



Australian Government
Department of Transport and Regional Services



Senator Michael Forshaw
Chair
Finance and Public Administration
References Committee
Parliament House
CANBERRA ACT 2600

Dear Senator

I would like to take this opportunity to respond to questions raised by Senator Murray at the latest hearings of the Senate Inquiry into the Regional Partnerships and Sustainable Regions Programmes, in Cairns on 14 April 2005.

In particular, I refer to Senator Murray's questions regarding the processes and rights of third parties to appeal decisions under these programmes.

I would like to make clear that both the Regional Partnerships and Sustainable Regions Programmes have a number of mechanisms in place to ensure that all grant funding decisions are made having regard to the principles of procedural fairness and issues of competitive neutrality.

It is in this context that I believe that all decisions under Regional Partnerships and Sustainable Regions have been made in accordance with procedural fairness and that competitive neutrality issues have been considered in each case.

At the hearings in Cairns, a number of allegations were made regarding projects approved under both programmes. As the Department was unable to address all of the allegations made during the course of the hearings in evidence while answering the Committee's questions, I would like to take this opportunity to clearly outline the processes that were followed in the assessment of these projects. An outline of the assessment processes undertaken is included at **Attachment A**.

Under both programmes there are a number of mechanisms and opportunities for third parties to become aware of projects that are approved for funding. All approved projects under Regional Partnerships and Sustainable Regions are publicly announced and are subsequently listed on the Department's websites for each programme.

There are a number of options available to third parties who hold concerns regarding funding decisions made under each programme. One option that is available for third parties is to write to the Minister or Parliamentary Secretary expressing their views and

concerns over specific decisions and ask that a decision be reconsidered or reviewed. In addition, applicants or interested third parties that are still not satisfied with an outcome they have the option of raising their concerns with the Commonwealth Ombudsman.

In many cases, third parties may also elect to contact their local Area Consultative Committee or Sustainable Region Advisory Committee to determine if they are also eligible to apply for funding under either of the programmes.

With regard to Senator Murray's concerns regarding the consideration of competitive neutrality issues, the Department has a number of procedures and mechanisms in place to take account of the potential impacts upon existing businesses.

For each application made under the regional programmes, applicants are asked to identify the possible impacts of their project on existing businesses. Once an application has been submitted, ACCs and SRACs are both asked to consider the competitive effects potential projects will have on existing businesses. Departmental officers also consider the potential competitive impacts of projects and in the case of Regional Partnerships are required to request more information from proponents when they are not satisfied that this has been satisfactorily completed.

Under the Sustainable Regions Programme the proponents are required in the application form to identify how their project will impact on other businesses or groups in the area. In addition the SRAC when looking at a project is required to give consideration to the criterion of competitive neutrality.

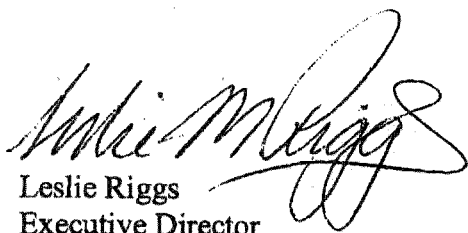
The Department relies in part on the local knowledge of the SRAC and the EO to determine if there are potential competition issues.

Competition issues may also be considered as a component of the Department's due diligence procedures for both programmes.

Finally, in response to Senator Murray's suggestion that projects may have been approved that are inconsistent with Government policy, the Department is of the strong view that in no circumstances has funding been provided under either Regional Partnerships or the Sustainable Regions Programme for purposes inconsistent with Government policy.

I am happy to discuss these issues further with Senator Murray at any future hearings the Committee wishes to hold.

Yours sincerely



Leslie Riggs
Executive Director
Regional Services

8 July 2005

PROJECTS RAISED AT HEARINGS IN CAIRNS ON 13-14 APRIL 2005

Regional Partnerships

A2 Milk

An application for funding was received by the Department on 9 July 2004.

This application went through the normal assessment process and the assessment was completed on 27 August 2004.

Conditional approval of \$1,153,000 (GST exclusive) was given on 29 August 2004 by then Parliamentary Secretary Mrs Kelly. Approval of funding was contingent on confirmation of co-funding and an independent viability assessment of the project and the new company, Star International Group, which was to be partially owned by local dairy farmers.

This project went through the Department's normal internal due diligence assessment as outlined in the Department's due diligence assessment framework. This involved the relevant officer confirming the company registration, GST registration and ABN of the company, and reviewing the business plan and cash flow forecasts for the A2 Milk processing facility.

Following the conditional approval of the project, the Regional Manager in DOTARS' North Queensland office commenced sourcing the necessary documentation from the proponents to enable an independent viability assessment to be conducted for the new company (Star International Group).

After the Department received advice that A2 Milk had gone into liquidation, further follow up of these matters ceased. This grant did not proceed because the proponent was unable to satisfy the conditions attached to the approval of the grant. As a result, no Regional Partnerships funding was paid to A2 Dairy Marketers.

The issue of competitive neutrality was considered by the Far North Queensland ACC and the Department in assessing this Regional Partnerships application under the normal procedures.

Sustainable Regions

Atherton Hotel

The Atherton Hotel received \$500,000 for the construction of a 350-seat function room and stage, a 50-seat conference room and 10 four-star accommodation suites aimed at the upper-end of the tourism market. This funding was provided in an effort to attract visitors to the region that required a higher standard of facilities than those that were currently available.

Sustainable Regions funding will not contribute to the purchase or installation of gaming machines, nor construction of space in which they could be housed. This has been clearly stated in the Funding Agreement signed by the Department and the proponent.

The Atherton Sustainable Regions Advisory Committee (ATSRAC) recommended the project for funding and made an assessment on competitive neutrality issues before recommending the project to the Minister for funding.

Some local business people raised concerns about the perceived negative effect the grant may have on other businesses. The Minister for Transport and Regional Services requested the Department to review the material facts relating to this project. The review confirmed that the project will contribute to expanding the Tablelands Tourism identity. The benefits of tourism have largely bypassed the Tablelands due to the lack of infrastructure that is critical to tourism development.

The Minister's office also arranged for the Chairman of ATSRAC and officers of the Department to meet with concerned local business people. The Chairperson explained that the project aims to benefit the overall tourism and hospitality industry in the region by adding to the high-end of the market and attracting more visitors and longer stays. An independent assessment of the tourism industry in the region had confirmed this development strategy.

Kalamunda Caravan Park

An application for funding was recommended on 17 April 2003 by ATSRAC to the Minister for Transport and Regional Services.

Funding of \$136,364 (GST exclusive) for Kalamunda Caravan Park was approved on 9 July 2003 under the Sustainable Regions Programme to develop eco-tourism based accommodation for backpacker and self drive markets and to provide budget accommodation for seasonal fruit pickers to enhance the scope and scale of the region's accommodation industry.

The proponent addressed competitive neutrality in its business plan by identifying its main competitors and delineating itself from these established venues by offering: introductory training for seasonal fruit work, and linkages, including transport, to local farms; and an eco-tourism experience by offering bush walks and guided tours and also through the design and layout of the caravan park.

ATSRAC considered the issues of competitive neutrality in its assessment of the project.

ATSRAC recommended this project with the knowledge that the development approvals had not been finalised, but were confident that these approvals would be forthcoming. The Funding Agreement was therefore made conditional on development approvals being obtained as part of the first Milestone.

JAM Custom Kitchens

ATSRAC recommended this project to the Minister for Transport and Regional Services on 27 November 2003.

Funding of \$204,350 (GST inclusive) for JAM Custom Kitchens and Furniture was approved on 15 April 2004 by Minister Campbell (as acting Minister for Transport and Regional Services). This funding was to enable the construction of a new showroom

incorporating a Timber Heritage display and workshop for JAM Custom Kitchens and Furniture, which would create a tourist attraction that complements existing businesses, enables business growth and diversification, and helps establish a cultural identity and brand for the town.

The applicant advised that no other business in Tolga provided cabinet making services. JAM also provided an explanation of how its showroom would complement other woodwork enterprises in Tolga whose products were aimed at a different segment of the market.

ATSRAC considered the issue of competitive neutrality before making its recommendation to the Minister.

The project was endorsed by ATSRAC at its meeting of 9-11 October 2003.

JAM Custom Kitchens and Furniture formally advised the Executive Officer of ATSRAC in October 2004 that the company had decided not to take up the offer of funding. No funding agreement with the proponents was signed.