attracted over \$1.2 million in additional funding to the Greater Vancouver UAS with \$1 million for a proposed Urban Native Youth Centre.

Additional details on results related to Community Economic Planning, Development and Adjustment are provided below for each sub-activity area.

Sub-Activity: Community Planning

During 2005-2006, WD supported community planning by funding projects that were expected to result in enhanced community planning.

Examples of community planning results supported in part through WD financial assistance include the following:

- In July 2005, WD approved funding of \$116,800 (of total project costs of \$137,000) to the Whitecap Dakota First Nation region to hire a tourism development co-ordinator for activities associated with the Highway 219 "Tourism Corridor" in Saskatchewan. This project is expected to result in the development of a tourism transportation network and strategy that will integrate tourism activities with other jurisdictions, as well as upgrades to Highway 219. Ultimately it is expected that this activity will result in increased revenues for businesses and tourism services, as well as increased employment opportunities in the region.
- In November 2005, WD approved \$200,000 for *ImagineCALGARY*, a \$2.81 million city-led initiative to create a 100-year vision for a sustainable Calgary, with 30-year targets and strategies. This project engaged 100,000 Calgarians in a dialogue on long-term urban planning and raised the profile of Calgary as a leader in sustainable urban community planning.

Sub-Activity: Community Development

During 2005-2006, WD provided support to projects that increased viability and diversification of local economies.

Specific results in 2005-2006 include the following:

- WD approved a \$3 million non-repayable contribution under the Western Economic Partnership Agreement (WEPA) for the planning and development of a stand-alone cruise ship terminal to be operated by the Campbell River Indian Band in collaboration with the District of Campbell River. This project is part of the BC Cruise Initiative to strengthen the cruise industry in British Columbia. This project is expected to diversify the economy of Campbell River and other coastal communities negatively impacted by the demise of the fishing and forestry industries. Following completion of the terminal in September 2006, it is conservatively estimated that Campbell River will attract 15 large cruise ship calls and 23,000 passengers in its first year of operations. The expected 10 year benefits include: an average annual economic benefit of \$13 million; an average annual FTE

WD provided \$988,628 to the Osoyoos Indian Band in British Columbia for the design and construction of the \$3.8 million Nk'Mip Centre. This interpretive centre for the surrounding desert, is one of a number of tourist facilities built by the community, including a golf course, an award winning winery and a campground. These ventures have contributed to the virtual elimination of unemployment in the community.

job creation of 245 jobs; local job creation of 47 for construction; and, an average annual value of federal and provincial GST and PST revenues of \$1.15 million.

- A WD contribution enabled Kids in the Hall to complement its downtown Edmonton bistro by establishing a catering division serving clients throughout the city centre. This organization works with at-risk youth between the ages of 16-24. Five hundred youth have completed the program. The life skills they have gained include experience in the food service industry, customer service and handling job pressures. In addition, the program enables the youth to earn high school credits while securing part-time employment in a supportive environment. In 2006, the program received the Youth Employer of Distinction Award from the Alberta Business Awards of Distinction.
- The Northern Broadband Network (NBN) was a successful applicant in Industry Canada's Broadband for Rural and Northern Development Pilot Program aimed at delivering broadband service to rural, remote and aboriginal communities. WD will contribute \$1.6 million over two years under the Canada-Saskatchewan Northern Development Agreement to this project with 31 of 34 targeted communities now having access to high speed Internet. The main users of this new-to-the-North service are schools, government offices, band administrators, health providers and community citizens. With the broadband infrastructure in place, other subscribers will also be able to optimize business or economic opportunities.

Alberta and Saskatchewan Centennials

On behalf of the Government of Canada, WD was responsible for delivering \$92 million in funding for capital legacy projects in Saskatchewan and Alberta to commemorate their centenaries in 2005.

In Saskatchewan, WD supported more than 700 capital legacy projects in communities across the province, resulting in, among other benefits, the creation of parks and recreation sites, as well as upgrades of municipal facilities. In Regina, Centennial investments of \$13 million included support for the creation of the RCMP Heritage Centre, which, when completed, is expected to draw up to an estimated 160,000 visitors annually. In Saskatoon, approximately \$10.5 million was invested in Centennial projects, including \$4 million for a new 50,000 sq. ft. building at Saskatoon Prairieland Park to complement its current trade show and exhibit space. This new facility will be completed in May, 2007 and is expected to improve Prairieland Park's ability to attract larger national and international trade shows.

Alberta Centennial projects include \$30 million in federal funding for the renewal of the Royal Alberta Museum in Edmonton. It is expected to nearly double annual attendance and have an estimated annual economic impact of \$27 million for the province of Alberta by March 2011. In addition, the Glenbow museum in Calgary will receive a federal contribution of \$5 million to create a new permanent gallery with over 20,000 square feet to tell the story of Alberta.

- As part of its work under the Vancouver Agreement (VA), WD approved \$2.4 million (or 66 per cent of total project costs) in 2005-2006 for five years of operating funding for the Building Opportunities with Business Inner City Society (BOB). BOB was formed through the amalgamation of two existing non-profit societies who were providing services in the

Downtown Eastside of Vancouver. BOB will continue to offer business development, mentoring, employment training and small business loans programs which were previously offered by the predecessor organizations, and will also play a lead role in the delivery of some strategic initiatives that have been identified under the VA Economic Realization Plan and the VA Employment Strategic Plan.

- WD approved funding of \$71,625 as part of a \$143,250 project under the Canada Saskatchewan Northern Development Agreement for a drilling training program in Buffalo Narrows, Saskatchewan. The Meadow Lake Tribal Council Program Services Inc. delivered this program and fourteen people participated in the program that provided northern people with the knowledge and skills for drilling jobs - either oil or water. Of the 12 individuals who also completed an on-site work component, nine have found full-time employment and three are working part-time.
- The four-year WEPA project for Rural Community Economic Development (RCED) pilot project, launched in April 2005, created a greater collaboration between the federal and Alberta governments in the delivery of rural economic development programs. This project addresses a gap in rural Alberta to implement economic development strategies that promote long-term economic success. As of March 30, 2006, the WEPA for RCED had approved 28 community projects with a total value of over \$700,000. These included the Defence Industry Development in eastern Alberta through which the percentage of procurement done locally for products and services used at Canadian Forces Bases (Suffield, Cold Lake, and Wainwright, Alberta) has been identified and barriers to procurement contracts for local rural businesses have been explored. Procurement sessions called "Thinking Outside the Tank" will commence in fall 2006, targeting local Economic Development Officers and business owners.

Sub-Activity: Community Economic Adjustment

WD supports projects that help communities identify options, develop responses, and implement plans that will create new economic opportunities, when facing severe adjustment impacts due to changing economic circumstances.

Federal funding under the national Softwood Industry Community Economic Adjustment Initiative (SICEAI) is an example of how WD helped BC communities mitigate the negative impact of the softwood lumber dispute with the US. This national program was coordinated through Industry Canada and delivered in British Columbia by WD. SICEAI monies targeted forest-dependent communities across Canada that demonstrated a permanent loss in local employment (since May 2002) directly linked to tariffs imposed by the US against imported Canadian softwood lumber. The program officially ended March 31, 2005 with funding completed in 2005-2006. Through SICEAI, a total of \$50 million was committed to 145 projects across rural British Columbia. Economic diversification activities included innovative uses for value-added wood and new opportunities in manufacturing, technology, film, sport, tourism and local economic infrastructure developments.

An evaluation of SICEAI was undertaken in 2005-2006. Once the evaluation is finalized and a Management Action Plan approved, the results will be posted on Industry Canada's website at www.ic.gc.ca.

Program Activity: Infrastructure¹⁰

Financial Resources:

Planned Spending	Authorities	Actual Spending ¹¹
\$241,004,000	\$232,115,492	\$143,452,781

Human Resources:

Planned (FTEs)	Actual	Difference
40	40	0

During 2005-2006, WD continued to deliver the Infrastructure Canada Program (ICP) in each of the four western provinces. The ICP was created in 2000 to enhance infrastructure in Canada's urban and rural communities and to improve quality of life through investments that protect the environment and support long-term community and economic growth. As of March 31, 2006 approximately 98 per cent of the total federal funding of \$557 million had been committed towards 1,630 infrastructure projects across the West. While all project approvals were completed by June 2005, the program was extended until March 31, 2008, to allow for the completion of all projects.

WD also administers the Municipal Rural Infrastructure Fund (MRIF) in Saskatchewan and Manitoba on behalf of Infrastructure Canada. As of March 31, 2006, 37 projects were approved for approximately \$26 million or 63 per cent of available Manitoba MRIF funding. In Saskatchewan, as of March 31, 2006, 95 projects have been approved for approximately \$15 million or 35 per cent of available funds. As of March 31, 2006, MRIF agreements were under negotiation with Alberta and British Columbia.

In addition, WD administers a number of Canada Strategic Infrastructure Fund (CSIF) projects on behalf of Infrastructure Canada, including Regina's Urban Revitalization projects (Wascana Lake Deepening and Exhibition Park), Saskatchewan's Regional Rural Water Supply Systems, Saskatoon's South Downtown Redevelopment, Winnipeg's Red River Floodway Expansion and Vancouver's Convention and Exhibition Centre. G&C funding for MRIF and CSIF is provided through Infrastructure Canada's (INFC) appropriation and details on program results are found in INFC's departmental performance report.

¹⁰ Planned and actual spending does not include grants and contributions resources administered by WD on behalf of Infrastructure Canada (Municipal Rural Infrastructure Fund, Canada Strategic Infrastructure Fund), as this amount (approximately \$25 million in actual spending is reported by Infrastructure Canada).

¹¹ Actual spending is lower than Planned Spending and Total Authorities, primarily due to the transfer of contractual commitments under the Infrastructure Canada Program to future years.

Program Activity Results:

The objective of ICP projects has been to improve and expand sustainable public infrastructure that enhances the quality of the environment and allows for long-term economic growth.

Since the inception of the ICP in 2000, the following benefits have been realized across the West:

- improved water quality for more than 130,000 households and improved wastewater systems for more than 39,000 households;
- improved solid waste management systems in a number of western Canadian communities, resulting in over 41,000 metric tonnes of solid waste per year being diverted from landfills and into recycling or composting facilities;
- improved energy efficiency of municipal buildings resulting in a reduction of more than 4.3 million kWh/m³ in electricity use and 1.8 million BTUs/m³ in heating fuel per year;
- safer local roads and transportation infrastructure, and new or improved public transportation for more than 250 communities; and
- 229 projects to support increased cultural and recreation facilities, 32 tourism infrastructure projects, six rural and remote telecommunications infrastructure projects, three affordable housing projects resulting in the construction of 270 new units and one increased high-speed access for local public institutions.

One of the ICP's priorities is green municipal infrastructure – projects that improve the quality of the environment and contribute to national goals of clean air and water. Priority projects targeted improvements in water and wastewater systems, solid waste management and recycling and energy efficiency. Specific examples include:

- The Aghaming Community in Manitoba, where a new waste disposal facility with a 40-year life span was constructed to service five small communities, including a First Nations community. The federal government contributed \$108,000 to this \$635,000 project that decreased municipal solid waste by 468 tonnes annually, methane gas emissions by 10 metric tonnes per annum, and increased solid waste diverted through recycling and composting by 156 metric tonnes per annum.
- Swift Current, Saskatchewan, where construction was completed on a new \$15 million wastewater treatment plant. The state-of-the-art facility will reduce organic matter, solids, nutrients, disease-causing organisms and other pollutants found in wastewater from over 5,700 households before it is discharged into the environment. The total federal contribution was \$628,000.
- Peace River, Alberta, where a municipally owned administration building received efficiency upgrades that will significantly improve building insulation, improve air quality, decrease gas and electricity consumption by more than 35 percent depending on the time of year, and

decrease heating fuel by 0.545 BTUs/m³ per year. Total project costs were \$675,000 with a federal contribution of \$125,000.

- The Sunshine Coast Regional District in BC, where the Chapman Creek Water Filtration Facility was constructed for a total cost of \$5.8 million with a federal government contribution of \$1.9 million. The project was expected to provide improved water quality for 7,300 households, but the actual number surpassed this at 8,500.

ENTREPRENEURSHIP AND INNOVATION

Strategic Outcome: A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system

Program Activity: Business Development and Entrepreneurship

Financial Resources:

Planned Spending	Authorities	Actual Spending
\$50,500,000	\$55,902,862	\$55,017,759

Human Resources:

Planned (FTEs)	Actual	Difference
106	106	0

Small businesses (defined as organizations with fewer than 50 employees) are the source of nearly 80 per cent of new jobs in Western Canada and as such are the employment engine of the region. According to the Western Centre for Economic Research (2006) (<http://www.bus.ualberta.ca/wcer/pdf/86eng.pdf>), the number of small businesses per capita in Western Canada is 30 per cent higher than in the rest of Canada.

Recognizing the importance of community-based delivery of services and support to Small- and Medium-sized Enterprises (SME) development, WD provides funding to third-party organizations including industry associations and those making up the Western Canada Business Service Network (WCBSN), which in turn deliver business services and support to entrepreneurs. WD's support to the WCBSN for business development and entrepreneurship has led to improved access to business information, training, business advisory services and capital for all western Canadians, including women and francophone entrepreneurs, and people located in rural communities.

Sub-Activity: Improve Business Productivity

WD provides operating and loan funding to a number of other organizations that in turn deliver targeted loan programs, business advisory services and training for entrepreneurs.

WD improves business productivity by addressing the needs of SMEs and entrepreneurs through a variety of service delivery mechanisms and partnerships including more than 100 offices of the WCBSN. Members of the WCBSN include: 90 Community Futures Development Corporations (CFDCs), four Women's Enterprise Initiatives (WEIs), four Francophone Economic Development Organizations (FEDOs) and four Canada Business Services Centres (CBSCs). Community volunteers, who understand local issues and recognize opportunities, are a key factor

in the success of the WCBSN. In 2005-2006, the WCBSN members reported engaging over 2,800 community-based volunteers, including board members, who provided over 90,000 volunteer hours.

In 2005-2006, the WCBSN was stabilized through new, multi-year agreements providing operating support for members. WD's total commitment under these agreements (\$139.9 million) will ensure that business services and access to capital by western SMEs will continue to be offered. Funding for CBSCs, also members of the WCBSN, was extended until March 31, 2007.

WCBSN Service Results for 2005-2006¹²

Last year, members of the WCBSN delivered over 760,000 business services. In addition, they provided lending of \$53.8 million that leveraged an additional \$81 million and resulted in the creation of approximately 4,400 jobs.

Community Futures Development Corporations (CFDCs)

CFDCs are a national community economic development program that helps people in rural communities respond to local needs. WD has provided operating funding to the CFDCs since 1995 to enable them to provide local strategic economic planning services, business counseling and loans to small businesses in rural communities.

In 2005-2006, WD provided core funding support of \$24.7 million to the 90 CFDCs in the West and they reported providing over 347,000 general information services, 117,000 in-depth business advice sessions, and 38,000 training services. This includes over 31,000 total business services to Aboriginal clients.

Off The Tusk, a home-based, exotic meat marketing business, based in the Rural Municipality of Whitemouth in Manitoba, received a loan from the Winnipeg River Brokenhead CFDC to develop a business plan and obtain financing under the Youth Loans Program. The business, which employs three full-time staff and utilizes the services of a number of local butchers, is now supplying meat to several local restaurants and grocery stores, as well as five restaurants in Winnipeg. It also has secured a five-year exporting contract with a major company in Japan.

Women's Enterprise Initiatives (WEIs)

WEIs work to provide customized services to help women entrepreneurs face challenges and succeed. Operating from head offices located in Kelowna, Calgary, Saskatoon and Winnipeg, the WEIs improve access to financing, education and training, business advice, loan aftercare, information, networking and mentoring for women entrepreneurs.

¹² Loan fund activity by the Western Canada Business Service Network is captured later in this document, under the Improved Access to Financing for SMEs Program sub-activity.

In 2005-2006, WD provided core operational support of \$3.9 million to the WEIs and they reported responding to over 30,500 business information inquiries, providing over 11,000 business advisory appointments and training services for over 5,300 clients.

An evaluation of the WEI undertaken in 2004 reported that by May 31, 2004, WEI organization services and loans leveraged an additional \$33.1 million in support for women entrepreneurs. The evaluation is available on WD's website at:
http://www.wd.gc.ca/rpts/audit/wei/default_e.asp.

Francophone Economic Development Organizations (FEDOs):

FEDOs enhance the vitality of Official Language Minority Communities (OLMCs) in Western Canada and strengthen economic opportunities for francophone business. With head offices in Winnipeg, Regina, Edmonton and Vancouver, FEDOs provide enhanced services to francophone entrepreneurs, including training, business and community economic development, access to capital, information services, marketing advice, networking and mentoring.

During 2005-2006, WD provided core operating support of \$2.2 million to the FEDOs who reported providing over 6,500 information services, 1,400 technical advisory services and 850 training services. An evaluation of the FEDOs undertaken in 2004 is available on WD's website at: http://www.wd.gc.ca/rpts/audit/default_e.asp.

Canada Business Services Centres (CBSCs):

The CBSCs provide a single, seamless gateway to information for businesses and maintain an extensive database of business and trade information from federal, provincial, municipal and non-government sources. Western Canada CBSCs are located in Vancouver, Edmonton, Saskatoon and Winnipeg and services are also available through a network of regional CBSC and Aboriginal service sites.

In 2005-2006, WD provided \$3.9 million to support the four western CBSCs that reported facilitating approximately 146,000 officer-assisted interactions (telephone, walk-in, facsimile, mail, e-mail) and 3.5 million self-service interactions (automated telephone services and CBSC web site visits). The western CBSCs account for over 62 per cent of the officer-assisted transactions and 52 per cent of the total number of client services provided by CBSCs nationally.

Morning Glory Funeral Home, a Saskatoon based company, received a loan from WEI that helped them overcome the many challenges involved in creating a new business. According to business owner, Susan Panattoni, the funeral home reached its annual sales targets within its first six months. Now in operation for over three years, Panattoni is confident that the future of the business will continue to be strong.

WD has continued its funding to Manitoba's Advanced Manufacturing Initiative (AMI) that is focused on improving productivity by implementing lean manufacturing processes. 144 Manitoba companies participated in lean manufacturing in 2005-2006, reporting productivity improvements from 20-70 per cent in particular aspects of their manufacturing operations, as well as inventory reductions of 30-90 per cent.

In addition to support through the WCBSN, WD has undertaken a number of initiatives to encourage SMEs and R&D organizations to be innovative in improving their productivity and competitiveness. These include lean manufacturing practices (identification of new trends, the development of innovative strategies and the implementation of new processes), technology and management training, and academic and industry internships and exchanges.

Sub-Activity: Market/Trade Development and Foreign Direct Investment

In recent years Western Canada's economic environment has been characterized by: a continued high dependency on trade; increasing competition in key international markets from a number of low-cost countries; and, new opportunities for western Canadian exports driven by rising demand from the rapidly growing economies of the Asia-Pacific region and the growing strength in many technology sectors across the West.

The transformative change in the international economy that is being driven by the rise in economic power of China, South Korea, India and other emerging economies is presenting new challenges and opportunities for Western Canadian businesses at home and abroad. Greater priority is being placed by Canadian industry and governments on securing access and competitiveness in the key US market, which in Western Canada account for almost 80 per cent to the merchandise exports. This emphasis is in response not just to accessing new markets for new Canadian exports, but to the emergence of new competitors for US markets, most notably China, which has supplanted Mexico as the second largest supplier to the US next to Canada. At the same time there is growing interest in maximizing opportunities to expand markets for western Canadian exports in countries of the Asia-Pacific region, Mexico, and South America, and promoting Western Canada and Canada as a good place to invest, work, innovate and create new industry.

WD's activities support the priority of industry and federal and provincial governments of ensuring competitiveness and promoting Canada and Western Canada in global markets. Over the year WD continued to develop a strategic framework for international commerce that complements the federal government's global commerce priorities. WD achieves results through a combination of departmentally funded initiatives to support trade and investment activities, and working in partnership with other federal and provincial departments to offer an expanded range of programs and services through forums such as Team Canada Inc. and the Regional Trade Networks. WD also works with our federal and provincial government partners to support targeted missions to key markets, primarily to promote western Canadian technology strengths and opportunities.

During 2005-2006, WD approved \$7.1 million towards more than 150 projects that support international commerce activities including export readiness and advisory services, trade development, strategic support for trade missions and investment attraction activities, supplier development, conferences, and research.

Specific results for 2005-2006 include the following:

Strengthening the Canada-US Relationship

- In October 2004, WD led the Western Canada Technology Capabilities Study Tour to showcase the innovation and science and technology capabilities of the region to representatives of Canadian trade offices in the US. The findings and outputs of that tour set the framework for WD's ongoing engagement in the five-year Enhanced Representation Initiative (ERI) that will help advance Western Canada's trade and investment interests in the US. WD has continued to be an active partner in the US ERI initiative through its work with other federal partners, western provinces and industry, and R&D stakeholders, to identify priorities and undertake projects designed to enhance our competitive position in key US markets. In the context of the ERI, WD collaborated with Foreign Affairs and International Trade Canada (DFAIT) to administer funds of \$246,000 on 19 ERI projects in 2005-2006. The primary focus of these activities was to increase exposure of Western Canada's technology sectors and capabilities in US markets and among US R&D organizations and investors. Projects were supported in sectors such as life sciences, ocean technologies, wireless, petroleum technologies, and composites, many of which have led to ongoing negotiations and working relationships between western Canadian firms and R&D organizations and US partners. Funding provided by WD (\$5 million over five years) and other federal partners for the ERI initiative has significantly augmented Canada's presence in the US, particularly in several Western US markets of major importance to Western Canada. Six of the nine new or expanded US consulate/trade offices are located in the Western US.

While the ERI is still in its early stages, a number of first results are visible. For example, there is greatly increased engagement with American influencers and there is visible progress in mobilizing allies on key issues such as softwood lumber, Bovine Spongiform Encephalopathy (BSE), and the Western Hemisphere Travel Initiative. There has also been greater emphasis on business development and this will pay dividends down the road. The Canadian business community has expressed its satisfaction with these efforts.

Supporting Business and R&D Competitiveness

- As a member of Team Canada Inc. (TCI) WD works with other federal departments to offer market/export skills training and export-readiness services to SMEs in Western Canada. In Western Canada these services are provided primarily by the CBSCs for which WD is the lead federal partner and funder. In 2005-2006, CBSCs in the western provinces provided more than 5,200 export-related services. Some centres have the capacity to provide value-added export services such as the Manitoba Centre that developed and delivered six export workshops to 330 SMEs.
- In April 2004, WD approved funding of \$440,785 or approximately 52 percent of total project costs for SUCCESS, a Chinese-Canadian business association in Vancouver, to provide advisory, training and counseling services to SMEs that target China and other Asia-Pacific markets. In 2005-2006, this included: providing one-on-one export advisory services to 373 clients in Western Canada; organizing and delivering 12 export market preparation

events for new and expanding exporters; organizing and hosting three focused business matching events for western companies interested in selling goods and services to China; and, organizing one multi-sector trade mission to China. It is estimated that these events and sessions have facilitated \$7 million of new international business and investment between Canada and Asia.

- WD also took a proactive role in the development of 2010 Procurement Workshops and a Train-the-Trainer program to assist western Canadian communities and businesses capitalize on new business opportunities resulting from the Vancouver 2010 Olympic and Paralympic Winter Games. This included delivery of 18 seminars to approximately 500 participants in British Columbia and training to 72 community-based trainers. To ensure all western Canadians were aware of the estimated \$7 billion in expenditures related to the 2010 Winter Games, WD partnered with Industry Canada to revise the materials and customize them for a Canadian audience, available in both official languages. Four workshops were then delivered in Western Canada to an audience of 106 participants. Participants rated the workshop facilitation and resource materials as very good, equivalent to an average ranking of four out of five.

Asia-Pacific Opportunities

- During 2005-2006 WD and Transport Canada led the development of a national Asia-Pacific Gateway strategy to support increased trade and economic development opportunities in the Asia-Pacific region and address transportation, infrastructure, and related issues that could impede expanded commercial and trade relations with the region. A key aspect of WD's role was to work closely with the Government of British Columbia and provincial governments in Alberta, Saskatchewan and Manitoba, to identify short and long-term priorities. The result of this work was the announcement in Federal Budget 2006 of \$591 million in new funding for a national Asia-Pacific Gateway and Corridor Initiative.
- WD representatives participated in a number of events in Canada and Asian countries during 2005-2006 to advance western Canadian interests and opportunities in the Asia-Pacific region. This ranged from meetings with Chinese and Japanese officials to exchange information and expertise in trade and investment opportunities (the commercialization of environmental technologies and expansion of BC's Ports) to supporting events that recruit Asian buyers (the 2006 Global Buyers Mission, for value-added wood manufactures and Globe 2006 for environmental technology companies). To improve the measurement of the results of these activities, WD will collaborate with the Asia-Pacific Foundation to measure the awareness of economic development opportunities in the Asia-Pacific region. Seven sessions will be held across Canada to consult with business leaders on their awareness of Asia both in terms of opportunities and challenges.

Sub-Activity: Industry Collaboration

In 2005-2006, WD approved 62 projects totaling \$1.75 million to facilitate industry collaboration. The majority of these projects (47 totaling \$375,000) included support for conferences and other events - such as the Forest Industry Suppliers Wood Solutions Fair and the Business Council of British Columbia Addressing Skill Shortage 2005 - and covered a wide range of industry sectors. WD also supported projects such as:

- The Independent Aboriginal Screen Producers Association in British Columbia. WD approved \$150,000 of \$166,000 total project costs for the development and operations of this recently formed association, established to increase Aboriginal participation in the film, television and new media sectors
- *Alberta Innovation 2005* - WD approved \$42,500 to the Alberta Science and Technology Leadership Foundation in Calgary towards a \$175,000 project for the development and distribution of an innovative documentary designed to increase awareness and support for the Alberta science and technology sector.

Sub-Activity: Access to Capital

A 2004 Statistics Canada Survey on Financing of Small- and Medium-sized Enterprises found that 20 per cent of SMEs cited obtaining financing as an obstacle to business growth. Those more likely to experience difficulties in obtaining financing included innovative businesses (40 per cent), young enterprises - defined as those that started operation in 2002 (34 per cent), exporters (29 per cent) and manufacturers (27 per cent).

Through work with financial institutions, members of the WCBSN and other organizations, WD has contributed to increased investment in targeted western Canadian firms. In particular, WD has responded with the development of two types of SME loan programs:

1. WD Loan and Investment Program (previously the Loan Investment Fund Program)¹³

Loan loss agreements with financial institutions such as banks and credit unions are designed to provide "patient debt capital" for companies unable to secure regular financing. The larger, often pan-western agreements offer loans up to \$1 million to SMEs, at an average loan size of \$340,000. Other more geographically localized agreements, providing financing for a variety of very small and start-up businesses, average close to \$14,000 per loan.

Since April 2001, the value of financial institution financing under this program has averaged \$19.2 million per annum leveraged by WD loss support contributions of roughly \$2.7 million per

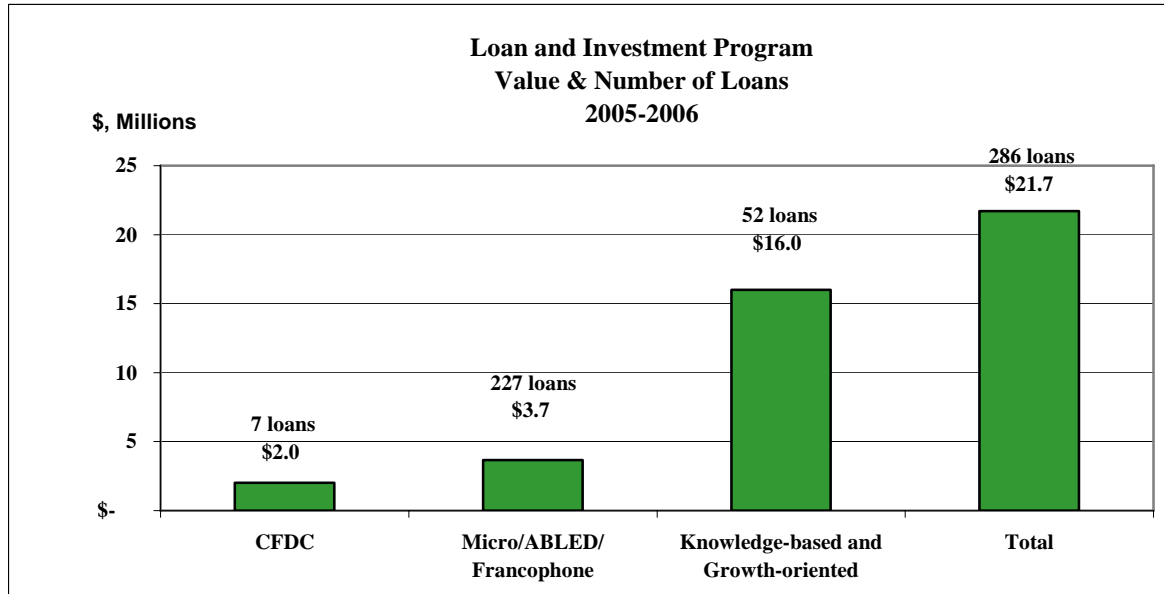
¹³ With the 2005-2006 renewal of the Loan Investment Fund Program, the name was changed to the Loan and Investment Program.

annum. From the beginning of the program in 1995, until March 2006, 2,862 loans totaling \$218 million were approved, with 286 loans totaling \$21.7 million approved in 2005-2006 alone. An evaluation of the Loan and Investment Program conducted by Ference Weicker and Company in 2002 is available on WD's website at: http://www.wd.gc.ca/rpts/audit/lifp/ic_e.asp. The evaluation found that:

- Only 16 per cent of Loan and Investment Program loan clients could have obtained financing from other sources;
- 82 per cent of the small business financing experts surveyed indicated that there are gaps in loan financing available to small-and medium-sized enterprises; and 64 per cent indicated that the Government of Canada should influence private sector financial institutions to do lending to eliminate the gaps; and
- the Loan and Investment Program does not significantly duplicate other loan programs and services.

Loan loss agreements have been negotiated to leverage additional loan capital from credit unions for rural business lending by CFDCs in British Columbia.

Because of the leveraging of WD's contribution, the \$218 million loaned by financial institutions required a loss support contribution from WD of only \$33 million, some of which will be repaid once all losses are determined.



The urban micro-loan, Advice and Business Loans to Entrepreneurs with Disabilities loan (ABLED) and francophone (FEDO) agreements provide loans averaging \$14,000 to very small and start-up businesses.

The larger, often pan-western loan loss agreements (usually knowledge-based or growth-oriented clients) offer loans up to \$1 million to SMEs (the average loan size is \$340,000).

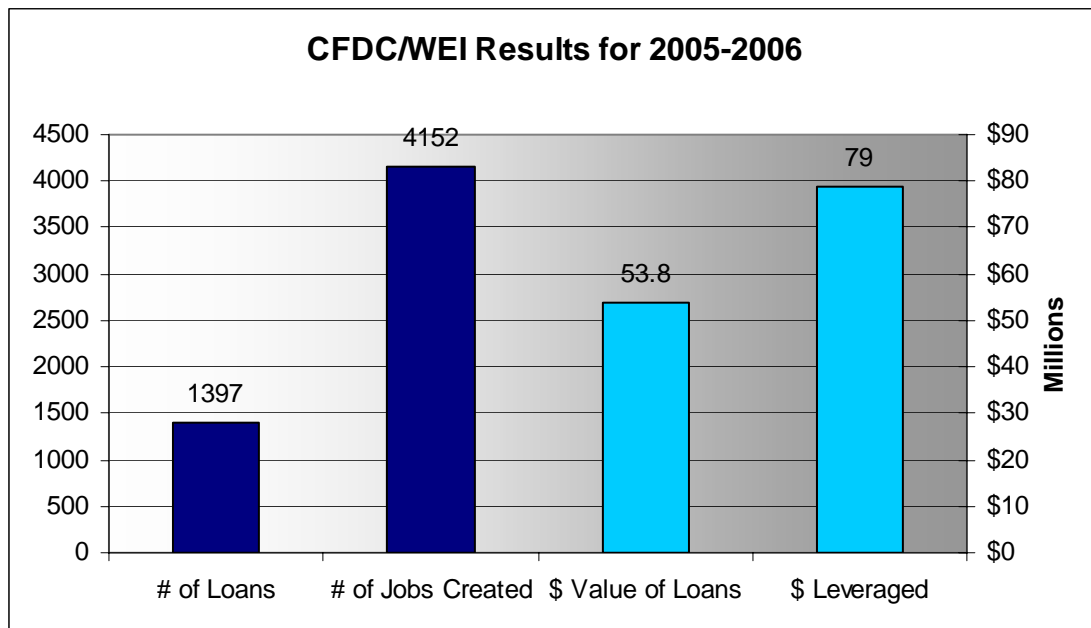
2. Developmental loans delivered by the Western Canada Business Service Network and Entrepreneurs with Disabilities Program (EDP) urban delivery agents

WD has provided WCBSN network members with funds to support repayable loans to SMEs in rural areas, and SMEs operated by women, francophones, young entrepreneurs or those with disabilities. WD’s network members also provide SMEs with path finding services and referrals to alternative sources of financing.

Results for 2005-2006¹⁴

An evaluation of the Entrepreneurs With Disabilities Program (EDP) and the Urban Entrepreneurs With Disabilities Initiative Fund (UEDI)¹⁵ undertaken in 2005 is available on WD’s website at: http://dev2.wd.gc.ca/rpts/audit/edp-uedi/default_e.asp. In the evaluation, Ference Weiker & Company estimated that “the average EDP and UEDI loan client generates 260,000 in revenues and 6 person years of employment over the first five-year period after they receive assistance, that is attributable to the assistance that they received.”

In 2005-2006, total external financing leveraged by FEDOs was estimated at \$2.3 million. The results for CFDCs in rural areas and WEIs serving women entrepreneurs are summarized below:



¹⁴ As reported by CFDCs, WEIs and FEDOs in their quarterly reports to WD

¹⁵ In May 2006, the EDP and UEDI were consolidated under the “Entrepreneurs with Disabilities Program” (EDP) with an urban and rural stream.

Total statistics above include: 68 loans to entrepreneurs with disabilities, totaling \$1.4 million and projected to create or maintain 156 jobs; 113 loans to youth, totaling \$2.3 million; and, 236 loans to Aboriginal clients, totaling \$7.18 million.

Program Activity: Innovation

Financial Resources:

Planned Spending	Authorities	Actual Spending
\$55,986,000	\$42,787,686	\$42,391,717

Human Resources:

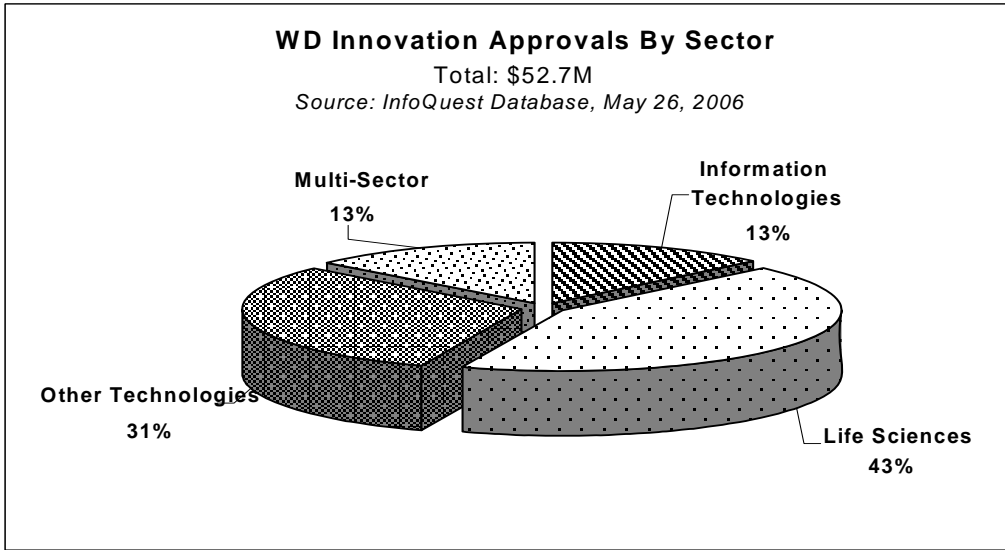
Planned	Actual	Difference
68	68	0

Innovation, the process that translates knowledge into new products and services, is an important driver of long-term economic competitiveness and prosperity. WD investments in innovation are an important building block for creating a diversified economy in Western Canada. These investments support the emergence and growth of technology clusters in key sectors - such as environmental technologies, life sciences, information and communications technology (ICT) and value added resources and contribute to the development and commercialization of new technologies and technology based services and products in Western Canada.

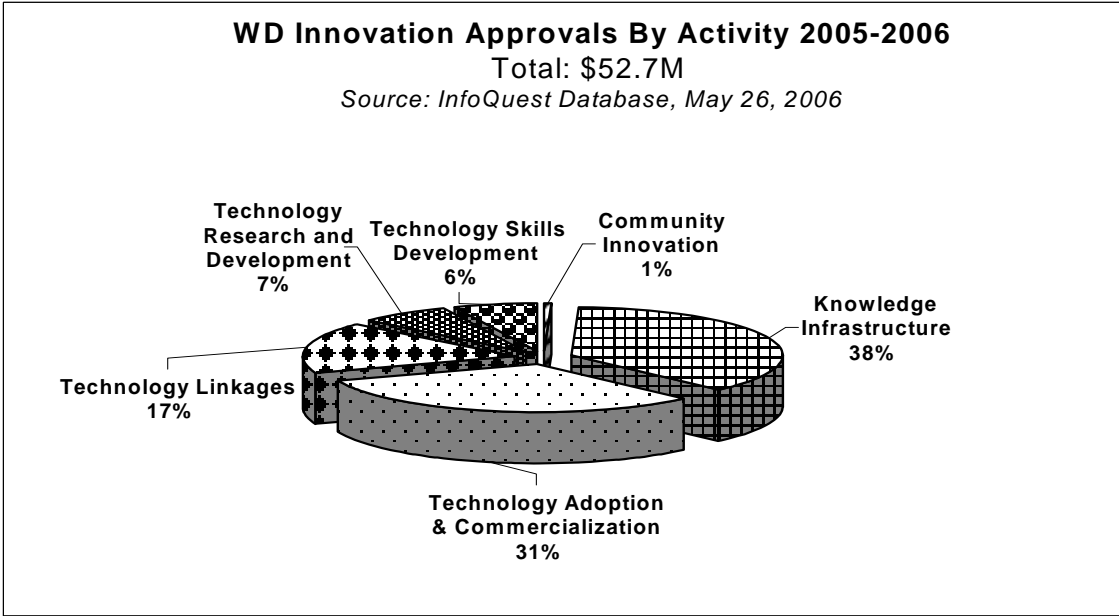
According to the cluster life-cycle model, most of the western technology clusters are in their earliest formative stages. Recognizing this, the majority of WD investments have been made in knowledge infrastructure and technology adoption and commercialization, which help set the foundation for clusters and future growth. As the clusters mature, investments will address gaps and opportunities and will be connected to markets and collaborative research opportunities with the United States through the ERI.

By strengthening the innovation system and enhancing technology clusters, resources such as highly qualified personnel (HQP), large anchor companies, venture capital, investments in R&D and knowledge infrastructure are drawn to and developed in the region. Firms in clusters are often active in export markets and international supply chains, and contribute to economic growth and diversification by reinvesting in new R&D activities and creating or retaining highly skilled jobs.

In 2005-2006, WD approved almost \$52.7 million to support the growth and development of technology clusters and the innovation system as a whole. The following graph illustrates this distribution:



WD works with many partners when developing and funding innovation projects. On average, the department contributes 33 per cent of the costs of an innovation project. For innovation projects approved in 2005-2006, WD support will leverage funding of \$146.4 million from other sources.



Sub-Activity: Technology Adoption and Commercialization

Technology commercialization ultimately occurs in industry. WD supports all phases along the technology commercialization continuum from support to organizations such as university technology transfer offices that identify, protect and license technologies to support that encourages technology adoption and adaptation.

Increasing investment and support for the commercialization of new technologies in Western Canada is a priority for WD. The department's work in this area has led to broad results including an increase in the number of technologies developed in research institutions that have commercialization potential, as demonstrated by intellectual property (IP) protection, licensed to an external user, or form the basis for a new company. The ultimate goal is to bring new products and services to the marketplace. In addition, WD's efforts have led to increased technologies adopted by existing firms. Examples of results achieved through WD investments include the following:

- In 2003 - 2004, WD approved \$850,000 to support a \$1.28 million multi-year project with the British Columbia Cancer Agency (BCCA) to support BCCA's Technology Development Office (TDO). To date, TDO's technology commercialization activities have resulted in 93 new invention disclosures, 39 patent applications, 49 licensing deals, and the creation of two new spin-off companies.
- WD's ongoing support of \$20M since 1995 to Telecommunications Research Laboratory (TRLabs), Canada's largest information and communications technology R&D consortium, has proven an effective mechanism for increasing the investment for commercialization of new technologies in the West. TRLabs creates innovative technologies and trains students to enhance ICT expertise and improve Canada's global competitiveness. Labs in Edmonton, Calgary, Saskatoon, Regina, and Winnipeg employ 230. With 51 partner members representing a unique synergy of industry, government, and university, research activities focus on seven strategic areas dedicated to building the network of the future: data networking, digital media, home technologies, network access, network systems, photonics, and wireless communications. In its 20-year existence, TRLabs has created 1092 technologies, generated 161 patents issued or pending, evaluated 635

In 2005-2006, TRLabs created 100 new technologies, of which members have evaluated 29; generated eight patents issued or pending; and had 15 technologies commercialized through new products or adopted by industry to improve productivity. TRLabs has an active pre-commercialization research program (82 projects) and has put a strong emphasis on training students (28), many of who find employment in the telecommunications sector.

Source: 2006 annual report (<http://www.trlabs.ca/trlabs/about/mediaroom/annualreports.html>)

technologies of which 306 have been commercialized, and trained 839 highly skilled university graduates.

- Northern Alberta Institute of Technology (NAIT) Fuel Cell Demonstration, Alberta's first high voltage (200 kw) fuel cell has now been operating for over a year and is providing eight per cent of NAIT's electrical power and also one million BTUs per hour of thermal energy which is used to heat a swimming pool and several water tanks. WD's support of \$950,000 towards this \$3.1 million project has contributed to the annual reduction of 1100 tonnes of carbon dioxide emissions. This type and size of fuel cell is a likely candidate for early commercial adoption.
- Through a Memorandum of Understanding with the National Research Council's Industrial Research Assistance Program, WD has also contributed \$3 million annually to advance SME technology capacities in key sectors (life sciences; advanced manufacturing and industrial productivity; environmental technologies; nutraceuticals and functional foods; information technologies; micro and nano-technologies; and, construction). Contributions to firms of \$2.5 million in 2004-2005 enabled firms to attract venture capital financing, undertake applied R&D, hire HQP to facilitate company growth and adopt new technologies to increase productivity by implementing lean product and process design processes.

Sub-Activity: Technology Linkages

Through its work in innovation, WD has increased connections and synergies among innovation system members through new partnerships/networks, collaboration, and conferences to exchange information and increase awareness.

WD funding in this regard includes support for Flintbox, a web-based technology transfer tool developed by UBC Research Enterprise. Flintbox's expansion to a national network with university, industry and government users have fostered linkages and collaborative research between innovation players. Flintbox has enabled Sockeye, a 3D tool for genomic information to be licensed to 1,300 researchers worldwide. It is used by more than 20 academic institutions nationally and has attracted international interest on a license basis, thus generating revenues that enable Flintbox to provide free services to Canadian institutions.

Sub-Activity: Technology Research and Development

To support technology R&D, WD has invested in applied R&D leading to a new product or process that will have a near or mid-term commercial potential. This has resulted not only in applied R&D leading to technologies with commercialization potential, but also support for the operating or increased capacity of R&D centres and increased availability of skilled personnel.

The following examples of projects funded by WD demonstrate the impact of applied R&D in two areas, manufacturing and new media:

- The Prairie Agricultural Machinery Institute (PAMI), an applied research, development, and testing organization that provides manufacturers and farmers with resources needed to compete in domestic and international markets. In May 2005, WD approved a contribution of \$93,000 to PAMI towards total project costs of \$208,138, which enabled them to complete a pilot biodigester facility in Humboldt, Saskatchewan. Large biodigesters are used to take waste materials such as manure, animal slaughter waste, food processing waste, and municipal waste and typically convert this feedstock into gas (for heat or power generation) and sludge (for conversion into fertilizer). This pilot project demonstrates feasibility and it is estimated that there will be 25 full-scale biodigester facilities initiated in Canada over the next few years.
- In 2002 WD provided funding to establish the Centre for Media and Digital Entertainment at Red River College (RRC), which is bringing together college programming in communications, graphic design, multimedia, animation, video game design and digital cinematography. Creating a pool of skilled labour is key to the future of Manitoba's digital media sector and video game industry and will play an important role in the further development of Manitoba's New Media Industry. In 2004-2005 for example, 33 students graduated from RRC's Digital MultiMedia Technology Program. An affiliated games studio, Fortune Cat Studio, is an incubator that offers experience for recent graduates and enables Canadians to produce software that may lead to new firm development.

Sub-Activity: Community Innovation

Innovation at the community level can identify new opportunities and enhance the viability of traditional sectors. WD's support for community innovation in 2005-2006 resulted in planning studies used by communities as a tool for economic development, increased capacity in communities based on the generation of new knowledge, and community businesses adopting new technologies.

Results include the following:

- WD has provided funding towards a number of innovation related studies by BC community organizations such as the Okanagan Partnership Society and the Regional District of Kootenay Boundary. These studies have enabled the communities to develop and implement business plans that will lead to increased innovation in the community through: ultra-high speed broadband connectivity; increasing a community's capacity to conduct applied research in valued-added agriculture industries (wine/grapes, apples and lavender); and, closely linking industry's product development to market needs.
- Rural areas in Manitoba have undertaken many initiatives to increase self-reliance. Established in 1993, the goal of the Manitoba Crop Diversification Centre, for example, is to

support crop diversification and enhanced production technologies for prairie agriculture. . WD was instrumental in establishing the Centre by providing start-up and initial operating support of nearly \$4 million. The Centre has completed research and demonstration projects for potato, pulse, bean, herb, vegetable, fruit and other high value crops. The Centre's research helps improve the viability and environmental sustainability of the prairie agricultural economy at the community level.

Sub-Activity: Technology Skills Development

Under this sub-activity, WD supports projects that increase training, education and skill building in the new economy sectors. WD has contributed to several initiatives that increase the number of qualified individuals in the field and build linkages with industry. These include the following:

- Through partnerships with the WestLink Innovation Network, the four western provinces, Natural Sciences and Engineering Research Council (NSERC), Canadian Institutes of Health Research (CIHR), federal labs, and industry, WD has been addressing the shortage of trained technology commercialization managers in Western Canada. WD contributed \$800,000 to establish WestLink in 1999, and in January 2006 approved an additional \$950,000 to assist with operating costs until August 2008.

The WestLink Technology Commercialization Internship Program (TCIP) provides science and technology graduates from across the West with intensive real-life experience in university technology commercialization offices, venture capital firms and high-technology companies. Based on the success of phases I and II of TCIP which were supported by WD, the department approved a contribution of \$600,000 in November 2005 towards total project costs of \$3.6 million for Phases III and IV. WestLink has been acknowledged nationally and internationally as a leader in developing the next generation of technology managers. The WestLink Innovation Network trained 41 technology commercialization professionals of whom 88 per cent are employed in this specialized field with over 50 per cent employed by industry. Most have remained in Western Canada. This program has been used as a new training model in the rest of Canada and abroad, and has been cited by the Conference Board Leaders Roundtable as a “Quick hit” to increase commercialization.

- The Southern Alberta Institute of Technology (SAIT), in partnership with the Calgary Airport Authority, other industry and public sector participants, is developing a nationally recognized aeronautical training facility, the Art Smith Aero Centre for Training and Technology (ACTT). WD investment of \$2.9 million leveraged funding of \$16.1 million from other sources. The facility occupies a 21,000 sq. ft hanger at the Calgary airport and has 13 labs including helicopter, composite materials and gas turbines. In 2005-2006, the facility had an enrolment of 210 students.
- The Mathematics of Information Technology and Complex Systems, Inc. [MITACS], expanded its MITACS Graduate Internship Program to 90 graduate and postdoctoral interns

who work in industry and the university as they apply advanced mathematical techniques to address issues faced by organizations. This includes: helping energy companies to model the dynamics of fuel cells; increasing the efficiency of company operations; creating more reliable cyber security solutions for industry and government; and, improving the efficacy of chemotherapy and surgical interventions in cancer treatment. MITACS has 30 internships in BC and 14 internships in Alberta in 35 sponsoring organizations including companies, hospitals, government labs and not-for-profit organizations. WD originally invested in a pilot project in British Columbia in 2004, and has approved additional contributions to expand the program into Manitoba and Alberta. WD's total approved assistance to date is \$750,000, or approximately 24 per cent of the total cost of the MITACS Graduate Internship Program.

Sub-Activity: Knowledge Infrastructure

Investments in knowledge infrastructure provide the foundation for technology clusters. WD's investments in this area have resulted in increased physical assets for R&D and/or training and new investments to the field. Examples of results include:

- Canadian Light Source (CLS) Synchrotron in Saskatoon, represents unprecedented cooperation between national, provincial and municipal governments, as well as academic, industrial and government researchers. As the fourth most powerful light source in the world, the synchrotron provides a national research tool for Canadian scientists and makes Canada globally competitive with similar technologies in other countries. A synchrotron is a source of brilliant light used by scientists to view the microstructure of materials. Infrared, ultraviolet and X-ray light is shone down beamlines to endstations (small laboratories) where scientists can select different parts of the spectrum to "see" the microscopic nature of matter. Information obtained by scientists can be used for many applications such as helping design new drugs, examining the structure of surfaces in order to develop more effective motor oils, building more powerful computer chips, developing new materials for safer medical implants, and helping clean-up mining wastes.

WD has been a major contributor to the CLS facility, administering over \$22 million in federal funding for capital construction, operating costs, marketing and impact studies. WD also has entered a more recent contract with CLS committing \$5 million over four years for the construction of six new beamlines and endstations. CLS has undertaken research projects with the diamond sector, feed processing industry, aircraft sector and mining sectors. The potential for commercial applications of the synchrotron's current and future beamlines has already captured the interest of leading Canadian and international firms that have committed to investing and supporting the research being conducted.

- Smartpark, Manitoba's first research park at the University of Manitoba (U of M) was developed with WD assistance. WD contributed \$4.2 million towards the planning and development of basic infrastructure and to help establish an incubator. Smartpark facilitates the commercialization of research and technology by encouraging collaboration between the

U of M and private industry in the areas of advanced materials, manufacturing, pharmaceuticals and agricultural biotechnology, resource-based products and processing, and information technology and telecommunications. Smartpark now has numerous tenants with 800 total staff, seven research buildings, 380,000 sq. ft. of science and technology space, and \$100 million in capital developments. Its tenants include a high tech incubator, TRILabs, the Composites Innovation Centre, ProfitMaster Canada, IDERS, Imris, the Industrial Technology Centre, Cangene, RCFFN, and others. By creating a high tech focal point, Smartpark encourages entrepreneurs and university researchers to work together, building synergies that enhance innovation and growth.

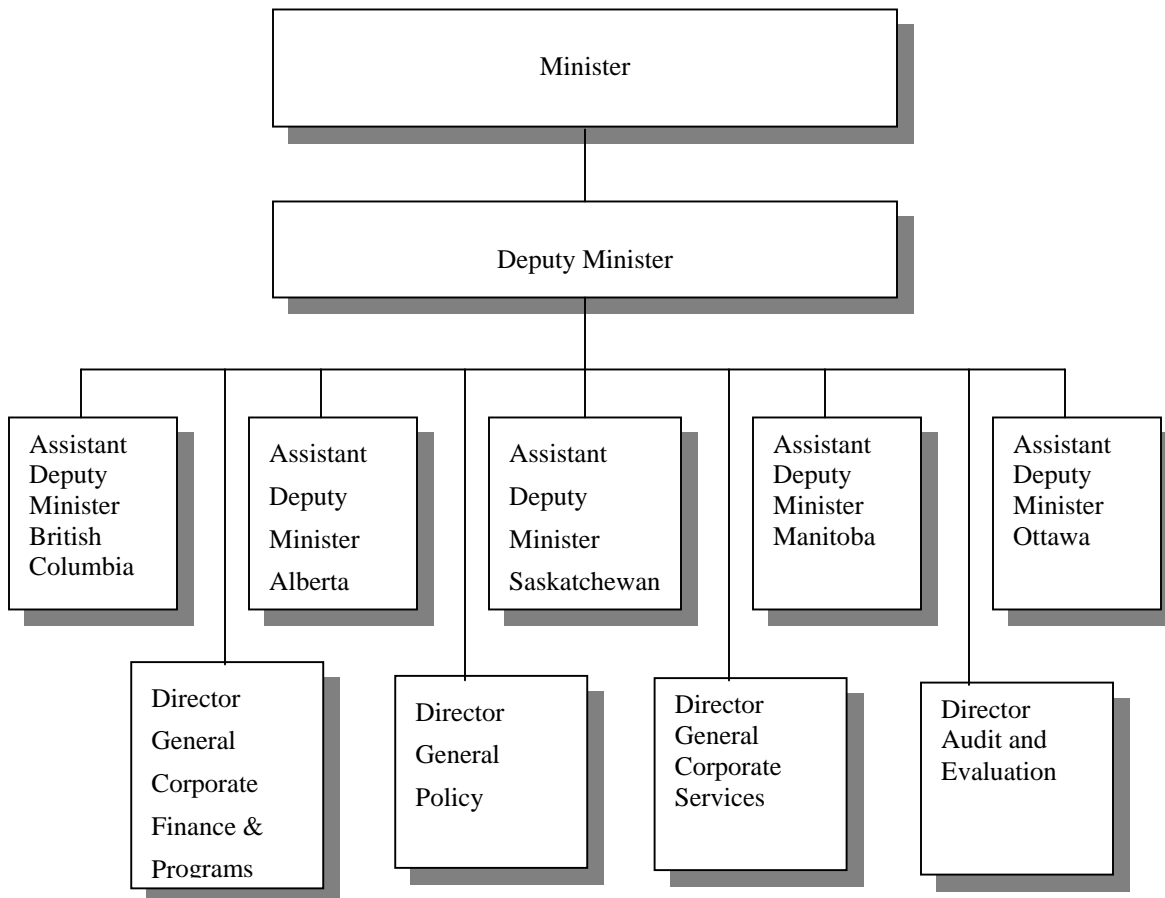
SECTION III – SUPPLEMENTARY INFORMATION

Organizational Information

WD's Head Office is located in Edmonton, Alberta, co-located with the Regional Office for Alberta. Regional offices are located in each of the other western provinces - Winnipeg, Saskatoon and Vancouver - with a liaison office in Ottawa. Regional satellite offices also exist in Calgary, Regina, and Victoria. The department's Deputy Minister is located in Edmonton, and Assistant Deputy Ministers are located in Vancouver, Edmonton, Saskatoon, Winnipeg and Ottawa.

In addition to corporate responsibilities, each of the western Assistant Deputy Ministers is accountable for the delivery of programs and services in their region, which support the department's strategic outcomes. The Ottawa based Assistant Deputy Minister and the Director General Policy lead the department's advocacy activities. The department also works closely with Industry Canada and other Regional Development Agencies (RDAs).

Western Economic Diversification Canada Organization Structure



WD's Executive Committee is composed of the Deputy Minister, five Assistant Deputy Ministers, the Director General Corporate Finance and Programs, Director General Corporate Services, Director General Policy and the Director Corporate Communications.

Table 1: Comparison of Planned to Actual Spending (including FTEs)

(\$ thousands)	2003–04 Actual	2004-05 Actual	2005–2006			
			Main Estimates	Planned Spending	Total Authorities	Total Actuals
Western Economic Diversification Canada	315,729	312,131	392,692	392,692	398,482	306,649
Adjustments	0	0	0	111,092	0	0
Total	315,729	312,131	392,692	503,784	398,482	306,649
Less: Non-respendable revenue	(36,984)	(22,706)	0	(8,900)	0	8,641
Plus: Cost of services received without charge	4,200	4,311	0	4,258	0	4,479
Total Departmental Spending	282,945	293,736	392,692	499,142	398,482	302,487
Full-time Equivalents	380	374	392	392	392	379

Note: Actual spending is lower than planned spending, primarily due to the transfer of contractual commitments under the Infrastructure Canada Program to future years.

Table 2: Resources by Program Activity

\$ Thousands

Program Activity	Operating	Contributions and Other Transfer Payments	Total
Collaboration & Coordination			
Main Estimates	4,571	115	4,686
<i>Planned Spending</i>	4,559	115	4,674
Total Authorities	5,061	35	5,096
<i>Actual Spending</i>	4,770	35	4,805
Research and Analysis			
Main Estimates	3,257	578	3,835
<i>Planned Spending</i>	3,252	578	3,830
Total Authorities	3,606	527	4,133
<i>Actual Spending</i>	2,385	527	2,912
Advocacy			
Main Estimates	2,295	115	2,410
<i>Planned Spending</i>	2,290	115	2,405
Total Authorities	2,541	0	2,541
<i>Actual Spending</i>	3,414	0	3,414

Program Activity	Operating	Contributions and Other Transfer Payments	Total
Community Economic Planning, Development and Adjustment			
Main Estimates	8,925	32,566	41,491
<i>Planned Spending</i>	12,646	132,739	145,385
Total Authorities	9,880	46,026	55,906
<i>Actual Spending</i>	9,630	45,026	54,655
Infrastructure			
Main Estimates	4,367	236,612	240,979
<i>Planned Spending</i>	4,392	236,612	241,004
Total Authorities	4,834	227,281	232,115
<i>Actual Spending</i>	5,921	137,532	143,453
Business Development and Entrepreneurship			
Main Estimates	14,570	36,473	51,043
<i>Planned Spending</i>	14,527	35,973	50,500
Total Authorities	16,131	39,772	55,903
<i>Actual Spending</i>	15,245	39,772	55,018
Innovation			
Main Estimates	6,736	41,512	48,248
<i>Planned Spending</i>	7,761	48,225	55,986
Total Authorities	7,458	35,330	42,788
<i>Actual Spending</i>	7,062	35,330	42,392

Table 3: Voted and Statutory Items**\$ thousands**

Vote or Statutory Item	Truncated Vote or Statutory Wording	2005–2006			
		Main Estimates	Planned Spending	Total Authorities	Total Actuals
1	Operating expenditures	39,958	44,664	43,983	42,901
5	Grants and contributions	347,971	454,357	348,971	258,222
(S)	Minister of Western Economic Diversification Canada - Salary and motor car allowance	70	70	60	60
(S)	Contributions to Employee benefit plans	4,693	4,693	5,445	5,445
(S)	Spending of Proceeds from disposal of Surplus Crown Assets	0	0	23	21
	Total Department	392,692	503,784	398,482	306,649

Note: Total Authorities are lower than Planned Spending due to the Supplementary Estimates A not being approved by Parliament. Actual spending is lower than Total Authorities, primarily due to the transfer of contractual commitments under the Infrastructure Canada Program to future years.

Table 4: Services Received Without Charge

(\$ thousands)	2005–2006
Accommodation provided by Public Works and Government Services Canada	2,020
Contributions covering employers' share of employees' insurance premiums and expenditures paid by Treasury Board of Canada Secretariat (excluding revolving funds). Employer's contribution to employees' insured benefits plans and associated expenditures paid by TBS	2,400
Worker's Compensation coverage provided by Social Development Canada	50
Salary and associated expenditures of legal services provided by the Department of Justice Canada	9
Total 2005–2006 Services received without charge	4,479

Table 5: Sources of Respendable and Non-respendable Revenue

Respendable Revenue - N/A

Non-respendable Revenue

(\$thousands)	Actual 2003-2004	Actual 2004-2005	2005-2006	
			Planned Revenue	Actual
Repayable Contributions	19,432	18,462	8,000	6,513
Other Revenue	2,892	4,245	400	175
Adjustments to previous years payables at year-end	0	0	500	1,953
Small Business Loans Act – Service Fees	1,744	0	0	0
Canada Small Business Finance Act – Service Fees	12,916	0	0	0
Total Non-respendable Revenue	36,984	22,706	8,900	8,641

Table 6: Resource Requirements by Branch or Sector

2005-2006				
Program Activity (\$ thousands)	Regional Programs	Corporate/Multi-Regional Programs	National Programs	Total
Collaboration and Coordination				
Planned Spending	3,384	1,290	-	4,674
<i>Actual Spending</i>	<i>3,067</i>	<i>1,738</i>	-	<i>4,805</i>
Research and Analysis				
Planned Spending	2,193	1,637	-	3,830
<i>Actual Spending</i>	<i>2,043</i>	<i>869</i>	-	<i>2,912</i>
Advocacy				
Planned Spending	1,540	865	-	2,405
<i>Actual Spending</i>	<i>2,170</i>	<i>1,244</i>	-	<i>3,414</i>
Community Economic Planning, Development and Adjustment				
Planned Spending	142,431	2,954	-	145,385
<i>Actual Spending</i>	<i>50,931</i>	<i>3,724</i>	-	<i>54,655</i>
Infrastructure				
Planned Spending	-	-	241,044	241,004
<i>Actual Spending</i>	-	-	<i>143,453</i>	<i>143,453</i>
Business Development and Entrepreneurship				
Planned Spending	41,700	8,800	-	50,500
<i>Actual Spending</i>	<i>46,687</i>	<i>8,331</i>	-	<i>55,018</i>
Innovation				
Planned Spending	53,831	2,155	-	55,986
<i>Actual Spending</i>	<i>38,785</i>	<i>3,607</i>	-	<i>42,392</i>
TOTAL				
Planned Spending	245,079	17,701	241,004	503,784
<i>Actual Spending</i>	<i>143,683</i>	<i>19,513</i>	<i>143,453</i>	<i>306,649</i>

Note: Actual spending is lower than planned spending, due to the 2005-2006 Supplementary Estimates A not being approved by Parliament and the transfer of contractual commitments under the Infrastructure Canada Program to future years.

Table 7: User Fees Act

**WD only collects user fees for Access to Information Requests. The total user fees collected during the year was \$214.40*

User Fee	Fee Type	Fee-setting Authority	Date Last Modified	2005-2006					Planning Years		
				Forecast Revenue (\$000)	Actual Revenue (\$)	Full Cost (\$000)	Performance Standard	Performance Results	Fiscal Year	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
Access to Information Requests	<i>Application</i>	<i>ATI Regulations</i>	1983	N/A	120.00		Response within 30 Days of Request	Information provided to client within 30 days of request.	N/A	N/A	N/A
Access to Information Requests	<i>Reproduction</i>	<i>ATI Regulations</i>	1983	N/A	94.40		Response within 30 Days of Request	Information provided to client within 30 days of request.	N/A	N/A	N/A

Table 8: Policy on Service Standards for External Fees

External Fee	Service Standard	Performance Result	Stakeholder Consultation
Access to Information Requests	Response within 30 days of information request. In certain instances, an extension may be negotiated with client to ensure the most reliable information is provided.	Information provided to client within 30 days of request.	Generally do not receive feedback from client. If they are unsatisfied with the information provided, they respond to the Information Commissioner.

Table 9: Details on Transfer Payment Programs (TPPs)

During the 2005-2006 fiscal year, Western Economic Diversification managed the following transfer payment programs with expenditures in excess of \$5 million:

1. Western Diversification Program;
2. Community Futures Program; and
3. Infrastructure Canada Program.

For further information on the above-mentioned transfer payment programs see <http://www.tbs-sct.gc.ca/est-pre/estime.asp>

Table 10: Foundations (Conditional Grants)

Western Economic Diversification provided a conditional grant of \$27 million to the Friends of the Canadian Museum for Human Rights Inc. to cover expenditures to be incurred over a number of years.

Further information on this Foundation (conditional grants) can be found at <http://www.tbs-sct.gc.ca/est-pre/estime.asp>.

Table 11: Horizontal Initiatives

During the 2005-2006 fiscal year, Western Economic Diversification was involved in the following horizontal initiatives as either the lead or as a partner:

Lead

1. Western Economic Partnership Agreements

Partner

2. Infrastructure Canada Program – *Infrastructure Canada (lead)*
3. Canada Strategic Infrastructure Fund – *Infrastructure Canada (lead)*
4. Municipal Rural Infrastructure Fund – *Infrastructure Canada (lead)*
5. U.S. Enhanced Representation Initiative (ERI) – *Foreign Affairs & International Trade Canada (lead)*

For further information on the above-mentioned horizontal initiatives see <http://www.tbs-sct.gc.ca/est-pre/estime.asp>.

Table 12: Financial Statements of Departments and Agencies (including Agents of Parliament)

For Table 12, see Annex I.

Table 13: Response to Parliamentary Committees, and Audits and Evaluations for Fiscal Year 2005–06

Response to Parliamentary Committees
None – There were no recommendations received during 2005-2006 from Parliamentary Committees.
Response to the Auditor General including to the Commissioner of the Environment and Sustainable Development (CESD)
Sustainable Development strategies (Chapter 7) Environmental Petitions (Chapter 8) Management of Horizontal Initiatives (Chapter 4) Follow-up on 2001 Recommendations SDS - Commitment Progress Monitoring Questionnaire
External Audits (Note: These refer to other external audits conducted by the Public Service Commission of Canada or the Office of the Commissioner of Official Languages.)
None - There were no audits conducted by PSC or OCOL during 2005-2006 although the OCOL undertook its 2005-2006 Annual Review of Official Languages.
Internal Audits, Evaluations and Follow-ups
The following audits, evaluations and follow-ups were completed during 2005-2006. Reports (when finalized and translated) are posted on WD's website http://www.wd.gc.ca/rpts/audit/default_e.asp
<u>Audits completed during 2005-2006</u> Transfer Payments Financial Management of Grants & Contributions Management of Physical Records
<u>Evaluations completed during 2005-2006</u> Service Delivery Network Program Aboriginal Business Service Network Entrepreneurs with Disabilities Program and Urban Entrepreneurs Development Initiative
<u>Follow-ups completed during 2005-2006</u> Follow-up on previously completed Audits: Community Futures Program, Contracting, Infrastructure Canada Program (BC) Follow-up on previously completed Reviews: Monitoring and Payments, Quality Assurance Follow-up previously completed Evaluations: Community Futures Program, Official Languages Action Plan, Sustainable Development strategy

Table 14: Sustainable Development Strategies (SDS)

Key Points	Summary
Key goals, objectives, and/or long-term targets of the SDS	<ul style="list-style-type: none"> • Provide information within the department and to our partners such as WCBSN on SDS and its practical applications; • invest in the development and commercialization of environmental technologies and processes in Western Canada; • invest in projects that enable western Canadian communities to improve their social, environmental and economic sustainability; and, • provide information to western Canadian businesses on SDS concepts, practices and benefits.
How key goals, objectives and/or long-term targets help achieve WD's strategic outcomes	<p>In order to fully integrate sustainable development into departmental planning, program delivery and operations, WD has adopted the following vision of sustainable development:</p> <p style="padding-left: 40px;">WD is building a more sustainable Western Canada by making strategic investments and providing its employees and partners with practical tools to integrate sustainable development into the three core areas of business or 'strategic outcomes' – innovation, entrepreneurship and community economic development.</p> <p>WD's goals, objectives and targets will contribute to this by ensuring a common understanding of SD within the department, and promoting SD through the department's website, <i>Access West</i> publication, and other appropriate contacts. WD's investment in SD related projects leverages investments by other funders and has resulted in new partnerships amongst government, institutions, associations and industry.</p>
Targets	WD's SDS 2003 outlines targets for fiscal years 2004-2005 through 2006-2007. Specific annual targets are not identified for each fiscal year.
Progress to date	<p>In 2005-2006 WD invested approximately \$14 million in projects that will contribute to the achievement of outcomes as identified in SDS 2003. The department also developed officer training and implemented improvements to operational systems to improve the identification and tracking of SD projects. These activities have been key to ensuring that officers are able to identify, support and report on SD related projects.</p> <p>Specific achievements against SDS 2003 targets are posted annually on the department's website. For a detailed report on key outcomes from 2005-2006 please refer to the annual update at: http://www.wd.gc.ca/rpts/strategies/sd/2003/update_e.asp.</p>
Adjustments	SDS 2003 provides a framework for the department's SD activities in fiscal years 2004-2005 through 2006-2007. No adjustments were needed during the second year of this strategy.

Table 15: Procurement and Contracting

Department	
Points to Address	Organization’s Input
1. Role played by procurement and contracting in delivering programs	Western Economic Diversification Canada (WD) secures a wide range of necessary goods and services to meet operational needs, enabling the department to obtain the inputs required to conduct its business. It is critical that the department receives best value for the money spent and attention is given to fairness, transparency and cost effectiveness. Additionally, WD makes every effort to source goods and services, whenever possible and practical, to businesses in Western Canada and to encourage contracts with Aboriginal businesses.
2. Overview of how the department manages its contracting function	Whenever practical contracts awarded by WD follow a competitive process using standing offers, supply arrangements and multiple bids. In addition, WD has a rigorous process for the review of non-competitive contracts. Furthermore, departmental procurement specialists ensure that Treasury Board procurement policies and procedures are complied with when creating contracts. Before managers receive delegated contracting authority they are required to complete training from the Canada School of Public Service, after which they are required to complete an online assessment and certification. This training, and the accompanying certification process, ensures that managers have the required knowledge to initiate purchases and enter into contractual agreements on behalf of the department and Canada.
3. Progress and new initiatives enabling effective and efficient procurement practices	WD has introduced a number of measures that strengthen procurement procedures to ensure that departmental procurement practices comply with Treasury Board procurement policies and procedures. WD has strengthened the terms of reference of its Contract Review Committee, which reviews all non-competitive contract proposals with a value in excess of \$10,000. In addition the department is an active participant in the government-wide proactive disclosure initiative publishes on its website all contracts with a value in excess of \$10,000.

Table 16: Service Improvement

A number of initiatives have been undertaken to improve services to WD clients and information on WD services to the general public.

1. Payments on WD contribution Agreements are made based on the submission of claims by the client for costs incurred and paid. A new expedited process is now being introduced for low risk projects that will help reduce the internal claims processing time, resulting in an improved response time. This process will result in new forms that will clarify and simplify the claims process for clients.

2. WD's website is being revitalized to provide better transparency in describing WD programs and the process for applying for assistance. In addition, the disclosure of WD approved Grants and Contributions has now been aligned for consistency with other departments under the government wide Treasury Board Secretariat guidelines, which will facilitate public access information on WD's funding decisions.
3. WD's Western Canada Business Service Network includes ninety Community Futures Development Corporations, four Women's Enterprise Centres and the four Francophone Economic Development Organizations. WD provides funding for these organizations who in turn provide direct services and/or loans to businesses. WD is in the process of implementing an on-line electronic reporting system to help reduce administration for these organizations and improve the quality of information reported by these organizations.

Table 17: Travel Policies

Western Economic Diversification Canada conforms to all Treasury Board Secretariat travel policy parameters.

SECTION IV – OTHER ITEMS OF INTEREST

Official Languages

In her response to the *2005-2006 Annual Review of Official Languages within WD*, the Commissioner of Official Languages has noted that WD continues to make significant progress in several areas such as: service to the public; language of work; human resources management; and program management. WD's efforts in furthering Official Languages within the department has been recognized by the Public Service Human Resources Management Agency of Canada's Office of the Vice-President for Official Languages.

Externally, WD's strategy focuses on encouraging entrepreneurship and business development in Western Canada's francophone communities, and currently includes three major partnerships:

WD's partnership with Canadian Heritage for the Interdepartmental Partnership for the Official Languages Communities program (IPOLC) will continue until March 31, 2007. The IPOLC Memorandum of Understanding is intended to encourage new partnerships in the Official Language Minority Community and seek projects resulting in long-term sustainable community and economic advancements.

WD also partners with western-based francophone economic development organizations (FEDOs) to address and provide assistance to francophone entrepreneurs and communities. In 2005, this partnership, under the broader umbrella of the WCBSN, was highlighted by the Commissioner of Official Languages as a best practice in identifying and meeting the needs of francophone entrepreneurs and communities.¹⁶

WD and Industry Canada pool their expertise through an MOU to implement a series of tele-education and tele-learning pilot projects and youth internships in the West. The distance learning pilot projects serve to expand French course content and on-line applications, while the internships serve to establish opportunities for youth to develop skills and labour capacity in their province of residence, and to enhance their skills in the minority official language. Under this MOU, resources were made available for four years. In 2005-2006, four major distance education projects were initiated at College Educacentre in British Columbia, Campus St. Jean in Alberta, College Matthieu in Saskatchewan and the College Universitaire in Manitoba.

Also in 2005-2006, WD assisted francophone organizations in hiring 14 interns for lengths of time ranging from two to twelve months.

At the end of the WD-Industry Canada distance-learning pilots in 2007-2008, data will be collected on the number of students accessing distance learning programs and the number who have attained long-term employment.

WD's detailed OLA Action Plan is located at the following site:
http://www.wd.gc.ca/rpts/strategies/ola/default_e.asp

¹⁶ *Audit of the Community Futures Development Corporations and Community Business Development Corporations*. The document can be found at: http://www.ocolclo.gc.ca/archives/sst_es/2005/industry_industrie/industry_industrie_e.htm

Annex I: Financial Statements



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada



WESTERN ECONOMIC DIVERSIFICATION CANADA FINANCIAL STATEMENTS (Unaudited)

FOR THE YEAR ENDED MARCH 31, 2006



Western Economic Diversification Canada

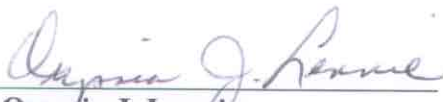
Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2006, and all information contained in this report rests with Western Economic Diversification Canada (WD) management. These financial statements have been prepared by management in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are consistent with Canadian generally accepted accounting principles for the public sector.

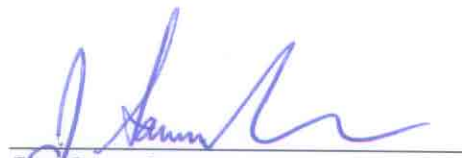
Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgement and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the WD's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Department.

The financial statements of Western Economic Diversification Canada have not been audited.



Oryssia J. Lennie
Deputy Minister
Edmonton, Alberta
Canada



Jim Saunderson
Senior Financial Officer

August 17, 2006
Date

Western Economic Diversification Canada
Statement of Operations (unaudited)
For year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Transfer Payments (note 4)		
Policy, Advocacy and Coordination	\$ 596	\$ -
Sustainable Communities	186,402	168,823
Entrepreneurship and Innovation	85,100	96,572
Total Transfer Payments	<u>272,098</u>	<u>265,395</u>
Operating Expenses (note 4)		
Policy, Advocacy and Coordination	13,363	9,966
Sustainable Communities	17,561	13,098
Entrepreneurship and Innovation	28,205	21,036
Total Operating Expenses	<u>59,129</u>	<u>44,100</u>
Total Expenses	<u>331,227</u>	<u>309,495</u>
Revenues (note 4)		
Policy, Advocacy and Coordination	-	33
Sustainable Communities	460	473
Entrepreneurship and Innovation	2,329	3,805
Total Revenues	<u>2,789</u>	<u>4,311</u>
Net Cost of Operations	<u>\$ 328,438</u>	<u>\$ 305,184</u>

The accompanying notes form an integral part of these statements.

Western Economic Diversification Canada
Statement of Financial Position (unaudited)
For year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Assets		
Financial Assets		
Receivables		
-Other Government Departments	\$ 48	\$ 676
-External Parties (note 5)	3,340	4,425
Repayable Contributions (note 6)	11,168	19,941
Total Financial Assets	<u>14,556</u>	<u>25,042</u>
Non Financial Assets		
Prepayments (note 7)	11,245	26,778
Tangible Capital Assets (note 9)	475	387
Total Non-Financial Assets	<u>11,720</u>	<u>27,165</u>
Total Assets	<u>\$ 26,276</u>	<u>\$ 52,207</u>
Liabilities		
Accounts Payable and Accrued Liabilities		
-Other Government Departments	524	1,136
-External Parties (note 8)	68,021	73,607
Vacation pay and compensatory leave	1,537	1,316
Employee severance benefits (note 10 (b))	5,874	4,982
Total Liabilities	<u>75,956</u>	<u>81,041</u>
Equity of Canada	<u>(49,680)</u>	<u>(28,834)</u>
Total Liabilities and Equity of Canada	<u>\$ 26,276</u>	<u>\$ 52,207</u>

Commitments (Note 11)

The accompanying notes form an integral part of these statements.

Western Economic Diversification Canada
Statement of Equity of Canada (unaudited)
For year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Equity of Canada, beginning of year	\$ (28,834)	\$ 13,083
Net cost of operations	(328,438)	(305,184)
Current year appropriations used (note 3 (b))	306,649	312,131
Revenue not available for spending (note 3 (c))	(3,449)	(5,049)
Change in net position in the Consolidated Revenue Fund (note 3 (c))	(87)	(48,126)
Services provided without charge by other government departments (note 12 (a))	4,479	4,311
Equity of Canada, end of year	<u>\$ (49,680)</u>	<u>\$ (28,834)</u>

The accompanying notes form an integral part of these statements.

Western Economic Diversification Canada
Statement of Cash Flow (unaudited)
For year ended March 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Operating transactions		
Net cost of operations	\$ 328,438	\$ 305,184
Non-Cash Items:		
Amortization of tangible capital assets	(148)	(254)
Loss on disposal of tangible capital assets	-	(4)
Services provided without charge by other government departments (note 12 (a))	(4,479)	(4,311)
Variations in Statement of Financial Position:		
Decrease in receivables	(1,713)	(4,384)
Decrease in repayable contributions	(8,773)	(17,734)
Increase (decrease) in prepayments	(15,533)	6,994
Decrease (increase) in accounts payable and accrued liabilities	6,198	(26,516)
Decrease (increase) in vacation pay and employee severance	(1,113)	(125)
Cash used by operating activities	<u>302,877</u>	<u>258,850</u>
Capital investment activities		
Acquisitions of tangible capital assets	236	110
Proceeds from disposal of tangible capital assets	-	(4)
Cash used by capital investment activities	<u>236</u>	<u>106</u>
Financing Activities		
Net Cash Provided by Government of Canada	<u>\$ (303,113)</u>	<u>\$ (258,956)</u>
Net Cash (Used)	-	-

The accompanying notes form an integral part of these statements.

Western Economic Diversification Canada

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31, 2006

1. Authority and Objectives

Western Economic Diversification Canada (WD), a department of the Government of Canada operates under the authority of the *Western Economic Diversification Act* of 1988 that works to strengthen Western Canada's economy and advance its interests in national economic policy.

Through the *Act*, WD is mandated to:

- promote the development and diversification of the western Canadian economy;
- coordinate federal economic activities in the West; and
- reflect western Canadian interests in the formation of national economic policy.

Working in partnership with provincial and municipal governments, as well as other organizations, WD's programs and initiatives contribute to the Government of Canada's agenda for building a 21st Century economy in the West, while also helping to strengthen the social foundations of urban and rural communities.

The department's headquarters and Deputy Minister are located in Edmonton, Alberta. In close cooperation with western stakeholders, WD's objective is to more effectively guide federal government policies, regulations and resources so that they become more constructive instruments of western economic growth and diversification. WD's efforts are concentrated in three distinct but interrelated areas leading to the following strategic outcomes:

- policies and programs that support the development of Western Canada (Policy, Advocacy & Coordination);
- economically viable communities in Western Canada with a high quality of life (Sustainable Communities); and
- a competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system (Entrepreneurship and Innovation).

As part of WD's mandate to co-ordinate federal economic activities in the West, the Department implements programs on behalf of other federal departments and agencies. These programs are implemented under Memoranda of Understanding where the other federal department provides the authorities and funding from Parliament. Related costs are reported in the accounts of other federal departments, they are not reflected as expenses in these Financial Statements.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

- (a) Parliamentary appropriations – the Department is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the Department do not parallel financial

reporting according to Canadian generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the two basis of reporting.

- (b) Net Cash Provided by Government – The Department operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. Net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.
- (c) Change in net position in the CRF is the difference between the net cash provided by government and appropriations used in a year, excluding the amount of non-responsible revenues recorded by the Department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.
- (d) Revenues
 - I. Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
 - II. Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
 - Sources of revenues include:
 - Interest charges on repayment of contributions.
- (e) Expenses – are recorded on the accrual basis:
 - I. Transfer Payments:
 - Grants are recognized in the year in which the conditions for payment are met.
 - Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement.
 - II. Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
 - III. Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, workers' compensation and legal services are recorded as operating expenses at their estimated cost.
- (f) Employee future benefits
 - I. Pension benefits: Eligible employees participate in the Public Service Pension Plan (*The Public Service Superannuation Act*), a multi-employer plan administered by the Government of Canada. The Department's contributions to the plan are charged to expenses in the year incurred and represent the total departmental obligations to the plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the plan.
 - II. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the government as a whole.

- (g) Accounts receivables and advances. These are stated at amounts expected to be ultimately realized; a provision is made for receivable where recovery is considered uncertain.
- (h) Loan Loss Reserves - are agreements with financial institutions whereby the financial institutions authorize and issue loans using their own capital, and WD contributes to a loan loss reserve, equal to between 10 and 20% of the value of the loans issued. These reserves may be used to offset a portion (up to 80%) of net losses on defaulted loans, but may not exceed WD's total contribution to the reserve.
- (i) Transfer Payments are payments that are made on the basis of an appropriation for which no goods or services are directly received (but may require the recipient to provide a report or other information subsequent to receiving payments. WD administers two types of transfer payments:
 - Grants: transfer payments made to an individual or organization that is not subject to being accounted for or audited, but for which eligibility and entitlement may be verified or the recipient may need to meet pre-conditions.
 - Contributions: conditional transfer payments made to an individual or organization for a specified purpose pursuant to a contribution agreement that is subject to being accounted for and audited.

Within the Contributions category, WD has both non-repayable and repayable contributions. Repayable contributions are contributions whereby the recipient is expected to repay the amount advanced. Depending on their nature, they are classified as either unconditionally repayable or conditionally repayable and are accounted for differently.

- I. Unconditionally repayable contributions are contributions that must be repaid without qualification. Normally, these contributions are provided with a low or no interest clause. Due to their concessionary nature, they are recorded on the Statement of Financial Position as loans at their estimated present value. A portion of the unamortized discount is brought into income each year to reflect the change in the present value of the contributions outstanding. An estimated allowance for uncollectibility is also recorded where appropriate.
 - II. Conditionally repayable contributions are contributions that all or part of which becomes repayable if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until such time as the conditions specified in the agreement are satisfied at which time they are then recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

Prior to 1995 repayable contributions were regularly used to assist in the delivery of WD's mandate. Since 1995 they have only been used in limited circumstances. However, these repayable contributions will continue to be recorded on the financial statement and will continue to be until they are repaid or all reasonable attempts to collect have been taken and the accounts written-off.
 - III. Non-Repayable contributions are contributions that are not repayable unless default conditions in the agreement are exercised.
- (j) Prepayments – WD follows the Treasury Board Transfer Payment Policy, Article 7.6 Cash Management Policy: Instalments of Grants and Advance Payments of Contribution, Section 3 – advance payments are only provided or limited to the immediate cash requirement based on a monthly cash flow forecast from the recipient. Prior to fiscal year 2005-2006 all prepayments were recorded as accounts receivables. Effective April 1, 2005, WD changed its accounting policy for recording these transactions as expenses. For prepayments, the reporting back by a recipient on the use of funds is an

administrative requirement and not a determining factor in the recognition of the payment as an expense. Only the portion of a prepayment given to a recipient that is intended to cover expenses to be incurred in a subsequent fiscal year is recorded as an account receivable.

- (k) Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future event(s) occurs or fails to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingent liability is disclosed in the notes to the financial statements. The Department has no contingent liabilities at this time.
- (l) Tangible capital assets (note 9) – All tangible assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Sub-asset class	Amortization period
Machinery and equipment	Computer equipment	3 years
	Computer software	3 years
	Other equipment	10 years
Vehicles		5 years
Leasehold improvements		Term of the lease

- (m) Measurement uncertainty – The preparation of these financial statements in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the liability for employee severance benefits, the useful life of tangible capital assets and unamortized discount related to unconditionally repayable contributions. Actual results could differ from those estimated. Management’s estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary Appropriations

The Department receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Department has different net cost of operations for the year on a government-funding basis than on an accrual accounting basis. The differences between net cost of operations and appropriations are reconciled in the following tables.

(a) Reconciliation of net cost of operations to current year appropriations used:

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Net cost of operations	\$ 328,438	\$ 305,184
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Prepayments expense - note 2(j)	(15,511)	-
Amortization of tangible assets	(148)	(254)
Vacation pay and compensatory leave	(221)	15
Employee Severance Benefits	(892)	(140)
Adjustment (Bad Debts)	(5,211)	6,418
Transfer of unconditionally repayable contribution to expense	(2,092)	(13,968)
Loan Loss Reserves-Provision for losses	(1,931)	(1,886)
Services provided without charge by other government departments - note 12 (a)	(4,479)	(4,311)
Adjustment to previous years accounts payable	1,953	2,664
Other	(170)	(123)
Revenues not available for spending	3,449	5,049
	<u>(25,253)</u>	<u>(6,536)</u>
Adjustments for items not affecting net cost of operations, but appropriations		
Add (Less):		
Prepayments	3,223	13,406
Acquisitions of tangible capital assets	236	77
Accountable advance	5	-
	<u>3,464</u>	<u>13,483</u>
Current year appropriations used	<u>\$ 306,649</u>	<u>\$ 312,131</u>

(b) Appropriations provided and used:

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Vote 1 – Operating expenditures	\$ 43,983	\$ 45,655
Vote 5 – Transfer Payments	348,971	344,213
Statutory amounts	5,528	4,867
Total Appropriations	<u>398,482</u>	<u>394,735</u>
Less:		
Appropriations available for future years	(2)	(20)
Lapsed appropriations – Operating Expenditures	(1,083)	(4,588)
– Transfer Payments	(90,748)	(77,996)
	<u>(91,833)</u>	<u>(82,604)</u>
Total appropriations used	<u>\$ 306,649</u>	<u>\$ 312,131</u>

(c) Reconciliation of net cash provided by Government of Canada to current year appropriations used:

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Net cash provided by government	\$ 303,113	\$ 258,956
Revenues not available for spending	3,449	5,049
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivables	1,713	4,384
Variation in repayable contributions	8,773	17,734
Variation in prepayments	15,533	(6,994)
Variation in accounts payable and accrued liabilities	(6,198)	26,516
Other adjustments:		
Prepayments	(12,288)	13,406
Adjustment (Bad Debts)	(5,211)	6,418
Transfer of unconditionally repayable contributions to expense	(2,092)	(13,968)
Other	(143)	630
Total Change in net position	<u>87</u>	<u>48,126</u>
Current year appropriations used	<u>\$ 306,649</u>	<u>\$ 312,131</u>

4. Expenses and Revenues

The following table presents details of expenses and revenues by category:

	2006	2005
	(in thousands of dollars)	
Transfer Payments		
Transfer Payments	\$ 272,098	\$ 265,395
Total Transfer Payments	272,098	265,395
Operating Expenses		
Salaries	30,054	27,158
Employee benefits	8,787	7,110
Transportation & communications	3,435	3,489
Information	868	575
Professional and special services	6,345	7,234
Rentals	827	839
Repairs, utilities, materials and supplies	605	814
Acquisition of machinery and equipment	659	948
Accommodation	2,020	2,095
Bad debts (adjustment) ¹	5,211	(6,418)
Amortization of tangible capital assets	148	254
Other	170	2
Total Operating Expenses	59,129	44,100
Revenues		
Interest	1,174	691
Amortization of discount on repayable contributions	811	2,921
Revenues from Conditionally repayable contributions	598	599
Other	206	100
Total Revenues	2,789	4,311
Net Cost of Operations	\$ 328,438	\$ 305,184

¹ The adjustment of \$6,418 reflected in 2005 is attributed to a reduction to the allowance for doubtful accounts for Loans and Advances and other receivables.

5. Accounts Receivable – External Parties

	2006	2005
	(in thousands of dollars)	
Accrued Interest	\$ 1,064	\$ 1,063
Receivable from the Province of British Columbia	2,207	2,455
Non-Repayable Contributions	1,077	1,134
Other Receivables	1,108	1,035
Employee Advances	10	5
Gross External Parties Accounts Receivable	5,466	5,692
Allowance for Doubtful Accounts	(2,126)	(1,267)
Total External Parties Receivable	\$ 3,340	\$ 4,425

6. Accounts Receivable – Repayable Contributions

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Unconditionally Repayable Contributions	\$ 38,213	\$ 44,285
Unamortized Discount on Unconditionally Repayable Contributions	(1,158)	(1,969)
Allowance for Doubtful Repayable Contributions	(26,670)	(22,310)
Net Unconditionally Repayable Contributions	10,385	20,006
Accrued Interest - Unconditionally Repayable Contributions	7,343	6,672
Allowance for Doubtful Accrued Interest	(6,560)	(6,737)
Total Repayable Contributions	\$ 11,168	\$ 19,941

7. Prepayments

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Loan Loss Reserves	\$ 11,178	\$ 12,858
Allowance for Losses on Loan Loss Reserves	(2,428)	(3,117)
Net Loan Loss Reserves	8,750	9,741
Non-Repayable and Conditionally Repayable Contributions	2,495	17,037
Total Prepayments	\$ 11,245	\$ 26,778

8. Accounts Payable and Accrued Liabilities – External Parties

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Transfer Payments	\$ 66,196	\$ 70,278
Operating	1,058	2,720
Accrued Salaries and Wages	767	609
Total Accounts Payable and Accrued Liabilities – External Parties	\$ 68,021	\$ 73,607

9. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	Cost				Accumulated amortization				2006 Net Book value	2005 Net Book value
	Opening balance	Acquisitions	Disposals and write-offs	Closing balance	Opening balance	Amortization	Disposals and write-offs	Closing balance		
Machinery & equipment	1,130	236	120	1,246	1,024	38	120	942	304	106
Vehicles	121	-	-	121	71	15	-	86	35	50
Leasehold Improvements	411	-	-	411	180	95	-	275	136	231
Total	1,662	236	120	1,778	1,275	148	120	1,303	\$ 475	\$387

Amortization expense for the year ended March 31, 2006, is \$148,022 (2005 - \$253,564).

10. Pension and Severance Benefits

- (a) Pension benefits: Both the employees and the Department contribute to the cost of the plan. The 2005-06 expense amounts to \$4,029,282 (\$3,489,361 in 2004-05), which represents approximately 2.6 times the contributions by employees.

The Department's responsibility with regard to the plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the plan's sponsor.

- (b) Severance benefits: The Department provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	\$ 4,982	\$ 4,842
Expense for the year	1,413	516
Benefits paid during the year	<u>(521)</u>	<u>(376)</u>
Accrued benefit obligation, end of year	<u>\$ 5,874</u>	<u>\$ 4,982</u>

11. Commitments

The nature of the Department's activities can result in some large multi-year contracts and obligations, whereby the Department will be obligated to make future payments when the conditions under the agreement are met. Significant commitments that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2007	2008	2009	2010 and thereafter
Transfer Payments:				
Infrastructure Canada	108,378	17,815	-	-
Prince Rupert Port Authority	30,000	-	-	-
Alberta & Saskatchewan Centenaries	67,354	15,963	-	-
Rick Hansen Foundation	2,133	2,133	2,133	2,135
Core Programming	109,889	82,956	57,243	43,056
TOTAL	\$ 317,754	\$ 118,867	\$ 59,376	\$ 45,191

12. Related party transactions

The Department is related as a result of common ownership to all Government of Canada departments, agencies and Crown corporations. WD enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, the Department received services, which were obtained without charge from other Government departments as presented in part (a).

(a) Services provided without charge:

During the 2005-06 fiscal year, the Department received without charge from other departments, accommodation services, legal fees, workers' compensation and the employer's contribution to the health and dental insurance plans. These services without charge have been recognized in the department's Statement of Operations as follows:

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Services provided without charge		
Accommodation	\$ 2,020	\$ 2,095
Employer's contribution to the health insurance plan and employee benefit plans	2,400	2,172
Legal Services	9	6
Workers' compensation	50	38
Total services provided without charge	<u>\$ 4,479</u>	<u>\$ 4,311</u>

The government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada, are not included as an expense in the Department's Statement of Operations.

(b) Administration of programs on behalf of other government departments.

Part of WD's mandate is to coordinate federal economic activities in the West. In this regard, WD implements programs on behalf of other federal departments and agencies. The following is a list of programs valued at greater than one million dollars in federal contributions administered by WD over the last two fiscal years. These expenses are reflected in the financial statements of the other government departments and not those of WD.

	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)	
Softwood Industry Community Economic Adjustment Initiative – Industry Canada	\$ -	\$ 41,598
Urban Aboriginal Strategy (UAS) – Indian and Northern Affairs	10,471	7,259
Canada Strategic Infrastructure Fund – Infrastructure Canada	18,656	-
Municipal Rural Infrastructure Fund – Infrastructure Canada	6,632	-
TOTAL	<u>\$ 35,759</u>	<u>\$ 48,857</u>