



1996

**PUBLIC ACCOUNTS AND EXPENDITURE
REVIEW COMMITTEE**

**WESTERN AUSTRALIAN
GOVERNMENT FINANCIAL
ASSISTANCE TO INDUSTRY**

REPORT NO. 31

Presented by:
Mr M W Trenorden, MLA
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The Committee obtains its powers and functions from the Standing Orders of the Legislative Assembly. Standing Order 412(1) states that the functions of the Committee are:

to inquire into, consider and report to the Parliament on any proposal, matter or thing connected with the receipt and expenditure of public moneys, including moneys allocated under the Annual Appropriation Bill and the Loan Fund.

Moreover, the Committee is empowered to inquire into and report to the Assembly on any question which it deems necessary to investigate and consider whether the objectives of public expenditure are being achieved or may be achieved more economically.

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Table of Contents

| | <i>Page No.</i> |
|--|-----------------|
| CHAIRMAN'S PREFACE | v |
| ABBREVIATIONS | vi |
| EXECUTIVE SUMMARY | vii |
| SUMMARY OF FINDINGS | x |
| RECOMMENDATIONS | xv |
| CHAPTER ONE - BACKGROUND TO THE INQUIRY | 1 |
| • Inquiry Beginnings | 1 |
| • Terms of Reference | 2 |
| • Submissions | 2 |
| • Public Hearings | 2 |
| • Investigative Travel | 2 |
| • Core Issues | 2 |
| CHAPTER TWO - DEFINITIONS AND PARAMETERS | 5 |
| • Definitions | 5 |
| • Differentiating between Financial Assistance to Industry and Public Services | 6 |
| • The Role of Financial Assistance to Industry | 7 |
| • Evaluation | 9 |
| • Accountability | 11 |
| CHAPTER THREE - AN EFFECTIVE RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS | 13 |
| • Validity of Financial Assistance and the Role of Government | 13 |
| • The Inefficiencies of Competitive Bidding | 17 |
| CHAPTER FOUR - INDUSTRY POLICY | 21 |
| • Introduction | 21 |
| • Planning for Industry Development | 21 |
| • The Absence of and Responsibility for an Industry Policy | 23 |
| • The Argument for an Industry Policy | 24 |
| • Determining a Strategy for Delivering the Policy | 28 |

Table of Contents cont'd*Page No.*

| | |
|---|---------------|
| CHAPTER FIVE - THE EFFICIENCY AND EFFECTIVENESS OF FINANCIAL ASSISTANCE: MANAGEMENT CRITERIA AND EVALUATION | 31 |
| • The Levels and Components of Financial Assistance to Industry | 31 |
| • The Department of Commerce and Trade | 33 |
| i. Introduction | 33 |
| ii. Management Controls and the Monitoring of Financial Assistance to Industry | 34 |
| iii. Criteria | 39 |
| iv. Evaluation | 45 |
| • The Department of Resources Development | 51 |
| i. Background and Administrative Responsibility | 52 |
| ii. Policy Guidelines | 54 |
| iii. Criteria | 55 |
| iv. Assessment | 56 |
| v. Evaluation | 59 |
| CHAPTER SIX - MULTIPLE ASSISTANCE: INCIDENCE AND IMPLICATIONS FOR THE ADMINISTRATION OF FINANCIAL ASSISTANCE | 61 |
| • Introduction | 61 |
| • Multiple Assistance Granted to Individual Companies | 61 |
| • Outsourcing Assessment and Selection Functions | 63 |
| CHAPTER SEVEN - ACCOUNTABILITY OF FINANCIAL ASSISTANCE | 67 |
| • Introduction | 67 |
| • Reporting of Financial Assistance | 67 |
| • Commercial Confidentiality | 72 |
| • Accountability and the Role of the Auditor General | 76 |
| CHAPTER EIGHT - INTER-AGENCY COORDINATION OF FINANCIAL ASSISTANCE | 83 |
| • Introduction | 83 |
| • A Coordinated Approach | 83 |
| • The Process of Coordination | 84 |
| • The Effectiveness of the Coordination Process | 88 |
| • Improving the Effectiveness of Coordination | 90 |
| • Information Centre | 92 |

Table of Contents contd

Page No.

SCHEDULES

| | | |
|--------------|---|-----|
| Schedule 1 - | Submissions - | |
| | (a) Organisations that prepared detailed submissions | 95 |
| | (b) Submissions arising from survey of Government agencies | 96 |
| | (c) Other submissions | 101 |
| Schedule 2 - | Witnesses | 102 |
| Schedule 3 - | Investigative Tour Briefings and Summaries | 105 |
| Schedule 4 - | Summary of Briefings, Conferences and Other Related Events attended by the Committee | 120 |
| Schedule 5 - | Industry Incentive Policy Guidelines | 121 |
| Schedule 6 - | The Department of Commerce and Trade - Background Issues of Administration and Accountability | 123 |
| Schedule 7 - | Resource Processing Incentives Policy/Resource and Resource Processing Assistance Policy | 126 |

Chairman's Preface

Mr Speaker,

I have the honour to submit the Committee's Report No.31 on Western Australian Government Financial Assistance to Industry.

The tabling of this Report is the culmination of the most lengthy and complex inquiry ever undertaken by the Public Accounts and Expenditure Review Committee. When the Committee commenced its hearings in March, 1995 it became clear that government financial assistance to industry is a large, sometimes contentious and often misunderstood issue.

The Committee has therefore taken the best part of 18 months to not only identify the level of accountability and effectiveness of this financial assistance, but to also define and put in context financial assistance as a tool used by government.

Through a large number of local hearings, submissions, briefings and meetings with those involved in government financial assistance to industry in Ireland and the United States of America, the Committee has been able to identify:

- the pressures that influence the degree to which a government does and should utilise financial assistance to attract and stimulate economic activity;
- the degree to which important concepts of financial assistance are understood by the public sector and the wider community;
- the clarity with which the objectives of financial assistance are formulated and stated;
- the level of accountability of financial assistance; and
- the efficiency and effectiveness with which financial assistance is administered by government agencies.

I believe that this has resulted in the most comprehensive investigation of financial assistance to industry ever undertaken within any state jurisdiction and it is my belief that this Report will be of long standing benefit to the Parliament and those with an interest or stake in the issue.

I would like to acknowledge the contribution and efforts of the Members of the Committee throughout this long and complex inquiry. Many difficult decisions had to be made about which issues to include and exclude from the final Report, such was the breadth of this inquiry.

Finally I would like to acknowledge the contribution of the Committee's staff, former Senior Research Officer, Mr Michael Baker and Research Officers, Ms Amanda Millsom and Mr Andrew Young and the significant secretarial assistance of Mrs Patricia Roach and Mrs Gerda Slany.

MAX TRENORDEN, MLA
CHAIRMAN

ABBREVIATIONS

| | |
|-------------------|--|
| AMEX | American Express |
| BENE | Project Financial Benefits Model |
| CCI | Chamber of Commerce and Industry |
| COG | Commission on Government |
| DCT | Department of Commerce and Trade |
| DRD | Department of Resources Development |
| FA&AA | Financial Administration and Audit Act (1985) |
| IDC | Industries Development Committee (South Australia) |
| IIP | Industry Incentives Policy |
| IPA | Institute of Public Affairs |
| NIES | National Industry Extension Service |
| PMS | Project Management System |
| RPIP | Resource Processing Incentives Policy |
| RRPAP | Resource and Resource Processing Assistance Policy |
| SD | Shannon Development |
| “The Committee” | Public Accounts and Expenditure Review Committee |
| “The Consultants” | Price Waterhouse Urwick & Michell Sillar McPhee |
| TIDA | Technology and Industry Development Act 1983 (WA) |
| VDBE | Victorian Department of Business and Employment |

EXECUTIVE SUMMARY

PREAMBLE

This report is about the processes which underpin Western Australian Government financial assistance to industry. To this end the Committee identifies:

- the degree to which important concepts of financial assistance are understood; and
- the clarity with which the objectives of financial assistance are formulated and stated.

It then:

- examines the criteria and assessment mechanisms applied to requests for financial assistance and comments on the adequacy of these mechanisms;
- identifies what level of evaluation is undertaken by Government to ensure that the financial assistance is effective and provides a net benefit to the State;
- examines the level of accountability of financial assistance and the role played by Parliament and the Auditor General in monitoring financial assistance; and
- examines whether current systems and structures encourage an efficient and coordinated approach to financial assistance

KEY FEATURES

Definition of Financial Assistance to Industry (Chapter 2)

There is an absence of a clear and consistently applied definition of financial assistance to industry, which has led to a somewhat distorted and misleading debate about its role and validity.

The Government is required to make it clear that there is a distinction between financial assistance to industry and those Government activities and services provided implicitly for the public good.

Evaluation (Chapter 2)

Evaluation must take place after the project has been operational as well as before. The onus is on the public and private sector proponents of financial assistance to industry to justify the use of public moneys to.

Competitive Bidding (Chapter 3)

Competitive or second bidding imposes a significant cost to the State and the Government should not employ this practice in order to attract industry to Western Australia.

Industry Policy (Chapter. 4)

The Government is currently lacking an industry policy which states its current and future intentions in relation to industrial development, including financial assistance. A Ministerial Taskforce should be established to develop an industry policy.

In order to deliver the policy objectives of an industry policy, a comprehensive statewide strategy needs to be developed.

The Department of Commerce and Trade (DCT) (Chapter 5)

There is no strict requirement for Cabinet approval of financial assistance packages. The Government should adopt and publish a policy identifying the amount at which financial assistance packages are required to be submitted to Cabinet for approval.

Consistent with the proposal of the Minister for Commerce and Trade, financial assistance packages involving amounts of \$2 million or more should be submitted to Parliament before approval can be granted.

Legislation should prohibit the Department of Commerce and Trade and any other State Government Agency from using equity investments as a form of financial assistance to industry.

DCT should refer to the Industry Incentives Policy (IIP) criteria as “essential criteria”, consistent with the recommendation of the Auditor General. All criteria must be satisfied before any organisation is granted or offered financial assistance.

The question of whether or not a project will locate in the State without assistance cannot be objectively tested.

The threat of locating to another state or country should not be considered a valid reason for granting financial assistance.

Evaluation of individual grants is the least satisfactory aspect of DCT’s administration of financial assistance. Whilst the benefits to the State of an assistance package may be forecast, evidence of monitoring the actual outcome and these benefits after establishment and operation is lacking.

Prior to financial assistance being offered or granted, a method of evaluating the effectiveness of each financial assistance package should be built into the agreement with the proponent.

The net benefits of all financial assistance should be reported to Parliament annually.

Department of Resources Development (DRD) (Chapter 5)

DRD has the power to affect project facilitation by negotiation with key agencies. This can mean that responsibility for funding is passed onto the given agency by DRD.

All Agreement Acts should stipulate a time limit for the life of any government financial assistance and the amount of financial assistance, including revenue foregone.

In instances where Agreement Acts impose a cost on a local authority, consideration should be given to compensating those authorities.

The provision of assistance under the Resource and Resource Processing Assistance Policy should be justified in terms of net economic and social benefits rather than the expectation of money being recouped.

Reliance on the Project Financial Benefits Model (BENE) model in its current form for assessing the benefits of financial assistance has limited value. DRD should consider in its re-development of the model the ability to use BENE for post assistance evaluation and project monitoring.

Multiple Financial Assistance (Chapter 6)

The number of cases of multiple assistance, since early 1993 is not significant. No adequate case has been made for the outsourcing of assessment and selection processes for DCT's industry incentives and business development schemes.

Reporting of Assistance (Chapter 7)

Consolidated reports of financial assistance, separate from Program or Budget Statements should be tabled in Parliament every 6 months and be required to provide adequate information.

The public's right to know substantially outweighs any claims to conceal relevant information on the basis of commercial confidentiality.

If an organisation does not wish to disclose relevant information then it should forego receiving financial assistance.

Unless the Auditor General's powers under the *Financial Administration and Audit Act (1985)* are strengthened, including the right to access all information relevant to the provision of financial assistance, adequate accountability cannot be ensured.

Inter-Agency Coordination of Financial Assistance (Chapter 8)

As a means of improving the effectiveness of coordination, it is suggested that an "Information Centre" be established for project proponents and existing projects. This Centre would provide an introductory point to access information and advice on what processes are involved in establishing a new project, but it would not be a decision making tool.

CONCLUSION

The findings and recommendations of this Report, when implemented, will have long standing benefits for Western Australia, because they:

- require the development of an industry policy;
- significantly strengthen accountability measures;
- improve the assessment, criteria and processes;
- improve the evaluation of financial assistance;
- protect the State's finances;
- improve the reporting of financial assistance;
- require the measurement of the effectiveness of financial assistance; and
- provide a better information base for industry.

SUMMARY OF FINDINGS

Chapter Two

Finding

The Government is required to make it clear that there is a distinction between financial assistance to industry and those Government activities and services provided implicitly for the public good. These include services such as clean water, power and education.

Finding

The State is lacking a consolidation and clear statement of the objectives of financial assistance that is currently provided.

Chapter Three

Findings

The preferred approach for Government is to provide a culture and environment that promotes business growth. This should occur without the need for an undue reliance on financial assistance to industry.

Financial Assistance should only be deemed as appropriate when it is provided through an industry policy. No such policy exists currently.

Findings

The role played by overseas governments visited by the Committee in the provision of financial assistance can be cyclical and is dependent on the prevailing economic conditions.

Creating the right business environment, according to the natural advantages of the state is an important factor in determining whether financial assistance is cost effective.

Findings

Attitudes towards competitive bidding as a means of attracting industry vary according to the prevailing economic circumstances.

The same attitude should be taken with regard to business retention as is taken to business attraction.

Chapter Four

Findings

In line with the recommendations of this report, the Government should review which agency(s) should be responsible for the development of an industry policy for the State.

Findings

The development of an industry policy will enable Government to undertake its activities within a coordinated and integrated framework. This will reduce the incidence of ad hoc programs and decisions.

An industry policy will enable any financial assistance provided to be accurately measured against identifiable objectives.

Finding

In developing an industry policy for the State, it is vital that comprehensive consultation be carried out with the regions. This should include considering the regional planning documents from each of the regions.

Findings

Strategies and future planning options for the State have been developed without the clear direction of an industry policy.

In order to deliver the policy objectives of an industry policy, a comprehensive statewide strategy needs to be developed.

Chapter Five

Finding

Successive restructures and strategic shifts over the last decade have left DCT with a stockpile of responsibilities and activities, which hinder effective, accountable and coordinated administration.

Finding

There is scope for a more thorough scrutiny of packages being conducted by a Parliamentary Standing Committee (refer to Chapter 7).

Findings

Once a financial assistance scheme or policy is established that assistance must be applied on a consistent basis.

Assistance must only be granted in accordance with the stated and published criteria.

Finding

Comprehensive published criteria are essential for financial assistance schemes.

Findings

All financial assistance packages must only be granted for a clearly defined period.

All schemes and packages require the inclusion of a monitoring and evaluation process.

Findings

Improvement has been made with evaluation of outcomes of some financial assistance funding.

Further efforts are required to achieve better accountability.

A more informed debate is required, regarding the value of financial assistance programs, particularly in relation to large industry incentive funding.

A more thorough analysis and evaluation of industry incentives is required.

Aggregating the results of financial assistance evaluations will enable the performance of schemes to be measured against the Government's industry policy objectives.

Finding

The reliance on the BENE model in its current form for assessing the benefits of financial assistance has limited value.

Chapter Six

Findings

Multiple assistance can be justified in some instances.

The number of cases of multiple assistance, since early 1993 is not significant.

Finding

No adequate case has been made for the outsourcing of assessment and selection processes for DCT's industry incentives and business development schemes.

Chapter Seven

Finding

The Public Accounts and Expenditure Review Committee is the best placed existing Standing Committee to oversight financial assistance to industry and therefore increase accountability to Parliament.

Finding

The current system of annual financial reporting to Parliament is not timely or specific enough to ensure that users of the information are adequately informed about financial assistance to industry.

Finding

Consolidated reports of financial assistance, separate from program or budget statements, are required to provide adequate information.

Finding

The public's right to know substantially outweighs any claims to conceal relevant information on the basis of commercial confidentiality.

Finding

Unless the Auditor General's powers under the *FA&AA* are strengthened including his right to access information relevant to the provision of financial assistance, accountability cannot be ensured.

Chapter Eight

Finding

There are conflicting opinions as to the effectiveness of the inter-agency coordination process.

Finding

There is a need for clarity of the process of inter-agency coordination and the provision of information from one central place.

Finding

The application of commercial principles in Public Trading Enterprises and the principles of open competition, impact on DRD's ability to assist proponents negotiating financial assistance measures.

RECOMMENDATIONS

The Public Accounts and Expenditure Review Committee recommends the following:

CHAPTER THREE - An Effective Relationship Between Government and Business

Recommendation 1

A detailed cost benefit analysis should be carried out before any decision is made to offer financial assistance to attract industry.

Recommendation 2

The Government should not enter into second or competitive bidding to attract industry to the State.

CHAPTER FOUR - Industry Policy

Recommendation 3

The Government should establish a Ministerial Taskforce to develop an industry policy.

Recommendation 4

The implementation of an industry policy should be a priority for the Government and be tabled by the Premier in the Parliament at the earliest opportunity.

Recommendation 5

The Government should develop a strategy for delivering the objectives of the stated industry policy.

CHAPTER 5 - The Efficiency and Effectiveness of Financial Assistance Management Criteria and Evaluation

Department of Commerce and Trade

Recommendation 6

The Government should adopt and publish a policy identifying the amount at which financial assistance packages are required to be submitted to Cabinet for approval.

Recommendation 7

- (a) Financial assistance packages involving amounts of \$2million or more should be submitted to Parliament before approval can be granted by the Cabinet.**
- (b) When the Parliament is not sitting, financial assistance packages requiring Parliamentary scrutiny should be submitted to the Public Accounts and Expenditure Review Committee.**

Recommendation 8

The role and powers of the Department of Commerce and Trade and any other State Government agency should prohibit the use of equity investments as a form of financial assistance to industry.

Recommendation 9

The Industry Incentives Policy criteria should be referred to as “essential criteria”, consistent with the recommendation of the Auditor General’s Report Number 5, November 1994.

All criteria should be satisfied before any organisation is granted or offered financial assistance.

Recommendation 10

The threat of locating to another state or country should not be considered a valid reason for granting financial assistance.

Recommendation 11

The key factor in determining whether financial assistance should be provided, is the degree to which that financial assistance will return a net economic benefit to the State.

The net economic benefit should be accurately measured prior to financial assistance being offered or granted.

Recommendation 12

Prior to financial assistance being offered or granted, a method of evaluating the effectiveness of each financial assistance package should be built into the agreement with the proponent.

Recommendation 13

The net benefits of all financial assistance packages should be reported to Parliament annually.

Department of Resources Development

Recommendation 14

- (a) The transparency and accountability measures detailed elsewhere in the Report should apply to Agreement Acts.
- (b) All Agreement Acts should stipulate a time limit for the life of any government financial assistance and the amount of financial assistance, including revenue foregone.
- (c) If, as a result of the terms of any State Agreement, a local authority suffers a revenue loss, or is required to forego income, the State should give consideration to compensating that local authority.

Recommendation 15

The provision of assistance under the Resource and Resource Processing Assistance Policy should be justified in terms of net economic and social benefits rather than the expectation of money be recouped.

Recommendation 16

The recommendations of the consultants reviewing the Project Financial Benefits Model (BENE) should be implemented without delay.

Recommendation 17

All Agreement Acts introduced into Parliament which contain provision for assistance should include a net or cost benefit analysis as part of the Bill.

Recommendation 18

The Department of Resources Development should include post assistance evaluation and project monitoring as part of the refinement and redevelopment of the Project Financial Benefits Model (BENE).

CHAPTER SIX - Multiple Assistance

Recommendation 19

The Department of Commerce and Trade should not outsource its assessment and selection processes except for those Innovation and Research and Development Schemes where the Department has traditionally outsourced such functions.

CHAPTER SEVEN - Accountability of Financial Assistance

Recommendation 20

- (a) The Public Accounts and Expenditure Review Committee should oversight financial assistance to industry.
- (b) The Public Accounts and Expenditure Review Committee should be provided with additional resources and expertise when it is reviewing financial assistance.

Recommendation 21

Financial statements (unaudited if necessary) should be tabled in the Parliament at the earliest possible opportunity.

Recommendation 22

Annual financial statements should be presented in a form where the information relating to financial assistance packages is provided in a precise and readable format.

Recommendation 23

Every 6 months, a consolidated report containing all current financial assistance packages should be tabled in the Parliament.

Recommendation 24

No organisation seeking financial assistance shall be granted such assistance if it is not prepared to divulge the relevant information to the appropriate authorities.

Recommendation 25

The powers of the Auditor General to properly audit, examine and make enquiries into financial assistance to industry should be clarified and strengthened.

Recommendation 26

The Auditor General should have the power to access private sector records and persons, in relation only to the financial assistance being investigated, by way of amendment to the *Financial Administration and Audit Act (1985)*.

Recommendation 27

Any increased power granting the Auditor General the right to access private sector records or persons, should not be retrospective.

CHAPTER EIGHT - Inter-Agency Coordination of Financial Assistance

Recommendation 28

- (a) In the interests of improving the level and effectiveness of inter-agency coordination, the Government should establish an “Information Centre” to enable project proponents and existing projects to receive timely advice and access information relevant to their needs and requirements.**
- (b) The “Information Centre” should be physically located in the premises of either the Department of Commerce and Trade or the Department of Resources Development.**

MINISTERIAL RESPONSE

Standing Order 414(5) of the Standing Orders of the Legislative Assembly states that:

Where a report of the Committee recommends that a particular action be taken by the Government with respect to a matter, the appropriate responsible Minister of the Crown, shall, as soon as practicable, but within not more than three months, or at the earliest opportunity after that time if Parliament is in adjournment or recess, report to the House as to the action (if any) proposed to be taken by the Government with respect to the recommendation of the Committee.

Accordingly, the Public Accounts and Expenditure Review Committee requests that the responsible Ministers respond to the Committee's recommendations.

CHAPTER ONE

BACKGROUND TO THE INQUIRY

INQUIRY BEGINNINGS

1.1. The genesis of the inquiry into Western Australian Government Financial Assistance to Industry was a letter from the now Leader of the Opposition, Dr Geoff Gallop, on 16 December 1993. In this correspondence, Dr Gallop raised concerns about the transparency of Government decisions in relation to assistance packages to industry.

1.2. Dr Gallop, while supporting the principle of state assistance to industry, identified accountability, precedence and net benefits to the state as key criteria for any assistance. He requested that the Committee undertake an on-going monitoring role. He stated that:

I think it would be most useful for the PAERC to develop an on-going role for itself in this important area of Government expenditure.¹

1.3. He continued:

There is little doubt that the Government has the power to make such decisions and that it is often in the public interest for it to do so. Proper scrutiny by your Committee would help ensure that this is the case.²

1.4. The Committee agreed that this area of Government activity did warrant investigation. While noting specific cases identified by Dr Gallop, however, the Committee's view was that the inquiry should have a systemic focus, rather than scrutiny of individual cases.

1.5. The Committee's Standing Orders enable it to:

inquire into, consider and report to the Parliament on any proposal, matter or thing connected with the receipt and expenditure of public moneys...³

1.6. In the case of financial assistance to industry, it has considered that if the processes used to provide support ensured proper evaluation and accountability, then on-going scrutiny other than a general watchfulness would be unnecessary.

1.7. The Committee undertook preliminary work on the inquiry early in 1994, but was delayed by a major inquiry into the TAB which was nearing completion, and two other urgent matters that arose in that time, namely issues related to a previous inquiry into the Notre Dame Land Grant and an inquiry into a Payment to the Chairman of the Heritage Council. The nature of these inquiries required an immediate response and resulted in the postponement of the formal commencement of the inquiry.

¹ Dr Geoff Gallop, MLA, in correspondence to the Public Accounts and Expenditure Review Committee, 16/12/93.

² Ibid.

³ Standing Order 412, Standing Orders of the Legislative Assembly

TERMS OF REFERENCE

1.8. The terms of reference for the inquiry are:

The Public Accounts and Expenditure Review Committee will investigate and report on the various forms of financial support for industry and business provided by the State Government. The Committee to consider the nature and reasons for the support, the source of the funding, the adequacy of the reporting of the support and, assess the effectiveness of the funding and any other forms of support. In particular, the Committee will

- (a) identify the financial support provided to companies/industries, including small business;
- (b) identify the criteria by which organisations are deemed eligible for support, and the level of planning of support programs;
- (c) identify the effectiveness of support and what benefits the support provides the State and the people of Western Australia; and
- (d) identify and assess the mechanisms which ensure adequate accountability to Parliament of any financial support given.

The Committee to make such recommendations as are considered necessary to ensure full accountability of public funds to Parliament.

SUBMISSIONS

1.9. The Committee advertised widely and received 122 written submissions (refer to Schedule 1).

PUBLIC HEARINGS

1.10 The Committee held 21 days of hearings and took evidence from 36 people. A list of witnesses is attached to this report (refer to Schedule 2).

INVESTIGATIVE TRAVEL

1.11. Between 30 September and 14 October, the Committee travelled to the Republic of Ireland and the United States and met with several officers of Shannon Development, officers of government agencies in Washington, and agencies in the States of Alabama, Illinois, Colorado and California.

1.12. In all, the Committee had 19 meetings in its 14 day trip (refer to Schedule 3).

CORE ISSUES

1.13 Financial assistance to industry is a tool used by governments to promote economic activity. This report identifies the costs and implications of providing financial assistance and argues that government should not rely on this tool to promote economic development and growth. However, it would be impractical to pretend that it will never be a part of government activity.

- 1.14 The provision of financial assistance to industry will, therefore, always be a factor in public sector administration to some extent. The Committee's task is one of putting financial assistance into a context and identifying:
- the pressures that influence the degree to which a government does and should utilise financial assistance to attract and stimulate economic activity;
 - the degree to which important concepts of financial assistance are understood by the public sector and the wider community;
 - the clarity with which the objectives of financial assistance are formulated and stated;
 - the level of accountability of financial assistance; and
 - the efficiency and effectiveness with which financial assistance is administered by government agencies.
- 1.15 The following chapters provide relevant analysis, findings and recommendations centred around these issues.

CHAPTER TWO

DEFINITIONS AND PARAMETERS

DEFINITIONS

Industry

- 2.1 In this Chapter, the Committee will define financial assistance to industry for the purposes of this report, and discuss briefly some of the conceptual difficulties it has faced during the course of this inquiry.
- 2.2 The Committee has defined “industry” as meaning any private sector organisation involved in the extraction, production, distribution and sale of commercially valuable manufactured products and services for economic benefit.⁴

Financial Assistance

- 2.3 For the purposes of this report financial assistance is to be interpreted as all financial measures provided by the State Government, including, but not limited to:

- 2.4 *Explicit or direct cash payments*

Explicit or direct cash payments involve money flowing direct from government to those engaged in the relevant activity. They can be for specific purposes, or less often, for general use. There are several explicit grant programs available in Western Australia. An example is the Investment Attraction sub program of the Investment and Trade Development Program at the Department of Commerce and Trade, which is discussed in Chapter 5.

- 2.5 *Tax concessions, tax expenditures, revenue foregone*

These are a major form of assistance and can generally be defined as selective tax relief. Examples include concessions on payroll tax and stamp duty tax. Tax concessions can be seen as tax expenditures in the sense that there is a cost to the State in not collecting the tax, which is a form of revenue foregone. Perhaps the most dramatic example of a tax expenditure in Western Australia, although by no means the only one, is the absence of a royalty on the gold industry.

- 2.6 *Credit assistance*

Credit assistance can take a variety of forms. For example, it can be -

- (a) cash payments to offset interest on private lending;
- (b) loans by government itself at below the market rate;
- (c) guarantees issued by government on private loans; and
- (d) a loan insurance fund with private lenders;

⁴ Source: *Technology and Industry Development Act 1983*, Western Australia

- 2.7 In the Western Australian context, the use of loan guarantees for private lenders is the most common form of credit assistance. This is also a major form of assistance in the United States, particularly in the area of small business.

2.8 *Loan Conversions and Loan Write-Offs*

The Government may assist an organisation by writing off its debtor liability or by a process of loan conversion. A loan may be converted to a grant in increments, corresponding to the achievement of agreed milestones by the organisation. More simply a loan could be converted to a grant in one instance.

2.9 *Equity Investments*

Such investments may allow the Government to assist the project, whilst being able to recoup the moneys at a later stage. Assisting a project in this way may also enable the agency to be represented on the project Board or exercise some other oversight or decision making role.

2.10 *Benefit in kind assistance*

This term refers to goods and services provided by government at below the full market price or below cost. An example of benefit in kind assistance may be the provision of customised training, where the government may provide tailored training programs for companies or industries at less than full cost to the beneficiaries.

2.11 *Government purchasing policy assistance*

When the Government pays a premium for a good or service, or above the market value, this is referred to as a purchase subsidy.

2.12 *Agreement Acts*

These agreements, which are ratified by Parliament, set down the obligations of both the Government and the project developer throughout the life of a significant project.

DIFFERENTIATING BETWEEN FINANCIAL ASSISTANCE TO INDUSTRY AND PUBLIC SERVICES

- 2.13 There needs to be a distinction made between financial assistance and the provision of public services, such as clean water, power and education.
- 2.14 Infrastructure development is a complex area of government activity and is often considered by those not supportive of direct support to be a valid form of government assistance. Infrastructure development refers to the provision of transport links, telecommunications, power, water or other vital commodities for industry by the government.
- 2.15 Where the Committee sees infrastructure development as assistance is when it is undertaken for a specific private sector project(s) and where the government meets the cost of the development with the view to encouraging the projects and other investment.

- 2.16 The Committee has found that this type of assistance can result in a change in agencies' capital works priorities. The bringing forward of a road project by Main Roads, for example, puts back another road project. Where the project has been brought forward because it meets the requirements of a developer, regardless of whether there are other public users, the project is assisting the developer at the public cost of putting back another project, both in funding and timing. This should be defined as financial assistance to industry.
- 2.17 Where doubt exists as to whether a measure is financial assistance, the guide should be whether the measure is intended to compensate for costs that would have:
- (a) otherwise been met by the industry organisation; or
 - (b) otherwise discouraged the establishment or expansion of the organisation.

Finding

The Government is required to make it clear that there is a distinction between financial assistance to industry and those Government activities and services provided implicitly for the public good. These include services such as clean water, power and education.

THE ROLE OF FINANCIAL ASSISTANCE TO INDUSTRY

- 2.18 Financial assistance operates at two levels: at a macro or strategic level and at a micro or tactical level.

The Current Role of Financial Assistance at a Macro Level

- 2.19 Financial assistance must be a means to an end, never an end in itself. In the course of this inquiry, the evidence demonstrated the absence of a document clearly stating the goals, competitive advantages and broad Government strategy and which describes a role for financial assistance. This will be further discussed in Chapter 4.
- 2.20 There is some ambiguity as to the objective(s) of financial assistance to industry. Underpinning assistance to industry and promoting the economic development of the State appears to be the goal of creating employment as a base for ongoing economic development.
- 2.21 At the individual assistance scheme level within agencies, employment is only one consideration of many in identifying projects to receive assistance. The Industry Incentives Policy (IIP) guidelines, which serve as a set of broad criteria to be satisfied by applicants for financial incentives focus on a range of factors. The assistance can only be directed at developing companies in the manufacturing and services sectors. Minimum capital establishment costs, export potential and significant public rates of return are other conditions and goals, which must be satisfied by the applicant company.

- 2.22 The guidelines nominate factors of determining a project's net rate of public return to include:

Government revenue, technology transfers and the upgrading of workforce skills together with enhanced profitability and increased market opportunities for existing industry.⁵

- 2.23 Mr Bruce Sutherland, Chief Executive Officer of the Department of Commerce and Trade (DCT) confirmed that at the specific goal level, employment is only one of many considerations at best, and labour intensive industries have not been favoured in the selection of projects to receive Government funds. Capital investment has been of greater importance.⁶

- 2.24 Employment is therefore an inferred and underlying goal of the financial assistance process, derived from the achievement of more specific goals. In the 1993-94 Budget Speech, it was stated that

the Government's principal economic objective is to stimulate economic growth and to secure more long term jobs for Western Australians.⁷

- 2.25 It is also apparent that enhancing the export performance of the State is a major goal, which underpins assistance to industry. The 1995/96 budget speech stated that:

The Government's focus is on assisting industry to expand export markets in Asia and this Budget will enhance the prospect of exporters seeking to establish a presence in these markets.⁸

- 2.26 From an operational point of view, Government is lacking a consolidation of the above objectives and the State's competitive and comparative advantages. The Committee discusses this further in Chapter 4, as part of its case for a coherent industry policy.

Finding

The State is lacking a consolidation and clear statement of the objectives of financial assistance that is currently provided.

The Current Role of Financial Assistance at a Micro Level

- 2.27 At the micro or tactical level, such as an individual scheme or program within an agency, financial assistance tends to have a specific aim. This may relate to the project's benefits to the State derived from inter alia its technology base, work skills base or strategic compatibility to existing industries, such as mining and primary production.

⁵ See Schedule 5.

⁶ Evidence, 10/5/95, pp.28 - 29

⁷ *Budget Speech, 1993-94*, Budget Paper No.1, p. ?

⁸ *Budget Speech, 1995-96*, Budget Paper No.1, p.

2.28 The Committee was referred to a number of financial assistance schemes with specific aims. Overwhelmingly these assistance schemes are facilitated by DCT, and to a lesser extent by the Department of Resources Development (DRD). Those large projects or firms, receiving substantial financial assistance are subject to the Industry Incentives Policy (IIP) or the Resource Processing Incentives Policy⁹ (RPIP), which is consistent with the overriding IIP. The role of financial assistance at this level includes:

- establishing industries that otherwise would not be viable, usually due to capital establishment costs;
- attracting new industries, which are seen to provide a form of competitive advantage and new technologies;
- attracting industries that could go elsewhere, if not assisted to locate in Western Australia;
- promoting exporting and import replacement projects;
- promoting resource processing and value adding;
- promoting small to medium businesses;
- enhancing competitiveness;

EVALUATION

2.29 In the context of financial assistance to industry, the Committee sees evaluation as an essential process of assessing the costs and benefits of granting and administering financial assistance.

The Cost of Assistance

2.30 The costs of assistance is a complex but very important issue. Assistance often has hidden costs far above the nominal amount of direct assistance that may be reported as a grant or a transfer payment.

2.31 The cost of assistance can be measured in three main ways:

- (1) The direct budgetary cost, usually reported in the annual financial statements of the agency responsible for its administration;
- (2) Budgetary administrative cost is difficult to quantify as most programs are administered by people with other roles. It is difficult to precisely measure the amount of administrative cost that should be attributed to each assistance program. It can, however, be a substantial cost and one that is often overlooked in quantifying assistance;

⁹ Schedule 7.

- (3) Costs to the private sector caused by the increase in taxation required to fund the assistance. Assistance packages are a cost to those not receiving the assistance. This can be the taxpayer who is paying higher taxes, or the competitors of recipient companies who may be disadvantaged by the assistance, or the consumer who may pay higher prices for goods and services to cover the cost of a regulatory subsidy.
- 2.32 It may be argued that assistance packages tend to be revenue-neutral in terms of the tax receipts they generate. What they may generate in additional tax receipts from the recipients due to increased production, will usually be offset by the costs to non-recipients.
- 2.33 The provision of assistance needs to be justified in terms of an economic or social objective, rather than any expectation of the money being recouped at a later date.
- 2.34 Costs of assistance packages are one of the reason that an efficient and effective evaluation process is crucial to the management of financial assistance. There needs to be a mechanism that ensures that packages provide a net benefit to the state, not just the recipient. An on-going review process is required to prevent obsolete packages piling up, hidden by a myriad of newer and more appropriate ones. This is discussed further in Chapter 5.

The Benefits of Financial Assistance to Industry

- 2.35 The Committee sought to identify the extent to which the Government and its Agencies assess the net benefits of financial assistance to the whole State.
- 2.36 DRD and DCT have utilised a Project Financial Benefits Model (BENE) when assessing financial assistance to industry. A recent independent review of the model called into question its effectiveness and recommended changes.¹⁰
- 2.37 On 21 November, 1994 Cabinet approved a whole of Government approach to the use of Government incentives, subject to the effectiveness of all industry assistance programs being evaluated and reported to the Treasurer at least on an annual basis.
- 2.38 This type of systematic evaluation should be a minimum requirement in recognition that any subsidized production has less real value-added than any production that is not subsidized. The provision of assistance leads to a shift of production from unsubsidized to subsidized activities.¹¹ The onus is clearly therefore on the proponents of assistance to industry to justify the use of government resources to assist commercial activities.
- 2.39 Where Government Agencies have responsibility to administer assistance to industry and they take on the role of proponents of a general policy of assisting their targeted industry(s), the onus is then on those Agencies to operate in a manner that is fully

¹⁰ Harman F and Lewis P, *An Evaluation of the BENE Model and an Approach to the Assessment of Claims for Government Assistance* - Report prepared for the Department of Resources Development, Western Australia, November 1994

¹¹ See *Australian Exports: Performance Obstacles and Issues of Assistance*, Report of the Committee for Review of Export Market Development Assistance, Canberra, Australian Government Publishing Service, 1989.

accountable. The net benefits of assistance to industry to the whole State should be evaluated and reported by Agencies.

- 2.40 Key players from both the private and public sector are in agreement on the most fundamental aspect of financial assistance to industry. According to DRD's Chief Executive Officer, Mr. Des Kelly:

The number one rule is there has to be a positive economic benefit to the State from the project. You cannot have the incentives that you give exceeding the direct financial rewards that come back.¹²

- 2.41 The Chamber of Commerce and Industry (CCI) argued that:

the over-riding and universal principle which should guide government assistance to industry is that the costs incurred should not exceed the benefits generated.¹³

- 2.42 What needs to be clear is whether the net economic benefit is only evaluated before the project is granted assistance, or whether proper evaluation takes place after the project has been operational. If programs and schemes are to be subject to fundamental, periodic reviews, such evaluation must take place after the project has been operational. As much as possible the degree to which different schemes contribute to the greatest net economic benefit should make comparative analysis possible.

ACCOUNTABILITY

- 2.43 It has been argued that recipients of personal welfare and the agencies that administer that welfare are increasingly being called to justify and account for the taxpayer funds being redistributed. The same levels of accountability were clearly not required of businesses receiving taxpayer funds and the administering agencies in the 1980s. The results were exemplified in the billions of dollars of government funds written off in South Australia, Victoria and Western Australia.¹⁴
- 2.44 Whereas proper criteria must be in place for the individual welfare recipient and the process must be accountable in only funding those who meet the criteria, the financial assistance of private enterprise must be accountable in a broader context. Goals of the process must involve not only eligible organisations receiving assistance, but that assistance should demonstrate benefits, which outweigh the costs of the assistance.
- 2.45 Accountability, for the purpose of this inquiry, should include consideration of the following:
- where assistance measures are reported;

¹² Evidence, 24/4/95, p.5

¹³ CCI Submission, May, 1995, *State Support for Industry - Some Principles*, p.3

¹⁴ Mitchell. W, 1995, "Business Welfare - a legitimate role for government?", *Current Affairs Bulletin*, Vol 71 (6), April/May, Sydney

- are these reporting mechanisms reasonably accessible by the public;
- are they reported clearly;
- are they able to be identified as forms of assistance to industry;
- is it feasible to clearly distinguish revenue foregone from net revenue figures in financial statements and has an attempt been made to do so;
- do reported estimates of expenditure, activity and achievement at the agency and program level report intended direction and strategies for financial assistance;
- does reporting of completed activities provide a reasonable basis for developing an analysis of effectiveness of the agency's administration of assistance;
- does the reporting enable the Auditor General to provide an accurate picture of assistance provided by the State to industry; and
- is the reporting of a standard which would allow an inexact, but useful cost benefit analysis on a statewide level?

CHAPTER THREE

AN EFFECTIVE RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS

- 3.1 The provision of financial assistance to industry has implications for the efficient use of public monies. Consequently the Committee has given some focus to the validity of financial assistance, and particular processes such as competitive bidding.

VALIDITY OF FINANCIAL ASSISTANCE AND THE ROLE OF GOVERNMENT

- 3.2 Governments everywhere provide a number of forms of financial assistance to industry. It is considered generally to be a valid activity of government, although the degrees and forms appropriate assistance should take is a matter of some debate.

- 3.3 Throughout the inquiry, the Committee heard a number of views of the role of government and financial assistance. The Chamber of Commerce and Industry(CCI) argued that the role of Government was to get the overall economic settings right, in respect to fiscal management, the taxation system, the legislative and regulatory environment, and the costs of fundamental commodities such as power and water .

- 3.4 In its submission to the inquiry, the CCI stated that:

Industry assistance, protection and support packages consume a lot of government time, resources and attention....Yet direct assistance to industry is at best only a minor part of government's role and responsibility in creating the best climate for economic growth and business development.¹⁵

- 3.5 The submission went on:

...the gains for the beneficiaries often do not outweigh the costs of providing assistance - whether the direct costs to taxpayers, or the indirect costs incurred through unfair competition and the diversion of resources from unassisted businesses.¹⁶

- 3.6 On the issue of unfair competition and the resulting costs, the then Institute of Public Affairs' (IPA) Director of the States Policy Unit, Dr Mike Nahan, argued that:

Government funds have a high opportunity cost...if you give to one you are taking away from others in the form of taxes, this is an issue of fairness.¹⁷

- 3.7 It is the Committee's view that Government should not be doing for industry what industry has the ability to do for itself. The creation of an appropriate environment, which

¹⁵ Chamber of Commerce and Industry, *State Support for Industry - Some Principles*, Submission to the Public Accounts and Expenditure Review Committee, 31/5/1995, p.1

¹⁶ *ibid*

¹⁷ Evidence, 17/5/95, p.3

acts as an incentive to business growth should be a more crucial goal for government than the provision of financial assistance.

3.8 The Government can best create this environment by:

- ensuring the appropriate policy mix is in place;
- sound fiscal management;
- ensuring that its business enterprises are competitive and efficient and that their pricing structures are fair;
- providing an appropriate, predictable and stable legislative environment;
- ensuring fair and open competition in business; and
- determining an appropriate level of regulation.¹⁸

3.9 Industry or business should not have any cause to approach government seeking financial assistance that has not been expressly promoted as part of an industry policy. Creating a prevailing culture that promotes growth without reliance on financial assistance is the preferred approach.

3.10 Exceptions to this culture are valid when financial assistance is deemed appropriate to achieve outcomes identified in the industry policy. Assistance measures identified in such a policy should also be transparent and available to all that meet stated criteria and guidelines.

3.11 Government should not be in the business of using financial assistance as a means of “picking winners” or influencing the location of businesses.

Findings

The preferred approach for Government is to provide a culture and environment that promotes business growth. This should occur without the need for an undue reliance on financial assistance to industry.

Financial Assistance should only be deemed as appropriate when it is provided through an industry policy. No such policy exists currently.

Recommendation 1

A detailed cost benefit analysis should be carried out before any decision is made to offer financial assistance to attract industry.

Overseas Perspective

3.12 The Committee’s investigative tour of the Republic of Ireland and the United States provided for contrasting attitudes towards the validity of financial assistance by respective governments and agencies. It was apparent that the need to provide financial incentives

¹⁸ Source: CCI Submission, 31 May 1995, p.1

or assistance was based on the prevailing economic conditions of the state ie whether there was a genuine need. Certainly in the US, the prevailing attitude was that assistance in most instances was deemed to be valid when the benefits of the assistance outweighed the costs to government.

Shannon Development

- 3.13 The Committee was told that Shannon Development's¹⁹ (SD) attitude towards the need to provide financial incentives and assistance had changed quite considerably from its beginnings in 1959. Despite its heavy reliance on State and European Commission resources, SD is aiming to become self reliant and is seeking to operate according to commercial principles.
- 3.14 Its earlier reliance on a more aggressive approach to the provision of direct forms of assistance in order to promote and develop indigenous industries and attract overseas investment has given way to equity investment of 4-5 years in the form of venture and seed capital. The need to provide direct incentives was no longer an important factor as the environment was now conducive to attracting companies.
- 3.15 Mr John Dillon from SD told the Committee that another reason for the move to equity investment was the perception that grants and loans would have a big failure rate at the high risk end of the market. There were also concerns raised about the development of a grants mentality among companies.
- 3.16 In discussions with SD's Senior Consultant, Mr Paddy Quane, the Committee was told that the key words used by the agency now were "integrated development", meaning that one industry product such as a tourist attraction may be identified and assisted followed by secondary industries. The aim is to develop the product and then sell or privatise the product.

Illinois

- 3.17 Mr Robert Bruce, Director of International Investment, Illinois Department of Commerce and Community Affairs, told the Committee that in the United States all states have their own economic programs and approaches but that generally there were more similarities than differences.
- 3.18 In Illinois' case, Mr Bruce said there was a move away from providing direct financial assistance. He said that even in the highly competitive automotive industry, there was now a more conservative approach from the Illinois government where they were no longer "buying" investment.
- 3.19 The main reasons for this shift was a combination of the lack of need to do it, with Illinois having a key geographical advantage as the central hub of US transportation, an awareness of the fact that it is taxpayer's money being spent, and of the cost to other businesses.

¹⁹ Regional Development Agency for the area of Shannon in the Republic of Ireland

- 3.20 There is a general view in Illinois that the seeking of new business is in fact job replacement rather than job creation, as new businesses have a tendency to displace existing ones. Therefore, the Illinois government's main focus is on existing rather than new businesses.

California

- 3.21 California's approach reflects the Committee's view that getting the business investment environment right must be of higher priority than industry strategies based around the use of financial assistance incentives.
- 3.22 A focus has been on the regulatory environment where a situation had arisen that to "permit something actually meant to prohibit something". The Californian communities are now looking at their methods and doing things like standardising building permits to more easily facilitate industries. One of the key focuses of the approach is making it easier for companies to interact with each other.
- 3.23 It should be noted that this approach was not based on extreme economic philosophy that rejects any role for government in promoting investment. In certain circumstances financial assistance can be a valid tool for assisting business investment.
- 3.24 Mr Wayne Schell, President of the California Association for Local Economic Development stated that the processes employed by government were important and the role was cyclical. In certain times, particularly those of financial hardship, it could be expected that government would have a greater role.

Colorado

- 3.25 Colorado has recently been ranked by a prominent Washington thinktank as the "best business environment" in the United States. In addition to the business climate, Colorado has a very attractive physical environment and the Committee was advised that increasingly American companies are seeing the importance of lifestyle and that many are moving to Colorado for this reason. These changes in attitude are perhaps most common at this point in the smaller to medium sized businesses.
- 3.26 There is a culture of providing grants to companies on a case-by-case basis, however it was not a substantial activity of government. Similarly, there are taxation relief programs in Colorado, where the administration is shared by the various levels of government in the State.
- 3.27 During its discussions, the Committee was told that the view of the Colorado government is that tax buydowns are circular in their impact. Any benefit received by one company or sector is a cost to another. The taxation losses will often offset any financial gains and therefore it is not a favoured approach.
- 3.28 The views of several government and local development and regional organisations visited by the Committee reveal that there is a general consensus that there are a range of costs to providing assistance, and that reputed benefits of such assistance must be analysed with caution. Creating the right business environment, according to the natural advantages of the state, was an important factor in determining whether assistance was cost effective.

- 3.29 There was also a practical acknowledgement that some states in the US, as in Australia, are coming from a weaker base and that attitudes to the validity of financial assistance will vary accordingly. This theme is further developed in the following section.

Findings

The role played by overseas governments visited by the Committee in the provision of financial assistance can be cyclical and is dependent on the prevailing economic conditions.

Creating the right business environment, according to the natural advantages of the state is an important factor in determining whether financial assistance is cost effective.

THE INEFFICIENCIES OF COMPETITIVE BIDDING

- 3.30 The issue of states' entering into competitive bidding to attract industry, often referred to as "smoke stack chasing", was raised in the hearings process and in discussions with officials in the USA. On the domestic front, both state and federal governments have openly expressed their feelings on the matter. The Western Australian State budget speech 1994-1995 stated that:

....we are not about to embark on "picking winners" to encourage industry development in the state. Nor do we intend to enter into an auction system of attracting industry in competition with other states.²⁰

- 3.31 And at the 1995 Leader's Forum in Brisbane:

Premiers and the Chief Minister agreed that any competition between the states and territories for industry investment should be based on their respective established regional and strategic advantages rather than on financial incentives which distort such advantages.²¹

- 3.32 In the case of the much publicised American Express (AMEX) deal, the State put forward a package of incentives to attract the company. However, when it became clear that the offer had been rejected, the State further declined to enter into a "bidding war" with the other states.
- 3.33 Economist, Dr Frank Harman in evidence, also used the AMEX example to illustrate how the State can resist the attraction to enter into "bidding wars":

I think it is very difficult. You must have a general presumption that you will not offer subsidies.....My general proposition is that while all of these specific cases might exist, I think that the best approach for governments is to say, "Let us get our overall economy operating efficiently"...let us make sure that the general level of infrastructure that we provide to someone like Amex, is an efficient level of infrastructure, rather than focusing just on Amex and giving them a cross subsidy.²²

²⁰ Budget Speech 1994-1995, Budget Paper No.1, p.11

²¹ Leader's Forum, 3/11/95, Communique, p.5

²² Evidence, 18/5/95, p.2

3.34 In contrast to the above views, Mr Bruce Sutherland told the Committee in evidence that:

The State can either sit back and watch it happen or it can participate in a contest for that particular facility.²³

3.35 In Illinois, Mr Bruce suggested that the attraction of businesses from other states - the smokestack chasing syndrome - are a zero sum game for the country. Illinois will try to attract companies simply by using its natural advantage as the central transportation point in the US. They also will try to encourage businesses to establish sales offices in Illinois. This is because warehousing, distribution and manufacturing will always be established near the sales office. This represents a long-term view.

3.36 Chicago has certain natural and developed advantages, which should allow for the right business environment to be created without reliance on financial incentives.

3.37 Whilst in Alabama, the Committee was provided with an example of competitive bidding in action. The State of Alabama, in an attempt to attract the Mercedes-Benz company, entered into competition with 35 other states. The State eventually won with a financial incentive package.

3.38 The Committee discussed this with both officials from Alabama and from other States. Alabama considered that the package they put together was entirely justified in that there were net gains to the State from the expenditure involved. In their opinion the package also gave notice to other companies that Alabama was “open for business”.

3.39 Circumstances in different states may be very different, and so may responses and attitudes therefore be different.

3.40 In Australia there is a significant distinction that can be made between states with economies that have traditionally relied on very different industries. In Victoria, NSW and South Australia, manufacturing industries, such as textiles and automotive building and components, have suffered very different fortunes from some of the primary and resources based economies of other states, such as Western Australia and Queensland.

3.41 The Statements made at the Leaders’ Forum in Brisbane leave no doubt that in Australia competitive bidding is not an acceptable practice. This should remain the case in Western Australia, even in the face of an ever increasing competitive environment.

Business Retention Pressures

3.42 In California the Committee was told that the recession of recent years took longer to materialise there than in other US states. This made Californian industries a target for those states, 30 of whom established offices in the state with the express purpose of attracting industry away from California. The result is that California, which traditionally did not have to offer incentives to attract industry, is now having to offer incentives to retain its industry. Officials expressed to the Committee a reluctance to go “smoke stack chasing”, however the need to spend public monies in order to retain industry has similar costs.

²³ Evidence, 10/5/95, p.25

- 3.43 Similar circumstances are emerging in the interstate bidding wars in Australia. There is clearly a greater cost to Australia of bidding wars over industries already established in the nation, in contrast to bidding wars between states trying to attract an industry not yet established in Australia. WA is immune from such threats in some resources sectors, but other industries may be targets for other states.
- 3.44 In this situation, regardless of the State's policy to not enter into bidding wars, the pressure to expend public monies for the purpose of business retention is considerable.
- 3.45 The Committee believes that the same attitude should be taken to business retention as is taken to business attraction. Both incur significant costs to the State and priority should be given to creating and then maintaining the right environment for business investment, which should logically provide for successful business retention.

Findings

Attitudes towards competitive bidding as a means of attracting industry vary according to the prevailing economic circumstances.

The same attitude should be taken with regard to business retention as is taken to business attraction.

Recommendation 2

The Government should not enter into second or competitive bidding to attract industry to the State.

Conclusion

- 3.46 The issues raised in this Chapter, in particular the absence of a defined role for government in relation to creation of an appropriate environment for business attraction and retention, has added weight to the argument for the need for an industry policy.
- 3.47 A set of clear objectives or strategies outlined in such a policy would enable the Government to effectively deal with the issues of the provision of financial assistance.

CHAPTER FOUR

INDUSTRY POLICY

INTRODUCTION

- 4.1 During the course of the inquiry, the Committee heard strong arguments that the efficiency and effectiveness of financial assistance to industry would be enhanced if it were embraced in an industry policy.
- 4.2 There has been a tendency for financial assistance to be an “ad hoc” process. Reacting to particular circumstances as they arise then shifting focus as others emerge. The development of an industry policy would:
- ensure an integrated approach to industry development issues including financial assistance;
 - ensure that there was certainty among those wishing to undertake economic activity in the State; and
 - provide a clearly identifiable set of objectives by which governments could be judged.
- 4.3 Integral to the development of an industry policy is the need to plan for industry development at a whole of government level. This should incorporate the aspirations of Government in relation to industry development, and take into consideration the particular requirements of industry for overall benefit of the State. In this chapter the intention is: to outline the importance of a coordinated approach to long-term planning; to highlight the need for an Industry Policy and recognise the potential obstacles; and to highlight the importance of determining a strategy for delivering the policy.

PLANNING FOR INDUSTRY DEVELOPMENT

- 4.4 The Committee is aware of the plethora of planning documents that have been developed and are in the process of being developed by key government agencies. These include:
- A number of papers put out by the Department of Resources Development under the general heading of a State Heavy Industry Policy;
 - A Discussion Paper entitled *WA 2029 - Development Options for Western Australia* by the Department of Commerce and Trade;
 - *WA 2029 Stage 11- Overview of Study* released in January 1996;
 - A State Planning Strategy put out by the Ministry of Planning with heavy involvement by the Western Australian Planning Commission in the form of a number of discussion papers.
 - A Regional Road Development Strategy entitled *Roads 2020*, developed by the Main Roads Department and local governments; and

- A number of Regional Development Strategies published by the various Regional Development Commissions.

4.5 Similarly, DCT has developed the IIP which will be further discussed in Chapter Five.

4.6 Aside from the need for a consolidation of planning documents is the fundamental difficulty in getting people to plan for the future during times of prosperity. During discussions in Colorado, a key point raised was that planning tended to be done in “crisis mode”, as governments attempted to come to terms with a particular problem or set of problems. When things were going well, there is a tendency to just “let them flow and let tomorrow take care of itself”.

4.7 The Committee is aware of anecdotal evidence that great opportunities have been lost in good economic times because the necessary planning had not been undertaken to ensure that the required structures were in place to take advantage of them as they arose.

4.8 In evidence before the Committee, the Western Australian Auditor General, Mr Des Pearson, said:

...I think there is probably missing the longer term strategic approach or plan so in consequence issues tend to be dealt with as they arise and they become all consuming while they are on the agenda, and then almost imperceptively something else comes up and the focus moves on to that.²⁴

4.9 Mr Pearson continued:

I have no doubt in the broad context we are going in a general direction but with a more visible or demonstrable strategic direction and some more focussed coordination of facilitation, I think we would probably travel the route a deal faster.²⁵

4.10 From a regional planning perspective, the then Chief Executive of the South West Development Commission, Mr Chris Fitzhardinge told the Committee in evidence that:

The Commission operates in a framework. It does not operate spontaneously to everyone who walks in through the door. The Commission, in conjunction with industry, other agencies and the community, has analysed the strengths and opportunities for the south west, and from that has developed the south west strategy.²⁶

4.11 It is the existence of this overall framework and a clearly understood set of objectives, that appears to be the most compelling argument for a plan for the state. If assistance is provided with a long term goal in mind, it will be significantly easier for both the government and others to identify whether the assistance provided to industry is effective.

4.12 To further illustrate this on a ‘micro’ level, the Commissioner for Main Roads, Dr Ken Michael, told the Committee:

...when we started the road development strategies, it was clear that ...there was no master plan. The metropolitan region scheme has been a boon to people in metropolitan

²⁴ Evidence, 12/4/95 p.16

²⁵ ibid

²⁶ Evidence, 21/6/95, p.2

areas...having a model that you can actually work to has been a real plus to Perth and it is well recognised nationally. I think we need similar plans for the various regions.²⁷

THE ABSENCE OF AND RESPONSIBILITY FOR AN INDUSTRY POLICY

4.13 All of these documents recognise the need to plan for future directions and needs at an individual agency level. However, they do not represent a whole of government or coordinated approach to industry development.

4.14 It is clear that the Government is lacking an industry policy which states its current and future intentions in relation to industrial development, including financial assistance. However this has not always been the case. The State has traditionally up until the early 1990's had an industry policy, administered by various government departments. In 1993 an independent commission set up to review the State's public sector finances recommended that:

...the Department of Commerce and Trade be restructured into four units including a policy development unit (created from the Policy Development Division and taking on the roles of developing industrial policy....).²⁸

4.15 Consequently, DCT is now charged with the responsibility for the development of a statewide industry policy²⁹:

Work began on the development of a major industry policy for the state. At year's end, Commerce and Trade was still co-ordinating inputs and comments from State Government agencies, as well as drafting the core policy document.³⁰

4.16 The development by DCT of a draft policy document has not been without its difficulties. Mr Bruce Sutherland in evidence told the Committee that:

The department's economic policy unit is a small unit, about eight or nine people, and it has recently taken responsibility for producing an industry policy for the State which through various successive structures, has not actually been produced.³¹

4.17 Mr Sutherland also expressed some concerns about DCT being charged with the role of developing such a policy document. He told the Committee:

We are now not really capable...of really producing an economic development policy. We believe that needs to be coordinated at a higher level and the government itself needs to look at that so that it, from a central agency perspective, can pull together an economic development policy of which we are part and a contributor, but do not have the resources or the vision these days - it is not in our vision statement to do that sort of thing.³²

²⁷ Evidence, 15/6/95, p.15

²⁸ Report of the Independent Commission to Review Public Sector Finances, *Agenda for Reform*, Volume 2, August 1993, p. 386

²⁹ DCT Annual Report 1994/95 p. 7

³⁰ *ibid.*

³¹ Evidence, 10/5/95, p.23

³² *ibid.*, p.24

- 4.18 Instead of a specific industry policy, Mr Sutherland indicated that currently the policy unit was focussing on the futures study, *WA 2029- Development Options for Western Australia*³³ in order to place some of WA's long-term opportunities into a document which will assist governments, business and the community. The study comprises three stages, with stage two having been released in January 1996. This will be further discussed shortly.

At the time of writing, the draft industry policy document had not been publicly released and the Committee is not aware of any commitment by the Government to implementing the contents of the draft document.

- 4.19 The Committee is concerned that DCT has been charged with such a responsibility, given the enormity of such a task. To charge one agency with such a task is neither practical nor responsible.

Findings

In line with the recommendations of this report, the Government should review which agency(s) should be responsible for the development of an industry policy for the State.

Recommendation 3

The Government should establish a Ministerial Taskforce to develop an industry policy.

THE ARGUMENT FOR AN INDUSTRY POLICY

- 4.20 Having established that there is an absence of a industry policy and a need for a change in the responsibilities with respect to developing one, it is also important to examine the arguments for "why the State needs such a policy?"
- 4.21 The Chamber of Commerce and Industry (CCI) released an issues paper in September 1995 that called on the Western Australian Government to develop as a matter of priority an industry policy. CCI argued, amongst other things, that such a policy would need to be sensitive to industry's requirements for growth and produce a favourable development environment.
- 4.22 The paper stated:

If Western Australia is to realise fully the potential opportunities for industrial development and maintain sustainable economic growth, the State Government needs to clearly articulate

³³ Department of Commerce and Trade, *WA 2029: Development Options for Western Australia- A Discussion Paper*, October 1993.

an industrial policy for the State. This must lead to development of a bi-partisan strategic plan which provides increased certainty for long-term investment.³⁴

- 4.23 CCI developed its argument that industry, and in particular the resource processing industry are essential for the economic well-being of the state. It strongly suggested that the necessary private investment required to ensure continued economic growth will only occur if there is a favourable long term economic environment. This environment includes the availability of appropriate skills, minimum regulatory impediments to industry, low sovereign risk and security of access to the State's abundant natural resources.³⁵
- 4.24 The issues paper identified a number of issues that needed to be addressed in the development of a policy for the State that would take the State into the new century. These issues included -
- Coordination
 - Facilitation
 - Planning
 - Gateways
 - Industrial Estates
 - Port Facilities
 - Land Backing
 - Transport Linkages
 - Energy (including Gas and Electricity)
 - Workforce
 - Population
 - Land
 - Buffer Areas
 - Water
 - Sewage
 - Waste Disposal
 - Environment
 - State Support for Industries
- 4.25 The CCI claim that the Western Australian Government has spent a total of \$1 billion on direct assistance to industry over the past five years, based on Grants Commission data. The Industry Commission in its recent draft report³⁶ based its figures on "broad approximations of assistance, arising from difficulties in defining assistance".

³⁴ Chamber of Commerce and Industry, Issues Paper - *Why Western Australia Needs an Industry Policy*, September 1995, p.1

³⁵ *ibid*

³⁶ Industry Commission Draft Report, *State, Territory and Local Government Assistance to Industry*, July 1996.

The Committee considers that the figures arising from the Grants Commission Data and the Industry Commission are misleading and differ from the approach taken by the Committee in defining assistance.³⁷

4.26 Despite this difference, the principles upon which the CCI bases its view on the need for a long-term planning approach in the form of an industry policy remain valid.

4.27 The issues paper suggested that the Government could best assist industry by establishing a favourable environment. This should be done by:

- ensuring the fiscal management is responsible and minimises the impact of taxation on business;
- ensuring that government's own business enterprises are competitive and efficient and that their pricing structures are fair;
- providing the simplest and fairest tax regime possible; and
- eliminating unnecessary and over-complex regulation and providing an appropriate, predictable and stable legislative environment.

4.28 In addition to the key issues identified by CCI, Mr Sutherland in evidence informed that an industry policy:

..would include investment attraction and any financial assistance schemes that might be there, as well as support in R& D technology and science areas.³⁸

4.29 The Committee agrees that all of these elements should be considered in the development of any industry policy. In particular, the policy should incorporate among other things strategies regarding financial assistance that is being given and is being intended to be given in the future. To reiterate comments made by the Committee in Chapter Three, *Industry should not have any cause to approach government seeking financial assistance that has not been expressly promoted as part of an industry policy.*

4.30 An industry policy would enable regular and on-going assessment by the Government of whether assistance programs were achieving the desired result. In addition, the Committee is concerned that the policy should encompass a broad range of regional considerations, which will be discussed in greater detail in the following section.

³⁷ The Grants Commission based its calculation of expenditure on a broad definition of direct assistance, including the services and activities of the Department of Agriculture which has a significant proportion of Commonwealth programs and funding. The Industry Commission calculated its figures in the absence of a "definitive classification of industry assistance". The Committee considers it inappropriate to quantify something that you cannot define. The PAERC has not attempted to quantify expenditure on financial assistance and its definition is more specific.

³⁸ Evidence, 10/5/95, p.23

Findings

The development of an industry policy will enable Government to undertake its activities within a coordinated and integrated framework. This will reduce the incidence of ad hoc programs and decisions.

An industry policy will enable any financial assistance provided to be accurately measured against identifiable objectives.

Recommendation 4

The implementation of an industry policy should be a priority for the Government and be tabled by the Premier in the Parliament at the earliest opportunity.

Considerations for an Industry Policy

- 4.31 The development of an industry policy is not without either its detractors nor its practical difficulties. Even given the necessary flexibility, there are certainly severe practical difficulties in developing long- term plans.

Regional Diversity

- 4.32 A key problem faced by any Western Australian Government is the geographical diversity of the state.
- 4.33 It is recognition of this diversity which has led to the establishment of a strong system of Regional Development Commissions and the development by some of these Commissions of their own strategic plans. The Department of Main Roads in conjunction with Local Government has also successfully implemented a series of regional road strategies as part of its *Roads 2020* program.
- 4.34 During discussions in Colorado the Committee was told that regional considerations were a high priority in the development of their five year economic strategic plan, which will be further discussed shortly.
- 4.35 An industry policy will need to be cognisant of these plans and be sympathetic to the aspirations and expectations of the regions concerned. The development of individual agency plans on a region-by-region basis, suggests that such a task at the whole of government level would not be impossible, although clearly it would be more difficult.

Finding

In developing an industry policy for the State, it is vital that comprehensive consultation be carried out with the regions. This should include considering the regional planning documents from each of the regions.

Political Continuity

- 4.36 Australia has a history of political stability unrivalled almost anywhere in the world. This is clearly an advantage for Australia as it makes investment here attractive to international companies.
- 4.37 It does, however, mean that policy continuity cannot be guaranteed over a long period. It is therefore difficult for governments to get away from planning cycles centred around periods between elections. Although there are attempts to develop five year planning cycles, it is very difficult for governments to have confidence in their ability to continue down any policy path with any certainty beyond that time. This is exemplified by the current lack of an industry policy.
- 4.38 Consequently, the Committee considers that an industry policy should not be rigid or binding. Any such policy would need to be subject to regular on-going review and it would be essential that any government would be willing and able to alter it as circumstances changed.

DETERMINING A STRATEGY FOR DELIVERING THE POLICY

- 4.39 The success of any given industry policy is dependent on the implementation of a strategy for delivering the policy. It is not sufficient to just have a policy without thought to how the policy will work in the long-term. Throughout this Chapter the Committee has emphasised the need for coordination and planning on a whole of government level. In the absence of an overall strategy, even the greatest planning documents or industry policies will not create a clear picture for industry in the future.
- 4.40 During discussions in Colorado, the Committee was told that the implementation of a five year strategic plan in 1990, provided the opportunity to coordinate and clearly articulate the state's intentions in terms of industry development. It is currently being reviewed and will be up-dated into another five year plan. The plan, incorporates the government's Smart Growth initiatives and facilitates the establishment of goals for the State. It is a whole-of-state process, involving a series of regional meetings with the intention that these goals will then form the nucleus of the strategic plan.
- 4.41 Criteria for investment attraction programs are developed in accordance with the following objectives of the Smart Growth program:
- Superior jobs
 - Education and Training relevant to established and emerging industries
 - Moderate and non-restrictive taxation and regulation
 - Infrastructure that meets the needs of business
 - Environmental management
 - Quality of community

- 4.42 On a local level the WA 2029 futures study, provides an example of an attempt to formulate long-term strategies based on a number of scenarios in the absence of an actual industry policy. According to a recent report produced in conjunction with the release of WA 2029 Stage 11:

...the release of the WA 2029 Stage 11 study offers a prime opportunity to consider strategic and integrated policy directions for this state.³⁹

- 4.43 Stage 11 also attempts to identify a number of policy challenges for consideration by Government, including analysis of the needs of industry in areas such as infrastructure and market opportunities.
- 4.44 Stage 111 the final stage involves the development of strategies to address the potential or possible opportunities and challenges. This document, if and when it is produced, will probably be the closest thing possible to a strategy for Western Australia.
- 4.45 The Committee considers that the approach being taken in the WA 2029 study is an attempt at exploring long-term strategy options for Western Australia (which includes analysis of industry needs) given the absence of an industry policy.

Findings

Strategies and future planning options for the State have been developed without the clear direction of an industry policy.

In order to deliver the policy objectives of an industry policy, a comprehensive statewide strategy needs to be developed.

Recommendation 5

The Government should develop a strategy for delivering the objectives of the stated industry policy.

Conclusion

- 4.46 The development and coordination of long-term plans for industrial development should be a high priority for the Government. While any results of such an action may not be binding on future governments, a vision for the future and a known and understood set of objectives would greatly assist potential investors as well as those who have an interest in assessing the performance of Government.

³⁹ Parkhurst, Nick and Dockery Michael, Curtin University of Western Australia, Institute for Research into International Competitiveness, Discussion Paper Series, WA 2029: *Policy Challenges for Government*, June 1996, p.1

- 4.47 Consequently, the Committee considers that the development of an industry policy would enable Government to undertake its various activities within a coordinated and integrated framework, reducing the incidence of *ad hoc* programs and decision-making. Such a policy should also incorporate regional considerations and the circumstances under which financial assistance should be given. Concurrently, consideration needs to be given to determining a strategy for delivering the policy that embraces both the present and future objective and goals for industry development.
- 4.48 The current responsibilities of DCT with respect to developing an industry policy should be reviewed in light of the DCT's stated difficulties in developing such a document.

CHAPTER FIVE

THE EFFICIENCY AND EFFECTIVENESS OF FINANCIAL ASSISTANCE: MANAGEMENT, CRITERIA AND EVALUATION

THE LEVELS AND COMPONENTS OF FINANCIAL ASSISTANCE TO INDUSTRY

- 5.1 This introductory section of the chapter identifies the relevant levels of administrative responsibility for financial assistance within government and their relationship with one another. It then defines some of the key components of financial assistance administration.

The Levels of Administration

- 5.2 The administration of financial assistance to industry operates at three levels: (Executive) government; agency; and project.
- 5.3 Satisfactory accountability at a government-wide level is not possible if the processes are not in place at the agency and project levels. The three levels of administration are interdependent in their ability to be accountable and effective.
- 5.4 At a government wide level, the administration of assistance is guided by a range of policy, legislation and key agencies. Policies include the Industry Incentives Policy and Resource Processing Incentives Policy. Legislation includes the *Technology and Industry Development Act (1983)* and the *Industry (Advances) Act (1947)*. New legislation to repeal these Acts has been considered and drafting started at the time of writing. Treasury is the agency with the most responsibility at a government-wide level for the expenditure of public monies .
- 5.5 The two most important agencies in the administration of financial assistance are the Department of Commerce and Trade (DCT) and the Department of Resources Development (DRD). The Committee briefly examines the operations of both agencies in this chapter.
- 5.6 In Chapter Four the requirement for an industry policy was analysed. An industry policy would promote the coordinated and efficient operation of industry assistance at the tactical and project levels.
- 5.7 In this regard it should be asked:
- Without effective evaluation and monitoring at the project and agency level, how can such administration at the Government wide level be adequate?
 - If a strategy and set of objectives for industry development and assistance at the Executive level is not clear, how does this affect the administration of assistance at the project or scheme level?

The Components of Administration

- 5.8 There are four process features that are critical to the effective administration of financial assistance:
- evaluation;
 - criteria;
 - monitoring; and
 - coordination.

Evaluation

- 5.9 Evaluation can take place prior to assistance being granted in order to forecast the likely benefits to the State of a project and after the assistance has been granted to try and ascertain outcomes and measure actual benefits.
- 5.10 Evaluation prior to assistance has been observed by the Committee to operate on the basis of economic modelling of the benefits of substantial Government assistance to projects with large capital establishment costs. The Project Financial Benefits model (BENE) is the primary example of this modelling, used by DRD. In this report the Committee refers to this process as one of “assessment”.

The term ‘evaluation’ is employed to refer to the process of measuring the benefits of financial assistance after the funding and establishment of the project.

- 5.11 This type of evaluation might take place at the individual project level or at a government-wide level, where the costs and benefits of the sum of financial assistance measures might be calculated.
- 5.12 The Government’s ability to determine the effectiveness of assistance is reliant on the existence of an industry policy. The inclusion of broad objectives in such a policy would assist the evaluation of achievements.

Criteria

- 5.13 Criteria are the guidelines or conditions to be met, against which applicants seeking financial assistance are assessed. Accountability demands that the criteria are applied consistently and in a clear and objective manner.

Monitoring

- 5.14 The monitoring of applicants and outstanding assistance is an essential aspect of ensuring the security of Government monies. In his review of DCT’s Industry Investment administration in 1994, the Auditor General stated that:

Effective monitoring minimises the risk of financial loss through early identification of problem investments. The periodic availability of sufficient and reliable information assists in monitoring accomplishments, making informed judgements, and planning more effective financial assistance.⁴⁰

⁴⁰ Auditor General, WA, *Administration of Aspects of Financial Assistance to Industry*, Report No.5, November 1994, p.21

- 5.15 Incremental assistance, where milestones must be reached by applicants in order to receive continued assistance, is not accountable unless ongoing monitoring of the applicant's performance is undertaken. Revision of programs and schemes and early detection of financial security risks should stem from this ongoing monitoring.

Coordination

- 5.16 Coordination of assistance packages within agencies and between agencies is an important component of the effectiveness and accountability of industry assistance. Effectiveness will be influenced by the level of cooperation within and between agencies concerning promotion of schemes. In the context of accountability, the degree to which coordinating agencies involve and commit the resources of other agencies and utilities, and the clarity of where financial assistance is coming from is important. These issues will be examined in Chapter 8, *Inter-Agency Coordination of Financial Assistance*.

THE DEPARTMENT OF COMMERCE AND TRADE

Introduction

- 5.17 The Department of Commerce and Trade (DCT) has endured more than a decade of being restructured, renamed, reviewed and debated as to the validity of its role.⁴¹ This trend has been exemplified by recent reports from the Auditor General⁴² and Consultants, Price Waterhouse Urwick and Michell Sillar McPhee.⁴³
- 5.18 The Committee's interest has been whether DCT has responded appropriately to reported shortcomings by developing the administrative and management controls to ensure that the provision of financial assistance is accountable, effective and efficient.
- 5.19 The Committee has found evidence of these improvements in the short time since the most recent reviews and performance examination in late 1994. However evidence before the Committee indicates that the Department could consider further improvements in this area.
- 5.20 On the basis of evidence, criteria and selection processes are a fundamental and contentious aspect of DCT's role. The granting and rejection of assistance funds is part of DCT's role, which regardless of how properly it is performed, has the potential to polarise attitudes.
- 5.21 The Committee has found that DCT's assessment processes and guidelines provide an adequate assurance that the financial assistance administration will act and offer advice on clear and consistent criteria.

⁴¹ The Committee has prepared an overview of some of the key organisational features and issues impacting on the Department's administration of financial assistance. Please refer to Schedule 6. It is recommended that the overview be read in conjunction with this section.

⁴² Report No.5, November 1994,

⁴³ Price Waterhouse Urwick and Michell Sillar McPhee, *Review of the Operations of the Technology and Industry Development Act 1983*, December 1994. Vol.1.

- 5.22 Continued improvement of the industry incentives criteria and process is possible. This can be achieved by deleting eligibility criteria that cannot be verified with any certainty, and adopting the Auditor General's 1994 suggestion of streamlining application processes via improved promotion and publication of eligibility criteria.
- 5.23 Evaluation of assistance was found to be an often overlooked aspect of accountability, but one which should be undertaken with as much vigour as that of proper criteria, assessment and selection processes. The Committee has found little evidence of evaluation of large grants of assistance, typically in the form of industry incentives.
- 5.24 A more thorough and meaningful evaluation of investment incentive assistance is feasible and should be undertaken. This should achieve:
- an improvement in DCT's accountability;
 - the ability to refine and alter strategy; and
 - a more informed debate over the value of DCT's role in financial assistance.
- 5.25 Underpinning this is the issue of whether or not the State provides a context for DCT to operate in and whether this is necessary. As stated in previous sections there is merit in such a context being provided by way of an industry policy. This would facilitate evaluation of the Department's financial assistance measures.

Management Controls and the Monitoring of Financial Assistance to Industry

- 5.26 In the early stages of the Inquiry a submission was received from DCT, which set out to explain the administrative structure and assistance programs of DCT.
- 5.27 The Committee's uncertainty over the structure and coordination of activities presented in the submission is consistent with some findings of both the Auditor General and the Consultants. However DCT has continued to refine this structure since submission of the document.
- 5.28 Accountability demands detailed evaluation, clear criteria and public reporting within an efficient and effective administrative structure.
- 5.29 DCT has attempted to coordinate and better manage its large number of activities via the introduction two years ago of a system called the Project Management System (PMS).
- 5.30 When the Consultants reviewed PMS in 1994, it involved the management of over 300 activities, ranging from branch administration, improvement project, industry assistance and monitoring activities. The Consultants stated that in its present form, PMS does not assist in evaluating efficiency or effectiveness.⁴⁴

⁴⁴ ibid

5.31 Mr Sutherland explained that:

This system was introduced in the last two years as a way of managing the department's work more efficiently and effectively. It required sufficient upgrading of the department's computing resources to bring in not only the man hours of the individuals concerned, but also the financial resources which are committed to the project When the report was written that linkage had not been made, but it is being made progressively now.⁴⁵

5.32 Mr Sutherland said that over 300 projects within the department are covered by the project management system to improve the efficiency and effectiveness of DCT's resource utilisation.

5.33 There is some cause for concern however, that successive restructures and strategic shifts over the last decade have left DCT with a stockpile of responsibilities and activities, which inhibit effective and accountable administration. The then Assistant Auditor General, Dr. Gordon Robertson, commenting on the review of Industry Attraction, explained that:

What we did note was that there were a large number of programs and that the department had difficulty in determining whether those programs had been effective in terms of the broad policy objectives that it had in place.⁴⁶

Finding

Successive restructures and strategic shifts over the last decade have left DCT with a stockpile of responsibilities and activities, which hinder effective, accountable and coordinated administration.

Auditor General

5.34 In its review of DCT operations the Consultants concluded that it should be the responsibility of the DCT to monitor the assistance process. The Auditor General similarly identified this as a critical aspect of the coordination of financial assistance:

Too often in the past we have had too much segregation of duties so that one person approves it, someone else pays it and somebody else follows it up⁴⁷

5.35 One of the major findings of the Auditor General's report was that there was a lack of documented evidence of ongoing monitoring activity by DCT of projects receiving assistance.

5.36 Both the Consultants and the Auditor General acknowledge that DCT has taken steps to try and improve this administrative performance. The Committee also qualifies its observations by acknowledging this.

Other States

⁴⁵ Evidence, 9/8/95, p.3

⁴⁶ Evidence, 12/4/95, p.2

⁴⁷ Evidence, 12/4/95, p.14

- 5.37 By way of comparison, in 1989 the Victorian Auditor-General's Office examined the performance of the Victorian Economic Development Corporation (VEDC) and Department of Industry Technology and Resources.⁴⁸
- 5.38 The report's major findings were that not only assessment of applicants, but ongoing monitoring of applicants was dangerously inadequate. With a background of these findings and the associated loss of public monies by the VEDC, the Victorian Auditor-General's review of the operations of the Department of Business and Employment in 1995, identified the corrective measures now in place.
- 5.39 Some of the more significant aspects of the Department's management controls included:
- more selective criteria, underpinned by and directed by an industry policy. The criteria requires applicants to be financially viable and for soundly based projections of net economic benefits accruing to the State;
 - an assessment of financial risk and viability of the applicant by a Departmental evaluation group, who are independent of the project officer handling the application;
 - the use of formal agreements, varying from project to project, which specify the obligations of recipients of assistance;
 - the use of periodic payments from the Department, linked to milestones being achieved by recipients; and
 - on-going monitoring via the Department's obligation to make site visits and physically verify projects and the extent of achievement of projected economic benefits.⁴⁹
- 5.40 In Western Australia, DCT was found to have 'administrative weaknesses' by the Auditor-General in his 1994 report. These weaknesses in management controls included:
- inadequate commercial and financial assessment of some projects;
 - inconsistent assessment of applications;
 - a lack of systematic monitoring and reporting of assistance packages; and
 - delays in commencing loan recovery and write-off action.⁵⁰
- 5.41 However, given the introduction of the IIP on 21 November 1994, and the increasing use of performance indicators, there is much to suggest that management controls are increasingly comparable to those adjudged as appropriate in Victoria.

⁴⁸ Special Report No. 11, March 1989

⁴⁹ Special Report No. 37, October, 1995

⁵⁰ Report No. 5, November 1994, p.3

- 5.42 An element of control is the requirement for Cabinet or Ministerial approval for large assistance grants. In Victoria, only those assistance proposals in excess of \$5m require approval by a Ministerial council, consisting of Premier, Treasury, Business and Employment and related ministries. Below this figure only Ministerial approval is required.
- 5.43 South Australia's *Industries Development Act, 1941* establishes a Parliamentary Committee, called the Industries Development Committee with Government and Opposition member representation. Projects seeking \$200,000 and proposed to be funded by the State's Economic Development Program are referred to this Committee. This will be further discussed in Chapter 7.

Executive Controls

- 5.44 During the term of the current Government in Western Australia, Cabinet approval has typically been sought for assistance packages involving amounts as low as \$50,000 to \$100,000. There is no strict requirement for this process.
- 5.45 The consistent application of this process can be ensured with the introduction of a documented policy setting out the requirement that assistance packages be submitted for Cabinet approval or rejection.

Recommendation 6

The Government should adopt and publish a policy identifying the amount at which financial assistance packages are required to be submitted to Cabinet for approval.

Parliamentary Controls

- 5.46 The Minister for Commerce and Trade, the Hon. Hendy Cowan, MLA, has put before Parliament a proposal that packages over \$2m be submitted for Parliamentary approval or rejection.⁵¹ The Minister left the House to recommend the form the review and decision making process should take.
- 5.47 It is important to note that a threshold of \$2m would have translated into only three assistance packages being submitted to Parliament in the last two years to the end of the 1995/96 financial year.⁵² There is consequently only limited value in this procedure, although it must be recognised that the Minister's proposal is one that relinquishes some executive power back to the Parliament.

⁵¹ *Hansard*, 29/6/95, Ministerial Statement, Minister for Commerce and Trade, p.6377

⁵² On the basis of "cash out" from DCT's budget, the three packages were for Coflexip, ERG Limited and Albany Woollen Mills / Nobel Group

- 5.48 The procedure is also one involving the approval of Parliament for financial assistance and in this sense it asks the Parliament to take on an administrative decision making role, rather than a legislative or review role.
- 5.49 The major role for Parliament in financial assistance to industry is one of ensuring accountability and effective review. To this end a role for a Parliamentary Committee in reviewing packages of a significant, but more common size should be adopted. This theme is discussed in Chapter 7 'Accountability - The role of Parliament', where the Committee examines the use of a standing committee to oversight financial assistance. Packages in excess of \$2 million which would otherwise be held up by a non-sitting period of Parliament could be submitted to such a committee to avoid delay.

Finding

There is scope for a more thorough scrutiny of packages being conducted by a Parliamentary Standing Committee (refer to Chapter 7).

Recommendation 7

- (a) **Financial assistance packages involving amounts of \$2million or more should be submitted to Parliament before approval can be granted by the Cabinet.**
- (b) **When the Parliament is not sitting, financial assistance packages requiring Parliamentary scrutiny should be submitted to the Public Accounts and Expenditure Review Committee.**

Equity Investments

- 5.50 In DCT's 1994-95 Annual Report, the Department reported on the redemption of an investment of units held in a company and the writing off of the remaining balance of \$150,000 in equity investment.⁵³
- 5.51 One of the recommendations of the Consultants reviewing the *Technology and Industry Development Act, 1983* (TIDA), was for DCT, through the Minister, to have the power to invest in companies.

⁵³ Annual Report, 1994-95, p.50

- 5.52 The current Act was found to be ambiguous with no express provision allowing the Minister or DCT officers to become officers or shareholders of a company. The Consultants' Report provides little rationale for giving the Department such powers, except to argue that:

in view of the general and broad powers and functions contained in the TIDA it is intended that the Department should be able to undertake a range of activities of a commercial nature and to provide security for its support, including investing in companies.⁵⁴

- 5.53 In contrast to this statement it can be argued that in most cases the security of DCT support given to an assistance applicant is best served by the consistent application of proper assessment criteria, such as the IIP and assessing the benefit of a project to the whole State.

- 5.54 CCI documented a range of principles for industry support in a submission to the Committee, which warned that:

Sometimes, a proper concern to advance the interests of industry can become an improperly close relationship between public servants and businesses receiving assistance.⁵⁵

- 5.55 Whilst it might be argued that equity investments enable DCT to monitor the project, there is a danger that DCT's overall management controls could be compromised by inadequate and limited control at the project management level.
- 5.56 Direct government involvement in business by way of equity investment causes conflict of interest and skews the criteria that governments should use in assessing the provision of assistance to industry.

Recommendation 8

The role and powers of the Department of Commerce and Trade and any other State Government agency should prohibit the use of equity investments as a form of financial assistance to industry.

Criteria

- 5.57 Criteria are the guidelines or conditions to be met, in the assessment and approval of applications for financial assistance to industry. The Auditor General has stressed the importance of both this assessment process and the legislative framework for industry assistance to the achievement of acceptable standards of accountability.

⁵⁴ Price Waterhouse Urwick, Vol 1, December 1994, p.99

⁵⁵ Chamber of Commerce and Industry, Western Australia, Submission, 31 May 1995, p.13

- 5.58 Acceptable standards of accountability require clear and consistent criteria. In this section the Committee will discuss the relevance of the assessment criteria used to attract international and interstate projects.

The Industry Incentives Policy (IIP)

- 5.59 The Western Australian Government's IIP provide a set of guidelines or criteria to be met by applicants for investment incentive assistance. The criteria include the requirements for projects to:

- relate to the establishment of a new industry;
- demonstrate that they will not proceed unless incentives are provided;
- demonstrate significant net economic benefits to the State, where the public rate of return is higher than the internal rate of return;
- not result in an unfair competitive advantage over existing companies in the State;
- have a capital establishment cost of \$2.5m, with appropriate debt to equity ratio funding;
- prove long term commercial viability; and
- be in the manufacturing or services sector, with an export or import replacement orientation.

- 5.60 In Victoria assistance applicants are subject to the following criteria by the Department of Business and Employment:

- the attraction of major new investment which otherwise would not occur in Victoria;
- identification of projects offering significant net economic benefits to Victoria, particularly in terms of export growth, import substitution and increased employment;
- emphasis to proposed investments in key trade-exposed industry sectors;
- a strict requirement that applicants be assessed as financially viable; and
- demonstration by applicants of a commitment to achieving "world best practice" in their industry to enhance the likelihood that approved projects will add to the world competitiveness of Victoria's industry base.

- 5.61 The assistance available to applicants in Victoria may be in the form of direct grants or non-financial services, such as assistance with site selection or fast tracking of regulatory approvals. No loans are provided by the program.⁵⁶

⁵⁶ Victorian Auditor-General, *Special Report No. 37*, October 1995, p.31

5.62 Western Australia's IIP also compares favourably with Queensland's *Major Project Incentives Scheme*.⁵⁷ The scheme has a similar target market to the IIP, but includes particular reference to tourism projects. Other key eligibility criteria includes:

- The project must be demonstrated by the proponent(s) as being commercially viable.
- The project must provide, in net terms, positive economic and financial(budgetary) impacts to the State.
- The project will be assessed having regard to its potential for job creation and investment. Initial capital investment of \$2.5 million and/or creation in the vicinity of 25 permanent additional jobs will be used as a guide

5.63 In the Consultants' Review of the *TIDA 1983 (WA)* in Western Australia, it was acknowledged that:

There is general agreement both within the Department and the marketplace that the notion of government "picking winners" is defunct, due to a lack of evidence that success flows from this approach". The current stance recognises that winners pick themselves, and the identified role of government, discharged through the Department's programs, is to "hold the door open" and encourage winners to "come in".⁵⁸

5.64 The 1980's witnessed a spate of "picking losers" that characterized not only Western Australian industry assistance and Victorian financial and lending practices, but governments and financial institutions world wide. This was largely due to a lack of process and accountability.

5.65 The introduction of the IIP and assessment processes suggests that Western Australia is now more conscious of the need for accountability.

5.66 The Auditor General found that the IIP criteria had been consistently applied in the short time they were in place prior to the 1994 performance examination. It was noted however:

...that these criteria are referred to as "guideline" criteria within DCT. The use of "guideline" criteria can cause inconsistent assessment of applications and may lead to confusion by applicants on why their applications were approved or rejected, Normally a distinction is made between "guideline" and "essential criteria", to assure a clear, common understanding of their extent and to minimise the occurrence of inequity.⁵⁹

5.67 The Committee believes that DCT should refer to IIP criteria as "essential criteria" in the sense that it must be applied to all applications for assistance and all criteria must be satisfied before approval can be recommended.

⁵⁷ Department of Business, Industry and Regional Development, Queensland, Policy first introduced in 1989/90.

⁵⁸ Price Waterhouse Urwick, December 1994, Vol 1, p.55

⁵⁹ Report No.5, November, 1994, p.18

Findings

Once a financial assistance scheme or policy is established that assistance must be applied on a consistent basis.

Assistance must only be granted in accordance with the stated and published criteria.

Recommendation 9

The Industry Incentives Policy criteria should be referred to as “essential criteria”, consistent with the recommendation of the Auditor General’s Report No.5, November, 1994.

All criteria should be satisfied before any organisation is granted or offered financial assistance.

The Objectivity of Criteria

5.68 In the Consultants review of the Department’s operations in 1994, three questions were identified as being fundamental to whether assistance is justified in any particular instance:

- Would the company succeed/come to Western Australia anyway?
- Is there a net economic benefit to the State derived from the assistance ?; and if so
- What is the best way to provide assistance (within the financial range between zero dollars and the forecast net economic return to the State)?⁶⁰

5.69 The question of whether or not a company would come to the State without assistance was found by the Consultants to be almost always posed in the debate, despite the fact that it cannot be answered with any degree of confidence, even in hindsight.

5.70 Treasury also indicated that there was really no way of truly knowing whether or not a company required a given level of assistance to make the decision to locate in WA. Acting Assistant Under Treasurer, Mr Neil Brown explained that:

What we are looking at often, is the question of looking at incentives for projects to come to the State and the question is will they go to some other State or some other country.

⁶⁰ Price Waterhouse Urwick, December 1994, Vol 1, p.56

An assessment of that need is often very difficult in terms of information we can get from the companies.⁶¹

- 5.71 In terms of social benefits Treasury look at factors, such as what sort of employment benefits there are and what direct revenue benefits there are for the State ie royalties.
- 5.72 Mr Brown identified a lack of clear direction in the assessment of the benefits and priorities of attracting different industries. The distinction between a manufacturing plant being able to locate in a vast number of world locations in comparison with the rare opportunity offered by WA to a relevant mining project was said to be inadequate.⁶²
- 5.73 Mr Brown used the example of a mineral project's claims that it could be more competitive in Brazil, and would need assistance to achieve the same competitiveness in WA. Treasury believed this analysis to be problematic, and ultimately assessment could only be on the basis of the net benefits to the State of the project being determined.
- 5.74 In Queensland, the *Major Project Incentives Scheme* does not include a stated eligibility criteria determining whether or not the project would proceed without assistance. Rather, this is a consideration in the overall cost benefit analysis of the State's need for the project.
- 5.75 Determining the net economic benefit to the State is a superior form of assessment to that based on whether or not the company would relocate without the incentive.
- 5.76 The threat of relocation to another country or state by a project is not proper criterion to be used by DCT when deciding whether to assist the project. Relocation can provide a project proponent with an argument of convenience that cannot be verified by Government.
- 5.77 Consequently bidding wars can be fuelled, which DCT has sought to stay out of by way of a ministerially determined policy that there are no second bids to be entered into.⁶³
- 5.78 With more meaningful and verifiable criteria available and being employed by the Department, the factor of the threat of location to another state or country, could be dismissed.

⁶¹ Evidence, 10/5/95, p.9

⁶² Evidence, 10/5/95, p.9

⁶³ Evidence, 9/8/95, p.6

Recommendation 10

The threat of locating to another state or country should not be considered a valid reason for granting financial assistance.

Recommendation 11

The key factor in determining whether financial assistance should be provided, is the degree to which that financial assistance will return a net economic benefit to the State.

The net economic benefit should be accurately measured prior to financial assistance being offered or granted.

Assessment and Selection Processes

5.79 The Consultants reported that a survey of DCT's clients raised criticisms centred around:

- complicated application and selection procedures;
- the financial cost of making an application;
- the lack of transparency of selection criteria; and
- the perceived "ad hoc" nature of selection decisions.

5.80 The review pointed out that voluntary responses to the survey were more likely to flow from discontented clients or unsuccessful applicants of DCT. The comments were not inconsistent with those received by other agencies involved in assistance programs. In part the Consultants concluded that:

Concerns about the lack of transparent selection criteria could be addressed by more extensive publication of the criteria, both at the macro and micro level.⁶⁴

5.81 The Auditor General agreed that promotion and criteria for industry assistance should be transparent. In the course of his review the Auditor General observed that:

In certain cases promotion materials contain inadequate information on aspects of financial assistance such as program objectives...eligibility criteria, assessment and approval process, procedural time frames and levels of funding available.⁶⁵

5.82 In evidence to the Committee DCT Chief Executive, Mr Bruce Sutherland disagreed with the Auditor General that promotion of assistance needs to be more specific. DCT was of the view that articulating specific guidelines and eligibility criteria initially will

⁶⁴ Price Waterhouse Urwick, Vol 1, December 1994, p.63

⁶⁵ Report No.5, November 1994, p.15

put projects off. It was described as preferable for the company to inquire and or apply and then to be rejected or accepted by DCT⁶⁶.

- 5.83 A lack of specific published criteria may confuse project proponents. There should not be an assumption that potential applicants have a clear understanding of the assistance process and where they should be directing inquiries.
- 5.84 The Committee heard evidence from Project Manager, Mr Dudley Kingsnorth, who highlighted the confusion that can come from a lack of upfront promotion and coordination of assistance.
- 5.85 When questioned as to which agency the project should have been seeking assistance from, given the conflicting advice it received from DCT and DRD, Mr Kingsnorth replied:

It is unclear to me but from Ashton's point of view I would go to whoever will give it to me. It suits me not to know because if it was DRD I have got a problem. If the Department of Commerce and Trade will give it to us then I will go to the Department of Commerce and Trade but from a taxpayers' point of view there has to be some clear lines.⁶⁷

- 5.86 There is a likelihood that without proper promotion of schemes and publication of eligibility criteria, many project proponents of Ashton's size or smaller, are going to be confused as to where they should be making applications and whether they are eligible to be considered in the first place.
- 5.87 The Auditor General's opinion is that this is an inefficient process, which will cause DCT to consider many unnecessary applications and inquiries over a range of schemes.
- 5.88 The criteria for any assistance scheme needs to be clearly stated and strictly adhered to. Open communication between DCT and industry would assist potential applicants *in having* confidence in the system.

The Expeditious Processing of Applications for Assistance

- 5.89 The Auditor General's concerns, raise the issue of the efficiency and expeditious nature with which applications are processed. In an increasingly dynamic business environment, the speed with which DCT can properly assess an applicant, is a factor in its effectiveness.

Finding

Comprehensive published criteria are essential for financial assistance schemes.

⁶⁶ Evidence, 10/5/95, p.29

⁶⁷ Evidence, 29/3/95, p.10

Evaluation

Introduction

5.90 Evaluation of individual grants is the least satisfactory aspect of DCT's administration of financial assistance. Whilst the benefits to the State of an assistance package may be forecast, evidence of monitoring the actual outcome and these benefits after establishment and operation is lacking.

5.91 Evaluation of individual grants of financial assistance and of overall program performance in areas of industry assistance is fundamental to accountability. Then Assistant Auditor General, Dr. Gordon Robertson endorsed this basic principle, with reference to DCT:

There is a very definite role for the department to go out there and promote what it has chosen to be its strategies, but there is an equally important role for the department then to evaluate its strategies and see if they are achieving what they were intended to achieve.⁶⁸

5.92 In this section the term evaluation refers to the process of measuring the impact of assistance that has been granted, some time during and / or after the project's establishment.

The Extent of Evaluation of Financial Assistance

5.93 Evaluation of the net benefits to the state of financial assistance is the missing link in the chain of accountability of assistance programs.

5.94 The Auditor General's 1994 examination of industry attraction schemes did not include an evaluation of the success or failure of individual grants. However, it did examine whether DCT had considered the intention of the grant and whether any evaluation had taken place of what was achieved by the assistance. Whilst the examination was able to determine where DCT funds had gone and for what purpose the funds were being applied, the Auditor General found no overall evaluations of the value of the assistance to the State. The Auditor General stated:

Periodic evaluation to assess the effectiveness of financial assistance programs, schemes and arrangements was absent.⁶⁹

5.95 An assessment of the value for money of the Industry Incentives Program is fundamental to the accountability of the State's financial assistance to industry.

5.96 Despite a large grants expenditure reduction in 1995-96, investment incentives remain an essential part of the Department's strategy for industry development and assistance.

⁶⁸ Evidence, 12/4/95, p.13

⁶⁹ Report No.5, November 1994, p.23

Program Statements for 1996-97 report an estimated grants expenditure for industry incentives of \$6.61 million.⁷⁰

- 5.97 Agencies are required to report evaluations of programs conducted and proposed in the annual program statements. DCT has proposed a review of its Industry Incentives in 1995-96. The review is intended to provide an assessment of the value of the program, including exposure to risk and the efficiency of programs. The adequacy of the program's processes is also to be reviewed. Cost benefit analysis of seven projects, which have received incentives is to be undertaken by management consultants from Deloitte Touche Tohmatsu.⁷¹
- 5.98 CCI identified the existence of government cost benefit analysis models but argued that they are rarely applied or are applied inconsistently. It argued that whilst the recipient business will be happy and benefit from the financial assistance, there is no proof that there is a net benefit to the State economy, particularly as the assistance is funded by the collection of taxes from businesses and others.⁷²
- 5.99 CCI Chief Economist, Nicola Cusworth did not believe the State had in place the mechanism to know what net benefit was derived from financial assistance to industry granted by the State Government.
- 5.100 Assistance schemes should never become ends in themselves. The danger in not evaluating programs is that they may stockpile. Dr Mike Nahan claimed that:
- There is not a rational assessment of each project and each type of assistance...they are funded from year to year and they sit there.⁷³
- 5.101 The development of an industry policy would clarify the objectives against which the effectiveness of assistance can be evaluated.
- 5.102 It was argued by the Auditor General that assistance to industry should be focused on providing some economic gain to the state and should consider social factors, such as employment.
- 5.103 Mr Sutherland indicated that the need for a more meaningful form of evaluation had been recognised and acted upon. He explained that employment effects had been subordinate to capital investment measures of new projects being assessed for assistance. He further said that the Government accepted that the Treasury, DCT and

⁷⁰ Program Statements, 1996-97, Volume 1, Division 12, page 4

⁷¹ At the time that 1996-97 Program Statements were being prepared this evaluation was still underway, Volume 1, Division 12, p.19

⁷² Evidence, 22/6/95, p.3

⁷³ Evidence 17/5/95, p.5

DRD were the main players and that their development of the BENE model now took account of these employment factors.⁷⁴

The Feasibility of Evaluation

5.104 DCT expressed the view that evaluating assistance at the macro and micro levels was not always possible, for reasons such as the amount of assistance, the size of the applicant and time lags in evaluation. The Committee acknowledges these factors.

5.105 DCT was questioned on its statement that it is very difficult to measure the impact of assistance to projects that have a capital establishment cost of less than \$2.5m.

5.106 Mr Sutherland explained that incentives under the industry attraction scheme are only available to projects with a capital establishment cost of \$2.5m because:

There needs to be some way we can measure some impact of the investment. If it is much less than that it gets very difficult to measure.⁷⁵

He went on to explain that to be eligible for assistance the industry must be new to Western Australia and therefore must require more than \$2.5 million.

5.107 DCT Manager, Mr Ross Weaver, responded that the difficulty with smaller businesses is that they fall below payroll tax thresholds and other levels of legitimate measurement tied to state revenues.

5.108 The cost of measurement was also identified as a factor in DCT's decision to evaluate financial assistance. Many of these mid size and smaller businesses do not have the information systems required to provide the information for DCT to measure impact.

5.109 Given DCT's statements that its activities are firmly concentrated on the small to medium sized business sector, the feasibility of evaluation was raised as an issue. Mr Sutherland stated that:

Efforts are being made to survey the smaller and medium enterprises. Usually they are beneficiaries of investment attraction and support funding to provide them with business and design plans. They are all assessed by a private sector consultant in regard to what the service that was provided did for their business....a year or two later they are able to tell us as best they can. They find that difficult because markets change and there are other external variables so we get a very subjective assessment of what they think the service has done for them, and that is surveyed and reported, and we find out whether they have increased their employment or it has been of assistance to expand their production.⁷⁶

5.110 Much of this information is reported as the Department's Performance Indicators in the Annual Report.

⁷⁴ Evidence, 10/5/95, pp.28-29

⁷⁵ Evidence, 10/5/95, p.32

⁷⁶ Evidence, 9/8/95, pp.15-16

- 5.111 Given that the companies that typically receive investment incentives are new to the State and have capital establishment costs well in excess of \$2.5m, there is a realistic potential for evaluating these large projects.
- 5.112 In Victoria the Auditor General was able to aggregate the *expected* economic benefits from financial assistance packages as part of the examination of the Department of Business and Employment's administration of industry assistance. Expected economic benefits were categorised under three headings:
- additional investment;
 - export growth; and
 - increased employment.⁷⁷
- 5.113 With similar targets in place for major incentive packages, DCT should have a base of expected benefits against which an attempt to evaluate actual outcomes could be made.
- 5.114 This potential is enhanced by DCT's use of milestones, which must be met by companies and are monitored by its officers in order for assistance to be fulfilled. The achievement of milestones involving investment and employment targets could assist the evaluation of actual outcomes of projects on a case by case basis and then on an aggregate basis, without excessive cost and workload implications.
- 5.115 The Committee acknowledges the difficulties in achieving an efficient and accurate measure of benefits, but believes that the process is fundamental to DCT's accountability and effectiveness and should be undertaken.

Findings

All financial assistance packages must only be granted for a clearly defined period.

All schemes and packages require the inclusion of a monitoring and evaluation process.

Recommendation 12

Prior to financial assistance being offered or granted, a method of evaluating the effectiveness of each financial assistance package should be built into the agreement with the proponent.

Business Attitudes to DCT

- 5.116 Consultants reviewing the DCT's performance and perception by the business community in 1994 found that attitudes were polarised. They reported that the CCI

⁷⁷ Special Report No.37, October 1995, p.44

continues to call for the Department of Commerce and Trade, to withdraw from many of the areas of activity in which it is involved (and).....have been scathing of what they regard as the State's previous attempts to "pick winners", and what they perceived to be its clear failure to do so.⁷⁸

5.117 Dr Mike Nahan, outlined the ambivalence of the business sector towards DCT.

I have never come across a jurisdiction where the client base of an agency is so against the agency.⁷⁹

5.118 The CCI's argument that DCT has no beneficial role to play and the Consultant's identification of a polarisation of views, was rebutted by Mr Sutherland who claimed that:

...the demand for our services continues to grow from the very companies which the CCI says do not need our services, and we cannot meet that demand.⁸⁰

5.119 Whilst much of the department's promotional and administrative concentration is on the small to medium sized businesses, a disproportionately larger amount of the financial assistance funds are directed to bigger organisations via industry incentives. Many of these bigger organisations are interstate or overseas concerns, which may further exacerbate the tension and divide between DCT's role with smaller businesses and assistance of larger organisations.

5.120 At least once every second year DCT's annual report should include the results of evaluation of industry incentives funding. This could be published in conjunction with DCT's performance indicators.

5.121 These results could be aggregated and expressed in terms of the impact on:

- employment;
- value adding;
- regional development;
- export and import replacement growth;
- State Government revenue impact;
- workforce skills development;
- technology transfer; and
- any other relevant externalities or social factors.

5.122 DCT should include in this reporting how the results stand in the context of the objectives of the recommended State Industry Policy. The relevant objectives should be included in DCT's annual report as performance indicators. Any industry incentives assistance provided should be measured against those indicators and reported in the annual report.

5.123 These measures would further improve the Department's accountability and provide a more informed debate and review of its role.

⁷⁸ Price Waterhouse Urwick, December 1994, Vol 1, p.54

⁷⁹ Evidence, 17/5/95, p.6

⁸⁰ Evidence, 9/8/95, p.16

Findings

Improvement has been made with evaluation of outcomes of some financial assistance funding.

Further efforts are required to achieve better accountability.

A more informed debate is required, regarding the value of financial assistance programs, particularly in relation to large industry incentive funding.

A more thorough analysis and evaluation of industry incentives is required.

Aggregating the results of financial assistance evaluations will enable the performance of schemes to be measured against the Government's industry policy objectives.

Recommendation 13

The net benefits of all financial assistance packages should be reported to Parliament annually.

Conclusion

- 5.124 Key features of the administration of financial assistance in DCT have stood out as being central to the Committee's inquiry. These are the criteria and selection processes that are in place to ensure that moneys are granted in an effective, efficient and secure manner and the extent of evaluation of outcomes of financial assistance.
- 5.125 DCT's criteria, assessment and selection processes have been improved upon in the last two years and reflect an awareness within the Department that it must not only function effectively, but be seen to be accountable.
- 5.126 The clear shortcoming in DCT's administration, identified by the Committee, has been the lack of evaluation of outcomes of financial assistance.
- 5.127 The improved administrative processes adopted by DCT have been recognised. They indicate to the Committee that DCT is cognisant of the need to respond, review and improve standards of accountability.

DEPARTMENT OF RESOURCES DEVELOPMENT

- 5.128 The Department of Resources Development (DRD), as the responsible agency for implementing resource development strategies, is the first point of contact, on behalf of the State government for potential resource developers. This role is encapsulated in its mission statement which is: *to plan, promote and coordinate the responsible development of the State's resources for the benefit of all Western Australians.* In

fulfilling this mission DRD's major role is one of a "coordinator", which will be further explored in Chapter Eight.

5.129 Part of this role includes helping create a climate conducive to business investment in the resources sector. This involves the provision of some incentives to attract major resource processors. Specific policy guidelines (refer to schedule 7) provide for the provision of such incentives and assistance in accordance with set eligibility criteria.

5.130 In this section the Committee is primarily interested in:

- DRD's administrative responsibilities and controls in relation to the provision of financial assistance; and
- Whether the assistance guidelines are clear, concise and promote accountability.

Background and Administrative Responsibility

5.131 The Committee was told by DRD that it did not have a regular budget each year which was devoted to supporting industries, nor did it have a regular program of funding for incentives to industry. This is qualified by the Resource Processing Incentives Policy guidelines which state that funding is by way of supplementary budgetary allocations.

5.132 Notwithstanding the above comments, the Committee recognises that DRD does have the power to affect project facilitation by negotiation with key agencies. This may mean that responsibility for funding is passed onto the given agency by DRD. Evidence given to the Committee by the Western Power Corporation questioned past pressures placed on agencies to lower prices and charges to "get a project off the ground":

The problem of course is that DRD have no accountability on their balance sheet at all, or on their expenditure estimates, for doing that. It is usually by pressure through channels and obviously the influence they wield in government that they are able to put pressure on governments.⁸¹

5.133 An extension of the argument by Western Power was that once established, the project was expected to continue as a client of the agency ie Western Power, a relationship which could become strained because of the influence exerted over the agency by DRD or in some instances DCT.

5.134 Conversely, Main Roads Commissioner, Dr Ken Michael argued that rather than resenting the role of DRD in cost sharing arrangements and Main Roads' own role in industry assistance the process was viewed by them as:

.... a means by which we, in turn, contribute to the infrastructure as well...an opportunity in advancing some of works that we would desirable like to see happen....hence the contribution.⁸²

5.135 Given the commercialisation of the energy sector and the more recent restructuring of the Water Authority into three entities the ability for DRD to negotiate lower prices and charges has diminished.

⁸¹ Evidence, 14/6/96, p.8

⁸² Evidence, 15/6/95, p.2

This will be further expanded on in Chapter Eight.

Agreement Acts

5.136 Agreement Acts are non-compulsory Agreements which can be negotiated between Government and the developer. The Agreements, which are ratified by Parliament, set down the obligations of both parties throughout the life of a significant project.

5.137 DRD informed the Committee that special incentives were sometimes included in Agreement Acts, which are administered by DRD, but "are the exception rather than the rule".

5.138 DRD's CEO, Dr Des Kelly, in evidence said:

I should emphasise that we only get involved in the major projects in the State and that these usually require an agreement to be negotiated, which covers a whole range of things, and part of those things are these incentives or assistance. To a certain extent the additional obligations that we put on companies under the agreements on the one hand are offset to a certain extent by the incentives that we given them on the other.⁸³

5.139 The Committee accepts that Agreement Acts do provide a certainty that may be of value to some potential investors. However, there are certain features of them that are of concern.

5.140 Firstly, the time limits placed on the provision of financial assistance within Agreements vary according to the nature of the assistance granted, e.g., stamp duty exemptions. However, it can be argued that the time limit for the assistance is not always distinguishable from the life of the Agreement. Accordingly, the Committee considers that all Agreement Acts that include the provision of government financial assistance should clearly stipulate time limits for the life of that assistance within the stated term of the agreement.

5.141 Secondly, there is a tendency for Agreements to be between the State and the project proponents, alone, with little or not input from other affected parties, particularly local authorities. This is despite the fact that under the terms of Agreements Acts, it is quite common for the cost imposition of the Agreement to fall on the local authority, not on the State itself. For example, during the hearings, Dr Kelly confirmed that Agreement Acts confined the valuation of land for rating purposes to the unimproved value, which had a direct adverse impact on (the revenue of) local government.⁸⁴

5.142 In the Committee's view, it is unacceptable that an Agreement Act should impose a cost on any group not a party to the agreement. If there is going to be a cost on a local authority, then that authority should be involved in the agreement.

5.143 If, as a result of the terms of any State Agreement, a local authority suffers a revenue loss, or is required to forego income, the State should give consideration to compensating that local authority.

⁸³ Evidence, 24/4/94, p. 3.

⁸⁴ Evidence, 21/9/96, p. 14

Recommendation 14

- (a) The transparency and accountability measures detailed elsewhere in the Report should apply to the Agreement Act.**
- (b) All Agreement Acts should stipulate a time limit for the life of any government financial assistance and the amount of financial assistance, including revenue foregone.**
- (c) If, as a result of the terms of any State Agreement, a local authority suffers a revenue loss, or is required to forego income, the State should give consideration to compensating that local authority.**

Appropriateness of and Justification for Incentives

5.144 Nevertheless, DRD informed the Committee that special incentives were sometimes included in Agreement Acts, which are administered by DRD but “are the exception rather than the rule”.

5.145 DRD’s CEO, Dr Des Kelly in evidence said:

I should emphasise that we only get involved in the major projects in the State and that these usually require an agreement to be negotiated, which covers a whole range of things, and part of those things are these incentives or assistance. To a certain extent the additional obligations that we put on companies under the agreements on the one hand are offset to a certain extent by the incentives that we give them on the other.⁸⁵

5.146 In terms of the appropriateness of Government incentives, DRD in its submission to the inquiry described its position in the following statement:

It is recognised that the State’s first priority must be to get the investment climate right but that there may be instances where this is not enough to attract an industry which would yield substantial benefits for the people of the State. In such cases Government incentives are considered appropriate.⁸⁶

5.147 In terms of justifying the provision of incentives in some instances, Dr Kelly commented in evidence that:

I think with regard to the major companies, the major reason for doing it is to capture resources projects in Western Australia that can easily go elsewhere. That is the main reason it is done and we do get confronted with this many times and sometimes we are successful in being able to attract them to Western Australia because it is economic to come here and the incentive given just tips the scales.⁸⁷

⁸⁵ Evidence, 24/4/95, p.3

⁸⁶ Evidence, 24/4/95, p.7

⁸⁷ *ibid*, p.7

- 5.148 To provide a context for DRD's utilisation of financial incentives, an examination is required of the origins of the policy guidelines which provide the platform and framework for the provision of incentives and assistance.

Policy Guidelines

- 5.149 The Resource Processing Incentives Policy (RPIP) and the Resource and Resource Processing Assistance Policy (RRPAP) guidelines provide a formalised context for a number of procedures previously carried out without such a formalised framework. The Incentives Policy is also consistent with the Government's IIP Guidelines.

- 5.150 The following extract from the RPIP guidelines explains the rationale behind the appropriateness of the various forms of incentives:

The particular requirements of the project, as well as the need to provide incentives in an efficient, fair, accountable and administratively simple manner, will be taken into account when determining the most appropriate form of incentives to take.⁸⁸

- 5.151 Although both policies incorporate elements of government support, they are different in their objectives. The RPIP objective is to: *"attract major new resources processing industries to Western Australia that will deliver net benefits to the state"* and is only available for new projects.

- 5.152 Conversely, the RRPAP objective is to: *"provide support to resources and resource processing projects experiencing temporary difficulties but which can demonstrate long term viability"*. Assistance is offered in forms such as royalty relief and royalty rebates on a strictly short term basis.

- 5.153 Administratively, DRD is responsible for the assessment processes and liaison with the company. With regard to costing the incentive packages, Dr Kelly said:

...there is no talking across the table with the company saying, "That particular incentive is worth so much money", but within the department we, in conjunction with the Treasury and mines and other, are doing an assessment of the total incentive package, then an estimated value is put upon that.⁸⁹

- 5.154 All packages are required to be submitted to an interdepartmental committee for its recommendations to Cabinet. Requests and assessment of short-term assistance are not confined solely to DRD. An intergovernmental team negotiates with the company and recommends the appropriate assistance package to Cabinet.

- 5.155 In the following sections the Committee will examine:

- the appropriateness of the processes in which applicants are assessed against eligibility criteria to determine whether assistance is warranted;
- the model used to assess applications for assistance; and

⁸⁸ Submission, 27/2/95, p.4

⁸⁹ Evidence, 24/4/95, p.10

- the existence of meaningful and clear evaluation techniques which assesses the impact of the assistance after the assistance is given.

Criteria

5.156 In order for incentives or assistance to be granted, applications must meet eligibility criteria. In examining the eligibility criteria of both policies, the Committee noted that the issue of the need for projects to deliver demonstrable net economic benefits was treated differently.

5.157 With regard to incentives under the RPIP guidelines having a benefit to the State, Dr Kelly explained that:

....one would demonstrate net benefits to the community by first of all, almost in a negative sense, ensuring that the project is developed in such a way that it is environmentally acceptable and does not cause damage to the community; one does it in such a way that unacceptable development does not happen, but beyond that the actual positive side benefits such as royalties and stamp duties and payroll tax and those things which flow into the State's coffers, and on top of that there is employment and the economic spin-off that goes into a community.⁹⁰

5.158 Although the "benefits" element is an important principle in terms of assessing applications for new projects it is somewhat less important in the assistance provided as temporary relief, as is described in the RRPAP guidelines:

There is no need to conduct a formal assessment of net public benefit as assistance would be repaid⁹¹ in full once the company returns to a positive, sustainable operating cash flow position.

5.159 Responsibility for assessing negative cash flow rested with the Treasury and the Department of Minerals and Energy. Of concern to the Committee was the treatment of net benefits.

5.160 There are costs to government in administering the assistance and making funds available particularly if a company is unable to repay the assistance granted.

5.161 Foregone revenue such as royalty relief and rebates are forms of assistance provided by government. They are hidden and not assessed or costed in any meaningful way.

Recommendation 15

The provision of assistance under the Resource and Resource Processing Assistance Policy should be justified in terms of net economic and social benefits rather than the expectation of money being recouped.

Assessment

⁹⁰ Evidence, 24/4/95, p.12

⁹¹ Submission, 27/2/95, p.6

Project Financial Benefits Model (BENE)

- 5.162 As a means of measuring net benefits and financial viability associated with the provision of assistance, DRD has more recently utilised the Projects Financial Benefits Model, commonly known as the BENE Model. The model was developed within the former Department of State Development with the objective to:

provide an assessment of the benefits to be derived by Western Australia from a project.⁹²

- 5.163 In September 1995, the Committee attended a presentation by DRD of the BENE model. The presentation included an overview of its applications and shortcomings.

- 5.164 A member of the consulting group who carried out an assessment of the model, Dr Frank Harman said:

The model grew out of a need within the Department of Resources Development to try and put requests for assistance on a more systematic basis because they were handled, in their view, on too much of an ad hoc basis and dependent on considerations like whether there was ministerial support for the proposal, marginal seats, all sorts of criteria, the wrong criteria in the department's view.⁹³

- 5.165 The model incorporates the themes of impact analysis, estimated project net value added in Western Australia, financial viability and social desirability. The model is not totally objective, comprehensive or exhaustive and is both quantitative and qualitative.

- 5.166 In terms of DRD's utilisation of the model, Dr Kelly explained:

They have not been used on all projects that have come before the state. It has been an evolving tool that we are developing, and it was developed under the previous Department of State Development in conjunction with Treasury and Mines. We have now picked that up again and we are doing further development and refinement on it to make it a better tool. It has been used on a number of occasions, but not universally.⁹⁴

- 5.167 In responding to a question on whether the Department carried out other financial and economic modelling studies, Dr Kelly replied:

General economic techniques are used by many of our officers in analysing projects. We are trying to update that particular module of the BENE system, because it gives the best analysis of an individual project.⁹⁵

- 5.168 The model in its initial form was able to provide the DRD with an indication of project viability and whether assistance or incentives would encourage the proponent to remain in the State. If the project was determined as only marginally viable, assistance could be

⁹² Harman F and Lewis P, *An Evaluation of the BENE Model and an Approach to the Assessment of Claims for Government Assistance - Report*. Prepared for the Department of Resources Development, Government of Western Australia, November 1994, p 14

⁹³ Evidence, 18/5/95, p.11

⁹⁴ Evidence, 21/9/95, p.5

⁹⁵ Evidence, 21/9/95, p.7

recommended on the grounds that it might prove to have positive net benefits for the state.

- 5.169 The Committee was told that it was difficult to use in its current form and was not universally accepted by other government agencies. In terms of its ability to influence outcomes Dr Kelly suggested that:

it is one of the factors which is taken into account. I believe it is going to be an increasingly important tool; when we go forward to our Minister it will be one of the factors that will be included. The reason for that is because in our debate with Treasury and with the Department of Minerals and Energy on these issues, we want to use it as a tool which we all understand and accept when we are arguing what in fact should be the package of benefits and arrangements for a particular project.⁹⁶

- 5.170 In 1994, the effectiveness of the BENE model was evaluated in a comprehensive report prepared by Dr Frank Harman and Associate Professor Phil Lewis acting as consultant's from the Economics Department of Murdoch University. The report was critical of the BENE model as an economic tool.

- 5.171 In identifying that a range of problems existed, the consultants recommended significant changes to the model, including the following major recommendations:

- (1) The splitting of the BENE model into four separate models: gross economy wide impacts model; a project net value added in Western Australia model; a project viability model; and a social rate of return model.
- (2) The inclusion in the BENE model of both positive and negative externalities.

- 5.172 Further, the consultants also put forward their own preferred approach to project assessment, involving a checklist. Their report stated that:

The checklist approach still incorporates the use of models derived from the BENE model. The checklist should be seen as a means of determining where data collection and analysis should be focussed, and it is not suggested that every item should be canvassed in full detail by project analysis. In addition small projects may not require a review as comprehensive as large projects.⁹⁷

- 5.173 Dr Harman also added in evidence that:

One of the things that the government has to do is to have in place a team of people who are experts in doing these evaluation techniques, who have a sensitivity to all those issues, paying the cost of training them and saying to developers "we are not going to be rushed into a decision because we have the public interest at stake here". It seems to me that often that it is just an argument for making the worst of all possible decision- a rush decision, and that really the urgency is not always there.⁹⁸

- 5.174. A working group consisting of officers from Treasury, the Ministry of Premier and Cabinet and DCT has been established to implement the consultant's recommendations.

⁹⁶ Evidence, 21/9/95, p.5

⁹⁷ BENE Report, 1994, p.33

⁹⁸ Evidence 18/5/95, p.14

Finding

The reliance on the BENE model in its current form for assessing the benefits of financial assistance has limited value.

Recommendation 16

The recommendations of the Consultants reviewing the Project Financial Benefits Model (BENE) should be implemented without delay.

Agreement Acts

- 5.175 The ability to measure the net benefit to the State of a project and hence, the provision of financial assistance on the grounds of the net benefit, is an important element of the BENE model. This net benefit element should also be a consideration with respect to Agreement Acts that contain provision for assistance. It has not, however, been the practice to introduce proposed Agreement Acts into Parliament with an accompanying net or cost benefit analysis.

Recommendation 17

All Agreement Acts introduced into Parliament which contain provision for assistance should include a net or cost benefit analysis as part of the Bill.

Evaluation

- 5.176 In the preceding text, the Committee has described criteria and assessment approaches and processes involved in determining and evaluating whether assistance or incentives should be granted. Equally important however is the need to recognise and evaluate the impact of such assistance or incentives after they have been granted.

Departmental Level

- 5.177 DRD in its approach to evaluation addressed the issue at both a departmental and individual project level. At the departmental level, a number of performance indicators were utilised.
- 5.178 Although they are well documented in annual reports, performance indicators do not always provide an indication of the performance of an agency. This can be demonstrated in the explanation attached to the following performance indicator, “*The extent to which policy has been developed to enhance resource development*”, reported in DRD’s 1995 Annual Report:

The effectiveness and efficiency of specific policy actions is inherently difficult to gauge.⁹⁹

- 5.179 In terms of the departmental responsibility for reporting assistance measures, both incentive and assistance packages are required to be reported in the department's annual report to ensure that accountability standards are upheld.

Project Level

- 5.180 Evaluation at the individual project level is influenced by the incentive and assistance policy guidelines, requiring assessment of applications for assistance and incentives against set eligibility criteria. Although the policy guidelines incorporate to some extent net benefits and project viability, they do not adequately address evaluation "after the event".
- 5.181 The potential to utilise the BENE model as an ongoing project monitoring and evaluative tool was raised at the BENE presentation given by DRD. It was the view of DRD that it could be possible to run the model again some year's into the project's establishment, but was seen as having limited value. This also supports earlier arguments that the model has limited value in its current form. The ability to utilise the model for post-evaluation should be considered in DRD's re-development and refinement of the model.
- 5.182 Notwithstanding the above comments, DRD has attempted to monitor and evaluate the assistance given to individual projects which can be demonstrated in the following comments made by Dr Kelly to the Committee:

Yes we do, and in fact some of the projects given assistance, require an on-going audit and on-going interaction and evaluation.¹⁰⁰

Recommendation 18

The Department of Resources Development should include post assistance evaluation and project monitoring as part of the refinement and redevelopment of the Project Financial Benefits Model (BENE).

Conclusion

- 5.183 Economic modelling is only one of the many tools required to adequately assess applications for assistance. DRD has acknowledged the difficulties in assessing applications for assistance, given the problems with the BENE model in its current form and is addressing its future usage.
- 5.184 DRD's treatment of evaluation after assistance is given, in particular evaluating net benefits is an area which requires further consideration. Projects given financial assistance by DRD or projects where there is foregone revenue, should be assessed in order to determine the net economic and social benefits to the State.

⁹⁹ DRD Annual Report 1995, p.56

¹⁰⁰ Evidence, 24/4/95, p.5

5.185. DRD should give a higher priority or commit more resources to post assistance evaluations

CHAPTER SIX

MULTIPLE ASSISTANCE: INCIDENCE AND IMPLICATIONS FOR THE ADMINISTRATION OF FINANCIAL ASSISTANCE

INTRODUCTION

- 6.1 The Chamber of Commerce and Industry (CCI) expressed its concerns that the relationship between public servants and business can become too close and there needs to be certainty that particular businesses do not receive preferential treatment. CCI clearly does not believe that certainty exists and argued that:

Some businesses are remarkably adept at attracting assistance, and benefit from a wide range of programmes over many years.¹⁰¹

- 6.2 CCI is correct in asserting that there have been some companies which have received multiple assistance from the Department of Commerce and Trade (DCT), and sometimes from a range of different schemes. However, there are two important qualifications to be made to this assertion.
- 6.3 The first is that since the establishment of the restructured and renamed Department of Commerce and Trade in 1993, there is little evidence of multiple assistance involving large dollar amounts.
- 6.4 The second qualification is that DCT administers a range of schemes and services, from which a number of legitimate cases for multiple assistance could be made. Multiple assistance is not by definition improper or unjustified.

MULTIPLE ASSISTANCE GRANTED TO INDIVIDUAL COMPANIES

- 6.5 The bulk of the direct financial assistance administered by DCT has been in the form of industry incentives and funding from the National Industry Extension Service (NIES). Industry Incentives have typically involved grants in the range of hundred of thousands to millions of dollars each.
- 6.6 NIES funding covers a diverse range of specific tied grants for business development, such as business plans, quality management exercises, engineering and design plans and typically involves amounts of less than \$100,000.

¹⁰¹ Chamber of Commerce and Industry, Submission, 31 May 1995, p.13

- 6.7 DCT has consolidated projects in receipt of investment incentives between 1983 and 1995 and which were finalised as at 30 June 1995. Projects outstanding at 30 June were also consolidated by DCT and this has been continued each 6 months to June 1996.¹⁰² The Committee has reviewed this data and the list of NIES funding approvals made between March 1993 and June 1995.¹⁰³
- 6.8 Only two companies were found to have received more than two funding approvals for NIES assistance after 1993 (see Table 6.1).

Table 6.1

| NAME OF ENTERPRISE | NATIONAL INDUSTRY EXTENSION SERVICE FUNDING March 1993 - June 1995 |
|----------------------------|---|
| Beurteaux Australia | \$28,234 - Accelerated Company Expansion Service \$31,758 - Metals Based Engineering Program (MBEP) \$20,243 - MBEP |
| Wavemaster | \$80,316 - MBEP \$13,485 - MBEP \$19,725 - Design Planning |

- 6.9 Six cases were found of companies receiving NIES funding after March 1993 and receiving financial assistance via investment incentives (see Table 6.2). The only evidence of multiple assistance approved after 1992 involving industry incentives was an \$8.5M grant to Coflexip, approved by Cabinet in November 1993, and a \$500,000 loan convertible to a grant for Coflexip Stena Offshore Asia Pacific Pty Ltd,¹⁰⁴ approved by Cabinet in May 1995.
- 6.10 The cases in Tables 1 and 2 represent a very small fraction of the clientele and financial assistance administered by the Department since its inception in February 1993.

¹⁰² Department of Commerce and Trade, Financial Assistance To Industry Directory, June 1995, December 1995, June 1996

¹⁰³ DCT correspondence to the Chairman, 12 June 1995, pp. 8 - 13

¹⁰⁴ Financial Assistance to Industry Directory, Current Projects as at June 1996, Investment Attraction Branch, DCT, p.17.

Table 6.2

| NAME OF ENTERPRISE | INVESTMENT ATTRACTION BRANCH FUNDING AND DATE OF APPROVAL | NATIONAL INDUSTRY EXTENSION SERVICE FUNDING March 1993 - June 1995 |
|---|---|--|
| Albany Woollen Mills | Capital Establishment Grant, \$260,000, 1984-85 Special purpose grant \$280,000 Guarantee \$2.4M, 1989 offer not taken up | Production Plan \$10,800 |
| ANI Group / ANI Products Ltd | \$50,000 grant for relocation, March, 1992 | Human Resource Management grant \$11,750, |
| Austal Ships | \$1.21M loan converting to a grant, 1994 | Metals Based Engineering Program \$31,500 |
| Canning Vale Weaving Mills. Commenced utilisation of guarantee in 1988 | Loan Guarantee, \$1.5M, further 3 year option taken up for 1993-96. | Accelerated Company Expansion Service \$44,031, |
| Computer Protocol | \$445,000 loan, March 1991 | Vendor Qualification Scheme \$93,359, |
| ERG Australia Ltd Telecommunications manufacturer, technology transfer agreement with Nokia | Government Loan of \$1.3M, 1992, Profits of \$11.43M in 1993-94 | Accelerated Company Expansion Service (ACES) \$12,255 ACES, \$36,745, Production Plan, \$2,000 |

Findings

Multiple assistance can be justified in some instances.

The number of cases of multiple assistance, since early 1993 is not significant.

OUTSOURCING ASSESSMENT AND SELECTION FUNCTION

- 6.11 Debate over selection processes and the provision of assistance to some organisations, but not others has led to suggestions that DCT should outsource assessment and selection functions to a third party.

- 6.12 Mr Bruce Sutherland informed the Committee that the Department was considering the outsourcing option as part of its response to the Auditor General's review of industry assistance procedures. He said:

The main positive is that it would give the applicant the feeling that he has not been involved in any politicalisation, or whatever might occur because of a government agency dealing with the application. It is a perception issue rather than a real issue. If the perception is important it may be worth doing it on that basis.¹⁰⁵

- 6.13 The Consultants reviewing the operations of the *TIDA 1983 (WA)* reported that during their review of DCT in 1994 critical comment was levelled at DCT's applications and selection procedures.
- 6.14 The Consultants recommended that DCT give consideration to outsourcing selection services through an independent agency. This was put forward as a means of insulating the DCT from the negative aspects of its dealings with the public.
- 6.15 An example of the Federal Research and Development grants program, where an independent Board determines eligibility criteria and selection of applicants for grant funding, was provided. It was argued that the same or similar process in WA would allow a distancing of the process from the Minister.¹⁰⁶
- 6.16 The Consultants did not base their recommendations on evidence of multiple assistance to some organisations at the expense of others. Insulation of DCT and the Minister from the selection process is an inadequate reason to outsource that process.
- 6.17 DCT in Western Australia has an expert assessment panel for the Innovation Support scheme and other Research and Development schemes, similar to the federal administration of R&D grants assessment.
- 6.18 There is a clear case for such expertise being outsourced when considering matters of science and technology research funding. However for matters of industry establishment, relocation and services, DCT has a staff of project officers and program managers recruited on the basis of their relevant experience and ability.
- 6.19 To outsource the selection duties performed by these staff, it would need to be established that agencies, even with proper policies and criteria for assistance, could not sufficiently guarantee consistent and clear decision making. The Committee has not found such a compelling argument.

Finding

No adequate case has been made for the outsourcing of assessment and selection processes for DCT's industry incentives and business development schemes.

¹⁰⁵ Evidence, 9/8/95, p.4

¹⁰⁶ Price Waterhouse Urwick, December 1994, Vol 1, p.64

Recommendation 19

The Department of Commerce and Trade should not outsource its assessment and selection processes except for those Innovation and Research and Development Schemes where the Department has traditionally outsourced such functions.

Conclusion

- 6.20 The Committee has not found evidence of significant multiple financial assistance granted to business by DCT. Multiple assistance is not by definition unjustified or improper, but needs to be examined on a case by case basis to determine its appropriateness.
- 6.21 On the evidence available the Committee cannot find justification for any outsourcing of the industry assistance decision-making process. To outsource further assessment and selection functions would risk duplication and cost ineffectiveness.

CHAPTER SEVEN

ACCOUNTABILITY OF ASSISTANCE

INTRODUCTION

- 7.1 In this Chapter the Committee will make comment on the role that Parliament can and does play in monitoring financial assistance; what role annual reports play in ensuring that financial assistance is transparent; and how effective a mechanism the program statements are in identifying specific assistance intentions.
- 7.2 It is now accepted universally that a fundamental element of democracy is that all spending should be published in a form that will enable interested parties to identify it. This is what is meant by transparency.
- 7.3 An important accountability issue is that of commercial confidentiality. Intrinsic to this is the role of the Auditor General with particular reference to the *Financial Administration and Audit Act (FA&AA) 1985*.

REPORTING OF FINANCIAL ASSISTANCE

- 7.4 Financial assistance packages provided to industry come mainly from budgeted programs which are reported in the financial statements of the agencies offering the assistance. These payments are usually reported in the first instance in the program statements of the agencies as estimates of expenditure for the coming year, and then in the financial statements within the annual report of the agency at the end of the year.
- 7.5 A key issue is whether or not formal compliance with the *FA&AA 1985* in reporting the expenditure represents adequate accountability for the spending. This translates into the extent to which:
- the form of the reporting makes it clear how the money was spent and for what purpose it was spent; and
 - it enable a reader without accounting expertise or experience in reading financial documentation to understand the spending?
- 7.6 Government in the latter part of the 20th century is complex, however the reporting of Government should clearly identify all financial assistance granted. Under no circumstances should Government financial assistance be concealed.
- 7.7 In this section, the Committee will briefly discuss the various mechanisms that are currently used to monitor government spending on financial assistance and the effectiveness of those mechanisms.

The Role of Parliament

- 7.8 The Parliament has a responsibility to monitor all facets of Government activity. In particular, in the case of public spending the Western Australian Parliament must be diligent and able to scrutinise all activity and to make its findings known. The Parliament

has become increasingly subservient to the Executive and a less effective tool of accountability over the past few years.

7.9 The Commission on Government (COG) stated:

The parliamentary procedures intended to provide detailed public examination of legislative proposals and public administration are widely regarded as inadequate to cope with two major trends in the 20th Century - executive dominance of parliament and the increasing complexity of government.¹⁰⁷

7.10 COG has made a number of recommendations about the role of Parliament in scrutinising government activity. In particular, it stressed the importance of the committee system. In quoting the Queensland Parliamentary Committee for Electoral and Administrative Review, COG stated:

...committees can act as a bridge between the community and Parliament in a way which fits them particularly well to monitor the initiatives and actions of executive government...¹⁰⁸

7.11 In South Australia the *Industries Development Act 1941* provides for the establishment of a Parliamentary Committee called the Industries Development Committee (IDC). All industry assistance proposals which exceed \$200,000 and which might be funded from the State's Economic Development Program, administered by the Economic Development Authority, are referred to the IDC.

7.12 The IDC evaluates the provision of assistance on a case by case basis, consistent with the Economic Development Authority's criteria and assessment guidelines. The Committee is comprised of one Treasury official and 4 members drawn from the Parliament's Economic and Finance Committee, the corresponding committee to the Western Australian Public Accounts and Expenditure Review Committee.

7.13 Section 4 of the Act states that of the four members drawn from this committee, two must come from the Government side and two from the Opposition side. A Minister of the Crown cannot be a member of the Committee.

7.14 The Committee reviews evidence from the firm seeking assistance and from the Authority, who provide expert advice, including:

- the project feasibility and business risks;
- financial viability of the firm; and
- justification for intervention.

7.15 Financial assistance cannot be provided by Treasury unless the Committee reports that such criteria has been satisfied.

7.16 The Western Australian Parliament should be able to monitor and question individual cases of assistance and entire programs through debate in the House, and through the committee system.

¹⁰⁷ Commission on Government, Report No. 2, Part 2, December 1995, p.158

¹⁰⁸ Ibid, p.165

- 7.17 The Legislative Assembly's Select Committee on Procedure has recently recommended to the House that a new, more comprehensive committee system be established to reflect the important work that can be done by committees.¹⁰⁹ There are a number of options available for more thorough scrutiny of large financial assistance by a new committee system.
- 7.18 A committee in Western Australia could improve the accountability of large financial assistance packages without the decision making powers enjoyed by the South Australian IDC.
- 7.19 The establishment of a new committee for this financial assistance to industry oversight role would be wasteful given the sporadic nature of large financial assistance packages. The Western Australian Parliament should consider adding these duties to the functions of an existing standing committee. Given the functions designated by the Parliament's Standing Orders, the Public Accounts and Expenditure Review Committee is the best placed existing committee to undertake this role.
- 7.20 The Select Committee on Procedure's proposed Primary Industry, Resources, Transport and Trade portfolio committee is another option, given its portfolio relevance and ongoing role in the Parliament. However, this Committee has only been proposed, not established, and in its absence the Public Accounts and Expenditure Review Committee remains clearly the best option. The Committee firmly believes that financial assistance to industry is central to the Committee's role of scrutinizing the expenditure of public moneys.
- 7.21 A Treasury or Auditor General's representative should be co-opted to the appropriate committee to assist the committee's scrutiny of financial assistance packages. The committee should have the power to call for the relevant Officer from DCT to appear before it to assist the committee's scrutiny.
- 7.22 Where commercially confidential information is a legitimate concern it would be better protected by a private, in camera meeting of such a committee, rather than the public exposure of scrutiny by the whole House. The issue of commercial confidentiality will be further discussed later in this chapter.

Finding

The Public Accounts and Expenditure Review Committee is the best placed existing Standing Committee to oversight financial assistance to industry and therefore increase accountability to Parliament.

¹⁰⁹ Final Report , Select Committee on Procedure, Legislative Assembly, Western Australia, 27/6/96

Recommendation 20

- (a) **The Public Accounts and Expenditure Review Committee should oversight financial assistance to industry.**
- (b) **The Public Accounts and Expenditure Review Committee should be provided with additional resources and expertise when it is reviewing financial assistance.**

The Annual Reporting Process

- 7.23 In 1991, the Committee wrote a Discussion Paper on Annual Reporting in the Public Sector. The discussion paper acknowledged the vast improvements that have taken place in public sector reporting over the past few years.
- 7.24 An annual report should provide all relevant information. It may be that where there is a huge amount of information to be disseminated, then schedules or summary-form data should be provided from which further investigation could be undertaken.
- 7.25 The annual reports, however, have two deficiencies as tools for accounting for financial assistance. Firstly, the time frame in which they operate means that the information they provide is often out of date or of little continuing relevance by the time the report reaches the Parliament.
- 7.26 There is merit in bringing forward the reporting date for agencies to ensure that the information reported is current. Given advances in technology, it seems reasonable to suggest that this is possible, particularly if unaudited financial statements were provided for use by the Parliament.
- 7.27 Secondly, that while on an individual agency basis the annual reports give at least a general view of financial support provided, there is no way of getting a government-wide view using this mechanism. This means that if a reader does not know which agency is responsible for providing the various forms of assistance, he or she will be unable to identify which report to read.

Finding

The current system of annual financial reporting to Parliament is not timely or specific enough to ensure that users of the information are adequately informed about financial assistance to industry.

Recommendation 21

Financial statements (unaudited if necessary) should be tabled in the Parliament at the earliest possible opportunity.

Recommendation 22

Annual financial statements should be presented in a form where the information relating to financial assistance packages is provided in a precise and readable format.

The Program Statements

- 7.28 Another mechanism for informing the Parliament and the public about its spending is through the annual Estimates or budget process. As part of this process, the government provides details of its intended spending as well as its previous year's spending in the form of Program Statements. These are intended to provide the Parliament with information it requires in order to approve the appropriations for the various departments.
- 7.29 As program statements are provided at the beginning of a financial year, rather than at the end as is the case with annual reports, they overcome some of the difficulties of non-current information. However, they still suffer from a lack of comprehensive detail.
- 7.30 There are still problems in making the Program Statements readable and understandable by those who are not expert in the area of public sector reporting. Even those who are adept at reading such documents, admitted to the Committee that they themselves struggled to understand them at times.
- 7.31 This problem could be offset by the presentation by Treasury of seminars for Parliamentarians on the format of the Program Statements. Such presentations were provided in 1995 and were considered by many Members to be very useful. An expansion of this format may assist in helping Members better understand what are quite complex documents.
- 7.32 When asked whether he considered the Program Statements "provide a reasonably accurate account of provision of industry assistance by government agencies", Director of General Finance at the Treasury, Mr Graeme Rolfe, told the Committee:

That is a difficult one. I personally might say, no, because I do not think Program Statements to me put enough in there because I cannot always understand them.¹¹⁰

- 7.33 This view was supported by other officers who appeared before the Committee. In answer to a similar question Principal Policy Officer at the Department of Minerals and Energy, Mr Alan Teede, told the Committee:

I am technically involved in these things and I find them hard to read. It is a new system. I believe it will take a while before they become more precise.¹¹¹

¹¹⁰ Evidence, 10/5/95, p.12

¹¹¹ Evidence, 24/4/95, p.38

- 7.34 A stronger criticism of the program statements was made by Dr Mike Nahan. When asked by the Committee whether he had a view about the information that comes out of the Program Statements, Dr Nahan replied:

Yes - it is next to useless.....If all parliamentarians read is that and no further they are poorly informed.¹¹²

- 7.35 The program statements contain much important and useful information, but are inadequate in giving Parliament information on financial assistance to industry. The Government has been able to provide the Parliament with special reports on expenditure on travel, consultants and Government contracts on an agency by agency basis. The same approach and level of importance should be afforded to financial assistance to industry.
- 7.36 An example of this was the document received by the Committee at the beginning of this inquiry, detailing every example of financial assistance given by the DCT since 1983. In this document, details of both the amount given and the reasons for the support, and where possible details of the success or otherwise of the assistance, were all provided in a readable and usable format.
- 7.37 DCT has provided a similar document detailing new and existing cases of financial assistance every six months. All other agencies who administer financial assistance to industry should also provide this information so that a consolidated document can be produced. This document should be tabled in the Parliament.

Finding

Consolidated reports of financial assistance, separate from program or budget statements, are required to provide adequate information.

Recommendation 23

Every 6 months, a consolidated report containing all current financial assistance packages should be tabled in the Parliament.

COMMERCIAL CONFIDENTIALITY

- 7.38 The veil of commercial confidentiality is a principle sometimes invoked to support the withholding of information from the public view. It is often cited when details of the legal or financial dealings between government and the private sector are desired by one or both parties to be kept in confidence. The objective of this section is to analyse what effect the principle of commercial confidentiality has on the level of accountability of financial assistance.

¹¹² Evidence, 17/5/95, p.8

A Proper Concern for Commercial Confidentiality

7.39 The Committee heard a wide variety of views about the significance of commercial confidentiality as a factor in openness of government. Inevitably the views expressed are often linked to the person's or agency's relationship with industry and government.

7.40 Those in government who relate to industry as clients have a concern to address the interests of their clients and future clients' perceptions of the cost of doing business with government.

7.41 The Western Power Corporation explained that it signs contracts with large commercial customers, setting out special rates and pricing structures, on the basis that the details are commercially confidential. General Manager of Corporate Strategy, Mr Nenad Ninkov explained that:

For a customer, the deal he can negotiate is a competitive advantage for him. Most people do not want their details published because they believe they have gained some competitive advantage, and they do not want to share that competitive advantage with everybody else.¹¹³

7.42 In Western Power's case these deals are commercial arrangements, which must be commercially viable for the corporatised organisation. There is no longer any provision for the organisation to provide assistance to private sector industry by agreeing to a commercially non-viable deal.

7.43 Mr Chris Fitzhardinge, argued that commercial advantage could justify confidentiality in cases of financial assistance, depending on why the assistance was offered:

I think in some cases there is commercial confidentiality involved. For example, where Barrack Silicon were looking at providing a ground powder to a particular market, you could lose a commercial advantage by that being open too early. However, I think in cases where industry is provided with incentives to relocate from one site to another, then that should be open, either through the annual reporting process of the agency concerned, or through a public statement indicating that this level of support has been provided.¹¹⁴

7.44 Dr Mike Nahan was less qualifying in his opinion that commercial confidentiality is an overrated factor:

I think to a large extent it is used as an excuse. In the United States they vet all gas pipeline decisions, all investments in power stations and all utilities go into public inquiries. That does not dissuade people from investing because the job is still done. Canada is doing the same thing. Commercial confidentiality will probably dissuade some but not many.¹¹⁵

¹¹³ Evidence, 14/6/95, p.14

¹¹⁴ Evidence, 21/6/95, p.19

¹¹⁵ Evidence, 17/5/95, p.9

- 7.45 Similarly, Dr Frank Harman saw no legitimacy in the concept of confidentiality of financial assistance:

Certainly whenever government assistance is provided that involves commitments by the State of, in effect, taxpayers' resources and there should be no confidentiality associated with that.¹¹⁶

- 7.46 CCI also expressed the view that commercial confidentiality was an inadequate argument against the full openness of financial assistance details. However the CCI's Chief Economist, Ms Nicola Cusworth added that retrospective access be strictly limited:

In terms of direct assistance, financial assistance and services, we really do not see that there is a role for commercial confidentiality. Again with the proviso that there should not be a retrospective right for officers like the Auditor General to go back and seek whatever financial information they want many years after assistance is given. However, if at the time that a business applies for information it is made very clear from what information is required of them and also what will be made public, then I think it is perfectly reasonable. As we have said in the submission it is the price of dealing with the government is to deal with the public.¹¹⁷

- 7.47 The CCI's qualification of the Auditor General's right to retrospectively access all publicly and privately held records and associated documents of financial assistance is a recognition that the rights of persons and corporations must be considered.
- 7.48 The Committee believes that there should be no extension of the principle that competitive advantage justifies commercial confidentiality in cases where government money, by way of revenue foregone or direct financial assistance, has conferred a competitive advantage on the private sector organisation. If an organisation does not wish to disclose relevant information then it should forego receiving financial assistance.

The Department of Commerce and Trade

- 7.49 The Committee asked Mr Bruce Sutherland, to comment on CCI's position that grounds do not exist for keeping information confidential, if taxpayers' money is to be passed on as assistance. He replied that:

That is an organisational view I have heard from the CCI. If you spoke to any individual members you would find they would probably not agree with that. I know of some in particular who do not agree. However, the views of the Minister and the department are that whatever can be made public should be made public. If companies are seeking assistance from government they should be clear that information could become available.....it is something which in the public interest, will be interpreted by the freedom of Information Commissioner.¹¹⁸

¹¹⁶ Evidence, 18/5/95, p.16

¹¹⁷ Evidence, 22/6/95, p.25

¹¹⁸ Evidence, 9/8/95, p.11

- 7.50 Mr Sutherland argued that most relevant information about companies is available through the Australian Securities Commission. In assisting applicants, DCT requires all the financial statements, past, present and future, of the company. Mr Sutherland explained that:

Companies who give us their business plan for the next five years and who are planning to enter international competition with major multinationals must advise us of their projections. If they do not give us those projections, in some cases they will not receive the conversion of the loan to a grant. In that case, it would not be reasonable that those production estimates be made public. In no other commercial situation would they be.....The Information Commissioner may rule in the public interest that they should be made available to whoever wants them. As we read the Act they would not be provided to any party by us; an appeal would have to be made to the Commissioner.¹¹⁹

- 7.51 Mr Sutherland informed the Committee that information supplied by applicants and marked as confidential is treated as commercial in confidence by DCT. This assurance is part of DCT's promotion of financial assistance, which includes the advice that the Freedom of Information legislation can override any decision of the Department in relation to confidentiality.

- 7.52 The right to know should exceed the right to conceal. This report has suggested that commercially confidential information can be protected, whilst accountability to Parliament is maintained. (Refer to 'The Role of Parliament' in this chapter.)

- 7.53 The Royal Commission into Commercial Activities of government in 1992 discussed the issue of commercial confidentiality. Whilst concentrating its analysis on the financial openness of Government agencies rather than private sector organisations receiving financial assistance, the Royal Commission stated that:

Secrecy and within it commercial secrecy, has a proper place in the conduct of government. Provided adequate accountability measures are imposed where secrecy is allowed, the risk posed to the public should be kept to a minimum.¹²⁰

- 7.54 The principles in this statement are consistent with the Committee's recommendation that a committee of the Assembly be empowered to scrutinize industry incentives.

Finding

The public's right to know substantially outweighs any claims to conceal relevant information on the basis of commercial confidentiality.

¹¹⁹ ibid

¹²⁰ Report of the Royal Commission Into Activities of Government and Other Matters, Part II, Western Australia, 1992, p 2-19

Recommendation 24

No organisation seeking financial assistance shall be granted such assistance if it is not prepared to divulge the relevant information to the appropriate authorities.

ACCOUNTABILITY AND THE ROLE OF THE AUDITOR GENERAL

- 7.55 In its introductory discussion about what constitutes open government, the Royal Commission emphasised that:

accountability can only be exacted where those whose responsibility it is to call government to account are themselves possessed of, or able to obtain, the information necessary to make considered judgements.¹²¹

- 7.56 One of the most effective mechanisms the Parliament has to exact adequate levels of information and accountability from government financial assistance programs on a systematic basis is through the Auditor General.

- 7.57 The Royal Commission identified this role of the Auditor General as being of greater importance to the public in most situations than notions of confidentiality, which could hinder the Auditor General's effectiveness:

.... the Auditor General should be entitled as of right to any and all information in the hands of government relevant to the proper conduct of his or her inquiries. Claims of confidentiality and, in particular, of commercial confidentiality, can have no place whatever in impeding the audit process. The Auditor General must be relied on to protect that confidentiality.¹²²

- 7.58 Open government can also refer to the Parliament's ability to access information at an earlier stage, such as during the process of evaluating tenders for government funded services or works.

- 7.59 However it is at the review, evaluation or performance examination stage of administration that the propriety and effectiveness of financial assistance can best be evaluated. Given this, the Committee believes that access to information and results some time after the granting of assistance is most important.

- 7.60 Therefore the powers conferred on the Auditor General to access this information is critical for his/her ability to properly inform the Parliament.

Issues Raised by the Commission on Government

- 7.61 COG was of the opinion that the Auditor General's present powers are insufficient to allow the examination of records or persons related to a private sector organisation as part of a wider examination of a department or public sector issue:

The Auditor General's powers to access information in SS.83, 85 and 86 of the FAAA may be limited. Those powers appear only to be available for the purposes of an audit, as

¹²¹ *ibid*, 2-10, 2.4.2.

¹²² *ibid*, 3-17, 3.10.8.

distinct from an investigation, performance examination or inquiry. If that is the case then the ability of the Auditor General to properly operate under the FAAA will be adversely affected.¹²³

7.62 Therefore COG argued that:

...the Auditor General should be entitled to access all relevant information in the discharge of the functions in the proposed Auditor General Act.¹²⁴

and recommended also that the Act grant the Auditor General the power to compel the appearance of all persons and organisations necessary for discharging his or her functions.

7.63 Like many other references to commercial confidentiality, COG and the submissions made to it, analysed the issue, predominantly in terms of private sector contractors of government services.

7.64 The Committee believes that the ambiguity of the powers conferred on the Auditor General by the *FA&AA*, are as relevant to the accountability of financial assistance to industry as they are to issues of accountability of the tendering and contract process.

7.65 COG pointed out that access to private sector records and persons is required in reviewing the contracted services area:

For example, where a government activity has been contracted out to the private sector, the Auditor General may be concerned that the relevant agency has proper procedures in place to monitor and ensure performance of the contract. In order for the Auditor General to provide an opinion on those procedures access to the contractor is required.¹²⁵

7.66 The Committee believes that the very same requirement exists for the Auditor General's examination of procedures for administering financial assistance to industry.

The Victorian Audit Act and Powers of the Auditor General

7.67 In the Auditor General's 1994 performance examination of industry attraction schemes DCT was found, in some cases, to have insufficient documentation to support grants of assistance and insufficient evidence of monitoring and evaluation processes.

7.68 Under the Victorian legislation governing the powers of the Auditor General, such an examination would have had the ability to follow up these procedures by examining the private sector company records relating to the granting of assistance.

7.69 In the 1995 examination of the Victorian Department of Business and Employment (VDBE) this power was utilised for the first time to assist in the shaping of the Auditor General's opinion of the Department's procedures and performance.

7.70 The Victorian *Audit Act 1994*, empowers the Auditor-General to access all documents belonging to a business or company, expressed as an "agency", which has received financial assistance. Section 20(2) of the Act states that:

¹²³ Commission on Government, Western Australia, Report No. 1, August 1995, p.249

¹²⁴ *ibid*

¹²⁵ *ibid*, p.248

The Auditor General, or a person authorised by the Auditor-General, may by notice in writing given to a funded agency, require the agency to produce for examination, in accordance with the notice, any documents in relation to a financial year in respect of which the agency has received a grant.¹²⁶

7.71 The Act goes on in section 20(3)(a) to describe the purpose of the power in terms of establishing whether the grant was applied economically, efficiently and effectively. Section 20(4) makes it compulsory for the assisted agency to comply with the Auditor General's notice under this section.

7.72 In October 1995, the Victorian Auditor General presented a report on the administration of financial assistance by the VDBE, which has been referred to in Chapter 5 of this report. The Auditor General utilised the powers conferred by section 20 of the *Audit Act* 1994 for the first time in this investigation.

In this regard, 7 companies were selected during the audit for consultation and examination of documentation relating to assistance received under the Industry, Regional and Trade Support Program.¹²⁷

7.73 In Western Australia the auditing of accounts in relation to grants can occur under section 78(3) of the *FA&AA* only at the requirement of the Treasurer.

7.74 Section 78(3) of the *FA&AA* states that:

Where a grant or advance of moneys is made by the Government to a person for specific purposes, the Treasurer may require the Auditor General to audit the accounts of that person to ascertain whether the moneys granted or advanced have been expended in accordance with the purposes of the grant or advance.¹²⁸

7.75 The powers are therefore fundamentally weaker and more ambiguous than those in Victoria.

The Financial Administration and Audit Act (FA&AA), 1985 of Western Australia

7.76 Auditor General, Mr Des Pearson was asked whether all records and advice involved in Departments' recommendations for industry assistance should be available to the Auditor General for subsequent reporting to Parliament. Mr Pearson replied that access to all this information was necessary for a proper review to take place.¹²⁹

7.77 The provisions set out in the current *FA&AA* in sections 83 - 87 would need to be amended to reflect this. The *FA&AA* grants the Auditor General the power to investigate government departments and statutory authorities (Section 80), to have access to all accounts, documents and records of those organisations (Section 83), to require information (section 85) and to require officers to appear before the Auditor General (Section 86).

¹²⁶ Victorian Audit Act, 1994, p. 26

¹²⁷ Victorian Audit Act, 1994, p. 26

¹²⁸ *Financial Administration and Audit Act, 1985*, sec. 78(3)

¹²⁹ Evidence, 12/4/95, p.8

- 7.78 It is less clear that the Act allows the Auditor General to fully review those public moneys that have flowed to the private sector in the form of financial assistance to industry. Reviewing the records of the department that administered the assistance might prove inadequate to the discharge of the Auditor General's role when access to the relevant records of the assisted private sector organisation is denied.
- 7.79 It is considered important by both the Auditor General and this Committee that the *FA&AA* be strengthened to ensure that the powers of a performance examination are equal to that of an audit.

Finding

Unless the Auditor General's powers under the *FA&AA* are strengthened including his right to access information relevant to the provision of financial assistance, accountability cannot be ensured.

Recommendation 25

The powers of the Auditor General to properly audit, examine and make enquiries into financial assistance to industry should be clarified and strengthened.

The Auditor General and Financial Assistance Expenditure by Government

- 7.80 A legitimate cost of accepting a grant of financial assistance is that both the government agency and private organisation must accept scrutiny of their conduct and records in relation to the assistance.
- 7.81 The public has a right to know that its taxes are being spent economically, effectively and for the purpose intended.
- 7.82 Equally the Committee recognises that the powers of the Parliament and the Auditor General should not unreasonably impinge on the rights of the individual.
- 7.83 DCT and other agencies have a concern to respect the wishes of their client base, in keeping details of applications and assistance confidential. Some information has commercial value by nature of its being held in confidence.
- 7.84 Any recommendation for increased openness and access to the Departments' and clients' records should be made fairer by prohibiting retrospective powers of access. In this way Departments' existing client bases would not be subject to a condition of funding, which they were not notified of when making the decision to apply for and/or accept a grant.
- 7.85 Further consideration and security of private individuals' rights should be facilitated by an appeals process for those people or organisations, who believe access to their records and property is unreasonable or inconsistent with the Auditor General's powers.
- 7.86 Under the *FA&AA* (Section 91) the Auditor General has a responsibility to preserve the secrecy of information attained in the course of inquiries.

- 7.87 Therefore granting increased powers to the Auditor General and restricting Parliament's role to scrutiny of financial assistance by committee would achieve the required accountability without unduly compromising the privacy of private persons or organisations.
- 7.88 In strengthening the role of the Auditor General the Government should give strong consideration to how the broader recommendations of COG accommodate this goal.
- 7.89 Whilst granting the Auditor General the right of access to private sector records and persons in relation to industry assistance, the impact on and relevance to other legislation, such as Freedom of Information and Industry Advances, should be considered. Legal implications, such as self-incrimination, should also be considered.
- 7.90 The rights and security of the individual and private organisation, in relation to investigation or audit of financial assistance by the Auditor General, should be considered by the Government with reference to the COG recommendation (6.3.5, Report No. 1). That recommendation provides that any person or organisation shall be entitled to apply to the Supreme Court for relief from investigation by the Auditor General.
- 7.91 DCT and any other Agency promoting and administering direct financial assistance should publicize and make known to applicants that the Auditor General, in relation only to the financial assistance under examination, has particular powers, and in turn applicants have certain rights of appeal for relief from these powers.

Recommendation 26

The Auditor General should have the power to access private sector records and persons, in relation only to the financial assistance being investigated, by way of amendment to the *Financial Administration and Audit Act (1985)*.

Recommendation 27

Any increased power granting the Auditor General the right to access private sector records or persons, should not be retrospective.

Conclusion

- 7.92 There is a major role for Parliament to play in monitoring financial assistance, but to do this effectively it must have more comprehensive, accurate and timely information. Consistent with the broad support for Parliamentary Committees to play an increased role in legislative and administrative oversight, such a Committee should take on a financial assistance oversight role as part of its duties.
- 7.93 In evidence to the Committee it has become clear that there are differing and strong views on the issue of commercial confidentiality.

- 7.94 The Committee believes that the overriding principle in financial assistance to industry is the right of the public to know that their money has been spent efficiently, effectively and for the purposes intended.
- 7.95 The Auditor General is best placed to ensure this accountability, whilst at the same time exercising powers of access to private information with caution.
- 7.96 Legislative changes should provide the Auditor General with both this power and sensitivity to the rights of private sector organisations and persons.

CHAPTER EIGHT

INTER-AGENCY COORDINATION OF FINANCIAL ASSISTANCE

INTRODUCTION

- 8.1. Throughout the Committee's inquiry it has become apparent that much of the responsibility for the operational aspects and the directions of financial assistance is at the agency level. While there appears to be certain policy direction statements made by government at the whole of government level, at the program or project specific level much of the decision-making is in the hands of individual departments.
- 8.2. This is not to suggest that there is no communication or co-operation between departments. It is clear that the key agencies do work together, although there are some problems in maintaining a cohesive and predictable government approach.
- 8.3. The Committee's recommended approach is one that applies a set of principles to a common direction to enable agencies to have a consistency of responses when dealing with project proponents and organisations requiring assistance. This would ensure that they know what to expect when they approach agencies for assistance.
- 8.4. Perhaps the major advantage of this type of approach is the consistency that it should encourage. Early in the inquiry, the Committee was made aware of a lack of consistency in the criteria for assistance between departments.
- 8.5. In his evidence to the Committee, Mr Dudley Kingsnorth, told the Committee:

“In the space of a week I met with somebody in the DRD who told me that they were not in the business of propping up industry and that we would not get a grant. The next day I met with somebody from the Department of Commerce and Trade and, after explaining the project, I was told that we would be eligible for the grant.”¹³⁰

A COORDINATED APPROACH

- 8.6. By way of background, the Committee received from the Department of Commerce and Trade a document entitled, “*State Government Incentives to Industry- A Policy Paper*”, which sought to address some of the key issues in relation to the government providing assistance to industry.

¹³⁰ Evidence, 29/3/95, p.6

- 8.7 This paper, which formed part of the documentation accompanying the Industry Incentives Policy, is an attempt to provide a whole of government view of assistance and the issues that it raises. It also suggested the formalisation of the approach:

If direct financial incentives are to be provided in particular situations, it is suggested that an interdepartmental committee, comprised of the relevant departments and the Departments of Premier & Cabinet, Commerce and Trade and Treasury, vet assessments of projects for which government incentives are sought and make appropriate recommendations to Cabinet.¹³¹

- 8.8 The Working Group that was responsible for the paper, comprising senior officers from the Ministry of Premier and Cabinet, DCT, DRD and Treasury identified the various forms of financial assistance that it considered were of value, most of which have been previously identified in this report. It also identified four general key criteria in deciding which form of assistance is the most appropriate for a particular project. These were:

- economic efficiency;
- measurability/accountability;
- equity; and
- administrative simplicity.

- 8.9 More important, it identified some of the key issues that need to be addressed in the preparation of any government-wide mechanism for consistently providing financial assistance. One such issue was the need for a coordinated and consistent approach by those agencies involved in the assessment and implementation process.

- 8.10 In the next section, the Committee addresses the role played by DRD in the provision of assistance for resource based projects. While the Committee acknowledges it is only one type of project, it is an area that perhaps more than any other requires a highly coordinated and consistent approach. The Committee also discusses ways of improving the effectiveness of the coordination process by providing examples of approaches used by agencies in the US.

THE PROCESS OF COORDINATION

- 8.11 DRD plays a major role in coordinating major projects in the resources sector. In fulfilling this role, DRD in certain circumstances is required to coordinate the necessary agencies in negotiating infrastructure and assistance issues in accordance with the State's project approval processes.
- 8.12 The Committee is interested in how this coordination process operates, in particular the role of DRD. It found that based on the evidence available that there were differences in opinion with respect to the effectiveness of the inter-agency coordination process. In most instances, the key agencies recognised DRD as the major coordinating agency. However, this was not always understood by the project proponent.

¹³¹ *State Government Incentives to Industry- A Policy Paper*, p.7

- 8.13 The recent corporatisation of public utilities has also affected the process in terms of the ability to negotiate reduced energy prices.
- 8.14 The Committee considers that the Government should investigate alternative approaches to coordination in providing a consistent and predictable mechanism to facilitate major projects. Some alternatives are suggested at the end of this section.

Importance and Levels of Coordination

- 8.15 In Chapters Four and Five of this report, reference was made to the interdependence of industrial development planning processes at both the whole of government and agency levels. In order for this to be effective there needs to be included in this equation the element of a coordinated approach.
- 8.16 Coordination is required at the whole of government level in the form of policies and Cabinet decision making. However, more important is the nature of the approach taken by the responsible agencies in relation to large scale industrial development issues such as approval processes, infrastructure requirements, land availability and energy services.
- 8.17 Attempts have been made to improve the levels of coordination by the introduction of various interdepartmental committees and statutory planning committees. The development of the State Heavy Industry Policy has included representation from various government agencies and commitment to a coordinated approach to providing a set of strategies and policies for the resources sector.
- 8.18 Given the arguments addressed earlier in this report, it is apparent that much of the responsibility for the direction and operational aspects of financial assistance to industry is at the agency level.
- 8.19 Coordination at the project level often requires involvement by a number of agencies in the approval process and in the negotiation of assistance packages. For this reason, a coordinated agency approach is imperative. There needs to be a clear understanding amongst all players whether they are the administering agencies or the project proponents of the process ie what is required, who is the responsible agency and what assistance is available.

Role of DRD

- 8.20 DRD's mission is:

To plan, promote and coordinate the responsible development of the State's resources for the benefit of Western Australians.¹³²

- 8.21 In fulfilling its mission, coordination is achieved through the Department's programs which incorporate the areas of policy, planning (infrastructure and regional industrial estate planning) and promotion (investment opportunities).

¹³² DRD Annual Report 1995

- 8.22 On the level of inter-agency coordination required to achieve its mission, DRD argued that:

In fulfilling its strategy, resource promotion and coordination roles, DRD must interact closely with the proponent/companies, industry associations, other government agencies (including regional development commissions) and local authorities.¹³³

- 8.23 DRD acts on behalf of government as an avenue and first point of contact for both industry and potential investors in resources development. Whether this is clearly understood by all those involved in the process will be argued shortly.

The Process

- 8.24 The process in which DRD coordinates project development usually begins with the proponent approaching the government for assistance. DRD must establish whether a state agreement is required for specialised circumstances. Each project is determined on a case by case basis. The Committee was informed that 90% of mineral projects take place under mining acts and other forms of state legislation. In describing the process, DRD's CEO Dr Kelly, said in evidence that:

Usually the department actually arranges a meeting between the proponent company and the agency, or we send them off to an appropriate person in that agency to discuss it, but we coordinate it and are present for most of the meetings. We formalise it one way or another, usually by a ratified agreement or by a side letter to a ratified agreement.¹³⁴

- 8.25 In addition Dr Kelly when asked whether DRD facilitated a briefing meeting where the company was able to speak to all agencies at once, replied:

Yes there are. We often arrange that at an appropriate time....where one gets the relevant government departments around the table so they can be briefed at one time and ask questions of the proponent.¹³⁵

- 8.26 DRD in order to formalise the process and provide clear directions to project developers has published a folder, "State Approval Processes, A Guide for Major Industrial Developers". The intention of the document was explained in the opening message by Dr Kelly:

This folder has been produced to give project developers an easy-to-follow guide through the major government approval processes necessary to ensure balanced development in Western Australia and highlights the coordination role played by the Department of Resources Development in that process.¹³⁶

- 8.27 The flowchart provides for an overview of the project approval process and DRD's involvement in the facilitating interaction between the proponent and other agencies.

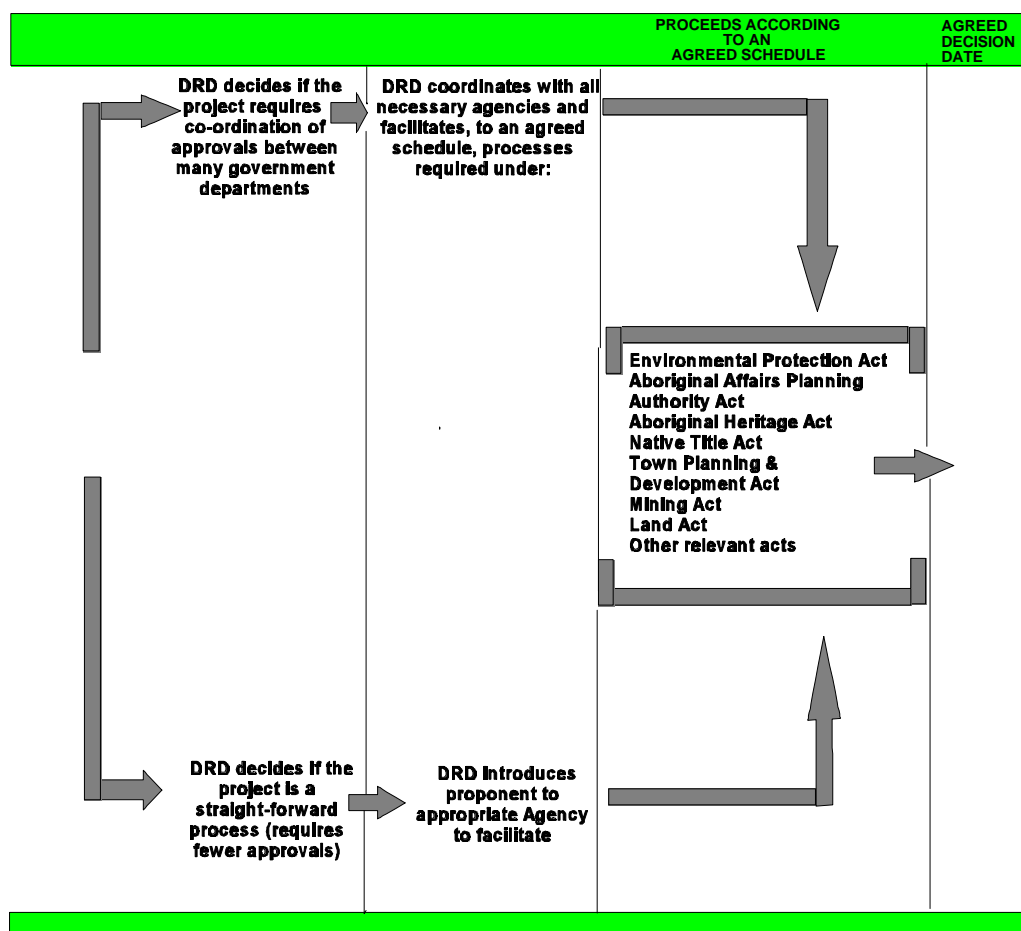
¹³³ Ross Marshall, Department of Resources Development, *Setting the Climate*, paper presented at the Regional and Industrial Development Seminar, 14/9/95, p.6

¹³⁴ Evidence, 24/4/95, p.4

¹³⁵ Evidence, 24/4/95, p.4

¹³⁶ DRD, *Guide for Major Industrial Developers*, 1995.

Depending on the nature of the proposal, DRD has two options in coordinating the



Source: Extract from the Department of Resources Development, *State Approval Processes, A Guide for Major Industrial Developers*, November 1995.

involvement of government agencies which are described in the flowchart.

Finding

There are conflicting opinions as to the effectiveness of the inter-agency coordination process.

THE EFFECTIVENESS OF THE COORDINATION PROCESS

- 8.28 The effectiveness and efficiency of the current process of inter-agency coordination is not without its critics. The Committee heard from various witnesses differing opinions as to the effectiveness of the inter-agency co-ordination process.
- 8.29 DRD is the referral agency that informs key agencies about the prospect of new resource development projects and what is required by the proponent in areas such as infrastructure, land, energy requirements and water.
- 8.30 However, based on the premise that each project was considered on a case by case basis, the process of inter-agency coordination would not always follow a set pattern. In some instances, agencies operated independently in providing assistance, depending on the nature of the project.
- 8.31 DRD as the recognised coordinating agency has a role of ensuring that the process is clear and efficient so that agencies and the project proponent understand their respective roles and responsibilities. The following section outlines the various attitudes to the level of co-ordination expressed during the inquiry.

Project Proponents

- 8.32 In order to attract industry investment to the state, potential investors must be able to readily access relevant information in order to make informed decisions. Untimely delays in the approval process stage can also hamper the development of the project. Mr Dudley Kingsnorth, in evidence informed the Committee of some of the problems that he had experienced in relation to the Mt Weld Rare Earth project:

A lot of time could be saved if government was streamlined and people dealt with fewer departments.¹³⁷

- 8.33 He also added that:

...There is no critical path mapped out. The only person who does it is the proponent. It is obviously the proponent's responsibility, but he does not get a lot of help.¹³⁸

- 8.34 Mr Kingsnorth also experienced problems in ascertaining the roles of key agencies involved in the provision of infrastructure assistance. Negotiations with agencies in relation to power, land and local government issues had been initiated in the first instance by Mr Kingsnorth and not by a government agency. Delays in receiving environmental approvals had also hampered the ability of the proponent to market the project.
- 8.35 In summarising Mr Kingsnorth's experiences, the need for clarity of the process and the provision of information from one central place was the preferred position.

¹³⁷ Evidence, 29/3/95, p.6

¹³⁸ Evidence, 12/4/95, p.18

- 8.36 In addition, agencies themselves also need to have a clear understanding of their respective roles so that they do not overlap or duplicate the functions of another agency. This issue was raised by the then Assistant Auditor General, Dr Gordon Robertson who argued that:

.... sometimes it was difficult for organisations to know exactly where one lot of boundaries start and another stops.¹³⁹

- 8.37 It was also of concern that such a large number of agencies having involvement and input into a project can impact on the effectiveness and timeliness of the process.

Finding

There is a need for clarity of the process of inter-agency coordination and the provision of information from one central place.

The Department of Resources Development

- 8.38 Throughout the inquiry the Committee heard a number of views from witnesses on both the importance of DRD and the degree of influence that it had over key agencies in relation to project development matters.

- 8.39 In terms of DRD's role as a major player in the minerals sector, the Committee noted the comments made in evidence by Mr Allan Teede:

...they have a role of managing large resource projects and a number of agreement acts for which I think it is around two-thirds of the State's production comes from those agreement Acts. Therefore, you could say DRD is controlling two-thirds of the industry but that is not correct. The industry is controlled within the department. We still issue the prospecting licences, the licences for the mining industry...when it comes down to specific agreement Acts we will be heavily involved in that as well.¹⁴⁰

- 8.40 Although DRD is the negotiator and administrator of agreement acts other agencies also assume roles in the process, depending on the nature of the project. Where a project requires assistance in the area of infrastructure it is normal practice for the proponent to either approach the appropriate agency to negotiate an arrangement or for DRD to make the initial approach. Often a situation arises whereby agencies form partnerships as a cost-sharing exercise in order to fund the cost of infrastructure or land.

- 8.41 An example of this was the involvement by the Department of Main Roads in the Mt Keith mine site. Main Roads, Treasury and Western Mining Corporation all contributed to the cost on a ratio of 50:25:25. DRD's role in the agreement was to coordinate the respective agencies.

- 8.42 DRD's ability to assist proponents in negotiating assistance measures has been most affected by agencies that operated according to commercial principles. The recent commercialisation of SECWA has altered the way in which DRD deals with negotiating

¹³⁹

¹⁴⁰ Evidence, 24/4/95, p.31

reduced energy prices. In the past DRD would take the lead role in negotiating prices by placing pressure on the utility to provide the lowest prices and charges to get the project off the ground.

8.43 The Committee considers that this form of assistance will become even more difficult as the commercialisation process continues. Given the importance of the issue, it is the Committee's intention to table a separate discussion paper on the effects of the commercialisation of public utilities on financial assistance following the release of this Report.

8.44 The nature of DRD's and to a lesser extent DCT's dealings with LandCorp was referred to in evidence by LandCorp's Chief Executive Officer, Mr Ross Holt:

...At times when it comes to their dealings with LandCorp, it can be from their point of view somewhat inconvenient that we have an independent board structure and that we do everything in a fully commercial and accountable way. That has not caused difficulties, it is just something that we work through at officer level. Therefore, there are not any major tensions involving these agencies trying to use LandCorp to provide industry support and if there were, those sorts of approaches would be repelled by our board.¹⁴¹

8.45 In order for DRD to be effective in its role as coordinator, it needs to regularly evaluate its performance. The Committee noted that in the Department's 1995 Annual Report it had recognised this need by evaluating its actual achievements against its planned achievements. DRD viewed the production of the guide on state approval processes as a major step in giving project proponents an understanding of the process and a way of streamlining prior activities.

8.46 Dr Kelly raised the issue of the need to improve the performance of Departmental activities and said that the increasing rate of development:

....will call for more effective ways of co-ordinating projects across government agencies and for an intensive effort within government to have planning of infrastructure done in the time-frame needed to meet industry demands. Industry will not wait for governments to complete its planning before deciding where to invest- lack of planned infrastructure may lead to lost investment opportunities.¹⁴²

Finding

The application of commercial principles in Public Trading Enterprises and the principles of open competition, impact on DRD's ability to assist proponents negotiating financial assistance measures.

IMPROVING THE EFFECTIVENESS OF COORDINATION

8.47 The Committee recognises the difficult task that DRD has in terms of inter-agency coordination at the project level. In addition DRD has the responsibility of ensuring that project developers are provided with a professional service without untimely delays in areas such as approval processes.

¹⁴¹ Evidence, 30/8/95, p.2

¹⁴² DRD Annual Report 1995, *Chief Executive's Overview*

8.48 Coordination at the inter-agency level and to a lesser extent at the project proponent level is not formalised. There is an understanding of the coordination process at the inter-agency level and to a lesser extent at the project proponent level, however it is not something that is formalised. Consequently, there is a tendency for each project to be addressed on a case-by-case basis without consistency of process.

8.49 Mr Graham Rolfe explained in evidence that:

They are not set down on paper; it is just something that has been there, you talk to one another. We have our hiccups....on most occasions it is just a network. The network is there and provided the people do not change too much around the place - you have this, the "brotherhood" I suppose you would call it, they just talk to one another.¹⁴³

8.50 Mr Chris Fitzhardinge informed that:

There was a proposal put to the previous government that there be a champion coordinator for every project. The problem is that every project is different and if you have one agency trying to coordinate that you end up with a compromise approach.¹⁴⁴

8.51 And further:

....I think there are some projects that do need to have a figure head that can be recognised by private enterprise as being the person who can help them interface with government, and is recognised by the Community as the person who will provide them with answers and allay their concerns about the nature of the projects, and also is a person in a position to link with government and to shorten the time frame for development.¹⁴⁵

8.52 An extension of the argument was the notion of a coordinating group of agencies. The suggestion was raised by Dr Kelly in evidence that:

...there is a need for some sort of coordinating agency which we see not only in this State but in other States. It is not always a separate department. It is sometimes a coordinating group in the Department of Premier and Cabinet and sometimes it is lodged elsewhere in Government - some group like that.¹⁴⁶

8.53 On whether the intention was for this to be a floating group, Dr Kelly added:

Commerce and Trade and its equivalent in other States tend to get involved more with the secondary and service industries and things like that and that tends to be where most of the programmes of explicit aid to industry is given in smaller industry whereas with re(sic)source industry it tends to be by way of the things we have discussed that are included in the Agreement Acts rather than grants and grants of land....I think there is a benefit of keeping those two groups separate and to keep your coordinating agency small but it can float around a little bit. It can be in various parts of Government as long as it is seen to just be small and looking after big projects.¹⁴⁷

¹⁴³ Evidence, 10/5/95, p.16

¹⁴⁴ Evidence, 21/6/95, p.10

¹⁴⁵ *ibid*, p.11

¹⁴⁶ Evidence, 21/9/95, p.19

¹⁴⁷ *ibid*

Overseas Perspective

- 8.54 During the Committee's investigative trip to the USA, it was provided with some examples of coordinated team approaches to large scale industrial development projects.
- 8.55 In California, both State and Local levels of government had combined forces to create "Team California" which was designed to create a coordinated mix of agencies and skilled people to work on large scale projects. As a way of facilitating this process, the Office of Business Development would put together a "Red Team" of professionals that would have the appropriate expertise for the particular project. This Red Team would be a problem solving group.
- 8.56 As stated in the Team California 1994 Annual Report, the role of the Red Team is to:
- ...resolve retention, expansion, or attraction issues within their communities.¹⁴⁸
- 8.57 The State of Alabama through the Alabama Development Office, also adopted a team approach in relation to industry attraction and industrial development. The Alabama Commerce Centre houses all the agencies relevant to industry development.
- 8.58 Within the complex prospective developers can access a wide range of information via multimedia presentations and access to databases on industrial sites. This includes comprehensive information on financing and infrastructure issues.
- 8.59 The Centre has a Teleconference Room, with State-of -the-art equipment, well equipped meeting rooms and a presentation room. The presentation room, provides for a multimedia and multi agency demonstration to prospective companies, to enable preliminary questions to be answered in one place. All relevant agencies are represented.

Western Australian Context

- 8.60 Comparatively, Western Australia through its agencies has made improvements in the way it promotes its services to potential clients. The Committee acknowledges the efforts in particular of DRD and DCT in the production of a range of information in the form of brochures and other publications.
- 8.61 The Committee also recognises the efforts of LandCorp in the production of a brochure on industrial land sites. In addition, the Committee believes that informal discussions have taken place between LandCorp, DCT and DRD with regard to the possibility of establishing a coordinated industrial land marketing approach.

INFORMATION CENTRE

- 8.62. Having reviewed the local and international perspectives with respect to improving the effectiveness of the coordination process, the Committee considers that the Government

¹⁴⁸ Team California Annual Report 1994, p.2

should consider establishing an “Information Centre” for project proponents and existing projects.

- 8.63. Essentially the role of the Centre would be to provide an introductory point for project proponents and existing projects regardless of size to access information and receive advice on such things as:
- government policy;
 - project approval processes;
 - location of sites; and
 - availability of financial assistance
- 8.64. The role of such a centre is not dissimilar to that prescribed in the *TIDA 1983 (WA)* for DCT and would provide an extension to the information and coordination provided by DRD from one centralised place. The Centre would be an information and advisory mechanism and not a decision making tool.
- 8.65. The Committee recognises the Government already has specific legislation and policy guidelines administered by departments which provide for departmental negotiation, coordination and evaluation. The Committee supports the retention of the current practice of interdepartmental committees having responsibility for assessing applicants for assistance and making appropriate recommendations to Cabinet.
- 8.66. The Committee envisages that proponents or existing project developers will be able to obtain timely advice and information from Officers that have the relevant skills and experience to deal with a range of issues. Upon receiving initial background information, the Centre would be able to provide the proponent with preliminary information and advice on what processes are involved ie in establishing a new project and the relevant administering agencies. This may include such things as the likely government costs and charges, environmental approval timelines and infrastructure. The Centre would not, however introduce the proponent to a particular agency or negotiate on behalf of the proponent.
- 8.67. The Centre would also house literature, manuals, brochures, audio visual material, technical data and other relevant material. This would require linking of departmental databases and computer networks. It is critical that the information be relevant and current and related to all regions of the State.
- 8.68. Once established, the Centre should be physically located in either DCT or DRD premises and be directly responsible to the relevant Minister. In advocating such a measure the Committee does not envisage the need to create a new bureaucracy, but rather to combine resources and information from key agencies.
- 8.69. While the Centre provides an introductory point for advice and information it should not prevent proponents or existing projects from bypassing it and directly approaching agencies in an attempt to establish a project and/or gain financial assistance. Rather it provides them with a number of choices in order to access agencies and information. The Committee acknowledges that for large scale projects, a majority of proponents will know what to expect and who to go to for assistance.

- 8.70. The Committee considers that the Information Centre will assist in eliminating some of the problems highlighted throughout the inquiry, particularly those experienced by project proponents in accessing information in order to make important decisions.

Recommendation 28

- (a) **In the interests of improving the level and effectiveness of inter-agency coordination, the Government should establish an “Information Centre” to enable project proponents and existing projects to receive timely advice and access information relevant to their needs and requirements.**
- (b) **The “Information Centre” should be physically located in the premises of either the Department of Commerce and Trade or the Department of Resources Development.**

Conclusion

- 8.71 The effectiveness of the coordination of assistance to large projects is dependent on both the agencies and the proponents understanding their respective role and responsibilities.
- 8.72 The Committee also recognises DRD’s major role in coordinating large scale projects and referring developers to key agencies.
- 8.73 The Committee believes that the current system would be enhanced by the establishment of an Information Centre to enable project proponents and existing projects to receive timely advice and access relevant information. It would provide a first point of contact and would not replace pre-existing structures.

SCHEDULES

SCHEDULE 1 (a)

ORGANISATIONS THAT PREPARED DETAILED SUBMISSIONS

| Date | Name | Organisation |
|--|---------------------|--|
| 17 January 1995 | Ms Lynne McGuigan | Executive Director, Office of Women's Interests |
| 23 January 1995 | Mr Bruce Sutherland | Chief Executive Officer, Department of Commerce and Trade |
| 27 January 1995 (revised 14 November) | Mr Ian Hill | Chief Executive, Western Australian Department of Training |
| 27 February 1995 | Dr Des Kelly | Chief Executive, Department of Resources Development |
| 31 May 1995 | Mr Lyndon Rowe | Chief Executive, Chamber of Commerce and Industry |
| 28 August 1995 | Mr Graeme Stephens | Director, Pilbara Development Commission |

SCHEDULE 1 (b)**SUBMISSIONS ARISING FROM SURVEY OF GOVERNMENT AGENCIES**

| Date | Agency |
|-------------------------|---|
| November 1994 | Screen West |
| 14 November 1994 | State Taxation Department |
| 14 November 1994 | Valuer General's Office |
| 14 November 1994 | Government Employees Superannuation Board |
| 15 November 1994 | Port of Albany |
| 15 December 1994 | Landcorp |
| 15 November 1994 | Gold Corporation |
| 15 November 1994 | Western Australian Meat Commission |
| 15 November 1994 | Secondary Education Authority |
| 15 November 1994 | WA Institute of Sport |
| 15 November 1994 | Department of Local Government |
| 15 November 1994 | The National Trust of Australia |
| 15 November 1994 | Public Trustee |
| 16 November 1994 | Swan River Trust |
| 16 November 1994 | Waterways Commission |
| 16 November 1994 | Office of Racing and Gaming |
| 16 November 1994 | Perth Marketing Authority |
| 16 November 1994 | Agriculture Protection Board of WA |
| 16 November 1994 | Department of Occupational, Health, Safety and Welfare |
| 16 November 1994 | Metropolitan Cemeteries Board |
| 17 November 1994 | Art Gallery of WA |
| 17 November 1994 | Alcohol and Drug Authority |
| 17 November 1994 | Office of Multicultural Interests |
| 17 November 1994 | Office of the Information Commissioner |
| 17 November 1994 | Government Employees' Housing Authority |
| 17 November 1994 | Stateships |
| 17 November 1994 | South West Development Commission |

| Date | Agency |
|-----------------------|---|
| 18 November 1994 | Keep Australia Beautiful Council |
| 18 November 1994 | Disability Services Commission |
| 18 November 1994 | The Grain Pool of WA |
| 18 November 1994 | Water Authority of Western Australia |
| 21 November 1994 | Perth Theatre Trust |
| 21 November 1994 | Perth Zoo |
| 21 November 1994 | WA Potato Marketing Authority |
| 21 November 1994 | Bunbury Port Authority |
| 21 November 1994 | Department of Commerce and Trade |
| 21 & 29 November 1994 | Ministry of Premier and Cabinet |
| 21 November 1994 | Totalisator Agency Board (TAB) |
| 21 November 1994 | Treasury |
| 21 November 1994 | Fremantle Port Authority |
| 21 November 1994 | Public Sector Standards Commission |
| 22 November 1994 | Western Australian Meat Marketing Corporation |
| 22 November 1994 | Ministry of Justice |
| 22 November 1994 | Rural Housing Authority |
| 22 November 1994 | Law Reform Commission |
| 23 November 1994 | Esperance Port Authority |
| 23 November 1994 | Ministry of Sport and Recreation |
| 23 November 1994 | Department of Transport |
| 23 November 1994 | Peel Development Commission |
| 24 November 1994 | Murdoch University |
| 24 November 1994 | Small Business Development Corporation |
| 24 November 1994 | Aboriginal Affairs Department |
| 24 November 1994 | Main Roads |
| 25 November 1994 | Mid West Development Commission |
| 25 November 1994 | Department of Planning and Urban Development |
| 25 November 1994 | Goldfields Esperance Development Commission |
| 28 November 1994 | Dampier Port Authority |

| Date | Agency |
|------------------|---|
| 28 November 1994 | Great Southern Development Commission |
| 28 November 1994 | The Library and Information Service of WA |
| 28 November 1994 | Rottneest Island Authority |
| 28 November 1994 | Western Australian Museum |
| 29 November 1994 | Heritage Council of Western Australia |
| 29 November 1994 | WA Fire Brigades Board |
| 30 November 1994 | WA Tourism Commission |
| 30 November 1994 | WA Sports Centre Trust |
| 30 November 1994 | Westrail |
| 30 November 1994 | State Government Insurance Commission |
| 30 November 1994 | Department of Productivity and Labour Relations |
| 30 November 1994 | Health Department of Western Australia |
| 30 November 1994 | Country High School Hostels Authority |
| 30 November 1994 | Transperth |
| November 1994 | Lotteries Commission |
| 1 December 1994 | Workcover WA |
| 1 December 1994 | Ministry of Fair Trading |
| 1 December 1994 | Rural Adjustment and Finance Corporation |
| 1 December 1994 | Department of Environmental Protection |
| 2 December 1994 | Bush Fires Board |
| 2 December 1994 | Building Management Authority |
| 2 December 1994 | Gascoyne Development Commission |
| 2 December 1994 | WA Office of Non-government Education |
| 4 December 1994 | Pilbara Development Commission |
| 5 December 1994 | Port Hedland Port Authority |
| 5 December 1994 | Fisheries Department |
| 6 December 1994 | Geraldton Port Authority |
| 6 December 1994 | Legal Aid |
| 6 December 1994 | Kimberley Development Commission |
| 6 December 1994 | State Services |

| Date | Agency |
|-------------------------|---|
| 6 December 1994 | Commissioner for Workplace Agreements |
| 6 December 1994 | Department of Resources Development |
| 7 December 1994 | Department of Conservation and Land Management |
| 7 December 1994 | Homeswest |
| 8 December 1994 | Subiaco Redevelopment Authority |
| 9 December 1994 | Department of Land Administration |
| 9 December 1994 | Western Australia Police Department |
| 14 December 1994 | State Energy Commission (Western Power) |
| 30 December 1994 | Department of Minerals and Energy |
| 4 January 1995 | Education Department of Western Australia |
| 4 January 1995 | Animal Resources Centre |
| 5 January 1995 | Equal Opportunity Commission |
| 10 January 1995 | Kings Park and Botanical Gardens |
| 11 January 1995 | Department for Community Development |
| 13 January 1995 | Curtin University |
| 13 January 1995 | Nurses Board of WA |
| 17 January 1995 | Edith Cowan University |
| 18 January 1995 | Dairy Industry Authority of Western Australia |
| 23 January 1995 | Department of Agriculture |
| 31 January 1995 | Department of Training |
| January 1995 | Department of the Arts |
| January 1995 | Office of Seniors Interests |

SCHEDULE 1 (c)**OTHER**

| DATE | NAME | ORGANISATION |
|-------------------------|-------------------------------|--|
| 29 December 1994 | Mr Stephen Brandenburg | Accountant, Newcrest Services Group, Newcrest Mining Limited |
| 6 January 1995 | Mr P Airey | Airey Ryan and Hill |
| 11 January 1995 | Mr Ford Murray | Manager, Internal Operations, Minproc Engineers Limited |
| 17 January 1995 | Ms Judith Thomson | Manager, Public Affairs, BHP |
| 23 January 1995 | Mr Ian Westoby | Executive Director, Master Cleaners Guild of WA (Inc) |
| 7 February 1995 | Dr A N Bagshaw | Acting Director, Chemistry Centre of WA |
| 13 February 1995 | Mr Burdit Krost | Marketing and Organisational Strategist, Strategic Planning Institute Pty Ltd |

SCHEDULE 2**WITNESSES**

| DATE | WITNESS | ORGANISATION |
|---------------|----------------------|---|
| 29 March 1995 | Mr Dudley Kingsnorth | Project Manager, Mt Weld Rare Earth Project |
| 12 April 1995 | Mr Des Pearson | Auditor General |
| 12 April 1995 | Dr Gordon Robertson | Assistant Auditor General, Office of the Auditor General |
| 24 April 1995 | Dr Des Kelly | Chief Executive Officer, Department of Resources Development |
| 24 April 1995 | Mr Allan Teede | Principal Policy Officer, Department of Minerals and Energy |
| 10 May 1995 | Mr Neil Brown | Acting Assistant Under Treasurer, Treasury |
| 10 May 1995 | Mr Graham Rolfe | Director, General Finance, Treasury |
| 10 May 1995 | Mr Bruce Sutherland | Chief Executive Officer Department of Commerce and Trade |
| 10 May 1995 | Mr Ross Weaver | Manager, Department of Commerce and Trade |
| 10 May 1995 | Mr Peter Herlithy | Manager, Administration and Finance, Department of Commerce and Trade |
| 17 May 1995 | Mr Michael Nahan | Director, States Policy Unit, Institute of Public Affairs |
| 18 May 1995 | Mr Frank Harman | Academic, Murdoch University |
| 25 May 1995 | Mr James Gill | Managing Director, Water Authority of Western Australia |
| 25 May 1995 | Mr Lloyd Werner | Manager- Financial Planning, Water Authority of Western Australia |
| 25 May 1995 | Mr Phillip Harvey | Manager - Alinta Gas |
| 7 June 1995 | Mr David Morrison | Acting Executive Director, Department of Agriculture |

| DATE | WITNESS | ORGANISATION |
|---|---|--|
| 7 June 1995 | Mr Ross Donald | Board Chairman, Rural Adjustment and Finance Corporation |
| 7 June 1995 | Mr John Nicholls | Acting Chief Executive Officer, Rural Adjustment and Finance Corporation |
| 14 June 1995 | Mr David Eizele | Managing Director, Western Power Corporation |
| 14 June 1995 | Mr Nenad Ninkov | General Manager, Corporate Strategy, Western Power Corporation |
| 15 June 1995 | Mr Ken Michael | Commissioner of Main Roads |
| 15 June 1995 | Mr Des Warner | Director, Corporate Services, Main Roads |
| 21 June 1995 | Sir Donald Eckersley | Chairman, South West Development Commission |
| 21 June 1995 | Mr Chris Fitzhardinge | Director, South West Development Commission |
| 22 June 1995 | Ms Nicola Cusworth | Chief Economist, Chamber of Commerce and Industry |
| 28 June 1995 | Mr Allan Skinner | Chief Executive Officer, Department of Land Administration |
| 28 June 1995 | Mr Christopher Williams | Director, Land Operations Division, Department of Land Administration |
| 9 August 1995 <i>Second Hearing Department of Commerce and Trade</i> | Mr Bruce Sutherland Mr Ross Weaver Mr Peter Herlihy | Chief Executive Officer Manager, Investment Attraction Manager, Finance and Administration |
| 23 August 1995 | Dr Syd Shea | Executive Director, Department of Conservation and Land Management |
| 23 August 1995 | Mr Keiran McNamara | Director of Nature Conservation, Department of Conservation and Land Management |
| 23 August 1995 | Mr Ross Drabble | Acting Commissioner of Railways |

| DATE | WITNESS | ORGANISATION |
|--|---------------------|--|
| 30 August 1995 | Mr Ross Holt | Chief Executive Officer LandCorp |
| 21 September 1995 <u>Second Hearing</u> <i>Department of Resources Development</i> | Dr Des Kelly | Chief Executive Officer |
| 15 November 1995 | Mr Geoff Hawke | Director of Industry Analysis and Advice, Department of Training |
| 29 November 1995 | Mr Graeme Stephens | Director, Pilbara Development Commission |
| 29 November 1995 | Ms Jennifer Moore | Senior Project Officer, Pilbara Development Commission |
| 30 November 1995 | Mr George Etrelezis | Managing Director, Small Business Development Corporation |
| 5 December 1995 | Dr Bryan Jenkins | Chief Executive Officer, Department of Environmental Protection |

SCHEDULE 3

**INVESTIGATIVE TOUR BRIEFINGS
REPUBLIC OF IRELAND**

| Briefing | Date |
|---|----------------|
| Mr Paddy Quane, Senior Consultant, Shannon Development | 3 October 1995 |
| Mr John Quinlivan, Regional Manager-Clare, Shannon Development | 3 October 1995 |
| Ms Patricia Byrne, Chief Executive, National Technological Park, Plassey, Limerick City | 3 October 1995 |
| Mr John Dillon, Investment Manager, Shannon Development | 3 October 1995 |
| Ms Eileen Quin, Public Relations Executive, Shannon Development | 3 October 1995 |

UNITED STATES OF AMERICA

Washington DC

| Briefing | Date |
|---|----------------|
| Mr Michael Cain, Program Officer, Office of International Visitors, United States Information Agency(USIA) | 5 October 1995 |
| Mr William Brown, Program Officer and Ms Stacey Richardson, Program Assistant, International Programs, USDA Graduate School | 5 October 1995 |
| Mr Denis Lieberman, Communications Team Director, National School-to-work Office, Department of Education | 5 October 1995 |
| Dr Alan Ginsburg, Director, Planning and Evaluation Service, Department of Education | 5 October 1995 |
| Mr Abe Frank, Director, Council of State Governments | 5 October 1995 |
| Mr Phillip Dearborn, Director of Government Finance Research Advisory Commission on Intergovernmental Relations | 5 October 1995 |
| Ms Chandra Western, Program Associate, Council of State Community Development Agencies | 5 October 1995 |

Montgomery, Alabama

| Briefing | Date |
|---|----------------|
| Mr Gary Faulkner, International Development Representative Alabama Development Office, Alabama Centre for Commerce | 5 October 1995 |
| Mr Ed Castile, Director, Alabama Industrial Training Institute | 5 October 1995 |
| Mr Ed Martin, Communications, Alabama Department of Economic and Community Affairs | 5 October 1995 |

Tuscaloosa and Birmingham, Alabama

| Briefing | Date |
|--|----------------|
| Mr Phillip Anderson, President, PW Anderson and Partners | 6 October 1995 |

Chicago, Illinois

| Briefing | Date |
|---|-----------------|
| Mr Robert Bruce, Foreign Direct Investment Manager, Illinois, Department of Commerce and Community Affairs | 10 October 1995 |
| Mr Bob Skurla, Executive Director, Chicago Southland Development, Inc | 11 October 1995 |

Denver, Colorado

| Briefing | Date |
|--|-----------------|
| Mr John Dill, Executive Director, Office of Business Development | 12 October 1995 |
| Mr Evan Metcalf, Mr Kim Schmidt and Mr Jimmy Van Nelson, Senior Officers, Office of Business Development | 12 October 1995 |
| Mr Russ Berry, Deputy Director and Mr Don Fortivo, Senior Officer, Small Business Administration | 12 October 1995 |
| Ms Colleen Schwartz, Director of Commercial Programs and Mr Dave Herlinger, Executive Director, Colorado Housing and Finance Authority | 12 October 1995 |

Sacramento, California

| Briefing | Date |
|---|-----------------|
| Mr Wayne Schell, President, California Association for Local Economic Development | 13 October 1995 |
| Mr Bill Carlsson, Director, California Redevelopment Commission | 13 October 1995 |
| Mr Glenn Stober, Office of Business Development | 13 October 1995 |
| Mr Jeffrey Lin, California Association for Local Economic Development | 13 October 1995 |
| Ms Jennifer Stanley and Ms Shamini Atha, Foreign Investment Specialists, California Trade and Commerce Agency | 13 October 1995 |

INVESTIGATIVE TRAVEL

SUMMARY OF DISCUSSIONS

Republic of Ireland

Shannon Development

Shannon Development (SD) was established by an Act of Parliament and is governed by Articles of Association. It has a Board of Directors which includes Senior Executives of Multinational companies, Employees and government representatives.

SD invests in companies through venture and seed capital, rather than in direct grants. The idea is that SD will exit a company after 4-5 years and start the process again with new ventures. It is intended that it will focus on new ideas and initiatives.

The key word used by SD now is “integrated development” - this means that one industry product such as a tourist attraction may be identified and then secondary industries are identified and assisted.

After developing a product, SD then will privatise or sell off the product. Products so developed are then marketed in local tourist offices.

History

In 1968, the government requested that SD spread out into other counties. In order to undertake this expanded role, SD developed a strategic plan recognising other “cogs in the wheel”, such as local authorities, the education and transportation system. All players were involved in preparing the strategic plan. It was also discussed with communities.

Regional Industrial Parks were established, following local discussions. In all of the developments, industry is the final arbiter, with SD playing a facilitation role. The major incentives for industries came in:

- Tax free profits until 2005/2010
- 100% training costs met over an agreed period
- Researched/Designed or modified factories, SD paying 50% of costs.
- A 50% rent subsidy - a flexible arrangement on land (rent/sale/lease etc)

SD did attempt to provide direct financial incentives to large multinational companies but these were not very successful as it was not the assistance those companies are interested in.

Performance Measurement for Shannon Development

As an assessable objective, SD has a requirement to produce net jobs every year. It has managed to achieve this in each of its 35 years. Another measure is the number of bednights in hotels within the tourist sector.

A cost benefit analysis of SD’s activities was tried some years ago but was given up due to a lack of meaningful data. Since that time, there has been a substantial increase in SD’s capacity to gather data and it is now considered that a cost benefit analysis could be done, although it has not yet happened. In-house data suggests that SD can judge its own activities and it now generates about 80% of its operating costs.

John Quinlivan, Regional Manager, County Clare

In Ireland, there is a tendency for people to think “county” rather than region, which presents SD with a problem because of their regional focus.

The method of delivery by SD tends therefore to be regional programs through local offices. The strategies SD develop are on a county basis, even though their focus is regional. The three core areas include, General Industry, Tourism, and Local Economic Development.

One of the key difficulties of the local approach for SD is to try to curb local enthusiasm for certain projects which may lead to inefficient activities or use of resources. Getting local authorities to focus regionally, nationally or internationally can be very problematic.

Similarly, the Innovation Centre has been established to support high tech projects, especially small projects. This development has led to the establishment of the Industrial Park, which in turn has seen the emergence of significant locally invested, designed and manufactured products.

In County Clare, a major form of assistance provided by SD is through their Equity Investment programs. These include Seed Capital and Venture Capital Components. The venture capital program has a number of criteria, including:

- recipients must be registered company;
- Must be a product based company;
- the business must be able to provide a return on investment;

This venture capital program has not been all that important in the past but is now becoming more important with the development of indigenous industries. It is now making some 10 investments per year.

Seed Capital is difficult to get from SD as it places fairly stringent criteria on its investments and does not favour this form of financing. SD is not a lender of last resort as it invests on an equal basis with the private banks, in most instances.

Ms Patricia Byrne, Technological Park, Plassey

The National Technological Park (NTP), Plassey is about 10 years old and is a wholly owned subsidiary of Shannon Development. It is something of a management vehicle for SD.

The basis of the establishment of the NTP is the fact that Ireland is relatively recently independent, and there has been underdevelopment of indigenous industries. There was previously a tendency to try to protect industry. The economy of Ireland was also extremely precarious for a number of decades.

In 1970, the government gave Limerick a technological university. The university has developed a strong relationship with SD and the NTP was established by SD with the university in the early 1980's. It now plays a crucial role in the region. The NTP's creed is Excellence **and** relevance and its mission statement is to provide:

An added-value managed environment for technology based enterprises in Ireland's Shannon Region.

Currently, there are 80 companies operating in the NTP, most of them small Irish technology companies. There is a mix of ownership of the land and buildings, between the NTP, client companies using the park and private property developers. The Park is promoted through IDA Ireland, and there is a package of incentives, including:

- Tax incentives - a rebate of 10% of company tax.
- Cash incentives - with capital costs being partly met by government.
- Soft grants, ie training R&D funding being provided by government.

Inward investment from Overseas must be balanced by the development of indigenous companies. Many of the companies that are succeeding are coming out of incubators, with many of these having University of Limerick graduates. There are also a number of commercial R&D and training consultancy companies emerging.

There is a built-in periodic evaluation process within the NTP to ensure that it remains effective and relevant. SD have also tried to maintain the currency of the evaluation process by going through the quality Assurance process - ISO.

Mr John Dillon, Shannon Development

Since 1991, Shannon Development has been looking for new ways to provide assistance. The provision of finance through equity investments are therefore a relatively new activity.

One of the reasons for moving to equity investment was the perception that grants and loans will have a big failure rate at the high risk end of the market. There was also concerns about the development of a grant mentality among companies.

The change was established by 30% of grant funds being invested in equity investments. The equity investments are administered by an independent and autonomous division of SD.

The Authority will sue non payers as any other venture capital company. This is beginning to sink in to client companies, of whom there are currently about 40. The main core portfolio has about 25 companies, with current investments totalling about \$18m.

Decision-making for the equity investment division of SD is largely governed by the Industrial Development Act, which is very restrictive. SD requires Ministerial approval for any investments exceeding £1.5m.

The return on investment by SD tends to be quick because companies want them out and therefore tend to pay as quickly as possible. Companies that SD have equity investments in have to provide detailed and fairly constant information, such as minutes, business plans and the like.

Seed capital, when it is provided, tends to be in the early stage of a company's development and is limited to 30% of the total value of shares. In many cases, exiting from these arrangements can be difficult as the capital growth of the companies may be slower in growing. There is a perception that many companies which receive seed money would in fact have preferred the old grant system.

The short time frame that the equity investment approach has been taken is not long enough to gauge its success but SD consider that the trends are positive.

The critical point for the evaluation of its investments is at exit. If SD can't exit at the time that it agrees to to so with its money and expected return, then it shouldn't be in the business at all.

United States of America

Washington DC

Mr Denis Lieberman, Education Department

The Committee met with Mr Denis Lieberman and two colleagues to discuss the School-to-work program. This program is described as a whole system, rather than a training system. It began in 1994, with the School to Work Act, and is designed to provide seed money for communities to develop school to work systems.

It is being driven by a need - particularly those of employers who consider that their potential employees lack certain important skills.

Dr Alan Ginsburg, Education Department

The Committee was told by Mr Ginsburg in its second meeting in Washington, that tax credits for training are the major contribution made by the Federal government to industrial training.

Training can be a lure by governments to attract companies - an example the Committee was given was the attraction of Siemens to Florida by the offer of free training for employees. This is, however, a state-based activity as the Federal government wouldn't hand out money in the same way. Even within the states there is a move away from direct forms of assistance and a tendency towards indirect "climate setting" assistance.

Mr Abe Frank, Council of State Governments

The Committee was told that the Council of State Governments is the oldest and largest entity representing state governments in the US.

The Competition between states for industry has become a very big issue in the US. One of the functions of the CSG is to provide a forum where state leaders can work together. There have been changes in Congress that have lead to greater focus on States. Many of the incentive packages provided by states include training.

Mr Phillip Dearborn, ACIR

The Advisory Commission on Intergovernmental Relations was established in 1959 when State and Federal relations had become a major political issue. It represents the Federal, State and Local governmental levels and has looked at almost every aspect of Federal/State and State/State relations.

Grants have in the past been seen as job creation programs rather than a form of economic development.

Mr Dearborn suggested to the Committee that assistance to companies had a problem in that it rewarded new players at the cost of old ones, as all spending had a cost elsewhere. Incentive packages are really only appealing to politicians.

Ms Chandra Western, Council of State Community Development Agencies

The Committee and Ms Chandra Western discussed the Rural Development Block Grant program.

Alabama

In Alabama, the Committee saw the most comprehensive approach to investment attraction it has seen during its inquiry in the form of the Alabama Commerce Centre, a purpose built complex that keeps all of the agencies relevant to industry development together in one place.

While the economic base of Alabama is very different from that of Western Australia, the professionalism of the presentation that is made to prospective investors in the State is notable.

The Commerce Centre has, in addition to the offices of the key regulating and facilitating agencies, a Teleconference Room with State-of-the-art equipment, various well equipped meeting rooms, Private dining rooms to enable negotiations to continue over dinner or lunch, and a presentation room.

The Presentation Room at the Alabama Resource Centre was where the Committee were provided with a four hour demonstration of the advantages that Alabama has to offer. This multimedia and multi-agency demonstration provided a high tech as well as very human forum for a prospective company to have almost

all of its preliminary questions answered in the one place. All relevant agencies were represented and gave a presentation to the Committee during the presentation put on for its benefit, and questions were answered at that time.

The multimedia presentation included access to a range of databases, in which prospective investors could watch video presentations; have access to all information about geographical sites; be provided with information about any regulations and taxation obligations that may be relevant to a planned project; and be provided with a wide range of statistics which would enable them to make comparisons between various alternative sites, both within Alabama and elsewhere.

During the demonstration for the Committee, a hypothetical project/company was used as an example and the Committee was shown how comprehensive was the available information. The prospective company was able to identify what size and type of land it required, with the various infrastructure requirements, and the database would show all available land that fitted into the required parameters. The data included topographical information and price, and showed the land on a detailed map of the State, putting the site into geographical context. It also included photographs of the site.

Information was then provided on communications facilities available in the State, infrastructure and financing issues, and there was a long and detailed run-down on Alabama's comprehensive industrial training system.

The Alabama Development Office (ADO) is very keen to stress the team approach, with all elements of the government's resources being seen as important. It is not as large as some other states' offices, with about 50 people, but prides itself on the level of co-ordination.

The ADO considers that its role is to create wealth locally and improve the quality of life of the population through the expansion of existing industry and the creation of new ones.

The Committee was told that one of the challenges facing the ADO was a shift in the economy away from the export of bulk product towards value adding, a clear parallel with the Australian experience.

On the issue of incentives, the ADO was keen to stress to the Committee that despite the general view being expressed outside of the State, Alabama was not writing blank cheques for companies in order to attract them to the State.

The most widely publicised deal involving industry attraction in Alabama was the recent Mercedes plant being established there. The Committee heard a number of estimates from other sources about how much the incentive package was worth, and figures as high as \$300m were being discussed outside of Alabama. While the ADO people would not give a specific figure, they suggested that most of these estimates were vastly exaggerated.

Of the incentives themselves, they told the Committee that while some of them were specific to Mercedes, many were generally available to other companies. They also stressed that all of the programs were assessed and reviewed regularly to ensure they remained appropriate.

The main forms of assistance given are for infrastructure and loan programs of various kinds. While some loan programs can run into tens of millions of dollars, the large companies tend not to need them as they have access to private money. While tax incentives are offered in some cases, Alabama prides itself on its low taxation levels so that is seen to be an incentive of itself.

Alabama is proud of a non-adversarial relationship it has with business and considers that by creating an environment conducive to business, it will become an increasingly attractive investment destination.

Training

A significant point of discussion with the Alabama Development Office centred around the provision by the Alabama government of industrial training.

AIDT (Alabama Industrial Development Training) assists industries by recruiting staff, screening them, selecting them, hiring and training. AIDT claims about a 95% success rate, with little or no attrition after a year. It trains between 3000 and 4000 people per year.

The selection process is important because it enables AIDT to combine new with existing skills. The training provided is very project-based and specific, with the company concerned usually identifying the appropriate training personnel. Most of the people who apply are already working and as such it is something of an up-skilling process, and is not a welfare-related program.

AIDT is used to some extent as an industry attraction package, as the company does not pay for the training received. While it is unlikely to be the key factor, it may assist by swinging the company if all other things are equal.

Illinois

Mr Robert Bruce, Director of International Investment, Illinois Department of Commerce and Community Affairs.

The Committee's brief visit to Illinois also provided the Committee with an opportunity to visit actual examples of the results of financial assistance, in the form of the South Chicago Development Authority. This visit involved looking at the Acme Steel Company's new steel mill, and a recycling and energy centre in Robbins. Some brief details of these projects are provided at the end of this section.

Mr Bruce acknowledged that some states had particular problems and that lead to variations in the attitudes of states to financial assistance. He made reference to Alabama as a state that was very aggressive in its investment attraction programs because of the largely less developed economy of the state. He was not in any way critical of the processes that Alabama go through as he recognised that its needs were different to that of Illinois.

In Illinois' case, Mr Bruce said there was a move away from providing direct financial assistance. He said that even in the highly competitive automotive industry, there was now a more conservative approach from the Illinois government where they were no longer "buying" investment.

The main reasons for this shift are a combination of the lack of need to do it, with Illinois having a key geographical advantage as the central hub of US transportation, an awareness of the fact that it is taxpayer's money being spent, and the cost to other businesses.

There is a general view in Illinois that the seeking of new business is in fact job replacement rather than job creation, as new businesses have a tendency to displace existing ones. Therefore, the Illinois government's main focus is on existing rather than new businesses.

Mr Bruce suggested that the attraction of businesses from other states - the "smokestack chasing" syndrome - are a zero sum game for the country and are not a good thing. Illinois will try to attract companies simply by using its natural advantage as the central transportation point in the US.

Chicago has the world's busiest airport, the busiest rail system, the major rivers in the US, an extensive road system, and the Great Lakes providing major advantages in deep water port facilities.

It also is very close to Canada and that country is its major trading partner. This strategic location provides its natural and industrial advantage. There are also intangible lifestyle advantages that attract people to the state.

Illinois has six foreign offices. Illinois Advantage is a campaign run by the Illinois government and is not primarily aimed at getting business, but to ensure that existing business are aware of the advantages that are available in the state. The campaign has a \$250,000 budget for advertising for business attraction.

In the United States a lot of money is spent on economic advertising, but Illinois does very little. This is in contrast with the Southeastern States which have a more pro-active approach to economic development.

Illinois does not want companies coming if they are going to fall over. For this reason, the government sees information as crucial. Illinois will give prospective companies objective information and enable them to make their own commercial decisions..

Training

Illinois has a training budget of \$15m and yet receives applications for \$35m. There are training demands coming from companies, including multi-company grants, and single company grants. As a rule, government looks for existing training programs, although they will create specific programs if required. There is also provision for the government to pay to train the trainers. In addition, the government will provide grants to fund "in House" training by the company.

Enterprise Zones

The Enterprise Zones are legislated, including location. There are currently six in Chicago. The Enterprise Zones are administered by local government with oversight by DCA to ensure that there is full compliance with law.

DCCA

Bob Bruce's role is to co-ordinate all elements of a project - get the company to meet with right people, ie., environmental standards etc. DCCA advise foreign companies to engage a US lawyer first to ensure that they obtain relevant and accurate advice about US standards and requirements. DCCA is facilitator not a functionary.

The exception to this is where there may be a major infrastructure requirement. In this case, DCCA may be more actively involved.

Illinois does have a "One Stop" concept, but it is more theoretical than practical. Economic Developers have a major role in ensuring that the issues are identified.

The utilities companies have Economic Development incentive rates; and there are some tax abatements outside Enterprise Zones. For example, some communities provide free land and loan funds.

Colorado

OFFICE OF BUSINESS DEVELOPMENT

The Committee met with Mr John Dill, Executive Director of the OBD, and senior officers Evan Metcalf, Kim Schmidt, and Jimmy Van Nelson. The meeting was also attended by the Australian Honorary Consul, Mr Mark O'Regan.

The vision of the OBD is based around a core business of investment attraction. It also includes a minority business office, a Small Business office and Enterprise Zones administration.

The office is staffed by different departments and involves a great deal of co-operation between departments. There is, however, no "one stop shop" approach as exists in Alabama, with the exception of the Small Business office.

Colorado has recently been ranked by a prominent Washington thinktank as the “best business environment” in the United States. In addition to the business climate, Colorado has a very attractive physical environment and the Committee was advised that increasingly American companies are seeing the importance of lifestyle and that many are moving to Colorado for this reason.

Strategic Plan

Colorado put in place a strategic plan in 1990 and it completed its cycle in 1995. It will now be reviewed and up-dated into another five year plan. Incorporated into the planning process is the Government’s Smart Growth initiative which aims at setting general goals for the state, and building a planning structure from the ground up.

The Smart Growth initiative has six key objectives:

- Superior jobs, including a living wage and a future;
- Education and Training, must be relevant to the industries, both established and emerging;
- Taxation and Regulation must be as non-restrictive as possible, without discounting them;
- Infrastructure such as transport and telecommunications must meet the needs of business;
- Environmental management is essential in Colorado as the natural beauty of the state is one of its main attractions, for tourists and to attract people to live and work there.
- Quality of community.

The strategic planning process in Colorado is a whole-of-state one, with a series of regional meetings being held to identify the key goals for the state. Representatives from each region are asked to provide a preferred vision for their communities for the future.

The planning process has been affected both by these meetings and by the Governor’s Smart Growth initiative, with criteria for investment attraction programs being developed according to the key objectives outlined earlier.

One of the most salient points made during the Committee’s discussions was in relation to the difficulties in getting people to focus on planning and long-term strategies during good times. There is a tendency for strategies to be developed in response to crises rather than as a way of consolidating current prosperity or taking advantage future opportunities.

Previous Strategic Plan 1990-95

The original Strategic Plan completed its cycle this year and is considered by the Colorado government to be largely successful. It has achieved its broad objectives, although it is difficult to tell how it has affected the day-to-day operations of government.

The planning process has identified high technology industries with environmentally friendly operations as a preferred option for industry into the future. There is now more effort put into attracting business, although there is little “smokestack chasing”. There is significant emphasis placed on business retention, although there is not the crisis evident in California.

The Colorado Economic Development Commission does provide grants to companies on a case-by-case basis but this does not form a substantial activity of government. The view of the Colorado government is that tax buydowns are circular in their impact. Any benefit received by one company is a cost to another. The taxation losses will often offset any financial gains and therefore it is not a favoured approach.

The Committee was told that the South Eastern corner of the United States has taken a more aggressive line towards investment attraction because they have had to. They did not have the established industries, and their agricultural base was eroded by technology and world demand.

The view was expressed by the Colorado officials that Alabama had, in fact, done well given their State’s lack of natural advantages.

Enterprise Zones

Substantial discussion took place about Enterprise Zones, which are a widely used tool throughout the US to stimulate economic growth in economically disadvantaged regions. The Enterprise Zones are federally funded and largely locally administered and have been operating since 1986.

The Colorado Enterprise Zones program provides credits on State income and corporate taxes and job taxes. Last year, there were an estimated \$13 million worth of credits given in Colorado. This was greater than the combined amount of Commission loans and grants or training assistance given by the government.

There are some disadvantages or weaknesses in the scheme. Companies can gain benefits for investments, even if they would have undertaken the investment without the program. Another disadvantage is that it does not make sense to maintain the Enterprise Zones after they have achieved their purpose and raised the economic performance of a region. However, it is currently not possible to remove the Enterprise Zone status of an area.

SMALL BUSINESS ADMINISTRATION- COLORADO, Deputy Director Russ Berry and senior officer Don Fortivo.

Introduction

The Committee visited the Small Business Administration in Denver. The SBA is a federal agency that operates in every state and was established in 1954. It was originally established to assist small businesses (about 90% of US business are defined as “small”) to get government contracts. In addition, it aimed to provide long-term financing.

The SBA does no lending of its own. It still has the legislative authority to do so but there is no appropriation made to enable loans or grants to be made. It administers the Small Business Act and under Section 7 (c) can guarantee bank loans “for any worthwhile business purpose”.

The business gains largely because the SBA arrangements will enable banks to be more flexible with businesses and because the SBA takes a long-term view that the banks are unable to take.

There are also a number of Small Business Development Centres, established by universities and state governments, with matching dollar for dollar grants from the Federal Government. The SBA also provides counselling and business training services, usually through the universities and the training institutions.

The Guarantee Scheme

Currently, the SBA has about 5000 loans in Colorado alone, amounting to about \$1 billion in guarantees. The current running loss rates on those guarantees is less than 1%.

There are a number of criteria used to determine whether a business will receive assistance from SBA. These include:

- The business must have a reasonably sound debt to equity position.
- There needs to be the potential for earnings/cashflow in order to service loans.
- Collateral is sought, but it is not essential. This is determined on a case-by-case basis.
- There needs to be a willingness by the business to inject its own capital into the venture.

All businesses applying for assistance must prepare a business plan, and a market and feasibility study. For new businesses, there must be projected earnings included, which SBA will compare with industry standards to ascertain the accuracy of them.

Colorado Housing and Finance Authority, Colleen Schwarz, Director of Commercial Programs, and Dave Hurlinger, Executive Director

Background

The CHFA is a self-sufficient, quasi-governmental, public enterprise with a dual role of housing and economic development. It is a corporate body with its powers derived from the *Colorado Housing and Finance Authority Act*.

Financial Assistance Programs

A range of financial assistance programs involving the provision of Commercial loans are made available to small to medium sized businesses through the CHFA's Commercial Division. Assistance is intended to assist with costs associated with the purchasing and equipment, working capital re-financing and existing debt problems. Some programs are jointly administered with federal programs whilst others are administered on a local level by the CHFA.

Specific eligibility criteria also to most programs. All loans are approved by a special loan committee and the Board of Directors. The CHFA enhances SBA programs, as it takes a middle position between the SBA and the private lenders.

California**Sacramento
Meeting One**

The Committee met with:

Mr Wayne Schell President, California Association for Local Economic Development
 Mr Bill Carlsson Director, California Redevelopment Commission
 Mr Glenn Stober, Office of Business Development
 Mr Jeffrey Lin CALED

The Californian representatives advised the Committee that they are less enthusiastic about handing out incentives packages but they have done so. There was some criticism of the Alabama Mercedes deal, with estimates of the cost of the package ranging up to \$300 million.

The view was expressed that in California, it was not the legislative environment that created the most difficulties, but the process. It is too complex.

The recession took longer to take hold in California which made the state a target for other states who were feeling the pinch. This has resulted in about 30 states establishing offices in California in order to attract businesses away from California.

The result of the defensive strategies that have had to be developed by California has been that they have become the most effective business retention state in the country. California is now offering incentives for businesses to stay. There is still a reluctance to go "smoke stack chasing".

A focus has been on the regulatory environment. A situation had arisen where to "permit something actually meant to prohibit something", where permitting was seen not as a facilitator of development but an obstacle to it.

The Californian communities were now looking at their methods and are doing things like standardising building permits to more easily facilitate industries. One of the key focuses of the approach is making it easier for companies to interact with each other.

The goal for economic development was always jobs in the past, although there is now a greater emphasis on revenue generation. California has not had a strategy, although they are now working on regional strategies. It is not possible with such a large and diverse state to have a whole state strategy.

There was some discussion about the argument that governments should just get out of the way and let businesses get on with it. This was strongly rebuffed by Mr Schell who argued that it was completely naive. The debate should not be whether they should have a role, but what that role should be. The processes employed by government are important and it should be recognised that the role is cyclical. In certain times, particularly those of financial hardship, it can be expected that government has a greater role.

In California, the state government is not a strong player - most of the activity happens at the local level. The cities and counties are doing the deals, with the state government giving marginal assistance where it can.

The Committee was told that the State and local levels of government had been working together but that there had been a lack of co-ordination in the past. This had led to the creation of "Team California" which was designed to create a co-ordinated network of agencies and skilled people to work on big projects.

As part of this approach, "Red Teams" would be put together by either the Office of Business Development or the Department of Trade and Commerce to facilitate these projects.

The "Red Team" will comprise specific professionals covering all of the necessary skills and experience for the particular project and will largely be a problem solving group. The actual personnel for the "Red Team" will be put together by the Economic Development people from the local government where the project was going to be.

The State government provide training for those involved with the Red Team as to how it should be run.

Small business is the main target for the State government in California for financial assistance, usually in the form of loan guarantees. The California State Government provides Small Business Development Centres which provide information and advice for prospective and established small businesses.

There has also been the creation of the Revolving Loan Fund (RLF) programs which provides funds to communities to lend amounts to small businesses. These usually have a job creation criteria attached to them. Currently, there are more than \$150m in such loans outstanding.

Sacramento - Meeting Two, Ms Jennifer Stanley and Ms Shamini Atha, Foreign Investment Specialists, California Trade and Commerce Agency.

The Office of Foreign Investment undertakes a variety of roles, including:

- trade and policy research;
- legislative activities;
- advocacy in the various legislatures;
- administers departmental programs

The office attempts to attract foreign companies to invest in California. The main focus is on companies that are likely to be job-creating.

The office assists in site selection, undertakes outbound investment missions, and arranges the programs for inbound missions. For local companies, OFI helps identify appropriate foreign partners for direct capital investment, joint venture partnerships, licensing agreements and R&D collaboration. OFI tries to match people wanting to invest in small businesses with an appropriate venture and works with these partnerships, although this process is in its infancy.

In terms of direct assistance, the office identifies the needs of the company, including providing details of the costs the company faces, identifies the required utilities, environmental requirements and land needs.

The information provided to companies is provided by the local communities and cities and is not available on a single database as was the case in Alabama. It is provided on request on a project-by-project basis through the OFI's regional offices.

The OFI stressed that the information that it provides is objective and is not necessarily a sales pitch. They provide data both positive and negative. Commercial confidentiality is maintained by the agency.

When a company comes in, the OFI puts together a “Red Team” which brings together all of the agencies and works together throughout the establishment of a project. Further information is being sought regarding the involvement of the private utilities in these teams.

Most of the financial incentives come from local communities by way of taxation concessions.

The agency now approaches companies about locating in California. The TCA identified a weakness in the State’s marketing of itself as a problem. This is perhaps because it is not an area that they have needed in the past to develop expertise in but is now important.

SCHEDULE 4**SUMMARY OF BRIEFINGS AND CONFERENCES
AND OTHER RELATED EVENTS ATTENDED BY THE COMMITTEE**

| DATE | BRIEFING / CONFERENCE | IN ATTENDANCE |
|--------------------|---|--|
| 14 September 1995 | <i>Regional Development in Western Australia Seminar.</i> Presentations and contributions were made by officers of Regional Development Commissions and Government agencies (refer to Appendix). <u>Venue:</u> Muresk Agricultural College, Northam. | Mr Max Trenorden, MLA, Mr Michael Baker Ms Amanda Millsom Mr Andrew Young |
| 15 September 1995 | Presentation and briefing on the Project Financial Benefits Model (BENE) from Mr Des Kelly, Chief Executive Officer, Department of Resources Development and other Officers. <u>Venue:</u> Department of Resources Development, Perth. | Mr Larry Graham, MLA Mr Michael Baker Mr Andrew Young |
| 9-10 November 1995 | <i>Directions for Industry Seminar</i> Speakers included Government Agencies and Industry representatives. <u>Venue:</u> Hyatt Hotel, Perth | Mr Michael Baker Ms Amanda Millsom Mr Andrew Young |
| 22 November 1995 | Briefing and presentation on infrastructure planning, funding and priorities from Dr Ken Michael, Commissioner of Main Roads, Mr G Hackett, Mr B Clarke and Mr P Waugh. <u>Venue:</u> Department of Main Roads, East Perth. | Mr Max Trenorden, MLA Mr Larry Graham, MLA Mr Mike Board, MLA Mr Barry Blaikie, MLA Mr Michael Baker Ms Amanda Millsom Mr Andrew Young |
| 20 February 1996 | Industry Commission Public Hearing. <i>Witnesses:</i> Mr Bruce Sutherland, Chief Executive Officer, Mr Ross Weaver, Manager Investment Attraction, Department of Commerce and Trade. <u>Venue:</u> Novotel Langley Hotel, Perth | Ms Amanda Millsom Mr Andrew Young |

SCHEDULE 5

INDUSTRY INCENTIVES POLICY (IIP) - GUIDELINES

1. Aim of IIP

In addition to the primary role of Government to provide the appropriate environment for industry, the aim of the IIP is to attract major new industries willing to make a major capital investment in Western Australia and in particular those involved in manufacturing and secondary processing. An incentive may be offered to a project for which the State is competing and for which the wider economic benefits, or public rate of return, of the investment justifies the incentive.

2. Value of Incentives

The total value of the incentive package offered will be based on an assessment of the net economic benefits and the strategic importance of the project to the State and will take into account the project location and compatibility with specific policy objectives of the Government.

3. Eligibility Criteria

Eligibility for incentives will be assessed against the following criteria:

- The project for which incentives are sought must relate to the establishment of a new industry which may involve the establishment of a new operation or the expansion of an existing operation:
- It needs to be demonstrated that the project will not occur in the State unless incentives are provided.
- The project will need to demonstrate significant net economic benefits to Western Australia. There will need to be a positive public rate of return which will invariably be higher than the project's internal rate of return; factors include government revenue, technology transfers and the upgrading of workforce skills together with enhanced profitability and increased market opportunities for existing industry.
- The project must relate to the establishment or development of an industry that has not benefited significantly from State Government financial assistance and where the provision of incentives will not result in an unfair competitive advantage over existing Western Australian companies.
- The capital establishment cost of the project is to be a minimum of \$A2.5 million which will include an appropriate level of equity funding. In recognition of the Government's commitment to regional development and the nature and type of such projects the capital establishment cost of regional projects is to be a minimum of \$A1 million.
- The project's feasibility study and business plan, together with other information required by Government to be provided for its assessment, will need to indicate long term commercial viability.
- The project is to be either in the manufacturing or services sector. Projects which are based on the extractive component of mining, primary agricultural production and retail are excluded.
- The project will need to be substantially export oriented or import replacement or involve the processing of and value adding to the State's natural resources.

4. The Range of Incentives Offered

The incentive package which may be offered to an eligible project may comprise one or more components tailored to suit both the specific requirements of the project proponents and the Government's objectives with respect to the project. Possible components include:

- capital establishment grants (interest-free convertible loans);
- concessional or interest free loans;
- provision of public infrastructure necessary for the project;
- provision of land (serviced or unserviced) either by way of a grant or on a concessional basis;
- Provision of buildings either by way of a grant or on a concessional basis.
- Rebates.

5. Assessment of Incentive Packages

Projects seeking State Government incentives will be assessed in detail by the Department of Commerce and Trade, on a case by case basis, and the provision of incentives will be approved or rejected by Cabinet.

6. Other Issues

The incentives guidelines outlined are not applicable to the provision of **financial assistance to industry to maintain viability or ensure continued operation**. These guidelines specifically relate to facilitating the establishment of either new, or significant expansions of, industries in Western Australia.

SCHEDULE 6

THE DEPARTMENT OF COMMERCE AND TRADE:

BACKGROUND ISSUES OF ADMINISTRATION AND ACCOUNTABILITY

The Committee has prepared this overview to be read in conjunction with the section of Chapter Five headed, 'The Department of Commerce and Trade'.

Introduction

The Department of Commerce and Trade (DCT) was created following the election of the present Government in February, 1993.

Two reports, completed in 1994, - from the office of the Auditor General and Ministerially commissioned consultants Price Waterhouse Urwick and Michell Sillar McPhee, - have formed the major basis and background to the Committee's considerations of DCT's administration of financial assistance to industry.

In November 1994, the Office of the Auditor General reported on aspects of DCT's administration of financial assistance to industry. In summary, that review found administrative weaknesses, including:

- an ineffective legislative framework;
- inconsistent assessment of assistance applications against eligibility criteria;
- limited evaluation of the effectiveness of schemes; and
- a lack of monitoring of assisted projects.¹⁴⁹

In December 1994, Price Waterhouse Urwick completed a 'Review Of The Operations Of The Technology And Industry Development Act 1983 (WA)' for the Department of Commerce and Trade. The Review focused on legislative and operational areas.

Legislative recommendations included:

- Merging the Industry (Advances) Act 1947 and the Technology and Industry Development Act 1983 into one new Act to underpin the operation of DCT;
- A broad definition of financial support to cover any type of financial activity;
- The power for the Department to invest in an applicant by way of holding debentures, shares, bonds or stocks in that applicant company; and
- The retention of the Department of Commerce and Trade as a government department.¹⁵⁰

The Consultants undertook a wide ranging review of the Department's operations, some of which were more relevant to the Committee's Inquiry focus than others, including:

- departmental strategy, planning and program priorities;
- coordination between DCT and other agencies;
- effectiveness and appropriateness of assistance schemes; and
- effectiveness of internal administration and environment.

Program Budgets

¹⁴⁹ Office of the Auditor General, WA, Report No 5, November 1994, *Administration of Aspects of Financial Assistance to Industry*.

¹⁵⁰ Price Waterhouse Urwick, *Review of the Operations of the Technology and Industry Development Act 1983*, Vol 1, December 1994, p.5-6

Until 1995-96 DCT's administration was based on 3 (non corporate services) programs. Expenditure on grants, subsidies and transfer payments for those programs are shown below.

| Program | 1993-94 | 1994-95 (Estimates) |
|----------------------|----------------|----------------------------|
| Industry Development | \$16.5m | \$23.8m |
| Trade Development | \$1.0m | \$1.1m |
| Regional Development | \$4.0m | \$8.0m |

For the 1995/96 year the Department has collapsed these three programs down into a two program structure, with Industry Development and Trade Development being amalgamated into the 'Investment and Trade Development' program. Actual expenditure on grants, subsidies and transfer payments for 1994-95 and 1995-96 and estimated expenditure for 1996-97 are as follows:

| Program | 1994-95 | 1995-96 | 1996-97 |
|----------------------------------|----------------|----------------|----------------|
| Investment and Trade Development | \$22.67m | \$14.95m | \$19.35m |
| Regional Development | \$4.39m | \$9.17m | \$6.82m |

The most significant shift in expenditure emphasis has come in the allocation of grants funding to Industry Incentives. In 1994-95, the incentives accounted for \$12.1 million, but account for only \$5.4 million of revised estimated expenditure for 1995-96.¹⁵¹

The provision of financial assistance to industry is described as "investment incentives" by DCT in reference to those projects that must satisfy the Industry Incentives Policy criteria and receive Cabinet approval. The Department regards this assistance as a "key strategy of the agency".¹⁵²

At the end of the 1994-95 financial year the accumulated number of incentives packages still being monitored by the agency was 27, which represented approved financial assistance of \$45.5 million.¹⁵³

DCT's revised, projected out-turn to December 1995, of \$5.4 million, provides investment incentives for sixteen organisations.

Accountability

With a number of shortcomings in DCT's administration and processes of accountability brought to light by the reports of the Auditor General and the Consultants in 1994, the Committee's focus has been on the Department's response and more recent activities. With some qualification, the Department has generally responded positively and improved its administrative and managerial effectiveness, thus improving accountability.

¹⁵¹ Correspondence from DCT, 28 December, 1995

¹⁵² Department of Commerce and Trade, (WA), Annual Report, 1994-95 p7

¹⁵³ Department of Commerce and Trade, (WA), Annual Report, 1994-95, p7

The Department is operationally governed by two acts, the *Technology and Industry Development Act* 1983 and the *Industry (Advances) Act* 1947. Financial support in the form of loan guarantees, capital establishment grants and regional industry grants have typically been provided under the *Industry (Advances) Act*.

DCT reported in 1994 that its Minister, the Hon Hendy Cowan, MLA, had requested an independent review of the Technology and Industry Development Act (1983) to be carried out in 1994/95. The review was to "determine if the Act is achieving its aims to encourage, promote, facilitate and assist the development of industry and use of technology in WA"¹⁵⁴.

In the Chief Executive Officer's overview in DCT's most recent annual report, CEO, Mr Bruce Sutherland outlines the Agency's key strategies for promoting the State's economic and industry development, stating that:

At the same time work began on providing a clearer framework for industry assistance from the State Government, with a renewed awareness of the need for increased accountability of government funding.¹⁵⁵

The Administration and Structure of DCT

In the early stages of the Inquiry a submission was received from DCT, which set out to explain the administrative structure and assistance programs of the Department. DCT's submission's structure is evidence of the vast scope of the Department's activities. It is also a convoluted submission in relating the department's programs and the corporate structure illustrated in DCT's then current 1993/94 Annual Report.¹⁵⁶

In its review of the operational aspects of DCT, Price Water house Urwick found that the organisational structure of DCT did not coincide with its program structure. It was concluded that:

This lack of congruence does potentially create difficulties for achieving maximum effectiveness from sub-programs and individual initiatives.¹⁵⁷

Reference to the plethora and vast scope of activities administered by the Department has been made by both the Auditor General and the Consultants. Following Committee questions based on his review of the Industry Attraction Branch, Auditor General, Des Pearson argued that:

From an auditor's perspective you would prefer to see a lesser number of avenues and options¹⁵⁸

As stated above, DCT has changed its program management structure, and this has happened since the Consultant's report. There is evidence of some rationalisation of activities within DCT having started in the 1995-96 year with the transfer of the State Enterprise Centres to the Small Business Development Corporation.

¹⁵⁴ Department of Commerce and Trade, 1993-94, Annual Report, p.5

¹⁵⁵ Department of Commerce and Trade, (WA), Annual Report, 1994-95, p3

¹⁵⁶ Department of Commerce and Trade, 1993-94, Annual Report, p.5

¹⁵⁷ *Review of the Operation of the Technology and Industry Development Act, 1983*, WA, December, 1994, Vol 2, p.30

¹⁵⁸ Evidence, 12/4/95, p.2

SCHEDULE 7

RESOURCE PROCESSING INCENTIVES POLICY

Preamble

The resource processing incentives policy complements Government reforms in such areas as industrial land, energy, water and transport infrastructure and pricing, labour market reform and industry targeted skills formation, all of which aim to create the underlying conditions for more investment. The provision of additional incentives to attract investment into resource processing is considered to be warranted in defined circumstances, namely where there are significant external benefits and where the project would not otherwise locate in the State.

The resource processing incentives policy is consistent with the whole of government industry incentives policy approved by Cabinet on 21 November 1994.

Objective

To attract major new resource processing industries to Western Australia that will deliver net benefits to the State.

Principles

The following principles will be used to guide decisions about *whether* industry incentives should be provided, *what level* of incentives should be provided and *what form* they should take:

- **Benefits** - incentives should deliver real, demonstrable net benefits to the community.
- **Accountability** - incentive arrangements should be transparent, measurable and open to public scrutiny about their costs and risks.
- **Prudence** - incentive arrangements must be able to be met within State financial resources.

Value of Incentives

The value of incentives offered will not exceed the additional revenue available to the State Government that is attributable to the new project.

Eligibility Criteria

Eligibility for incentives will be assessed on the following bases:

- It must be demonstrated that the project will not occur in Western Australia unless incentives are provided.
- The project will need to deliver demonstrable net economic benefits to the State.
- Incentives will only be available for new projects.
- The provision of incentives must not confer an unfair competitive advantage over existing Western Australian companies.

- The project's feasibility study and business plan, together with any other information required by Government, must indicate long term financial viability.
- The project will entail a resource processing component and will be substantially oriented to export or import replacement.
- The capital establishment cost must be at least \$2.5 million and \$1 million in regional areas. There is to be an appropriate level of equity funding.

Types of Incentives

Incentives may take any, or a combination, of the following forms:

- Capital establishment grants (interest free convertible loans)
- Concessional or interest free loans
- Provision of infrastructure (public or project specific) that is necessary for the project
- Free or subsidised land (serviced or unserviced)
- Provision of buildings either by way of a grant or on a concessional basis
- Changes to State Government taxes, charges or royalties.

The particular requirements of the project, as well as the need to provide incentives in an efficient, fair, accountable and administratively simple manner, will be taken into account when determining the most appropriate form for incentives to take.

Negotiation and Assessment of Incentives Packages

The value and form of incentives packages will be negotiated on a case by case basis and submitted to Cabinet for decision.

Resource processing projects seeking State Government incentives will be assessed in detail by the Department of Resources Development to determine whether the eligibility criteria are met. The Department will be responsible for negotiating the value and form of the incentives package with the company.

The Department will submit the incentives proposal (in the form of a draft Cabinet minute) to an Inter-Departmental Committee comprising Treasury, the Department of Premier and Cabinet and the Department of Resources Development.

The Inter-Departmental Committee will apply the eligibility tests described above and recommend an appropriate incentives package to Cabinet.

The incentives package will be subject to a contractual agreement which will be approved by Cabinet and reported to the Parliament.

Funding

Funding will be by way of supplementary budget allocations for the current financial year and through budget allocations to DRD in subsequent years, if necessary.

Reporting

Any incentives provided will be clearly reported in DRD's Annual Report to ensure full accountability.

RESOURCE AND RESOURCE PROCESSING ASSISTANCE POLICY

Preamble

It is considered that temporary assistance may be warranted when a project is experiencing difficulties because of factors outside its control, in order to maintain in Western Australia the skills, employment and other benefits associated with the project.

Objective

To provide support to resource and resource processing projects experiencing temporary difficulties, but which can demonstrate long term viability.

Value of Assistance

The value of assistance will not exceed the revenue available to the State Government that is attributable to the project.

Eligibility Criteria

The project will need to demonstrate cash flow problems and long term viability through full financial disclosure.

Assistance will only be recommended if the project is able to demonstrate cash flow problems which are beyond the control of management. Cash flows will be negative and of such importance that they could lead to closure of the project. The cash flow analysis will include operating cash flows and maintenance, but capital expenditures for additions, expansion and new development will be excluded.

Types of Assistance

Assistance may be granted in the following ways:

- Royalty relief
- Royalty rebates
- Concessional loans
- Grants

Conditions

The assistance will be repaid in full (including interest) once the project moves back to a positive and sustainable operating cash flow position.

Assistance will be short term in nature with regular reviews of the project's position.

Assistance will be available for a maximum of a year. If an extension is sought further Cabinet authorisation would be required.

Negotiation and Administration of Assistance Policy

Requests for assistance will be negotiated between the company concerned and an interdepartmental negotiating team comprising Treasury, the Department of Mines and Energy and the Department of Resources Development.

The interdepartmental team will apply the eligibility tests outlined above and if those criteria are met will recommend an appropriate assistance package to Cabinet.

There is no need to conduct a formal assessment of net public benefit as assistance would be repaid in full once the company returns to a positive, sustainable operating cash flow position.

Funding

Funding will be by way of supplementary budget allocations in the case of grants and concessional loans and as revenue forgone in the case of royalty rebates or relief.

The funds will be repaid over the same period for which they are received, with repayments to commence within six months of the assistance ceasing.

The prevailing short term bond rate will apply for the repayment of funds.

A contractual arrangement will cover the repayment of assistance.

Any assistance, and its repayment, will be clearly reported in the Annual Report of the relevant Department to ensure full accountability.