

Chapter 5

Department of Economic Development and Tourism Centre Plein Air de Kedgwick Project

Contents

Background	75
Project history	75
Scope	77
Results in brief	78
Project evaluation.....	78
Project monitoring	81
Funding	81
Loans	82
Conclusion	83

Department of Economic Development and Tourism Centre Plein Air de Kedgwick Project

Background

5.1 In October 1996 New Brunswick's Leader of the Opposition sent a letter to our Office. In it he requested an inquiry into the "Centre Plein Air de Kedgwick" tourism development project. He believed this review might lead to observations reportable under the Auditor General Act.

5.2 In October we replied that our Office was preparing our 1996 annual Report and was unable to inquire into the matter immediately. However we did say that we intended to look into the matter during our 1997 departmental audit work. We started our review of the project during the first stage of our audit of the Regional Development Corporation (RDC) in early 1997.

5.3 The federal and provincial governments provided most of their funding for this project through federal/provincial agreements. For the most part, RDC administered these agreements for the provincial government. Various provincial departments, including the former Department of Tourism, Recreation and Heritage and the existing Department of Economic Development and Tourism, were involved in implementing the project.

Project history

5.4 Outdoor recreation centres (centres de plein air) had been in operation in Quebec for a number of years prior to 1982. Provincial and federal government funding aided in the development of most of these centres. Municipalities or non-profit organizations normally ran the facilities.

5.5 The centres offered many types of organized outdoor activities and recreation programs. They also offered different types of accommodation such as chalets, inns, motels and campgrounds. The purpose of having these extensive facilities was to ensure the centres were able to offer many different types of outdoor packages to their clientele.

5.6 In 1982 a consulting firm prepared a Tourism Development Plan for Restigouche County. The plan indicated there was a need to offer tourists various services and facilities to allow them to engage in outdoor activities in the region. In 1983 another consulting firm prepared a feasibility study for a centre de plein air and a forestry museum in the Kedgwick area. The feasibility study gave only marginal support to either concept.

5.7 Later in 1983 the Centre Plein Air de Kedgwick Ltée. (CPAK) was established as a non-profit organization. CPAK was responsible for the museum and the centre de plein air. The primary goal of CPAK was to create a quality tourism destination in the Kedgwick area. Other goals included creating short and long-term jobs and protecting the Restigouche River environment.

5.8 In 1985 CPAK started development. Funding was supplied through federal/provincial programs. From 1985 to 1987 (phase 1) federal/provincial funding allowed the completion of the forestry museum and the construction of five chalets. The museum was built in the town of Kedgwick while the chalets were built on the Restigouche River several miles from the main highway. The chalets were located on land leased from the Province.

5.9 In 1988 CPAK presented a proposal for completion of the final phase (phase 2) of the project. In the fall of 1988 the federal and provincial governments approved funding for this project. Funds were supplied under the Canada/New Brunswick Subsidiary Agreement on Tourism Development - Travel Generator program. In 1990 construction was started and by 1992 CPAK had basically finished the reception center, four more chalets, a campground, and the supporting infrastructure for these facilities.

5.10 By the end of 1991, the provincial and federal governments had provided approximately \$2 million in funding to CPAK. Over \$1.5 million of this funding went towards development of the plein air facilities. The remainder went to funding the museum.

5.11 In 1991 two consulting firms did a joint interim marketing study on CPAK. They concluded the operation was in trouble and noted serious financial and facility problems. Specifically they did not believe the existing facilities met the needs of the clientele they believed to be the plein air's market niche. They elaborated by saying CPAK needed to provide organized off-site activities. Having these activities would help attract the market segment CPAK needed in order to raise revenues to a level where the project could survive. The consultants also noted that the operation had an accumulated operating deficit to 31 March 1991 of \$130,000.

5.12 By 1993 the situation still had not improved. The 31 March 1993 unaudited financial statements of CPAK showed over \$1.6 million in capital assets (including landscaping, engineering and survey costs). Over \$1 million related to plein air facilities. Total liabilities were over \$200,000 with virtually no assets other than the facilities. Cash was only a little over \$2,000. The statements also showed that without significant federal and provincial wage subsidies, losses from operations would have been serious (Exhibit 5.1).

Exhibit 5.1
Unaudited financial results of
CPAK

	1993	1992	Total
Revenue from operations	\$ 64,092	\$ 23,464	\$ 87,556
Subsidies	114,196	203,416	317,612
Total revenue	178,288	226,880	405,168
Total costs	138,904	236,156	375,060
Profit (loss) including subsidies	39,384	(9,276)	30,108
Profit (loss) without subsidies	\$ (74,812)	\$ (212,692)	\$ (287,504)

5.13 As a result, the Centre Plein Air de Kedgwick Ltée. decided, and the government agreed, to sell the plein air assets. In 1995 CPAK sold the assets, except for the museum and the provincial park, to the private sector for \$110,000.

Scope

5.14 In light of the request from, and after a review of the information provided to us by, the Leader of the Opposition we decided to meet with the individuals who originally researched and provided the information. We met with them and reviewed the centre plein air documentation they made available to us. Based on this information, we decided further review of the project was warranted.

5.15 One of our responsibilities under the Auditor General Act is to ensure money is expended with due regard to economy and efficiency. As such we decided to approach the project from the point of view of the government making an investment. Specifically we wanted to determine the process government used to approve and monitor the project and the effectiveness of that process.

5.16 Another issue we investigated was the allegation that \$81,600 of public funding was not accounted for. We also investigated whether CPAK incurred secured loans contrary to the terms of the funding agreement.

5.17 We did not review the process used for other projects at that time. Nor did we compare the process with that used to make those same decisions today. We also did not review the records of CPAK.

Results in brief

5.18 From 1985 to 1987, government approved over \$900,000 for the construction of a centre plein air and a museum in the Kedgwick area. There was little documentation in government files. This documentation gave only marginal support for the project.

5.19 In 1989, government funded an additional \$1 million for the centre plein air project. This was done despite considerable doubt about the project's viability and in the absence of any marketing/business plan.

5.20 Project monitoring was inadequate. Government was not monitoring either the operation's financial results or the effect on tourism of the new facility.

5.21 While government provided generous capital financing, no operational funding was planned or supplied even though the project's operator was known to have few cash resources.

5.22 The proceeds from the sale of the plein air assets were used to pay off various creditors.

Project evaluation

5.23 As noted earlier, the federal and provincial governments provided over \$2 million in funding to CPAK. Over \$1.5 million was spent on the plein air portion of the project. Our examination focused on why this project was approved and how government went about approving the project. We also questioned why additional funding was given to CPAK in the late 1980's and early 1990's. To try and see why, and how, this decision was made, we tried to piece together the steps taken in approving the various phases of the project.

Phase 1

5.24 We found little information in government files covering the first phase of development. Because of this we had difficulty in understanding how government evaluated this phase of the project.

5.25 In the documentation we reviewed we found only marginal support for the project. That support was contained in the consultant's feasibility study. The study also contained the only marketing analysis done before the project was approved. However we were unable to find any business plan for the project even though documents showed that CPAK had no financial resources of its own.

5.26 Despite the study's limited support, the lack of a marketing/business plan and the lack of financial resources, the government approved project funding of approximately \$900,000. The funding covered construction of the museum and partial development of the outdoor recreation centre.

Phase 2

5.27 In 1988 the CPAK group submitted an application for funding the second phase of the plein air project. Information contained in

government files was more complete for this time period and we were able to review this documentation to determine how the approval of phase 2 came about. This file information revealed that many people in government had serious concerns with the project.

5.28 For example, documents showed that by 1986 government had provided significant funding for a competing plein air project located within five to ten miles of the Kedgwick project. It too was sold to private interests at a considerable discount in the mid 1990s. Government memos noted that the groups running these two facilities “refuse to cooperate with each other” and that “competition between two groups so close in proximity would probably make neither feasible”.

5.29 As importantly, the government committee dealing with the extension of the property lease to CPAK stated that visitor projections and revenues used to support the project were overly optimistic. The committee summary noted the project proposal did not mention the competition from other plein air facilities in the area or competition from landowners across the river from CPAK. It pointed out that the facilities were well off the main tourist route. This meant few tourists would know of the facility, especially without heavy advertising (we did not find any evidence of advertising). The summary also noted that the facility operators never established organized activities that would entice a tourist to visit, or stay at, the resort.

5.30 One reviewing departmental group summarized its findings by saying: “The markets quoted by the applicant (CPAK) are largely imaginary. There are no sources quoted for their statistics; the logic for the facility is ill conceived and the Crown could end up with a nuisance lease as a result.”

5.31 If the doubt expressed by departmental officials was correct and visitor projections were not attainable, the financial viability of the project would be in serious question. Visitor projections had to be attained in order for the project to break even. Different departmental officials again voiced concern as to the economic viability of the project.

5.32 Departmental officials also had other concerns with the project. These included:

- interference with the Department of Natural Resources’ ability to control and manage angling on this section of the river;
- potential danger to fish habitat should sewage disposal problems or siltation occur;
- the site has a potential for flooding; and
- development of the centre would heighten conflicts between canoeists and anglers.

5.33 A departmental official had concerns regarding management of the operation and commented that “based on their (CPAK) performance to date... the group appears to have problems in their ability to get the project organized, such as submitting detailed plans for their proposed development”.

5.34 In our review we expected to find documentation and analysis assessing the viability, or the continued viability, of the development project. Most importantly, we expected to find a well-developed and objective marketing/business plan that addressed concerns raised by departmental personnel. The applicant did present some basic information concerning potential markets, but the concerns do not appear to have been addressed. The applicant did not complete a marketing/business plan until 1991, well after government approval for the project was given. Nor did the government verify the applicant’s representations. This could have helped the Province determine if the applicant’s figures were reasonable.

5.35 We also expected to find ongoing information as to how the project was doing. This information would be essential in determining if the project was being well run and if it was advisable to invest more money. However, we found no financial statements for any period prior to the time the decisions had been made by government to invest in the project. Nor did we find any information showing the effect the project was having on tourism.

Evaluation report

5.36 In late 1988 a federal Evaluation Officer (for the Canada/New Brunswick Subsidiary Agreement on Tourism Development) prepared an Application Evaluation Report on the CPAK proposal. He stated the projections for visitation and operating budget appeared to be realistic and the projections for the third year of operations, while optimistic, might be achievable. He also concluded that CPAK management had, by successfully managing the museum, proved capable of managing a tourist operation. These conclusions were significantly different than those reached by New Brunswick departmental officials.

5.37 The officer stated that a marketing/business plan could be completed during the construction of the second phase of the project. When government is assessing whether to invest a million dollars in a project we believe it is prudent that a marketing/business plan to ensure project viability is done before any large investment is made.

5.38 Even with departmental officials expressing considerable doubt as to the project’s viability, and no completed marketing/business plan, the Province accepted the Evaluation Officer’s recommendation. Funding of an additional \$1 million was approved in 1989.

Findings

5.39 The approval process used for this project was incomplete. Government approved phase 2 of the project without:

- **adequately addressing the concerns raised by many departmental officials;**
- **requiring that a full marketing/business plan, including cash flow analysis, be done to address the serious concerns raised about the project's viability;**
- **any independent verification of the representations made by the operator and its consultants; and**
- **monitoring the ongoing results of the project's operations to ensure the project was worth further investment.**

Project monitoring

5.40 As noted previously, information we expected to find in the files to aid the government in monitoring the project was not present. The funding agreement did not require that government receive any financial information. Perhaps as a result, we found no financial information on the project's operations prior to 1989. The only independent financial statements on file were "unaudited" and for the years 1991-92 and 1992-93. This was after government approved the second stage of the project. It was also after the project had encountered serious financial problems.

5.41 These statements revealed that while government had provided over \$2 million in capital funding, only \$1.6 million was recorded as capital assets. We were unable to determine what the remaining \$400,000 was used for. To ensure accountability in how project monies were being spent, we expected to at least find a requirement for annual audited financial statements.

5.42 Additionally, we found no tracking of visitor statistics. These statistics would have been helpful to government in assessing the tourism impact of the project.

Findings

5.43 Project monitoring was inadequate. Government was not monitoring either the operation's financial results or the tourism impact of the new facility.

5.44 We did not find adequate financial statements that would help ensure government funds were spent appropriately.

Funding

5.45 The government funding strategy was to provide funding for the capital aspects of the project. The non-profit group would then be responsible for funding ongoing operations. However, as noted earlier, CPAK had no money available to it and would have to rely on cash generated from operations to meet its fiscal needs. Establishing a new tourist industry in a non-tourist area with a project group that has little cash requires seed money for operations. This money would be required at least until the project established its reputation. This funding was noted in the files as having been necessary to keep many of the Quebec centres de plein air operating.

5.46 Since few potential customers would have been aware of the new facility, moneys for advertising would be required to establish a client base. As CPAK had little cash, it was faced with a dilemma. That is, the operator needed cash from customers to pay for advertising, but very few customers knew of the resort because there was no advertising.

5.47 The same might be said of the need for organized outdoor activities. The resort needed these activities set up and ready to go before people would come. However, CPAK required funding to set up these activities. With no funding available, no activities would be available and no people would come. The federal Evaluation Officer mentioned the need for organized activities but did not incorporate any provision for meeting this need in his report.

5.48 To help solve the applicant's cash problem, some funding for operations was necessary. Perhaps more coordination with CPAK, or better monitoring by government, might have shown this problem to be significant well before the resort started having financial problems. This might have saved the project. In any case, funding just the project's capital needs did not address the need for operational funding. This was equally important to the success of the venture.

Finding

5.49 While the government provided generous capital financing, no operational funding was planned or supplied even though CPAK was known to have few cash resources. In this project, the failure to recognize the operational funding requirements early on contributed substantially to its eventual failure.

5.50 We reviewed the variance of \$81,600 in expenditures noted in the letter from the Leader of the Opposition. Our review showed that this variance resulted from comparing expenditures on different projects. We found no variance in plein air expenditures. However, as noted earlier, we found no audited or other reliable financial records that showed how governmental funds were spent by CPAK.

Finding

5.51 We found no apparent variance of \$81,600 in funding.

Loans

5.52 We reviewed the February 1989 project agreement between the Province of New Brunswick and the Centre Plein Air de Kedgwick Ltée. The latter part of section 26 of the agreement states "the Corporation shall not in any manner cause or allow the facility or any of the assets thereof to be sold, converted to cash, accounts receivable, or any other form of indebtedness, currency or equity investment."

5.53 While CPAK did have more than \$200,000 in various loans from the local caisse populaire, no assets were pledged against these loans. As government agreed to the sale of the assets, the sale would not appear to contravene section 26 of the agreement. All sale proceeds went to pay off various CPAK creditors including the caisse populaire.

Finding

5.54 The corporation's officers incurred long-term bank debts, but no assets were pledged against these loans. CPAK received all proceeds from the sale of the project.

Conclusion

5.55 Based on our review, we concluded that the project approval process was incomplete and monitoring of the project inadequate. For example, we found limited market analysis and no marketing/business plans. We found that little consideration was given to the financial operating requirements of the project. We also found no indication that financial data was submitted or reviewed on an ongoing basis before the early 1990s. Since the project dates back to the 1980s, government has had time to correct these shortcomings. We would expect that the processes now used to determine and monitor economic development projects would be much improved.

5.56 Our expectations for the project approval process would include:

- well developed and documented project selection criteria. These should ensure that the applications approved are those most likely to achieve established program objectives; and
- documented guidelines and procedures for reviewing and approving applications for funds. These should be in place to ensure decision-makers follow consistent and appropriate approval procedures.

5.57 We expect the monitoring process would ensure:

- project funds are being used for the purpose intended;
- projects are monitored through timely visits and other appropriate methods to ensure adherence to the program's objectives; and
- audit arrangements exist and are adhered to.

5.58 In our review of the project we were able to find little indication that these steps were taken. To assure the public that current programs do meet the above expectations we plan, in the coming year, to review certain government programs used to encourage economic development in the Province. We intend to examine the approval and monitoring processes in this review.

Departmental comments

5.59 *As stated in your report, the conclusions from federal officials, regarding the viability of the concerned project, were more positive and significantly different than those reached by N. B. departmental officials. With the majority of the funding being provided by the Federal Government, this project was imposed by the federal authorities of the day, and not necessarily chosen by the Province.*

5.60 *The Department of Economic Development and Tourism inherited this project in late 1991 when the Centre de plein air de Kedgwick was a fait accompli. As a matter of fact, the last payment under the Canada/New Brunswick Subsidiary Agreement on Tourism Development for this project*

was made in June 1991. This Department attempted to do damage control, but most problems were endemic. Due to the decreasing involvement of volunteers and the increasing indebtedness of the Centre de plein air de Kedgwick Ltée, the Department agreed with a request from the Board of Directors to sell the assets to a private operator. This operator has, to the best of our knowledge, invested more money in the facility and is successfully operating it as Centre Echo Restigouche.

5.61 *In closing, [we] would like to mention that, for projects jointly funded by the federal and provincial governments, the approval process and monitoring are approved by the Management Committee of each funding agreement and implemented by the staff. As a rule, your expectations for the project approval and monitoring processes should be met.*