GIPPSLAND AREA
CONSULTATIVE COMMITTEE INC

Submission to

House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government

Inquiry into a New Regional Development Funding Program

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GACC Background in Regional Programs Delivery

The Gippsland Area Consultative Committee (GACC) is member of the national network of Area Consultative Committees (ACCs), funded by the Australian Government, through the Department of Infrastructure, Transport, Regional Development and Local Government. The network is currently transitioning to become Regional Development Australia (RDA).

The region covered by the GACC is comprised of six municipalities: Bass Coast, Baw Baw, East Gippsland, South Gippsland and Wellington Shire Councils, and the City of Latrobe.

Fourteen years of participating in the delivery of Commonwealth Government regional development programs enables the GACC to bring considerable program implementation experience and expertise to this *Inquiry into a New Regional Development Funding Program.*

Regional development programs that the GACC has supported include the:
• Auslink Strategic Regional Program
• Australian Tourism Development Program
• Building Enterprise In Small Business
• Dairy Regional Assistance Programme
• Fishing Community Assistance Program
• Food Processing in Regional Australia Program
• Regional Assistance Programme
• Regional Partnerships Programme
• Regional Solutions Programme
• Rural Transaction Centres Programme
• Sustainable Regions Programme

Several of these programs had specific, Government funded GACC program officers who promoted the program, advised and assisted participants with the preparation of their applications, and monitored the progress of community projects. The officers were effectively the regional face of the programs.

Program officers were employed by and accommodated in the offices of the GACC. Co-location and cross-membership of program committees resulted in effective synergies. Other programs benefited substantially from being able to access and utilise the established profile, networks and local knowledge of the GACC. The initial delivery of these programs was accelerated by the association with the GACC as the normal establishment phase of a program was virtually eliminated.

Program co-location reduced the potential for confusion and frustration in the community from the introduction of a stand-alone Government initiative. There was a single location for Commonwealth regional assistance programs in Gippsland, widely known to the regional community.

The development of any new program should note this experience and ensure that the benefits of regional expertise and knowledge are recognised in program development and design.

The recent and problematic Regional Partnerships Programme is a small element of the GACC's overall experience with regional development programs delivery. The views expressed in this submission draw on the expertise of our staff and board (committee) members.

The GACC has also undertaken a survey of a sample of previous programme participants and other stakeholders including local Government economic development officers. The views expressed by respondents to this survey have been incorporated in this submission.

Inquiry Terms of Reference

The Terms of Reference preamble indicates that the Inquiry Committee is to report on the Australian National Audit Office's Performance Audit of the Regional Partnerships Programme and make recommendations on:

- ways to invest funding in genuine regional economic development **and**
- community infrastructure with the aim of enhancing the sustainability and livability of Australia's regions.

The list of tasks indicates that the Committee's report is to "Provide advice on future funding of regional programs in order to invest in genuine and accountable community infrastructure projects", however, there is no reference to "genuine regional economic development".

This submission is structured to address the Terms of Reference (1, 2 & 3) of the Inquiry under the following headings.

Program Development
> *"1. Provide advice on future funding of regional programs in order to invest in genuine and accountable community infrastructure projects".*

Program Design
> *"2. Examine ways to minimise administrative costs and duplication for taxpayers".*

Program Delivery
> *"3. Examine the former Governments' practices and grants outlined in the Australian National Audit Office report on Regional Partnerships with the aim of providing advice on future funding of regional programs."*

Program Development

The GACC contends that the scope of any future programs should include "genuine regional economic development" not just "community infrastructure projects".

The GACC is also concerned that a new program should be capable of supporting commercial, private sector projects that have the capacity to deliver good regional economic development outcomes. This is in the context that Gippsland still has some of the highest unemployment levels in Victoria and we believe job generation will not occur without such projects. Good program design and assessment processes can ensure commercial projects address regional priorities and deliver regional benefits, especially within a competitive program as opposed to a discretionary program. Specific strategies can be used to augment the value-add of projects to regions, e.g. cluster projects, skills development projects, joint ventures between a range of partners etc.

In our experience, a broad based flexible program will have the capacity to respond to the specific and varying needs of different regions. Stakeholder feedback endorses this view.

Recommendation: *A new regional development funding program should be competitive, broadly based, and capable of supporting a variety of projects including commercial projects.*

Balanced and sustainable regional development requires an understanding of the basis for a region's competitiveness and the development of all those factors that underpin such competitiveness. The community's aspirations for their region should be expressed and documented to identify the development priorities for the region.

ACCs are currently required to identify the development priorities for their regions through Strategic Regional Plans. The expression of these priorities provides a basis for evaluating the potential of a project to contribute to an agreed development agenda.

The Gippsland Local Government Network (GLGN) is the coordinating body for local Government in Gippsland. The GLGN, with assistance and advice from the GACC and funds from the Victorian Government, recently developed the *Gippsland Regional Development Strategy*. This comprehensive strategy provides further confirmation of an agreed agenda for the development of Gippsland.

The development of regional plans is an important element in establishing regional priorities. However, all good plans are the basis for ongoing change. The GACC recognises the need to continually monitor and review regional priorities and maintains the following engagement strategies and activities among others:
- Connections of GACC members and staff to other regional and wider boards/committees
- GACC Executive Officer membership of steering committee for the *Gippsland Regional Development Strategy* and reciprocal membership of the Strategy Executive on the GACC
- GACC Executive Officer membership of the Victorian Government's Regional Management Forum of regionally represented Government agencies
- Assistance with development of the Committee for Gippsland

- Development of the Gippsland Food Producers' Council
- Founding partner of the 'Export Gippsland' network
- Partner in 2008 Energy Summit
- Partner in 2008 + 2006 Eastern Victoria Major Projects and Opportunities Summits
- Co-location with AusIndustry and office base for visiting Austrade staff
- State/Local/Commonwealth Government funding program 'road-shows' in each sub-region
- Bi-annual Stakeholder Survey
- Electronic newsletters and bulletins

Recommendation: *A new regional development program needs to be able to address regionally identified development priorities.*

Regional Development Principles

The challenge for a community derived ACC is to select from a multitude of options, those projects that will best contribute to the sustainable development of their region.

To effectively discharge their charter ACC members must:
- understand the principles of sustainable regional development; and
- understand the aspirations and strategic opportunities for the development of their communities and regions.

There are factors that 'drive' and factors that 'enable' regional development. The drivers determine what should be done in pursuit of the region's preferred future, and the enablers provide the capacity to do it.

Sustainable regional development occurs when skilled individuals and firms are profitably engaged in activities consistent with the strengths and long term opportunities of the region. This includes the efficient use and maintenance of the region's physical resources.

There is an opportunity to ensure that the regional development process is widely understood and valued. While the GACC has developed strong skills through fourteen years of experience, we believe there is merit when developing a new program to include a skills development element for ACCs, departmental staff and ministerial offices.

Properly developed regional development programs will include project selection criteria and evaluation processes that reflect an understanding of regional development principles.

Recommendation: *The principles of balanced and sustainable regional development need to be applied at all levels of the development, design and delivery of regional development programs.*

Further discussion of regional development principles is included as Appendix 1.

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Program Design

The Regional Partnerships Programme administration failures identified in the ANAO Audit were to a large extent the consequence of poor initial program and application process design.

The GACC expects that the professional staff of the relevant Government agencies will deliver well designed and administered programs. We also expect that proper financial management procedures will be applied. The comments provided in this submission are intended to assist that responsibility, and are not a substitute for it.

The scope of a program has a major bearing on the degree of difficulty in designing the program. The narrower the focus the easier it is to design and administer. Information requirements become specific and applications are more directly comparable which makes assessment easier. However, the needs and development priorities of regions differ greatly across the country. Only a broad based program can accommodate these varying needs.

The design of broad based regional economic development programs requires a sophisticated knowledge of the regional economic development principles and processes.

Program Design Skills

A number of Commonwealth Government agencies have long experience in the design and delivery of regional development programs. There is however a serious risk of this corporate memory being lost with departmental restructurings and new Government initiatives. This lack of continuity risks resulting in 'reinvention of the wheel'.

There is a problem when inexperienced staff attempt to copy elements of past program processes without a detailed knowledge of the field and of the rationale of earlier program designs.

Application of the Financial Management and Accountability Regulations 1997 (FMA Regulations) as advocated in the ANAO Audit only provides a prudential framework. The regulations cannot provide the sophisticated application question design outputs that rely on a thorough understanding of the objectives of a program and the principles of regional development.

It is vital that senior staff with experience in regional development be responsible for the development of any new programs. This expertise is required to ensure that a sophisticated approach is taken to addressing the complexities and subtleties involved in developing a broad based program.

Recommendation: *The design of a regional development program requires the application of more than administrative skills. The responsible department must ensure that experienced, senior regional development professionals are applied to this task.*

Program Design Principles

The following factors should be addressed in the program design process:
- clear program objectives;
- clear qualification/participation criteria;
- identified sources of assistance and advice for application development;
- published assessment criteria that accommodate regionally specific priorities;
- timely, merit based objective assessment processes;
- timely outcomes announcements process;
- ability to advise applicants of reasons for rejection; &
- timely grant contracting process.

Administrative Costs and Process Efficiencies

Efficient administrative processes are essential for the management of program delivery costs and the containment of costs for applicants. The design of an integrated application and assessment processes is the key to cost efficiencies.

The information obtained in the application process should be directly applicable to the assessment process. Information requested should be based on normal corporate reporting requirements where possible. Requests for special/additional information should be limited.

Consideration of the costs of participating in a program should include non financial factors such as the applicant's time and frustration, damage to a program's reputation and the loss of opportunities caused by tardy processes.

The major administrative cost is in the assessment of applications. The complexity and cost of assessments should be commensurate with the complexity and size of the project.

Utilisation of ACCs in an initial assessment phase is the lowest cost model as this work is undertaken by volunteers.

A program needs to be stable with minimal (if any) changes over its life. The issuing of six procedures manuals in four years for the Regional Partnerships Programme was symptomatic of poor initial program design and not conducive to stable program delivery.

Application Process

Competitive rounds rather than a continuous application process would deliver the benefits described in the ANAO Audit. This was one of the audit's strongest recommendations.

Applicants are entitled to timely processing and notification of outcomes. The proposed two rounds per year format for commercial projects fails to recognize commercial reality. Competitive opportunities can be compromised or even lost due to long application and evaluation processes.

The competitive element should be within, rather than between regions. The development needs of the regions of Australia are as diverse as the regions themselves. The direct competitive comparison of a project from Gippsland with a project from the Kimberley is clearly unreasonable for both project proponents.

Program design should include a notional funding allocation to each region, for each competitive round, to be competed for within that region. Only projects that deliver significant regional benefits should be funded regardless of the notional allocation.

Frequent rounds smooth out 'lumpiness' in administration processes and facilitate a timely response to applicants. There is an obligation to enable applicants to get on with alternative actions if an application is unsuccessful.

Frequent rounds do not detract from comparative assessments if the assessment criteria are well developed and consistently applied.

Recommendation: ***A new program should have four competitive funding rounds each year.***

Several programs, in our experience, have utilised a two stage or similar application process. For example, in the Sustainable Regions Programme an initial Expression of Interest (EOI) was evaluated at the local level before an applicant was invited by the local committee to submit a full application. This process was designed to reduce the initial burden on applicants in the first instance and to reduce the number of full applications requiring detailed consideration. A similar process exists in some FACSIA programs and other Commonwealth and State programs.

Recommendation: ***There is an opportunity to consider a two stage application process with the first screening stage being administered at the regional level.***

Applicants require advice and guidance in the development of their applications. This role is best undertaken in the region by personnel skilled in program delivery support. This will facilitate interpretation of the program's objectives and application requirements.

Recommendation: ***Program advice and assistance to applicants should be provided at the regional level by locally based staff.***

Assessment Process

As previously noted the complexity and cost of assessments should be commensurate with the complexity and size of the project.

The assessment process should be separate from the project development and advocacy process to avoid conflicts of interest.

The Regional Partnerships Programme experience highlighted the weaknesses of discretionary ministerial assessment and approval processes including political rather than merit based decision making. However, the major issue was the slowness and variability of the process.

There is merit in establishing an independent entity such as a board to assess projects. This enables the separation of decisions from political considerations. The establishment of Regional Development Australia, depending on the nature of that entity, could provide the opportunity to establish a board process, part of which would be the assessment of funding applications.

Similar processes have worked well with state based regional development authorities, and in other Commonwealth programs. A significant advantage of delegating the approvals process is that the delegating minister can then be at arm's length from project decisions and focus on the wider policy objectives of the program. This is of particular value if commercial projects are being considered.

Recommendation: **Program design should incorporate a shorter and more predictable approvals process delegated to the relevant department or other independent entity.**

There is an opportunity to further simplify and streamline the approvals process for small community projects by delegating this authority to ACCs or RDA Committees. Funding levels would be capped annually at the project and region level. Approvals would be by a vote of the full Committee.

Recommendation: **The assessment and approval process for small community based projects could be delegated to RDA Committees.**

Leveraging and role duplication

The notion of leveraging funds from other agencies or levels of Government raises questions as to why different agencies are able to fund the same project.

The ability to leverage funds from other sources including other Government agencies has recently been seen as a measure of success for an agency. Leveraging has been seen as a desirable mechanism to increase the return on program expenditure. However, this is not necessarily logical from a whole-of-Government perspective as all funding comes from the public purse.

Another feature of leveraging is that it can be seen as introducing an element of coercion where an agency agrees to fund a project subject to funding being provided from another agency or level of Government. This can cause stresses in the relationships between the levels of Government. It also introduces concerns regarding cost shifting where one level of Government may be perceived as coercing another to fund a project that is their proper area of responsibility.

On the other hand, appropriate partnerships can see different funding agencies contribute to relevant and distinct elements of a project. This can facilitate interagency cooperation and a practical whole- of -Government approach. It can facilitate the introduction and interaction of staff between agencies and levels of Government.

Recommendation: **Program design should encourage partnerships where the different levels of Government contribute to projects only in those areas of their proper and distinct responsibility.**

Funding Ratios

The level of proponent contribution to a project should be an assessed competitiveness factor for an application. To be competitive, any guideline percentages would be seen as a minimum requirement. The higher the level of proponent contribution the more competitive their application will be on that criterion. In-kind contributions are also highly relevant. The Victorian Government's *Small Towns Development Fund* is a useful reference in this regard.

The applicant contribution shows their commitment to the project. In a commercial project it demonstrates an acceptance of a meaningful element of the commercial risk.

Program Delivery

Program Delivery and Administration

Many of the delivery problems with the Regional Partnerships Programme resulted from pressure to spend the program budget. Not spending the program budget should not be seen as a departmental failure if good application assessment processes have been followed.

A budget under spend may be due to the lack of quality projects or put another way, the budget may have been too big for the level of demand. An under spend could also be due to a lack of resources to properly process sufficient applications in a timely manner, (assuming a well designed and efficiently delivered program).

> ### *Application Processes*

Application processes must be applicant friendly. Most applicants will not have experience in preparing complex funding applications. Many also have limited computing skills and facilities.

The Regional Partnerships Programme featured computerised application forms initially on the TRAX and then the E-Grants platforms. These systems required a high level of computer literacy and Internet access. Their primary aim was to automate the application process for the benefit of the administering agency. Ease of use by applicants was not a driver of their internally focused design. Their operation relied heavily on support from ACC project officers.

An on-line application environment may be a desirable feature for a Canberra based program administrator but it should not be a barrier to applicants participating in the program.

The GACC recognizes that designing the user interface with an electronic application system requires highly specialised skills. The practice of retro-fitting a program onto an existing proprietary software platform has a poor record, and often a high cost. The need to replace the TRAX system with E-Grants is a prime example.

Any electronic application system should have functional compatibility with commonly used software such as MS Word. MS Word versions of application forms would enable applicants to develop drafts off-line and at any location with basic computing facilities. Other Commonwealth departments use MS Word platforms

Recommendation: ***Application processes need to be user friendly and any electronic submission options need to be accessible and compatible with commonly used software.***

> ➢ *Application Development Assistance*

One of the most common themes arising from the GACC stakeholder survey was the importance of a regionally based project officer to promote a program and advise and assist applicants. A key element of this role was the assistance provided in interpreting the policy objectives of a program to enable the application to focus on those aspects of a project that best contribute to the Government's objectives.

The role of staff in regional offices was also seen as being vital in supporting and advising project officers in their work and in assisting with the development of applications.

Recommendation: ***A regionally based applicant interface and support service is vital to the development of high quality applications.***

Application Assessment

The program design and delivery of a broad based regional development program needs to facilitate the consistent comparison of the relative merits of a diverse range of proposed projects. The challenge is how to compare 'apples' with 'oranges'.

> ➢ *Assessment Role of ACCs*

The role of an ACC has been to elicit and support the development of the best possible applications from their region. ACCs have also been required to assess the relative merit of applications from their region and provide funding recommendations. There is an element of contradiction in their role as an advocate broadly for their region with their role in evaluating the merits of individual projects.

The comparatively high rate of the rejection of ACC advice to the ministerial assessors noted in the ANAO Audit may indicate that their advice was perceived as being poor. This is a major systems issue as ACCs are the primary source of knowledge of regional needs and applicant viability. If the advice was not poor then ministers may not have properly interpreted it.

Recommendation: ***The future role of an RDA Committee, in relation to regional development funding, should be to advance quality applications and to rank and advocate funding for those projects that best meet the policy objectives of programs, consistent with the region's development priorities.***

As an example, the Guidelines for the Assessment of Applications developed and used by the Sustainable Gippsland Advisory Committee in the delivery of the Sustainable Regions Program are included as Appendix 2. Other Commonwealth and State programs will have materials of value also.

➢ *Role of the Program Managing Department*

The role of the managing department is more than administering the application and assessment processes. The department has a key role in promoting a program and interpreting its objectives. The ultimate success of a program will depend on getting participants whose projects best support the Government's policy objectives.

The ANAO Audit noted that the assessment criteria set out in the guidelines were sound and appropriate to the program. The requirement for the audit was the result of departures from the guidelines.

Recommendation: ***Program managers must be able to professionally deliver the program in accordance with the published program guidelines without external interventions.***

The design and application of the assessment process is more important than the location of the assessors. Centralising assessment in Canberra in the quest for process efficiency risks the loss of the vital interpretation of the regional relevance and context of a project. Regionally based officers have shown a good appreciation of these issues and they do not require GPS coordinates to identify where a project is located. There are often no templates for evaluating innovative projects. These will always be risky and require the judgment and wisdom of experienced assessors with knowledge of regional issues.

Recommendation: ***Experienced, regionally based officers should retain a role in providing commentary on applications from their regions.***

➢ *Role of Ministerial or independent Assessors*

While the Ministerial assessors in the Regional Partnerships Programme were not obliged to accept advice from ACCs they had no regional needs or planning input to inform decision making without it.

Project assessment should be based on the rigorous application of the program's assessment criteria. The process should be formalized with each project ranked against each criterion. Funding should only be approved for projects meeting or exceeding the criteria. A broad based regional development program will by definition also include criteria requiring subjective judgments. In these instances the assessors are required to apply their collective wisdom to the task.

The formal ranking of each project will enable unsuccessful applicants to be informed of the reasons for their failure to secure funding.

Recommendation: ***Assessors should rigorously apply the program's assessment criteria to ensure that projects are objectively evaluated and that the program's policy objectives are being met.***

Outcome Announcements

The practice has been that the Minister advises successful applicants while unsuccessful applicants are advised by the department. This is an unnecessary politicisation of process. All application announcements should be made at the earliest opportunity by the responsible departmental delegate immediately following the completion of the assessment process.

Proper recognition can be given to the Government including local members at events such as cheque presentations or project launches that can occur without impeding the progress of the project.

Recommendation: ***Applicants should be advised of funding decisions as soon as they have been made.***

Funding Agreement Management

The ANAO Audit noted that during the course of the audit, the former Department of Transport and Regional Services substantially re-engineered its Funding Agreement management processes including revisions to the Long Form Standardised Funding Agreement used for most Regional Partnerships funded projects. The Audit also noted that the department was undertaking extensive staff training on managing/monitoring of contractual agreements; relationship management and contract administration; principles of good contract management; assessing risk; drafting and managing a Regional Partnerships Funding Agreement; analysing Regional Partnerships progress and post activity reports; and finalizing a Funding Agreement.

The need for such extensive re-engineering is disturbing as contract management is core business for a funding program manager and the Commonwealth Government has access to significant administrative and legal expertise.

The GACC does not presume to comment on the technical aspects of Government contract administration. However, the GACC expects that these matters will be professionally addressed by the responsible agency.

Timeliness is the funding agreement issue of greatest concern for the GACC. Delays in finalising contracts translate to delays in commencing projects and delays in the realisation of regional benefits. The GACC acknowledges that these delays are in some instances caused by the failure of project proponents to provide the necessary in formation.

Recommendation: ***Funding Agreements should be concluded at the earliest opportunity to expedite the flow of benefits to the region.***

Project and Program Performance Measurement and Monitoring

A clear and balanced system of performance measurement that includes economic and broader social measures is important for three reasons:
1. A collaborative process of choosing what will be measured provides an opportunity for different stakeholders to come to an agreement on the targets that they should be working towards.

2. Attaching formal measures to social targets gives them a tangible status. This enables social targets to be perceived as real, achievable and of equal importance to economic targets.
3. There is a need to clearly allocate responsibility for actions to be undertaken by each level of Government, the community and industry.

Performance measurement should be about reporting whether the project delivered on its anticipated outcomes. A number of outcome types may apply:
• outcomes directly attributed to the project and its proponent;
• outcomes removed from the project but resulting from the catalytic impact of the project: these effects can be seen to have a clear and direct link to the original project; and
• the demonstration value of the project: i.e. how it can be used as a model for other projects.

Project monitoring should be based on well developed, project specific milestones identified during the development of the project.

The application process should include the identification of discrete project performance measures and an appreciation of the regional benefit issues. Applicants can however only be responsible for those outcomes they can control.

Performance reporting should, where possible be based on normal corporate and financial reports to avoid excessive special reporting requirements.

There is a need to distinguish between the performance of a program and the performance of a region as a whole. A program can only ever be a contributor to the performance of a region. However by being a strategic contributor it can aim to maximise its impact. Care should be taken to be objective when assessing the performance of a program. There is a risk of assigning or claiming too much credit in a strongly performing region or conversely not recognizing the contribution of a program in a poorly performing region where things may have been even worse in the absence of the program.

Further discussion of regional development program performance measurement is included as Appendix 3.

GACC Stakeholder Survey

In June 2008 the GACC undertook a survey of a sample of regional development program stakeholders including program participants and local Government economic development officers to better inform this submission. Four questions designed to address the inquiry terms of reference were put to survey participants. The responses to these questions have been incorporated in the relevant sections of this submission.

Respondents particularly valued the assistance received from the GACC and departmental regional office program staff. They are also keen to see alignment of any new fund to community / regional infrastructure priorities.

The questions and a selection of responses follow:

Question 1
What kind of benefits did such programs offer which you felt most closely matched the local community's social or economic needs and priorities?

> *"The projects I have been involved with have included the creation of real jobs at all levels from higher management through to factory floor in rural Victoria... The last major one of $400,000.00 has so far created 59 new jobs which mean it will cost the Australian Government less than $6,800 per new job."*

> *"Regional Partnerships was the only programme of its type recently; partnering approach with other organisations enabled capacity for larger projects."*

> Regional Partnerships *"helped form genuine partnerships across levels of Government, and allowed each level of Government to leverage of each other financially and in strengthened relationships."*

> Regional Partnerships provided *"the opportunity (for projects) to proceed that otherwise wouldn't have happened and or proceed on a reduced scale."*

> *"The Regional Partnerships funding has been of huge benefit to communities in….Gippsland…has leveraged State Government funding: has been a means to bring to the table a range of partners who could not necessarily ever work with Council in any other way, to ensure better outcomes for projects, and this cannot be underestimated in its value."*

Question 2
Could you highlight and describe any particularly helpful or unique features, of one or more programs?

> *"The ability to easily access Government representatives for the funding who were based in the region, understood the region's challenges and were more than willing to travel out to the proponent's site made the funding process move smoothly, gave encouragement to the proponents and the Government representatives' intimate knowledge of the region proved invaluable."*

> *"Cooperation from the ACC has been of huge benefit especially for community groups, where it's essential, as they don't understand the bureaucratic process or language."*

> *"The project would not have gone ahead without Regional Partnerships; Federal contribution enabled the other two tiers of Government to come on board thereby creating a genuine whole-of-Government project."*

> *"Through the process and access to ACC project officers and other Government officers …are building the capacity of proponents to understand the process and the regional, local Government and state drivers behind their particular project."*

> *"Open ended funding cycle is good. It is preferable to having to wait for an annual or bi annual funding determination which draws the whole process out more."*

"From the applicant's point of view: having access to a regional presence has been invaluable in helping get projects developed."

Question 3
What aspects of these funding programs made them easy or difficult to use, at any stage?

"Projects seeking smaller amounts of money e.g. Less than $50,000 had too high a compliance criteria re guaranteeing set employment outcomes. These are not guarantee able in advance. Outcomes need to be desirable e.g. 6 new jobs, but a Council can't guarantee it."

"Regional office staff have been easy to work with, obliging, provided myriad of advice and support ...provide a level of competency which seems to be lacking in Canberra."

"Regional Partnerships for example: centralised administration has been very poorly handled, incomprehensible bureaucratic processes, and not equitably applied across the country (e.g. one commercial project which was clearly eligible, supported locally, filled all criteria and would almost certainly have been supported if in another electorate.) Reduced the usefulness of the ACCs and the State office – and decisions were undertaken by people in Canberra who never visited the region."

"In the past the Commonwealth did demonstrate the ability to be a bit flexible and understand the realities facing local Government and smaller community groups, but it became evident that in more recent times, this attitude hardened."

Question 4
Could you describe some specifics of how you would like to see a future funding program operating for your proponents / organisation in the Gippsland region?

"Future funding needs to approach regional funding from a "top down model" i.e. funding needs to be to attract new businesses, expand existing businesses so they can employ more people in regions."

"Regional funding to encourage new industries to move to regional Victoria and for existing businesses to expand is not a cost against the Government it is an investment with a very short pay back period and a continual income earning stream for the Government thereafter."

"Priorities need to be autonomously set by Councils in first instance; many of these need funding but there is often no appropriate grant available for some specific projects which may still be hugely important to that Council area."

"New programme needs to look at partnership models; having ACC involved excellent way of fostering relationships and enabled small organisations to gain advice, support, etc in their applications, plus they (the ACC) have more knowledge and understanding of their local communities' needs."

"Genuine alignment of the new fund to community / regional infrastructure priorities."

"It's unreasonable to expect that Canberra based public servants can understand the dynamics of each region; i.e. regional development cannot in theory or practice be successfully or reasonably undertaken by a central Government especially in such a large country."

Summary of GACC Recommendations and Observations

Program Development
- *A new regional development funding program should be competitive, broadly based and capable of supporting a variety of a variety of projects including commercial projects.*

- *A new regional development program needs to be able to address regionally identified development priorities.*

- *The principles of balanced and sustainable regional development need to be applied at all levels of the development, design and delivery of regional development programs.*

Program Design
- *The design of a regional development program requires the application of more than administrative skills. The responsible department must ensure that experienced, senior regional development professionals are applied to this task.*

- *A new program should have four competitive funding rounds each year.*

- *There is an opportunity to consider a two stage application process with the first screening stage being administered at the regional level.*

- *Program advice and assistance to applicants should be provided at the regional level by locally based staff.*

- *Program design should incorporate a shorter and more predictable approvals process delegated to the relevant department or other independent entity.*

- *The assessment and approval process for small community based projects could be delegated to RDA Committees.*

- *Program design should encourage partnerships where the different levels of Government contribute to projects only in those areas of their proper and distinct responsibility.*

Program Delivery
- *Application processes need to be user friendly and any electronic submission options need to be accessible and compatible with commonly used software.*

- *A regionally based applicant interface and support service is vital to the development of high quality applications.*

- *The future role of an RDA Committee, in relation to regional development funding, should be to advance quality applications and to rank and advocate funding for those projects that best meet the policy objectives of programs, consistent with the region's development priorities.*

- *Program managers must be able to professionally deliver the program in accordance with the published program guidelines without external interventions.*

- *Regional officers should retain a role in providing commentary on applications from their regions.*

- *Assessors should rigorously apply the program's assessment criteria to ensure that projects are objectively evaluated and that the programs policy objectives are being met.*

- *Applicants should be advised of funding decisions as soon as they have been made.*

- *Funding Agreements should be concluded at the earliest opportunity to expedite the flow of benefits to the region.*

Appendix 1: Sustainable Regional Development

Extract – Sustainable Gippsland Advisory Committee Final Report to the Minister for Transport and Regional Services, March 2006

Sustainability
The United Nations, World Commission on Environment and Development, (the Brundtland Commission) defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In other words, development is essential to satisfy human needs and improve the quality of human life. At the same time, development must be based on the efficient and environmentally responsible use of all of society's scarce resources - natural, human, and economic.

Popular interpretations of sustainability tend to emphasise natural and environmental sustainability. Social and economic sustainability are also included in the scope of the SRP.

Sustainable development should support a healthy, functional community whose citizens are leading fulfilling lives.

Commercial sustainability occurs when skilled individuals and firms are profitably engaged in activities consistent with the strengths and long term opportunities of the region. This includes the efficient use and maintenance of the regions physical resources.

Definition of a Region
There are numerous ways of dissecting the country in pursuit of tidy, statistically sound, universal definitions of regions. A region will however be a different thing for different purposes. A region is literally "any large, indefinite and continuous part of a surface or space". Regional borders are determined for a range of purposes that may be geographic, social, cultural, commercial or administrative.

The important consequence of the "indefinite" nature of regions is the need to consider regions in the context of their neighbours and recognize that borders are in practical terms "fuzzy" rather than neat lines on a map.

Administrative borders enable the delivery of Government. The different levels of Government have different responsibilities in regional development. The efficient delivery of regional development services requires that these roles are respected by all parties to minimize overlaps and duplication.   In practice these responsibilities are ill defined and poorly understood.

Regional development is a whole of Governments' process that requires cooperation and coordination between all levels of Government. It could be argued that the effectiveness of this process is adversely influenced by an imbalance in power in the hierarchical nature of the relationship between the levels of Government in Australia

Regional development is not the sole province of those agencies with a nominal responsibility for supporting it. Big "D" development involves everyone to some degree. The challenge is to appreciate the need for a balanced and inclusive approach.

Maude and Beer, in their analysis of the effectiveness of Regional Development Agencies (RDAs), identify regional coherence as a factor likely to influence the effectiveness of an RDA. They argue that "What is important … is to define regions within which business and community groups can perceive enough common economic interests and issues, even if they are ones on which there is disagreement, to encourage cooperation. The identification of logical regions is not a simple or mechanical matter, but it can be done through a combination of an economic and infrastructure audit, and careful business and community consultation". [1]

Regional Development Agencies which cover regions containing some common element or elements have an advantage in developing and implementing strategic regional plans. It is also easier for such agencies to decide on common issues and goals, and to gain community support for these goals. On the other hand, agencies whose regions have diverse and unconnected economies have difficulty deciding on their priorities and gaining community support.

Project Selection
The challenge for a community derived committee is to have the expertise required to select from a multitude of options those projects that will best contribute to the sustainable development of their region.

Regional development can be considered as an investment strategy with Governments and the people of a region investing in its future. A good investment strategy has balance and diversity as core principles.

There are factors that drive and factors that enable regional development. The "drivers" determine what should be done in pursuit of the region's preferred future and the "enablers" provide the capacity to do it effectively and efficiently. See diagram below.

The concept of a preferred future requires that a region identifies the future that it believes it *should* pursue as distinct from that which it *could* pursue. This should be a conscious and continually evolving process of aspiration.

While most development will be incremental there is also a need to be continually alert for opportunities of radical and large step change. Radical large step changes can result from the development of new technologies that create new and competitive products or services that in turn create their own new markets.

Characteristics of Regional Economies
The core economy has been described by Mc Kinsey & Coy[2] as that part of the economy that brings wealth into a region through trading with other regions or other countries. It is typically 15-20% of the total economy and has a very powerful multiplier effect on the rest of the economy. Building on the proven strengths of a region's core economy is a sound if not glamorous regional development strategy.

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[1] Dr Alaric Maude and Dr Andrew Beer, Flinders University, 1998, 'Apples and Oranges? A Comparison of the Strengths and Weaknesses of Regional Development Agencies in Two Australian States'.
[2] McKinsey and Company (1994) "Lead Local Compete Global: Unlocking the Growth Potential of Australia's Regions"

Growth in the core economy is required to facilitate population growth. When populations reach points of critical mass more activities can be carried out locally rather than outside the region.

McKinsey & Coy observed that 70% of all investment in regional areas comes from businesses already operating in the region. This is in contrast to only 2% of investment coming from businesses that have been operating for less than 5 years.

Fostering the establishment of new small businesses is however important for the long term growth of regions. In this instance Government assistance is best directed to the "enablers" of development such as the development of business skills, access to finance and the regulatory environment. Attention to the enablers benefits all small businesses equitably.

Project proponents
Projects are only as good as their proponents. Good ideas are plentiful. Converting them to reality takes skilled and capable people. Successful enterprises are often the result of the extraordinary execution of an ordinary idea.

Project proponents are the single most important factor in the development of a region and are a key element in the leadership "driver".

Government support to regional development is not about picking winners. It is about providing high quality, prudent processes that enable winners to identify themselves as being worthy of Government (community) support.

Regional Marketing
The marketing of a region requires an understanding of what business the region should be in. which in turn requires the identification of those products and services where it has a genuine long term sustainable competitive advantage. Only then should resources be directed to promotional activities. Too many regional marketing (promotional) campaigns are based on "me too" lifestyle platitudes and a cargo cult like faith in tourism or the next big project.

Identifying and focusing on the right products and services is one of the key drivers of regional development. These should also be the focus of any Government support.

Balance and Persistence
Concentrating on any single aspect of regional development such as major projects to the exclusion of others may be attractive and for a while appropriate in the short term but it is not a sustainable long term strategy

There are no single or simple solutions for regional development. All the "drivers" and "enablers" require ongoing attention and maintenance. The focus of development initiatives will from time to time be on specific aspects of the development process or on specific development tools. This will be appropriate to meet **urgent** local needs or opportunities but it should not distract the development effort from the **important** underlying issues and long term strategies.

Tools such as clustering, networking and trade missions or investment promotions can be very effective but must be seen as contributing to the larger strategic development agenda.

Regional development is a continuing and never ending process. Investing has been described as the process of transferring wealth from the impatient to the patient. With regional development it usually takes at least 10 years to have an overnight success.

This highlights the dilemma for Governments as their investment in regional development may not be realized in the life of the Government. They will however take the credit for the investments of previous Governments and subsequent Governments will take the credit for their investments.

Similarly the contributions of regional development agencies that take a long term view are often overlooked and therefore not valued by the time the investment is realized.

The pressure for short term results driven by annual budget processes and a continuing focus on reducing Government expenditure is best addressed by ensuring a broad appreciation of the long term nature of the regional development process and a strong policy commitment to this type of investment strategy. This strategic approach is also important to ensure that resources are only applied to where they will make a difference and deliver the best return on the investment.

The opportunity is to ensure that the regional development process is widely understood and valued. This can be supported by a performance measurement regime that reflects these values.

Appendix 2: Assessment of Applications

Extract – Sustainable Gippsland Advisory Committee Final Report to the Minister for Transport and Regional Services, March 2006

The objectives of the project assessment process are:
1. Identification of those projects suitable to recommend for funding.
2. Identification of those projects **not** suitable for funding.
3. Identification of those projects that may then be considered for funding subject to:
   • Provision of further information possibly including presentations from the proponents.
   • Further development of the proposal and modification of the application by the proponent.

Selection Process Steps
1. Review by the committee of the Programme Officer assessments and comments.
2. Consideration by the committee of DoTaRS and other agency's comments.
3. Identification by the committee of the project applications that will be:
   • Recommended.
   • Declined.
   • Deferred.

The selection process is driven by the assessment of a project against the programme's selection criteria. The Programme Officer's assessment utilised a weighted interpretation of the selection criteria that placed the emphasis on:
1. Fit with regional priorities.
2. Sustainable regional benefits.
3. Capability of the proponent.

The following "classical" development objectives are also valid considerations:

- Number of new, additional jobs created.
- Quality of those jobs created (skills required).
- Value and volume of exports created.
- Value and volume of imports replaced.
- Demonstration effect of a project.
- Catalytic impact of a project.

The selection process is constrained by the quantity funding available under the programme. However the universal objective is to get the "best" regional benefits from the resources applied. The committee will use its collective wisdom to address issues such as the balance of short-term benefits against long term strategies and the value of large against small projects.

Diversity is a proven regional development strategy. Regions with diverse economies and communities have historically been more resilient to external shocks than those relying on a narrow base. Related to this is the need for a balanced approach to development.

For example the development of markets needs to be supported by the ability to supply them. Development projects cannot exist in isolation and a strategic consideration of their context is important. There is an opportunity for the committee to consider a diverse range of large and small projects.

Selection Process Options
There are a number of methods and combinations of methods that the committee may use in selecting those projects that it will recommend for funding. They include:

- Focussing on the "top 20"applications?
- Identification of funding recommendations on the basis of the applications technical ranking.
- Identification of funding recommendations on the basis of the highest ranked applications from each sector.
- Consideration of the qualitative comments provided.
- Consideration of the geographic distribution of highest ranked projects.
- Consider of any other strategic issues that may overlay the ranking process.
- Consideration of the amount and timing of the funding requests
- Consideration of political and electoral boundaries issues.

Grant Condition Considerations – (subject to DOTARS grant management processes).
Before recommendations are referred to the Minister for Transport and Regional services a "due diligence" process will be undertaken by DoTaRS. This process may address many of the following issues. The Committee may however consider supporting an application subject to the imposition of specific additional conditions designed to ensure or assist the performance of the project proponent and to protect or reduce financial exposure to under performing projects.

The following are the types of conditions that may be considered desirable in certain circumstances. This list is not exhaustive; committee members may identify further conditions that they consider appropriate for specific projects.

- Funding could be for discrete and identifiable elements of a project.
- Funding applications are based on proponent's estimates of costs. There is an opportunity for any grants to be for actual costs confirmed by documentary evidence to an agreed and fixed maximum.
- Funding can be staged and conditional on the achievement of agreed milestones.
- Conditions may include confirmation of the proponents or other agency contributions.
- Conditions may include agreement on the validity and nature of any "in kind" contributions.
- Where a consultant is engaged as a funded element of a project the proponent must be responsible for managing the contract and paying the consultant. Funding is provided on the basis that they have accepted the consultant's work as meeting the requirements of the contract and being of an acceptable standard.
- Compliance with applicable regulatory regimes including all business licences, land use planning and environmental management.

- Confirmation of a legal entitlement to utilise resources including access to development sites and intellectual property.

- Clarification of ownership of intellectual property resulting from SR programme funded research.

- The possession of appropriate insurances.

- Agreement to credit and character checks.

- Grants will be conditional on the recipients' agreement to participate in reasonable promotional activities.

Appendix 3: Performance Measurement

Extract – Sustainable Gippsland Advisory Committee Final Report to the Minister for Transport and Regional Services, March 2006

Performance Measurement Parameters and Principles
There is a good deal of confusion in the use of terminology in performance measurement. Clarification and agreement on these definitional issues will assist discussion of performance measurement.

- **Performance Indicators**
Performance indicators are concrete and measurable dimensions of performance that can be strategically targeted for improvement, and are considered to bear a high relationship to the achievement of desired high level outcomes. A simple example of such a relationship in business would be "number of customers served" and "profit".

  To ensure improved performance actually makes a difference rather than increasing the level of relatively useless activities there is a need to ensure a high level of validity between the performance indicator and the "outcome" that it is assumed to effect. Once selected, performance indicators are constructed to provide a numerical measure such as a percentage or a number.

  Formulation of a system of performance indicators and targets is a way of measuring the region's progress in achieving improved social and economic conditions.

- **Balanced Scorecard**
There is an opportunity of adapting aspects of the "balanced scorecard" for business developed by US theorists Robert Kaplan and David Norton for measuring balanced regional development.

  Development of the balanced scorecard recognized the growing awareness by business of the importance of measuring not only how wealth is created, but also how wealth is generated. The balanced scorecard uses both financial and non financial measures and examines four aspects of business: financial; internal business processes; learning and growth; and customers.

  A balanced scorecard approach may be adapted to the overall social and economic goals of a region and the role of organizations supporting regional development.

- **Benchmarking**
Benchmarking has been defined as "a method for continuous improvement that involves an ongoing and systematic evaluation and incorporation of external products, services and processes recognized as representing best practice"[3].

  In essence benchmarking is using a given performance level as a yardstick or reference point for comparison.

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[3] MacNeil and others 1994

The term "benchmark" has been loosely used to refer variously to performance indicators themselves, to baseline measures and to targets set for performance on those indicators. As these concepts are quite distinct this leads to confusion in both thinking and discussion on this issue. The term "benchmark" refers to a reference point for comparison, while "target" refers to actual numerical goals set against "performance indicators" from a baseline measurement.

Performance measurement time frames

Short term activity measures go part of the way to satisfying the need for short term reporting. Longer term tracking is required if the outcomes of large, strategic projects is to be properly evaluated. The cost versus the benefit of long term tracking needs to be considered. Continuity of commitment to long term tracking will be an issue with changes in Government and changes in departmental structures and functions.

Project Assessment and Program Performance Measurement

Performance measurement should be about reporting whether the project delivered on its anticipated outcomes. A number of outcome types may apply.
- Outcomes directly attributed to the project and its proponent.
- Outcomes removed from the project but resulting from the catalytic impact of the project. These effects can be seen to have a clear and direct link to the original project.
- The demonstration value of the project. That is how it can be used as a model for other projects.

There is a need to distinguish between the performance of a program and the performance of a region as a whole. A program can only ever be a contributor to the performance of a region. However by being a strategic contributor it can aim to maximize its impact. Care should be taken to be objective when assessing the performance of a program. There is a risk of assigning or claiming too much credit in a strongly performing region or conversely not recognizing the contribution of a program in a poorly performing region where things may have been even worse in the absence of the program.

In regional development, causes and effects can be remote from each other. Attribution of a long term outcome to a specific project or program is difficult even though it may have been the strategic intent of the assistance. For example, the objective of assisting the establishment of a scallop hatchery may be the seeding of a new scallop farming or ranching industry. This outcome will be significantly removed in time from the initial assistance should this new industry eventuate.

Short Term Measures – period of an SRP (or other) funding contract

May include:
- Knowledge created, feasibility studies, R&D outcomes
- Skills developed
- New jobs created, direct and indirect
- New investment undertaken
- Technology transferred, developed or introduced.
- Value added to resources

- Imports replaced
- Capacities developed
- Infrastructure provided
- Waste stream reduction, other environmental performance improvements

Medium Term Measures – say 10 years
May include:
- Multiplier and flow on effects initiated.
- Changes to the competitiveness of industry sectors initiated.
- Measurable improvements in environmental outcomes
- Improved health and well being of communities

Long Term Measures > 10 years
May include:
- New elements of the core economy are established and growing.
- The configuration of the core economy is consistent with the region's preferred future.
- Multiplier and flow on effects consolidated.
- Contribution to a relative improvement in the overall performance of the region
- Continued improvement in environmental performance.
- Continued improvement in the health and well being of the community

Externalities
The performance of a project and its contribution to the performance of a region can be impacted by positive and negative external factors beyond the influence or control of the region. Changes in the trading conditions or the environment due to any external factor need to be recognized when evaluating the performance of a project. There is a risk of overstating or undervaluing the contribution of a project to a region if these externalities are not recognized and evaluated. For example a high performing region may have benefited from a disaster in a competing region and a poorly performing region may have fared worse without the regional development projects/programs.

Structural issues
Regions with diversified economies are less prone to external shocks. Diversity is therefore often promoted as a desirable regional development strategy. The value of this strategy has to be assessed in the context of the particular region. It may be a valid strategy in a region with a large population and good access to markets. A more remote region with a small population may not have the population to enable economies of scale to support a competitive diversified economy. In this case the risk of diversification is that the region will be unable to be world competitive in anything.

Regional economies with a high reliance on mining and mineral processing experience the boom and bust cycles typical of these industries. There is a high initial infrastructure and processing capability investment followed by a progressive decline in activity as the resource is extracted. Fly in fly out operations while removing many commercial activities from mine precincts have smoothed out the impact of building and abandoning of mining towns. The performance of these regions will be affected to a large extent by where they are in the exploration, development extraction cycle and world commodity markets.

They can go from being a high performing region to a poorly performing region and back again due to the nature of the business that they are in.

The energy industry in Gippsland centred on the Latrobe Valley is an example of cyclical and sovereign risk elements impacting on an otherwise moderately diversified regional economy. Given the presence of vast but until recently unfashionable brown coal resources, Gippsland may with the introduction of new technologies be able to utilize this resource and return to being a leading regional economy. Cycles are part of the life of these regions.

Regions need to focus on what they are good at and then become the best at it. Trying to emulate another region's strategy provides little opportunity for competitive differentiation. It is at best a catch up strategy.