

Mr Alistair Sands
Secretary
Finance and Public Administration Committee
Australian Senate
PARLIAMENT HOUSE ACT 2600

Dear Mr Sands

Inquiry into a funding matter under the Dairy Regional Assistance Programme.

I refer to your letter of 7 April 2003, inviting a submission to the Finance and Public Administration Committee's inquiry on the circumstances surrounding the,

“application, approval and expenditure of funding under the Dairy Regional Assistance Program (DRAP) for the construction of a new building and the installation of additional machinery at the Moruya Steel Profiling Plant in New South Wales in 2001-2002.”

The Department of Transport and Regional Services' submission is attached. It consists of:

- the outcome of a Departmental review of the issues prepared in response to a request from Senator O'Brien (attachment A);
- the ABARE Report – The Australian Dairy Industry: Impact of an Open Market in Fluid Milk Supply (attachment B);
- the relevant legislation – the Dairy Produce Act 1986 (attachment C); and
- the Dairy Regional Assistance Programme Guidelines (attachment D).

Thank you for the invitation to provide a submission.

Yours sincerely

Leslie Riggs
First Assistant Secretary
Regional Programmes

28 April 2003

**Departmental review of issues related to the administration of the
Moruya Steel Profiling Plant Project (Mordek)**

Background

Senator O'Brien asked on 11 February 2003 whether the Mordek project had been retrospectively funded, and whether funding had been used inappropriately for the sewerage of an industrial estate.

Senator McDonald undertook for the Department to review the project in the light of Senator O'Brien's allegations, to provide the Senate Rural and Regional Affairs and Transport Legislation Committee with a report.

Retrospective Payments

The Dairy Regional Assistance Programme (DRAP) Guidelines state that

"Funding is not available retrospectively. Proponents should not plan to begin a project dependent on Dairy RAP funding before receiving formal notification of approval."

DRAP funds of \$309,000 (GST exclusive) have been provided to Mordek. The proponents agreed to provide \$310,000 (GST exclusive) in co-funding, but eventually spent \$393,268 (GST exclusive). This represents \$83,000 (GST exclusive) more than initially agreed.

Departmental records indicate that an estimated \$157,100 (GST exclusive) of a total project cost of \$702,268 (GST exclusive) was committed by the proponent prior to the project's approval by the Programme Delegate on 17 December 2001.

However the Commonwealth's funds have been fully acquitted against project expenditure nominated in Mordek's application for DRAP funding. In addition, the project has been completed in accordance with the funding agreement, and has already exceeded its contractual employment creation target by one direct ongoing job.

The spending prior to approval appears to have been due to a combination of reasons that include: commercial pressures, and the opportunities to undertake the project provided by the impending Christmas/New Year break and associated traditional January shutdown by the building industry. The proponents would appear to have undertaken the expenditure in good faith and without any understanding that it might and with no intention to deliberately breach Dairy RAP Guidelines.

Unauthorised Expenditure

Programme funds have not been spent on sewerage infrastructure for the Moruya Industrial Estate. All Dairy RAP funds for this project have been spent, and acquitted, for the purposes of the project: the construction of a building and the installation of machinery. The final report and auditor's statement were received from the proponent in November 2002.

The proponent has a separate commercial relationship with the Eurobodalla Shire Council to contribute to the costs of sewerage infrastructure for the Moruya Industrial Estate. In February 2003 both parties advised that no payment had yet been made to the Council for sewerage.

Indeed, tenders were called for the sewerage infrastructure project only in February 2003. We understand that the proponent's contribution to the sewerage infrastructure project will depend on the cost of the successful tender.

Senator O'Brien has quoted from an Administration Report to an Ordinary Meeting of Eurobodalla Shire Council held on 27 August 2002,

"Note that the initial payment of \$309,000 is Federal Dairy RAP money (ex GST) granted to Mordek for the expansion of Mordek steel rolling operations and new jobs growth."

However, the previous page (not cited by Senator O'Brien) states that,

"In January this year the federal Dairy Regional Assistance Program granted \$339,000 (incl GST) to Mordek to assist in the development of a steel profiling plant which created a number of new jobs. The grant was made as part of a government scheme to create new employment in regions affected by dairy deregulation. Those funds freed up the capital of the owners of the estate, who also own Mordek, allowing them to make a contribution to the sewerage of the estate."

It is this latter quote that is correct. The grant allowed Mordek to bring forward expansion plans and job creation and allowed freed up capital to be used for other job creation investment, including a contribution to the sewerage of the north Moruya industrial estate