

# Chapter 10

## Regional Development Corporation

### Economic Development Fund

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# Regional Development Corporation

## Economic Development Fund

### Background

#### *The Corporation*

**10.1** The Regional Development Corporation is a provincial Crown agency incorporated by an Act of the New Brunswick Legislature. The role of the Corporation as stated in its 97-98 Annual Report is as follows:

*Today, the Corporation is the lead agency in the planning and negotiation process for federal and provincial economic development arrangements and agreements. The Corporation also makes recommendations to Cabinet concerning provincial economic development priorities.*

*The Corporation's ongoing role is to provide financial and administrative management for all federal and provincial agreements. The delivery of programs and projects is primarily the responsibility of provincial line departments....*

*The Regional Development Corporation is also responsible for the implementation of the Development Assistance Program, the Action North Initiative, the overall management and coordination of the Economic Development Fund, the financial management of its Special Operating Agency and coordination of the Joint Economic Development Initiative on behalf of the Province.*

#### *Decision to review the Economic Development Fund*

**10.2** Last year we performed a broad scope audit in the Department of Economic Development and Tourism, and since the Regional Development Corporation is also involved in the economic development sector, we thought it would be beneficial to review the Corporation's economic development programs.

**10.3** When undertaking financial audits in previous years, our Office often found it difficult to determine who is accountable for projects coordinated by the Regional Development Corporation (RDC). RDC administers funds and initiatives, like those of the Economic Development Fund, which are then carried out by other departments.

Costs are budgeted and actual expenditures recorded at RDC but are spent by these other departments.

**10.4** The departments are accountable for their spending in relation to their budgets. However, money provided to the departments by RDC is not part of the department's regular accountability process. We wanted to understand and evaluate the accountability process at RDC through examining its role in the approval and monitoring of these initiatives.

**10.5** The amount of federal contributions and the method of funding are also changing. The 1997-98 RDC Economic Development Fund annual report states the following: *"The end of sector specific federal-provincial agreements, as well as overall reductions in federal cost-sharing over the next five years have meant the province has had to look for new ways to finance high priority development initiatives. The Economic Development Fund is one answer."*

**10.6** The Economic Development Fund is one of the major tools used by RDC to promote regional development and it is entirely funded by the Province of New Brunswick.

### ***The Economic Development Fund***

**10.7** The Economic Development Fund was established by the Province of New Brunswick's Executive Council in October 1995 and began its operations on 1 April 1996. The Fund helps finance priority development initiatives not funded through the new federal-provincial Agreement on Regional Economic Development or through departmental budgets. Funding is provided entirely through the RDC annual budget.

**10.8** The Fund is designed to respond to the strategic economic priorities of provincial departments and agencies. Having all departments submit their proposals at the same time makes comparisons easier and helps the decision-makers to look at initiatives from a provincial perspective instead of a departmental perspective.

**10.9** A total of 21 initiatives out of the 36 submitted were approved during the 1997-98 fiscal year. Total expenditures amounted to \$15,174,833. Initiatives funded included Crown land silviculture, tourism marketing, agriculture development, fisheries development, mineral development, Film New Brunswick, training in the information technology sector and capital costs related to the establishment of government call centres.

**10.10** Priority is given to initiatives that fall under the economic development strategy of the Province of New Brunswick. Activities of the Fund are reported in the RDC Economic Development Fund's annual report.

**Scope**

**10.11** We reviewed the operations of the Regional Development Corporation and in more detail the Economic Development Fund.

**10.12** Our objective in conducting this work was to ensure that adequate systems were in place related to the approval of funding and monitoring of initiatives.

**Results in Brief**

**10.13** In our opinion, the Economic Development Fund represents a good tool for responding with a provincial perspective to strategic economic funding requests from provincial departments and agencies, but improvements should be made.

**10.14** The mandatory elements to be included in a proposal submission are, if fully complied with, sufficient and appropriate for the staff and Board of Directors of RDC to evaluate the initiatives.

**10.15** Submissions presented by the departments should be improved by providing more complete information (quantitative and narrative) to assist the users to review thoroughly the initiatives and to evaluate the reasonableness of the figures.

**10.16** The Board of Directors does not approve the recommendations concerning the investments of the Economic Development Fund prior to submission to Board of Management.

**10.17** Recommendations to Board of Management should include an evaluation of each initiative based on the review criteria.

**10.18** Significant improvements on the information for decision-makers would take place if the review criteria were applied thoroughly for the evaluation process and followed up in the monitoring process.

**10.19** A system should be put in place to ensure sufficient information is included in the progress reports from the departments.

**10.20** The Board of Directors should consider and document, in the guidelines, remedial action to be taken in those cases where there has been poor progress in achieving goals.

**Submission Requirements**

**10.21** The 1997-98 RDC Economic Development Fund's annual report states:

*The Economic Development Fund (EDF) provides financing for selected departmental economic development activities that are:*

- *additional to a department's current service level;*

- *consistent with the identified government priorities for job creation and sustainable economic development;*
- *able to demonstrate that best possible use has already been made of other relevant federal and provincial government programs and services.*

*The Regional Development Corporation is coordinator of the Economic Development Fund.... In this role, the Corporation assists departments in identifying the most appropriate source of external funding for priority activities.*

**10.22** This could involve identifying other provincial or federal programs applicable to the initiatives.

## Submission Guidelines

**10.23** In February 1996, Cabinet approved Management Guidelines for the Economic Development Fund that listed the elements to be included in the proposal submissions presented by the departments.

**10.24** The format included the following:

- Summary of proposal
  - purpose and objectives
  - strategic rationale (how it relates to N. B.)
- Proposal description
  - activities and beneficiaries
  - costs
  - partners (involvement)
- Results evaluation
  - measurable benefits
  - developmental benefits (long-term growth)
- Implementation
  - management
  - resource requirements
- Accountability reporting
- Consultation
- Environmental considerations
- Communications plan

## Observation

**10.25** **The mandatory elements to be included in submissions are, if fully complied with, sufficient and appropriate for the staff and Board of Directors of RDC to evaluate the initiatives.**

**10.26** Initiatives for Film NB and Crown Land Silviculture with a total expenditure of \$1,161,852 and \$5,400,000 respectively were the biggest

Economic Development Fund expenditures for the fiscal year 1997-98. Together they represent over 43% of the Fund's total expenditure of \$15 million for 1997-98.

**10.27** The Film NB submission contained general statistics of previous productions and impacts on the Province's economy. The submission for Crown Land Silviculture requesting \$5.4 million was a little more than four pages long and consisted mostly of qualitative material.

**10.28** Measurable benefits are crucial for users to monitor achievements. In the files examined, costs and measurable benefits were not adequately identified nor were there any timetables related to those topics.

**10.29** In the Crown Land Silviculture initiative, we saw no detailed calculations of the costs. No information was provided on the hourly rate for the workers, their weekly pay or in which regions the work would be done. (This would help demonstrate how the initiative addresses a major review criteria, the effect on easing unfavourable economic conditions in particular regions of the Province.)

**10.30** As for the Film NB initiative, there was no detailed information on the costs to be incurred in New Brunswick. In the proposal for funding, the implementing department only referred to the total costs to the Province and not to the costs to be incurred by the producers in the Province.

**10.31** Although we can understand that details on future productions are hard to get, we feel that past productions could have provided information on the impact of previous investments by the Province. This would help decision-makers evaluate the benefits of this investment.

**10.32** In both files examined, we found no indications that the best possible use has already been made of other relevant programs.

### *Recommendation*

**10.33** **Departmental submissions should be improved by providing more complete information (quantitative and narrative) to assist the decision-makers to evaluate thoroughly the initiatives and to appreciate the reasonableness of the figures.**

### **Approval Process**

**10.34** The Regional Development Corporation receives proposals from departments and non-commercial Crown corporations during the provincial budget process. This allows for implementation of funding decisions at the beginning of the next fiscal year.

**10.35** Departments have to provide indicators of anticipated results and benefits of their proposed activities. The review process used in allocating funds allows for prioritization of the proposals based on this information.

**10.36** Allocations of funds are on a fiscal-year basis. When a submission is approved, the line department is advised about the funding, the terms and conditions attached to the approval, and the implementation measures to be followed.

### Information on Priorities

**10.37** *“Toward Self-Sufficiency”* and *“Moving Ahead Together”* are the two documents outlined in the Economic Development Fund (EDF) Management Guidelines to identify the government’s priorities. At the time of our audit, those documents would represent, in our view, the main tool for RDC to link their recommendations concerning EDF investments to the “government priorities.”

**10.38** Although the document *“Moving Ahead Together”* is subject to regular updates, *“Toward Self-Sufficiency”* was produced in April 1993 and has not been updated since.

**10.39** In our opinion, the economic situation of New Brunswick may be too volatile to rely on a document over five years old as one of the main sources of information for initiative evaluations.

**10.40** RDC management informed us that other sources of information have to be considered in order to have a better knowledge about the government priorities. For example, the Speech from the Throne may be used.

**10.41** Discussions with the members of the Board of Directors (who are primarily departmental deputy ministers), the departments and the Office of the Premier are also a very good source of information as it relates to the government priorities. This provides information on what are the current priorities of government.

**10.42** We believe that by having appropriate consultation with the involved parties, RDC is providing sufficient opportunity to the departments to point out their “most important” priorities.

**10.43** We agree with RDC staff on the issue that it is hard to understand what are the top government priorities. There is no priorities list and priorities also change. Key documents, as noted above, may become outdated.

### Observation

**10.44** **Determining the top priorities of government is not easy. Top priorities become understood as the consultative approach outlined above progresses. They are not always known in advance.**

### Review Criteria

**10.45** The EDF Annual Report states that *“Proposals are considered under the “business case” approach, so that measurable benefits of proposed activities are clearly demonstrated.”*

**10.46** The EDF Management Guidelines refer also to a *Business Case Approach* for the proposal submissions and is defined as follows:

*....the extent to which the proposed activities demonstrate their value or contribution to economic development in New Brunswick in terms of expected results and measure them according to their ability to contribute to the creation of jobs and economic growth in New Brunswick which are self-sustaining in the long term.*

**10.47** The EDF Management Guidelines state also:

*The following criteria will be used when reviewing proposals for financial assistance under the Economic Development Fund:*

- *Significant positive economic impact in terms of creation of employment, expansion of the economic base or improved labour market conditions.*
- *Significant impact in terms of addressing unfavourable economic conditions in particular regions of the province.*
- *The extent to which the initiative enhances opportunities for value-added production within New Brunswick industries.*
- *The extent to which the initiative contributes to increasing the global competitiveness of New Brunswick businesses and industry sectors through gains in productivity and efficiency.*
- *The extent to which the targeted sector, region or community endorses and is willing to participate in the initiative, financially and otherwise, as a result of meaningful and appropriate consultations.*
- *Inability to proceed without assistance from the Fund because of location, scope, timing or risk.*

**10.48** RDC management informed us that no formal evaluation of the submitted initiatives is performed following those criteria. Instead, “government priorities” were mainly used to review the initiatives.

**10.49** We were also told that evaluations are hard to make on those criteria and are based on subjective judgement only.

**10.50** Although we agree that judgement has to be used in this process, we feel it should be exercised in the context of established criteria.

**10.51** The Order in Council creating the Fund establishes its purpose as “funding high priority economic development initiatives.”



**10.52** We agree with RDC staff on the issue that government priorities should be considered in the decision-making process. But we are also of the opinion that RDC's approval process should make use of the Management Guidelines.

**10.53** The criteria listed in the Management Guidelines are in our opinion consistent with the objectives of the Fund and its "business case approach." They should be used in order to provide recommendations to Board of Management on the initiatives submitted by the departments. The elected officials would then have the information they need for decision-making purposes.

**Recommendation**

**10.54** There should be a formal evaluation of each initiative against the review criteria.

**10.55** Information related to the criteria should be available in order to facilitate the evaluation process and to ensure consistency. For example, when proposals refer to jobs created, it would be helpful if all proposals had the same definition of a job. It would also be useful if the areas with unfavourable economic conditions, referred to in the Management Guidelines, were listed.

**Recommendation**

**10.56** Guidelines for reviewing initiatives could be enhanced in order to facilitate the evaluation process and to ensure consistency between applications.

**Board of Directors**

**10.57** The Board of Directors of RDC is chaired by the RDC President, and is composed of provincial deputy ministers. RDC staff joins the Board meetings as support staff.

**10.58** In preparation for the meetings, RDC staff consult the different departments regarding their projects.

**10.59** The purpose of the meeting with the Board of Directors is to obtain their input and collaboration in order for RDC staff to make their recommendations.

**10.60** Prior to making the annual recommendations to the Board of Management concerning investments from the Fund, RDC staff consult and send a draft of their recommendations to the Office of the Premier for feedback. After considering the Premier's Office input, the recommendations are then forwarded to the Board of Management for consideration, and to Cabinet for final approval.

**10.61** The process described above appears to be inconsistent with the EDF Management Guidelines which state: "The priorities retained by the Board (of Directors) will be presented to Board of Management (in a memorandum prepared by Regional Development Corporation) for their final decision on the allocation of the fund." This guideline appears to be

suggesting that the Board of Management should be receiving a representation on priorities from the RDC Board of Directors, and not from the staff of RDC.

**10.62** We reviewed RDC's Board of Directors' minutes for the last two years and found no indications that the Board of Directors voted on the submitted initiatives. In one year, the Board did recommend to the Board of Management the allocation of funds by department, although no position on specific initiatives was taken. In fact, other than approval of the minutes of the last meeting, we found that there were very few motions presented to and voted on by the Board.

*Observation*

**10.63 The Board of Directors does not approve the recommendations concerning the investments of the Economic Development Fund prior to submission to Board of Management.**

**10.64** We also reviewed the Corporation's legislation as it pertains to the Board of Directors. The only reference to the Board of Directors is that *"The Lieutenant-Governor in Council may appoint persons... to be directors of the Corporation."*

*Observation*

**10.65 The role, authority and responsibility of the Board is not defined in the enabling legislation**

**10.66** As stated earlier, RDC's 1997-98 annual report refers to the fact that *"The Corporation also makes recommendations to Cabinet concerning provincial economic development priorities."*

**10.67** With this concept in mind, the most reasonable and logical assumption would be to believe that *"The Corporation"* would mean the Corporation's highest authority, and that this authority would be assisted by staff - not the other way around.

**10.68** We were told, however, that in the past, the process of having the Board of Directors make a recommendation to the Board of Management was adversarial in nature and affected the ongoing relationship between the directors.

*Recommendation*

**10.69 The Board of Directors should approve the recommendations concerning the investments of the Economic Development Fund prior to submission to Board of Management. If the Board of Directors is not to make such recommendations, the guidelines should be re-worded to clearly explain the role of staff and the Board of RDC in the decision-making process.**

*Corporation's response*

**10.70** *It should be noted that the Management Guidelines state, "priorities retained by the Board..." and not approved by the Board of Directors of the Corporation. We believe that there is a significant difference in the interpretation of these two statements... The*

*management guidelines do not require the approval of the RDC Board of Directors, only that they review them and that those retained by the Board be forwarded to Board of Management for approval. There may be a case for making the wording in the guidelines more concise as it relates to the role the RDC Board of Directors in the decision making process.*

### **Information for the Board of Management**

**10.71** We reviewed the information presented to the Board of Management concerning the funding recommendations for the Economic Development Fund.

**10.72** The information that was provided to us was composed of a brief description of each initiative. The descriptions varied from two phrases for some initiatives up to a couple of paragraphs for others.

**10.73** Also included were the names of the implementing departments, the total costs for the up-coming year, the requested funding and the EDF funding or other recommended alternatives.

**10.74** Very little information was included concerning the review criteria outlined in the Management Guidelines. The Management Guidelines which were approved by Board of Management include criteria with which initiatives must be reviewed by the Board of Directors under the “business case” approach.

**10.75** The results of the review against those criteria would be useful information in approving or rejecting the funding recommendations for the Economic Development Fund.

**10.76** The elected officials and their political advisors would then be in the best position to select the initiatives based on their government priorities with full knowledge of the review based on the “business case” approach.

**10.77** In our opinion, the information provided to the Board of Management could be improved by providing the above information.

### **Recommendation**

**10.78 Board of Management should be provided with an evaluation of the submitted initiatives against the review criteria specified in the Management Guidelines.**

### **Corporation’s response**

**10.79** *Board of Management is provided with a Cabinet Memo with detailed supporting documentation on the priorities recommended for approval. The Cabinet memo complies with guidelines for Cabinet submissions. Officials from the RDC provide a detailed briefing to the staff of the Department of Finance on each proposal. Officials from the Corporation appear before Board of Management to present the item to Ministers and to answer any questions that Board members may have on the proposals. The selection process is based on priorities previously*

*identified by government and are being forwarded for a funding decision and the timing of implementation. We are satisfied that Cabinet Ministers have sufficient information to make informed funding decisions and we have never been led to believe differently.*

## **Monitoring**

### **Progress Report**

**10.80** Once a year, the implementing departments provide a report to the Board of Directors on the progress and achievements of their projects. This information is then included in the annual Economic Development Fund report. These reports provide information on measurable outcomes achieved and planned targets.

**10.81** The progress reports are presented to the Board of Directors for information only. The Board, in cases of poor progress, imposes no remedial actions other than taking that fact into consideration when examining next year's submissions.

**10.82** The two major initiative files we examined (Film NB and Crown Land Silviculture) provided limited information in the progress reports. Coupled with the lack of information on the measurable benefits, discussed earlier, the monitoring process is of little value.

**10.83** The Film NB initiative progress report did not provide details on important issues. No information was found in relation to full or part time jobs for New Brunswickers and no information was provided on the quality or appropriateness of the training received within this initiative.

**10.84** As for the Crown Land Silviculture initiative, the Management Guidelines refer to "*Significant impact in terms of addressing unfavourable economic conditions in particular regions of the province.*" We saw no information as to what region the silviculture initiative was impacting nor did we find information as to the salary level of the employees. This lack of information makes it impossible to evaluate the extent to which the initiative is providing sufficient salaries for workers. Also it makes it hard to determine whether the initiative is addressing the problem of regions with unfavourable economic conditions.

**10.85** The initiative has the objective "*of maximizing the present sustainable level of softwood and hardwood, and also to provide for long-term volume increases of both hardwood and softwood.*"

**10.86** From the documentation presented on the 1997-98 results, information is provided on how many hectares were planted, but there is no information on how many hectares were harvested. This makes it hard to evaluate the extent to which the objective has been achieved.

### **Recommendations**

**10.87** **A system should be put in place to ensure sufficient information is included in the progress reports from the departments.**

**10.88** The Board of Directors should consider and document, in the guidelines, remedial action to be taken in those cases where there has been poor progress in achieving goals.

## Monitoring Procedures

**10.89** RDC management has no formal process in place to ensure the accuracy of the information provided in the progress reports. Staff of RDC did not acknowledge that this was part of their responsibilities.

**10.90** It is our opinion that monitoring procedures should be performed by the Corporation to determine if the information provided is accurate. This would assist in holding people accountable for the money they were provided.

**10.91** We understand that these procedures need not be as tight with a department as with a transaction with the private sector, but we are still of the opinion that the implementing departments should be subject to some scrutiny by the fund providers.

**10.92** This could take the form of a periodic review through inquiry and/or observation of how the department obtains its information or prepares its calculations.

**10.93** Definitions of key assertions could also be reviewed for reasonableness (for example, the definition of a “job created”). This would help ensure reasonableness and consistency in reporting by departments.

**10.94** The 1997-98 EDF annual report reports some of the activities of Film NB as follows:

*Film NB has helped to create more than 450 person years of work.*

**10.95** The new administration of Film NB disagreed with this statement when contacted for further details. According to their calculations, 1997-98 production costs generated around 170 person years of work of which about only half, 85 person years, was provided to New Brunswickers.

**10.96** Not only is the “450 person years of work” statement included in the EDF annual report, but the same information was also provided as a progress report to the Board of Directors as part of the following year’s submission.

**10.97** We are aware that those figures take into account a “multiplier effect” which provides the “total spin-off effect” for the Province. Nevertheless, we strongly believe that this kind of information is misleading. Direct full time jobs for New Brunswickers should be one of the standard denominators for reporting and performance measurement.

Wordings like “*helped to create*” are confusing as to their real meaning and should be avoided when reporting on performance.

### ***Recommendations***

**10.98** Monitoring procedures should be put in place by RDC to ensure the reasonableness and consistency of the information provided to them by the implementing departments.

**10.99** RDC should put in place sufficient detection procedures as part of the monitoring process to ensure they are aware of non-compliance with the conditions of the initiatives.

### **Conclusion**

**10.100** In our opinion, the Economic Development Fund represents a good tool for responding with a provincial perspective to strategic economic funding requests from provincial departments and agencies, but improvements should be made.

**10.101** The guidelines for approving initiatives are appropriate and useful and contribute to reaching the overall objectives of the Fund. However, they are not fully used to evaluate the proposals. Use of the guidelines would ensure that a business case approach is followed.

**10.102** Significant improvements in the information for decision-makers would take place if the review criteria were applied thoroughly for the evaluation process and followed up in the monitoring process.