

Chapter 7

Department of Business New Brunswick Community Economic Development Agencies

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Department of Business New Brunswick Community Economic Development Agencies

Background

7.1 In their 2004/05 Annual Report, Business New Brunswick (BNB) identifies Community Economic Development as one of nine key result areas for the Department. Its goals in this area are:

- to continue the leadership role, within government, in community economic development, and
- to support the implementation of Community Economic Development Agency action plans in accordance with provincial and regional priorities.

7.2 Community Economic Development Agencies (CEDAs) are not-for-profit corporations created to work with the regional business community in areas of strategic importance to the funding partners. BNB assists the CEDAs in developing strategic plans and implementing integrated work plans.

7.3 There are fifteen CEDAs in New Brunswick, each governed by a board of directors. The members of the board of directors are appointed by the federal, provincial and municipal governments. The members represent the different business sectors in the communities as well as the different regions covered by the CEDAs.

7.4 In the past, these agencies were known as Regional Economic Development Corporations (REDCs). They became Community Economic Development Agencies following a restructuring in 2002. According to departmental staff, the main differences between the former REDCs and the CEDAs are:

- all agencies are now required to have a strategic plan, and
- the boards of directors of CEDAs are made up of local business leaders, instead of elected officials.

7.5 CEDAs do not provide funding to businesses. Instead they provide a number of programs and services to assist organizations, such as:

- small business counselling;
- business plan development;
- information on available financial assistance, markets, transportation, wage rates, and taxes;
- facilitate application for financial assistance;
- export development and investment information; and
- assistance in locating real estate to rent or purchase.

7.6 Each CEDA has a staff to carry out its day-to-day activities. The staff are not employees of the Province and are not part of the civil service. Exhibit 7.1 provides the number of board members and staff by CEDA.

Exhibit 7.1

Board members and employees by agency for 2004/05

CEDA	Number of Board members	Number of Employees
Enterprise South East	11	5
Enterprise Grand Falls	12	5
Enterprise Greater Moncton	20	11
Enterprise Carleton	12	5
Enterprise Central	12	4
Enterprise Chaleur	12	7
Enterprise Charlotte	13	4
Enterprise Fredericton	15	8
Enterprise Fundy	15	6
Enterprise Kent	18	5
Enterprise Madawaska	12	5
Enterprise Miramichi	15	6
Enterprise Peninsula	15	6
Enterprise Restigouche	13	9
Enterprise Saint John	16	14

Scope

7.7 During the year, we conducted a preliminary review in Business New Brunswick to learn more about Community Economic Development Agencies. The purpose of this review was to determine whether to conduct an audit. As a result of our preliminary findings,

we decided not to conduct a full audit at this time. However, we thought it would be useful to provide the Legislative Assembly with the information we gathered on CEDAs, and to bring forward the observations we made as a result of our work. This is consistent with section 13(1) (a) of the Auditor General Act which states “The Auditor General shall report annually to the Legislative Assembly on the work of his office.”

Summary of recommendations

7.8 Although we did not conduct an audit of Community Economic Development Agencies, our preliminary review did result in the following recommendations to the Department:

- We recommended the Department work together with ACOA and the CEDAs to establish a standard financial statement reporting format.
- We recommended, as an annual exercise, the Department prepare a reconciliation of amounts paid by all government departments to the amount of revenue as reported in the financial statements of the agencies, and obtain explanations as required to ensure the agencies are accurately reporting revenue.
- We recommended the Department work together with ACOA and the CEDAs to establish a standard annual reporting format.
- We recommended the Department establish a procedure to ensure all CEDA reporting documents are properly filed for reference, especially those documents required for the purpose of releasing payments to agencies.
- We recommended BNB require applicants to submit a brief description of the actual outcomes in relation to the expected outcomes of the initiatives under the Community Economic Development Fund.

Funding

7.9 Community Economic Development Agencies receive a significant portion of their core operational funding from the Atlantic Canada Opportunities Agency (ACOA) and BNB under a funding agreement that established a 70/30 split. Additional core operational funding comes from participating municipalities.

7.10 Core operational funding is allocated to each CEDA based on a per capita funding formula. A three-year funding agreement was

established between ACOA and BNB for the period of 2002/03 to 2004/05, and it was extended for an additional year to 2005/06.

7.11 In addition to the core operational funding, CEDAs also receive project-specific funding or other grants from various organizations, such as the Regional Development Corporation and the Department of Training and Employment Development (now the Department of Post-Secondary Education and Training), as well as private businesses and other federal agencies.

7.12 In order to understand the total amount of funding provided to each CEDA in 2004/05, we started by summarizing the revenue reported by the CEDAs in their financial statements by core operational funding partner (ACOA, BNB, municipalities) and grouped all other revenue as “Other Funding”. This analysis is found in exhibit 7.2.

Exhibit 7.2

Core funding by partner and other funding in 2004/05 based on financial statements

CEDA	Core Funding			Other Funding	Total Agency Revenue per Financial Statements
	Federal/Provincial Funding Agreement		Municipal		
	ACOA	BNB			
Enterprise South East	\$ 173,700	\$ 74,443	\$ 34,565	\$ 135,039	\$ 417,747
Enterprise Grand Falls	169,920	72,824	27,876	281,435	552,055
Enterprise Greater Moncton	252,538	98,104	558,665	590,361	1,499,668
Enterprise Carleton	169,829	72,784	5,304	12,385	260,302
Enterprise Central	169,796	82,571	9,082	90,013	351,462
Enterprise Chaleur	178,740	76,603	58,826	465,569	779,738
Enterprise Charlotte	188,462	72,883	11,852	195,343	468,540
Enterprise Fredericton	200,319	86,097	198,143	607,924	1,092,483
Enterprise Fundy	183,597	79,584	16,239	28,182	307,602
Enterprise Kent	174,360	74,726	23,515	287,573	560,174
Enterprise Madawaska	169,748	72,766	96,101	706,227	1,044,842
Enterprise Miramichi	153,161	76,437	54,500	442,029	726,127
Enterprise Peninsula	192,225	82,382	44,300	809,510	1,128,417
Enterprise Restigouche	173,340	74,288	27,542	783,010	1,058,180
Enterprise Saint John	233,765	100,185	550,000	1,378,366	2,262,316
Total	\$ 2,783,500	\$1,196,677	\$1,716,510	\$ 6,812,966	\$12,509,653

Funding by partner as a

% of total core funding

Federal-Provincial Sharing

49%

21%

30%

70%

30%

7.13 This exhibit also shows that BNB met its 30% commitment under the federal-provincial agreement, and provided 21% of total core operational funding overall. In total, BNB is the smallest contributor to core operational funding of the three partners. However, for eleven of the fifteen CEDAs, BNB is the second largest contributor to core operational funding.

7.14 Our analysis also shows that the CEDAs received \$6,812,966 in other funding from various provincial government departments and agencies, the federal government and other contributors.

Exhibit 7.3

Payments to CEDAs by various provincial departments in 2004/05

CEDA	BNB	TED	AFA	FCS	IA	TP	RDC	Misc. amounts	Total
Enterprise South East	\$ 37,347	\$ 85,130	-	-	-	-	-	-	\$ 122,477
Enterprise Grand Falls	32,370	101,407	\$ 10,000	-	-	-	-	-	143,777
Enterprise Greater Moncton	120,789	247,545	-	-	-	-	-	-	368,334
Enterprise Carleton	37,812	57,358	-	-	-	-	-	\$ 60	95,230
Enterprise Central	58,423	2,591	-	-	-	-	-	-	61,014
Enterprise Chaleur	35,055	77,431	-	-	-	\$ 1,676	\$ 234,310	-	348,472
Enterprise Charlotte	30,966	54,991	-	-	-	-	-	-	85,957
Enterprise Fredericton	89,154	65,197	-	-	-	-	35,322	1,169	190,842
Enterprise Fundy	55,083	-	-	-	-	-	-	-	55,083
Enterprise Kent	15,784	81,896	-	-	-	-	29,440	-	127,120
Enterprise Madawaska	113,367	126,288	-	-	-	-	50,000	300	289,955
Enterprise Miramichi	6,750	185,871	-	-	-	-	-	-	192,621
Enterprise Peninsula	124,625	143,978	34,950	-	-	-	234,691	900	539,144
Enterprise Restigouche	47,495	279,010	-	\$ 55,748	-	-	62,614	40	444,907
Enterprise Saint John	160,249	465,351	-	-	\$ 30,000	-	-	230	655,830
Total	\$965,269	\$1,974,044	\$44,950	\$55,748	\$30,000	\$1,676	\$646,377	\$2,699	\$3,720,763

Note: Amounts obtained as a result of extraction from provincial financial records for the fiscal year 2004/05. The amount of funding provided by BNB reflects amounts *in addition* to core funding identified in exhibit 7.2.

Legend:

BNB	Department of Business New Brunswick
TED	Department of Training and Employment Development (now the Department of Post-Secondary Education and Training)
AFA	Department of Agriculture, Fisheries and Aquaculture
FCS	Department of Family and Community Services
IA	Department of Intergovernmental Affairs
TP	Department of Tourism and Parks
RDC	Regional Development Corporation

7.15 We then prepared an analysis of payments other than core operational funding payments made to the CEDAs by all provincial departments in 2004/05, to determine how much of the CEDAs' \$6,812,966 other funding was provided by the Province. This analysis can be found in exhibit 7.3.

7.16 This analysis shows that \$3,720,763 out of a total of \$6,812,966 in other funding came from the Province. We were then able to mathematically determine that the CEDAs other funding from non-provincial sources was \$3,092,203. This analysis is found in exhibit 7.4.

7.17 This analysis reports negative *Other Funding from Non-Provincial Sources* for both the Carleton and Fundy CEDAs. This occurred because the amount of revenue as reported by these CEDAs in their financial statements is less than what we expected based on our comparison to core operational funding and other payments by provincial departments. The negative value represents the amount required to reconcile known revenues to the amount of revenue reported in the CEDAs' financial statements.

Exhibit 7.4

Operational funding by partner and other funding in 2004/05 based on financial statements

CEDA	Total Other Funding	Other Provincial Funding	Other Funding Non-Provincial Sources
Enterprise South East	\$ 135,039	\$ 122,477	\$ 12,562
Enterprise Grand Falls	281,435	143,777	137,658
Enterprise Greater Moncton	590,361	368,334	222,027
Enterprise Carleton	12,385	95,230	(82,845)
Enterprise Central	90,013	61,014	28,999
Enterprise Chaleur	465,569	348,472	117,097
Enterprise Charlotte	195,343	85,957	109,386
Enterprise Fredericton	607,924	190,842	417,082
Enterprise Fundy	28,182	55,083	(26,901)
Enterprise Kent	287,573	127,120	160,453
Enterprise Madawaska	706,227	289,955	416,272
Enterprise Miramichi	442,029	192,621	249,408
Enterprise Peninsula	809,510	539,144	270,366
Enterprise Restigouche	783,010	444,907	338,103
Enterprise Saint John	1,378,366	655,830	722,536
Total	\$ 6,812,966	\$ 3,720,763	\$ 3,092,203

* Note: The amount of *Other Provincial Funding* may or may not be accurate due to funding provided by BNB from the Community Economic Development Fund (CEDF) (discussed later in this report). We were unable to accurately determine the amount each agency was recording as revenue from the CEDF.

7.18 In the case of Enterprise Fundy, the amount recorded as *Other Provincial Funding* is a payment from BNB to the CEDA in relation to the Community Economic Development Fund. Enterprise Fundy in turn paid the money to a client organization to complete their planned activities as per their CEDF application. Therefore,

although it appears as a payment to Enterprise Fundy, the CEDA did not record the funding as revenue since it redirected the funding to its clients for their project.

7.19 As for Enterprise Carleton, the net value of revenues and expenditures related to special projects was recorded as a liability on the balance sheet of their 2004/05 financial statements. This method of accounting for special projects for CEDAs is unique. All other CEDAs record revenues and expenditures for special projects.

7.20 Adopting a standard reporting format would improve the comparability and consistency of the financial statements for the CEDAs, improving their overall accountability.

Recommendation

7.21 We recommended the Department work together with ACOA and the CEDAs to establish a standard financial statement reporting format.

7.22 The type of analysis demonstrated by exhibits 7.2 to 7.4 is simple to prepare, and could be used by the Department as a monitoring tool to support accountability.

Recommendation

7.23 We recommended, as an annual exercise, the Department prepare a reconciliation of amounts paid by all government departments to the amount of revenue as reported in the financial statements of the agencies, and obtain explanations as required to ensure the agencies are accurately reporting revenue.

7.24 To do this, the Department may need to obtain a report of all payments to CEDAs from the Province's Office of the Comptroller.

7.25 From this analysis of funding, we can calculate that the total funding provided to the CEDAs by the Province for the fiscal year ended 31 March 2005 was \$4,917,440 which was 39% of the CEDAs' total funding.

Expenditures

7.26 We prepared an analysis of the expenditures of the CEDAs for the year ended 31 March 2005 from their financial statements. This analysis is contained in exhibit 7.5.

7.27 This analysis shows that the CEDAs spent \$12,273,503 of the \$12,509,653 they received in funding. The percentage of spending for each category was:

- Special projects 45.2%
- Salaries 33.9%

- Office expenses 16.9%
- Travel expenses 2.4%
- Capital expenditures 0.8%
- Training 0.4%
- Vehicle expense 0.4%

Exhibit 7.5

*Summary of expenditures by agency for the year 2004/05 **

CEDA	Salary	Office	Training	Vehicle	Travel	Capital Expenditures	Special Projects/ Programs	Total
Enterprise South East	\$ 231,607	\$ 74,308	\$ 1,825	\$ -	\$ 31,323	\$ 7,091	\$ 59,939	\$ 406,093
Enterprise Grand Falls	211,939	51,626	-	7,467	7,205	-	256,820	535,057
Enterprise Greater Moncton	608,403	375,252	-	-	-	7,044	386,119	1,376,818
Enterprise Carleton	149,982	84,877	2,080	-	23,273	2,998	-	263,210
Enterprise Central	217,781	104,716	-	-	32,424	11,765	41,575	408,261
Enterprise Chaleur	244,850	96,003	10,834	-	19,020	3,397	407,235	781,339
Enterprise Charlotte	215,135	127,789	-	-	16,841	-	109,750	469,515
Enterprise Fredericton	415,268	133,187	1,561	-	12,310	8,793	539,291	1,110,410
Enterprise Fundy	184,552	68,000	3,674	-	29,743	-	(254)	285,715
Enterprise Kent	180,774	103,707	204	7,530	6,384	-	271,747	570,346
Enterprise Madawaska	297,772	111,788	6,014	20,113	5,393	4,222	465,836	911,138
Enterprise Miramichi	209,162	97,033	-	-	39,681	-	379,507	725,383
Enterprise Peninsula	282,633	199,788	5,878	-	43,810	-	595,972	1,128,081
Enterprise Restigouche	239,025	212,539	5,670	-	31,132	-	569,814	1,058,180
Enterprise Saint John	466,071	227,712	11,109	19,457	-	49,307	1,470,301	2,243,957
Total	\$ 4,154,954	\$ 2,068,325	\$ 48,849	\$ 54,567	\$ 298,539	\$ 94,617	\$ 5,553,652	\$ 12,273,503

* Enterprise Saint John has a year end of December 31; therefore, we used figures from their December 31/04 financial statements.

Reporting relationships

7.28 As part of our preliminary review, and because the Province provided the CEDAs with \$4.9 million, we wanted to determine what reporting the CEDAs were required to provide to the Province.

7.29 CEDAs are accountable to their funding partners. A CEDA framework document established the guidelines and underlying principles that govern the CEDA concept. The reporting requirements of CEDAs are set out in these guidelines. As part of the funding requirements, CEDAs must provide the following documents to BNB:

- three-year strategic plan (BNB must approve the plan);
- annual work plan;
- six-month progress report on the annual work plan with interim financial statements;
- annual report; and
- audited financial statements

7.30 These reports are tools the Department uses to hold the agencies accountable for the funding they received. Once a CEDA sets a strategic direction, it must create annual work plans to identify what activities it will undertake in order to achieve the objectives in the strategic plan. Midway through the year, the CEDAs must submit a progress report on how they are doing in relation to their workplans. In fact, annual funding from BNB is tied to the workplans and progress reports. Funding is provided in two sums; 50% is provided with the submission of the workplan, while another 50% is provided once a six-month progress report is submitted. The annual report with financial statements allows the CEDA to highlight the year's overall activities and progress towards the goals and objectives set in the strategic plan.

Review of reporting documents

Mid-year update

7.31 We reviewed the mid-year update for the year 2004/05 for a sample of three CEDAs to determine what type of information they are providing to BNB to reflect progress on the actions in their workplans. We found that all sampled CEDAs had identified planned actions as well as naming who was responsible for its achievement. (One of the three CEDAs included a target date for implementation.) All three indicated results of planned actions as at 30 September 2005. Here are some examples of the information provided on business counselling:

Planned Action	Result
1. Provide counselling to new and existing small and medium entrepreneurs	<ul style="list-style-type: none"> • 89 field visits carried out by agency staff • 418 client office visits
2. Provide 9 Business Basics sessions	<ul style="list-style-type: none"> • 1 Business Basics session held to date, 11 participants
3. Provide learning opportunity on tax regulations for business owners with a Revenue Canada session with the CBDC	<ul style="list-style-type: none"> • 8 people attended CCRA session (target of 10).

Financial statements and annual reports

7.32 We reviewed the 2004/05 annual reports, including financial statements, of all 15 CEDAs. We established criteria for adequate performance reporting based on the Province's annual report policy. We reviewed each annual report against these criteria. Our findings are summarized in exhibit 7.6.

7.33 Highlights from our review:

- All reports contained an overview section or executive director's message.

- Annual reports focused solely on presenting positive outcomes.
- The majority of reports (67%) did not provide a clear account of the respective agency's goals/objectives.
- Annual reports had an average length of 30 pages, ranging from 10 to 57 pages.
- No reports contained variance analysis of results and financial position.
- Reporting of revenues on the income statement was inconsistent from agency to agency. Some reported by source, some by program, and some by both.
- The majority of reports (60%) did not provide a budget, and of those that did, none explained significant variances.

Exhibit 7.6
Review of CEDA annual reports

Criterion	Criterion met	
	Yes	No
1. Summary of the agency's mission/mandate, environment and products and services	13/15	2/15
2. Overview section, director message	15/15	0/15
3. Clear account of agency goals/objectives	5/15	10/15
4. Performance indicators are measurable	3/15	12/15
5. Provides information and advice on "program relevance"	14/15	1/15
6. Actual and budget information in summary form	6/15	9/15
7. Explanations are given for significant variances between actual and budget	0/15	15/15
8. Contains other aspects of financial performance	11/15	4/15
9. Financial information includes unqualified auditor's report, financial statements and notes	13/15	2/15
10. Analysis of results and financial position in comparison to performance targets, with explanations	0/15	15/15
11. Well organized, logical, and easy to read	15/15	0/15

7.34 This review indicates that there are weaknesses in the annual reports of CEDAs.

Recommendation

7.35 We recommended the Department work together with ACOA and the CEDAs to establish a standard annual reporting format.

All documents

7.36 We also examined the documents provided to BNB by each CEDA for the year 2004/05 to determine if the reporting requirements identified previously were met. Our findings are found in exhibit 7.7.

*Exhibit 7.7**Results of testing of reporting requirements for the year 2004/05*

CEDA	Strategic Plan	Workplan	Mid-year update to workplan	Interim Financial Statements	Audited Financial Statements	Annual Report
Enterprise South East	Yes	Yes	Yes	Yes	Yes	Yes
Enterprise Grand Falls	Yes	Yes	No**	No**	Yes	Yes
Enterprise Greater Moncton	Yes	Yes	Yes	Yes	Yes	Yes
Enterprise Carleton	Yes	Yes	Yes	Yes	Yes	Yes
Enterprise Central	Yes	Yes	Yes	Yes	Yes	Yes
Enterprise Chaleur	Yes	Yes	Yes	No**	Yes	Yes
Enterprise Charlotte	Yes	Yes	No**	No**	Yes	Yes
Enterprise Fredericton	Yes	Yes	Yes	Yes	Yes	Yes
Enterprise Fundy	Yes	Yes	No**	No**	Yes	Yes
Enterprise Kent	Yes	Yes	No**	No**	Yes	Yes
Enterprise Madawaska	Yes	Yes	Yes	No**	Yes	Yes
Enterprise Miramichi	Yes	Yes	No**	No**	Yes	Yes
Enterprise Peninsula	Yes	Yes	Yes	No**	Yes	Yes
Enterprise Restigouche	Yes	Yes	Yes	Yes	Yes	Yes
Enterprise Saint John	Yes	Yes	No**	No**	Yes	Yes

** Although the information was not found at the Department, other corroborating support was obtained to indicate the agencies had prepared these documents.

7.37 We found that BNB had complete documentation (all six documents) on file for only six of the fifteen CEDAs. We discussed the issue with departmental staff, who indicated that the information was likely elsewhere in the Department and had not made it to the file, since many people work with the information. As a compensating test, we were able to obtain the missing documents from the CEDAs themselves, indicating that the information exists and is readily available. We believe this to be an indication of an issue with filing rather than with obtaining appropriate documentation from the CEDAs.

Recommendation

7.38 We recommended the Department establish a procedure to ensure all CEDA reporting documents are properly filed for reference, especially those documents required for the purpose of releasing payments to agencies.

7.39 For example, the Department could create a checklist of documents required to release a payment to a CEDA, and assign

responsibility to an individual to review the central file to ensure the necessary documents have been properly filed.

Community Economic Development Fund

7.40 The Community Economic Development Fund (CEDF) is a fund administered by BNB for the purpose of providing funding to CEDAs in order to support both strategic planning and business and entrepreneurship development as part of the implementation of their regional economic development plans. Payments to CEDAs would be included in the total for BNB in exhibit 7.3.

7.41 Funding from the CEDF is allocated to each agency on a per capita basis. The allocation by CEDA, as well as the amount paid in 2004/05, is shown in exhibit 7.8.

Exhibit 7.8

CEDF funding allocation by CEDA for 2004/05

Agency	Allocated Amount	Actual Amount Paid
Enterprise South East	\$ 44,224	\$ 44,224
Enterprise Grand Falls	37,967	32,101
Enterprise Greater Moncton	67,833	67,833
Enterprise Carleton	37,812	37,812
Enterprise Central	75,637	43,793
Enterprise Chaleur	52,571	52,570
Enterprise Charlotte	38,195	38,195
Enterprise Fredericton	44,631	42,000
Enterprise Fundy	64,095	62,454
Enterprise Kent	45,316	45,316
Enterprise Madawaska	37,744	37,744
Enterprise Miramichi	51,931	47,551
Enterprise Peninsula	74,906	74,900
Enterprise Restigouche	43,627	42,520
Enterprise Saint John	71,855	71,855
Total	\$788,344	\$ 740,868

7.42 Funding can be provided to CEDAs or directly to private companies. In the case of the latter, the respective CEDA would apply for funding on behalf of the client company. Regardless of the beneficiary, the amount is deducted from the CEDA's total allocation.

7.43 In order to receive funding, the initiatives must meet the following criteria. They:

- must be identified as priorities in the strategic plan and be consistent with provincial priorities and policies;

- should demonstrate the extent to which the initiative contributes to increasing the global competitiveness of the Province's businesses and industry sectors through gains in productivity and efficiency;
- should be endorsed and/or supported by the sector, region or community financially or in kind; and
- should demonstrate the initiative will not proceed without assistance from the Fund because of location, scope, timing or risk.

7.44 Should the cost of the project be less than anticipated, the balance must be returned to BNB.

7.45 We tested 10% of 124 applications made during 2004/05. The monetary value of the projects we tested was \$150,232. We reviewed the applications to determine whether the criteria for each initiative were met, and whether the appropriate documentation was obtained. In all items tested, all documents were obtained and all criteria were met. We also found that in cases where the project costs were less than anticipated (which occurred in 25% of the applications we tested), there was evidence that the overage was refunded to the Department.

7.46 We noted that the Project Evaluation Form (the application form with criteria) includes a section describing the expected outcomes resulting from the proposal. We inquired whether these expected outcomes are evaluated against actual outcomes, and found that they are not. It would be beneficial to require applicants to briefly describe the outcome of the initiative for which they received funding to ensure full accountability.

Recommendation

7.47 We recommended BNB require applicants to submit a brief description of the actual outcomes in relation to the expected outcomes of the initiatives under the Community Economic Development Fund.

7.48 The Department should assign this responsibility to an appropriate individual to ensure the information is collected and filed.

Departmental response

7.49 The Department provided the following comments on our report and recommendations:

[We were] pleased to see your recommendations and we generally agree that the operation and management of the Agencies will be improved if implemented.

[We] will ensure that these recommendations are discussed with our Partners at the earliest convenience.