

Chapter 12

Saskatchewan Immigrant Investor Fund Inc. – Meeting “HeadStart on a Home” Program Objectives

1.0 MAIN POINTS

The Saskatchewan Immigrant Investor Fund Inc. (SIIF) receives funding from the federal Immigrant Investor Program. SIIF uses this funding to operate a financing program called the “HeadStart on a Home” program (HeadStart). HeadStart provides loans to homebuilders and developers to construct entry-level housing in Saskatchewan.

For the year ended December 31, 2013, SIIF had effective processes to operate HeadStart to meet program objectives except that it needs to clearly define its performance measures and document its methods of calculating these measures.

2.0 INTRODUCTION

SIIF is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan (CIC).¹ SIIF was established to operate HeadStart in accordance with agreements it has made with the Government of Canada under the federal *Immigration and Refugee Protection Regulations*. CIC appoints SIIF’s Board members who are responsible for managing SIIF.

This chapter describes the results of our audit of SIIF’s processes to effectively operate the “HeadStart on a Home” program to meet program objectives.

3.0 BACKGROUND – “HEADSTART ON A HOME” PROGRAM

Since 2010, Saskatchewan has participated in the federal Immigrant Investor Program (IIP). **Figure 1** provides a brief description of the IIP.

Figure 1 – Description of Federal Immigrant Investor Program

In 1986, the federal Minister of Citizenship and Immigration established the Immigrant Investor Program (IIP) under the *Immigration and Refugee Protection Act* (Canada) and regulations, and revised the program in 1999. Since 1999, IIP has raised almost \$4 billion in capital from more than 9,500 business immigrants. In 2012, Canada expected between 5,500 and 6,500 business immigrants (including dependants) to immigrate to Canada under IIP.

Through IIP, Canada aims to attract immigrants who are experienced business people to contribute to Canada’s growth and long-term prosperity by making a sizable investment in the Canadian economy. Business immigrants seeking permanent residence must:

- › Show the federal government that they have business experience
- › Have a minimum net worth of \$1,600,000 that was obtained legally
- › Make an \$800,000 investment

Citizenship and Immigration Canada administers the IIP. Citizenship and Immigration Canada allocates the investment capital raised through IIP to participating provinces and territories for a five-year term. Provinces

¹ Cabinet established SIIF on October 6, 2010 through Order in Council 590/2010 issued under *The Crown Corporations Act, 1993*.



and territories can participate by setting up a federally-approved fund. Citizenship and Immigration Canada must approve each of these funds in accordance with the federal *Immigration and Refugee Protection Regulations*. These federally-approved funds must use the investment capital to create employment in Canada to foster the development of a strong and viable economy.

At the end of five years from the province's receipt of the annual allocation, participating provinces and territories must repay the principal (i.e., initial investment capital). Participating provinces and territories guarantee the investments held in their federally-approved funds.

Source: www.cic.gc.ca/english/department/media/backgrounders/2012/2012-07-31a.asp;
www.cic.gc.ca/english/immigrate/business/investors/index.asp (2 April 2014)

Since 2010, SIIF has been Saskatchewan's federally-approved fund under IIP. It receives Saskatchewan's annual share (provincial allocation) of IIP. By December 31, 2013, provincial allocations were about \$176 million. As shown in **Figure 2**, SIIF must begin to repay provincial allocations in 2015. If SIIF is unable to repay these amounts, the Government of Saskatchewan has guaranteed that it will repay all of SIIF's IIP funding through the General Revenue Fund.²

Figure 2—Expected Repayments by SIIF of IIP Provincial Allocations at December 31, 2013 by Year

Year of Repayment	Amount of IIP Provincial Allocation to be Repaid (in millions)
2015	\$7.0
2016	52.0
2017	43.5
2018	74.0
Total	\$176.5

Source: SIIF audited financial statements for the year ended December 31, 2013 and SIIF accounting records

Under the agreement with the federal government, SIIF must use immigrants' funds to create employment. The Government of Saskatchewan decided to create employment by financing residential construction through construction loans to builders and developers. It called this financing program "HeadStart". SIIF uses the IIP provincial allocation to fund HeadStart. In August 2011, the Government launched HeadStart as part of its overall Housing Strategy. HeadStart's objectives³ are to:

- » Stimulate the construction of a minimum of 1,500 entry-level homes⁴ by December 31, 2016 to encourage renters in Saskatchewan communities to buy, thereby freeing up rental housing stock⁵
- » Create or continue employment to foster the development of a strong and viable economy
- » Prudently manage cash flows to ensure the timely repayment of IIP funds

Under HeadStart, builders and developers receive residential construction loans for entry-level housing covering up to 90% of their construction cost (including land costs).

² Cabinet approved this guarantee through Order in Council 193/2011 issued under *The Financial Administration Act, 1993*.

³ HeadStart objectives are set out in an agreement between SIIF and Westcap Mgt. Ltd. for the administration of HeadStart.

⁴ Entry-level homes are those valued in the range of \$180,000 to \$300,000 depending upon the municipality in which the home is located (target prices must be below multiple listing service average for the related municipality). Entry-level homes are to be built, while not decreasing rental supply (i.e., no conversion of apartments to condominiums). The homeowner will be subject to provisions to deter "flipping." The original target was to construct a minimum of 1,000 homes, which was updated to 1,500 in October 2013.

⁵ www.socialservices.gov.sk.ca/Headstart-factsheet.pdf (14 November 2013).

SIIF provides these loans at a 4% interest rate, which may be adjusted over time based on market conditions.⁶

The need for entry-level housing is evidenced through statistics on overall apartment vacancy rates and increases in rental rates, as reflected in rental surveys of Canada Mortgage and Housing Corporation (CMHC). In October 2013, Saskatchewan's overall apartment vacancy rate in urban centres was 3%, with an average monthly rent of \$917 (up from 2.2% with a monthly rent of \$880 in October 2012). These vacancy rates ranged from 1.5% with a monthly rent of \$806 (Weyburn) to 10.3% with a monthly rent of \$825 (Prince Albert).⁷ Regina and Saskatoon are in the middle with apartment vacancy rates of 1.8% and 2.7%, respectively. HeadStart is intended to help address this need for entry-level housing.

Citizenship and Immigration Canada notes:

Given the need to repay the principal to investors at the end of five years, many PTs [provinces/territories] take a low-risk approach that sees most capital in no/low risk investments, such as bonds and cash deposits, with only a portion actively invested in higher value-added areas of the economy such as infrastructure investments, loans to small and medium-sized businesses, and venture capital.⁸

Saskatchewan has opted for a higher-risk option through its decision to use the funds to finance residential construction loans under HeadStart.

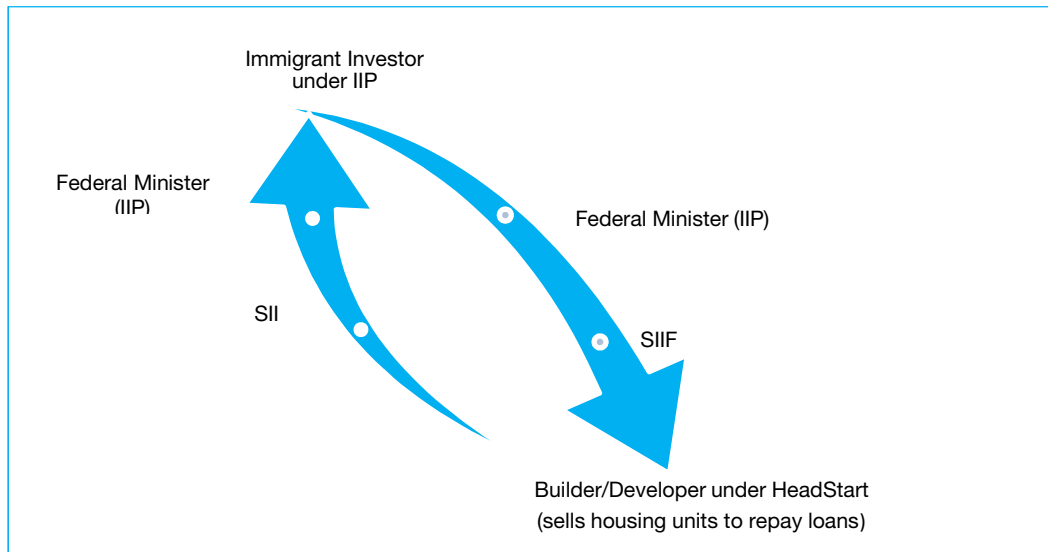
As **Figure 3** shows, SIIF:

- › Receives provincial allocations from the federal government under IIP based on immigrant investor funds received by the federal government (less federal commissions)
- › Loans these funds to approved builders and developers under HeadStart to finance building of entry-level homes (construction loans)
- › Receives repayments of the construction loans from the approved builders and developers
- › Pays the federal Minister responsible for IIP the full amount of annual provincial allocation within five years of its receipt (for example, provincial allocations received in 2010 would be repaid in 2015)

⁶ www.headstartonahome.ca/index (14 November 2013).

⁷ CMHC Rental Market Report – Saskatchewan Highlights – Fall 2013.

⁸ www.cic.gc.ca/english/department/media/backgrounders/2012/2012-07-31a.asp (6 August 2013).

**Figure 3—Flow of Immigrant Investor Funds Administered by SIIF**

From the inception of HeadStart in 2011 to December 31, 2013, SIIF had disbursed \$116.3 million in construction loans, of which builders and developers have repaid \$72.5 million.⁹ By January 31, 2014, SIIF had approved construction loans for 23 builders and developers totalling \$225.9 million for 36 projects, containing 1,339 housing units in 13 different locations (see **Figure 4** for details). At January 31, 2014, 14 of the 36 approved projects were completely built. Two of the 14 projects were awaiting sale. For 12 of the 14 projects, the related builder/developer had sold the units built and fully repaid the related construction loans.

Figure 4—HeadStart on a Home Project Statistics by Location at January 31, 2014

Location	Number of Approved Projects	Number of Approved Units	Number of Completed Units	Number of Units Sold
Saskatoon	15	823	410	539
Regina	5	288	33	148
Yorkton	4	29	19	18
Moose Jaw	2	27	15	8
Warman	2	9	9	5
Maidstone	1	4	-	-
North Battleford	1	21	21	15
Pilot Butte	1	9	-	1
Prince Albert	1	63	-	-
Meadow Lake	1	11	-	-
Swift Current	1	16	16	7
Watrous	1	24	6	-
Weyburn	1	15	-	4
Total	36	1,339	529	745

Source: HeadStart on a Home January 31, 2014 Dashboard Report

⁹ SIIF audited financial statements for the year ended December 31, 2013.

HeadStart is designed with the expectation that builders and developers will repay the construction loans by selling the entry-level homes built with the loan proceeds. The sale of these new homes depends on the ability and willingness of individuals to secure mortgages. This, in turn, is contingent upon a number of economic factors, such as employment and mortgage interest rates. Higher interest rates for mortgages may result in fewer individuals being able to afford mortgages, thus decreasing the sale prices of entry-level homes built under this program. As such, SIIF must balance the need for financing entry-level housing with the risk of builders and developers defaulting on construction loans. It must take appropriate steps to mitigate the risk that builders and developers may default on loans payable to SIIF while working to achieve HeadStart's objectives.

Furthermore, SIIF must match cash flows from repayment of construction loans with the IIP amounts it owes to the federal government. This matching is critical to avoid SIIF defaulting on its IIP obligation to the federal government and triggering the need for Saskatchewan taxpayers (by virtue of the General Revenue Fund's guarantee) to repay any shortfall.

4.0 AUDIT OBJECTIVE, SCOPE, CRITERIA, AND CONCLUSION

The objective of this audit was to assess whether the Saskatchewan Immigrant Investor Fund Inc. (SIIF) had processes to effectively operate the "HeadStart on a Home" program to meet program objectives for the year ended December 31, 2013.

We examined SIIF's processes for establishing program objectives, monitoring its performance in meeting those objectives, and making changes where required. We also assessed the adequacy of SIIF's operational policies and procedures for HeadStart, including policies for approving and monitoring loans. We tested a sample of projects to determine whether SIIF's processes were operating as intended.

Because SIIF engaged Westcap Mgt. Ltd. (Westcap) on July 15, 2011 to administer HeadStart,¹⁰ we assessed the sufficiency of its agreement with Westcap and its monitoring of Westcap's performance. We did not assess the request for proposal process SIIF used to select Westcap to administer this program.

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate SIIF's processes, we used criteria based on related work and reviews of literature including reports of other auditors. SIIF agreed with the criteria (see **Figure 5**).

Figure 5—Audit Criteria

To effectively operate the HeadStart on a Home Program to meet program objectives, SIIF should:

- 1. Establish program objectives and targeted outcomes**
 - 1.1 Align program objectives with requirements of key stakeholders
 - 1.2 Assess risks to achievement of objectives
 - 1.3 Determine key strategies to achieve objectives
 - 1.4 Establish performance measures
 - 1.5 Set realistic and achievable targets

¹⁰ SIIF pays Westcap management fees to administer HeadStart. SIIF's 2013 audited financial statements report management fees of \$922,000 (2012 - \$759,000). SIIF plans to recover these fees and other administrative costs through the interest earned on construction loans.



- 2. Monitor program operation**
 - 2.1 Establish policies and procedures for operation of the program consistent with program objectives
 - 2.2 Assign qualified staff to oversee program operation
 - 2.3 Mitigate risks to achievement of objectives
- 3. Periodically evaluate program effectiveness**
 - 3.1 Establish processes to evaluate program effectiveness
 - 3.2 Track key information for performance measures
 - 3.3 Analyze and conclude on program effectiveness
- 4. Implement lessons learned**
 - 4.1 Create action plan
 - 4.2 Identify responsible person and timeframe for implementation
 - 4.3 Take action

We concluded that, for the year ended December 31, 2013, Saskatchewan Immigrant Investor Fund Inc. had effective processes to operate the “HeadStart on a Home” program to meet program objectives except that it needs to clearly define its performance measures and document its methods for calculating these measures.

5.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we set out the criteria (expectations) in italics and our key findings along with the related recommendations.

5.1 Program Objectives, Strategies, and Targets Established

We expected that in designing the HeadStart program, SIIF would obtain an understanding of key stakeholders’ needs and consider those needs when setting the program’s objectives. We expected that SIIF would identify, assess, and prioritize potential risks it may face in achieving the program’s objectives. We expected that SIIF would determine strategies to achieve those objectives and establish processes to measure its progress towards achieving those objectives.

SIIF used a service provider to obtain stakeholder views and propose a design for the HeadStart program. Views of numerous stakeholders including municipalities, home builders and developers, financial institutions, and other government organizations (e.g., Saskatchewan Housing Corporation) were obtained and considered in developing the objectives for HeadStart. The objectives for HeadStart were also aligned with the Saskatchewan Housing Strategy (Strategy).¹¹ For example, HeadStart’s objective to create 1,500 entry-level housing units is consistent with the Strategy’s goal to develop new housing that is attainable for first-time home owners.

When SIIF engaged Westcap to administer the HeadStart program on its behalf, it included the HeadStart program objectives in its agreement with Westcap.

Although SIIF did not have a formal risk mitigation plan, it established operational policies and procedures designed to mitigate key risks to the program. For example, SIIF’s agreement with Westcap included specific investment policies and due diligence

¹¹ <http://socialservices.gov.sk.ca/housing> (21 March 2014).

guidelines for Westcap to follow (further described in **Section 5.2**). These policies help to mitigate the risk of loan defaults by individual builders and developers. In our testing of projects, we found Westcap regularly considered and documented risks at the individual project level in conjunction with its approval of individual construction loans.

SIIF used a balanced scorecard¹² framework to monitor its performance in achieving HeadStart's objectives. It required Westcap to prepare and collect key planning and performance information.

Each year, SIIF's Board approves the annual operational plan that Westcap prepares. The annual operational plans include the strategies and specific actions Westcap plans to use to meet HeadStart objectives (set out in **Section 3.0**). It also includes performance measures and targets. For example, the 2013 operational plan included:

› The following strategies:

- Engage municipalities, builders, developers, industry associations (such as CMHC), and financial institutions (such as credit unions)
- Manage relationships with other stakeholder government organizations
- Continue to build awareness of the HeadStart program along with other programs that help first-time homebuyers achieve ownership of their home

› The following specific action: promoting HeadStart to builders and developers by conducting HeadStart forums.

› The following performance measures: dollars repaid to the HeadStart program, number of entry-level housing units constructed, employment impact of projects (jobs), number of housing units sold to buyers, etc.

We found the identified performance measures and targets provide SIIF with sufficient information to monitor its progress in achieving HeadStart's objectives. However, see **Section 5.3** for improvements needed in defining performance measures and documenting methods for calculating these measures.

5.2 Operation of HeadStart Effectively Monitored

Because SIIF engaged Westcap to administer HeadStart, we expected it to enter into a management agreement with Westcap and establish processes for monitoring Westcap's performance under the agreement. We expected Westcap to establish written policies and procedures for the day-to-day operation of HeadStart consistent with the program objectives. We expected that Westcap would assign qualified staff to oversee the operation of HeadStart. Also, we expected that SIIF and Westcap would have processes for mitigating key risks.

In July 2011, SIIF entered into an agreement with Westcap for the administration of HeadStart. The agreement clearly sets out the responsibilities of each party to support the achievement of the program objectives and the requirements of both parties.

¹² A balanced scorecard is a planning and monitoring tool used by management to communicate its performance objectives, specific targets, and progress toward achieving performance objectives in a range of areas.



Requirements included investment guidelines and due diligence guidelines that Westcap must follow.

The investment guidelines outlined types of projects eligible under HeadStart and the parameters of the program. For example, the investment guidelines provided the program definition of entry-level housing unit, the program loan interest rate, and the program loan limit of the total project.

The due diligence guidelines described, in detail, procedures Westcap must complete during its evaluation of loan applications.

Westcap established a policy and procedures manual for other key operational requirements not specifically included in the agreement. For example:

- › Loan monitoring is completed through engagement of independent consultants who assist with loan and construction site monitoring, as this requires specialist knowledge and expertise
- › Loan advances are based on certified progress reports by independent consultants (e.g., an engineer, architect, or qualified appraiser)
- › Loan repayments are directed through SIIF's legal counsel, who assist in the necessary paperwork to relinquish partial or final discharge of the loan security

Westcap had appropriate processes for hiring and assigning experienced staff to the HeadStart program, and for monitoring and assessing their performance. It gave the SIIF Board annual written reports on HeadStart's staffing (i.e., key staff involved, estimated hours spent on HeadStart).

We found Westcap completed a significant amount of documentation for each project application. It kept detailed documentation to support its decisions, and used checklists to track completion of key stages in the process for each project. For the sample of HeadStart projects we selected, we found that Westcap followed its established processes and SIIF's investment policy and due diligence guidelines.

Westcap identified project-specific risks by completing a detailed risk analysis of each project. It worked to mitigate project risks through the design of each individual loan agreement. Also, to address HeadStart's objective "to prudently manage cash flows to reduce the risk of SIIF defaulting on its obligation to repay IIP funds", Westcap implemented detailed, long-term cash flow monitoring of expected cash flows up until the estimated windup of the program in 2020. During our audit, we observed evidence of Westcap actively monitoring expected cash flows.

Also, we found SIIF had adequate processes for monitoring Westcap's performance under the agreement. This included requiring attendance of key Westcap personnel at SIIF Board meetings and requiring periodic reports from Westcap for the Board's review.

Section 5.3 provides further details on SIIF's monitoring procedures.

5.3 Program Effectiveness Regularly Evaluated

We expected SIIF to establish processes to periodically (at least annually) evaluate the effectiveness of HeadStart. We expected Westcap to have documented processes for collecting and reporting data to SIIF's Board related to HeadStart's performance measures. We expected that SIIF would receive key information and analysis from Westcap comparing planned and actual performance using established performance measures.

During the audit period, SIIF used the following main methods to monitor the effectiveness of HeadStart as well as Westcap's administration activities:

› Regular SIIF Board meetings:

- The SIIF Board met approximately once every two months. Westcap senior management and staff responsible for administering HeadStart attended these meetings to provide updates and respond to questions about current operations.

› Review and approval of periodic reports from Westcap:

- Westcap prepared periodic reports for SIIF's Board review and approval. Periodic reports included the annual operations plan, quarterly status reports, year-end annual reporting, and the results of feedback from home buyers and credit unions. Quarterly and annual reports included an update on approved projects, current loan balances, key information for each project, significant events that occurred in the quarter, and Westcap's certification that it complied with the administration agreement.

Also, each month Westcap provided SIIF with a "dashboard report". The dashboard report included various HeadStart statistics such as the number of units approved, units constructed, units under construction, units sold, and loan balances outstanding.

To gather information and feedback from individuals that purchased the housing units, Westcap attended ceremonies where families received the key to their new home and collected the results of surveys that credit unions administered during their mortgage approval process. To obtain feedback from credit unions that provided mortgages to home buyers, it used a steering committee. This committee, consisting of Westcap and credit union senior management, met twice in 2013 to discuss HeadStart.

› Use of a balanced scorecard framework as a main program evaluation tool:

- Each quarter, Westcap gave SIIF's Board a balanced scorecard report. The balanced scorecard report provided information on the performance of HeadStart using established performance measures (as described in **Section 5.1**) for the current period as well as cumulatively since the beginning of the program. The actual results were compared to annual targets. Reasons for significant differences resulting from this comparison were explicitly documented in the 2013 year-end annual report.



We found that, in 2013, when Westcap changed the timing of its reporting to quarterly instead of annually, it adjusted how it calculated results of one of the performance measures. We also found some measures were not clearly defined. For example, for the performance measure of “the number of municipalities engaged”, different interpretations of what constitutes an “engaged” municipality may exist. While SIIF expected Westcap staff to use consistent methods to collect and report data on HeadStart’s performance measures, neither SIIF nor Westcap had documented definitions of key performance measures, set out which specific data to collect, or how to use that data (calculation method).

Without clearly defined measures and calculation methods, some of the performance measures may be evaluated inconsistently or subject to varied interpretations.

- 1. We recommend that the Saskatchewan Immigrant Investor Fund Inc. clearly define its performance measures and document its methods for calculating these measures.**

5.4 Changes to Program Implemented Effectively

We expected that, as SIIF and Westcap gained experience operating the program, additional opportunities and challenges would arise requiring changes to the program. We expected SIIF to have processes to effectively make changes to the program as required, including creating an action plan, communicating who is responsible, and setting timelines. We expected SIIF to complete action plans.

2013 was the second full fiscal year of operations for HeadStart. During 2013, SIIF’s Board approved the following two major changes to HeadStart based on sufficient documented analysis supporting the changes. It also had action plans to implement these changes:

- › Revised investment policy guidelines to allow the sale of up to 25% of housing units in each project to owners with the intention that the units would be rental properties. Prior to October 2013, the guidelines required builders and developers to sell units for the sole purpose of units being owner-occupied.
- › Increased the number of housing units to construct to 1,500 units from the original program objective of 1,000 housing units. During 2013, SIIF had approved project applications consisting of over 1,000 housing units.

We found that it was clear who was responsible for planned actions to implement the changes, and the changes were implemented as planned. SIIF indicated it is working on amending its management agreement with Westcap for the program changes made in 2013.

6.0 SELECTED REFERENCES

Australia National Audit Office. (2010). *Planning and Approving Projects – an Executive Perspective Setting the Foundation for Results Better Practice Guide June 2010*. Canberra: Author.

Office of the Provincial Auditor of Saskatchewan. (2013). *Nominating Qualified Immigrant Applications. 2013 Report – Volume 1 Provincial Auditor Saskatchewan*. Regina: Author. http://auditor.sk.ca/pub/publications/public_reports/2013/Volume_1/2013v1_12_NominatingQualified.pdf (21 March 2014).

