



Appendix A

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Appendix B: Advertisement Calling For Submissions



Legislative Assembly PUBLIC ACCOUNTS COMMITTEE

Inquiry into Industry Assistance Provided by the New South Wales Government

The Public Accounts Committee is to inquire into and report on the following terms of reference:

- ?? a consideration of issues relating to the provision of industry assistance provided by the NSW Government;
- ?? a consideration of accountability and transparency matters relating to industry assistance provided by the NSW Government;
- ?? the procedures currently employed by the NSW Government in allocating and distributing industry assistance and whether these can be improved;
- ?? how the NSW Government's program of industry assistance compares with other jurisdictions in terms of transparency, accountability and efficiency;
- ?? consequences of industry assistance; and
- ?? any other relevant matters.

Individuals and organisations are invited to make a submission (in writing, typed or on disk) to assist the inquiry. Submissions should be addressed to:

The Director
Public Accounts Committee
Parliament House Macquarie Street
SYDNEY 2000

Alternatively, they can be sent by FAX to (02) 9230 2831 or e-mailed to awatson@parliament.nsw.gov.au

Further information may be obtained from the Director, Catherine Watson, on (02) 9230 2036

Closing date for submissions is 31 August 1999

Joseph Tripodi MP
Chairman

10 July 1999



Appendix C

List Of Submissions

1. Barry G Baillie
Chairman and Chief Executive Officer
Meat Industry Authority
2. The Hon R S Amery MP
Minister for Agriculture, and
Minister for Land and Water Conservation
3. The Hon E M Obeid MLC
Minister for Mineral Resources, and
Minister for Fisheries
4. Australian Manufacturing Workers Union
5. The Hon M R Egan MLC
Minister for State Development
(presented the submission of the Department of State and Regional
Development)
6. John Pierce
Secretary
NSW Treasury
7. Tony Thirlwell
Chief Executive Office and General Manager
Tourism NSW
8. The Hon K M Yeadon MP
Minister for Information Technology,
Minister for Energy,
Minister for Forestry, and
Minister for Western Sydney
9. Don Cooper
General Manager
Goulburn City Council
10. Dennis Beeley
Acting Chief Executive Officer
Investment Albury Wodonga
11. Len Fownes
Assistant General Manager



- The Council of the Municipality of Kiama
12. Lesley Scarlett
Executive Officer
Illawarra Region of Councils
 13. Bill Carson
Chief Executive Officer
Armidale Development Corporation
 14. D J McGowan
General Manager
Wingecarribee Shire Council
 15. L G Tomich
Director, City Planning and Development
Albury City Council
 16. Rhonda Lawrie
Executive Officer
Office of Economic Development Southern Highlands (OED) Inc
 17. Armidale Dumaresq Council
 18. Darrell Nicholls
Manager
Albury-Wodonga Business Enterprise Centre
 19. The Hon Faye LoPo' MP
Minister for Community Services,
Minister for Ageing,
Minister for Disability Services, and
Minister for Women
 20. Barry Greaves
General Manager
Boorowa Council
 21. C R Wotton
General Manager
Mulwaree Shire Council
 22. Bruce Williams
Westleigh
 23. Peter Veneris
Director, Operations
Hume Shire Council



24. W R Warne
Director, City Administration
Albury City Council
25. William A Holland
Armidale
26. John Kleeman
Director, Planning and Institutional Research
University of New England



Appendix D

List Of Witnesses

No.	Name	Position	Organisation
1	Ulf Ericson	Chairman	Albury-Wodonga Area Consultative Committee
2	Adrian Scott	Chief Executive Officer	Investment Albury Wodonga
	Geoffrey Smith	Chairman	
3	William Warne	Director, City Administration	Albury City Council
4	Michael Cullen	Executive Director, Regional Development	Department of State and Regional Development
	James Grant	Regional Manager, Southern	
5	Peter Veneris	Director, Operations	Hume Shire Council
6	Peter Monley	Mayor	Armidale Dumaresq Council
	Christopher Berry	Manager, Business Sector	
7	John Kleeman	Director of Planning and Institutional Research	University of New England
8	Ross Duncan	President	Armidale and District Chamber of Commerce
9	Peter Ducat	Chairman	Armidale Development Corporation
	William Carson	Chief Executive Officer	
10	Michael Montgomery	Chairman	New England North West Regional Development Board
	Melissa Bowlay	Executive Officer	
11	Gregory Moin	Chairman	Business Enterprise Centre Limited, Armidale



No.	Name	Position	Organisation
12	Michael Cullen	Executive Director, Regional Development	Department of State and Regional Development
13	Maureen Chapman	Regional Coordinator, New England North West	Premier's Department
14	Colin Steele	South East Regional Coordinator	Premier's Department
15	Donald McKay	Deputy Mayor General Manager	Goulburn City Council Southern Business Enterprise Centre
16	Robert Sendt Thomas Jambrich	Auditor General Assistant Auditor General	NSW Audit Office
17	Loftus Harris	Director General	Department of State and Regional Development
	Warwick Glenn	Executive Director, Investment	
	Janine Ricketts	Executive Director, Small Business Development	
18	Francis Jordan	Director, Economic Strategy	NSW Treasury
	Daniel Graham	Principal Advisor, Infrastructure	
	Brian Waddington	Principal Financial Analyst	



Appendix E: Response by the Department to the Report of the Audit Office

Audit Recommendations	Department's Response
1. Seek to maximise value for money in the provision of assistance.	
1.1. Consider combining the present pool and Treasury funded components of the IAF to reduce volatility in expenditure and enhance budgetary management.	DSRD has been discussing with NSW Treasury the amalgamation of the two existing funding mechanisms (Budget appropriation and supplementation) for the IAF.
1.2. Continue to work towards the development of improved performance indicators which encourage provision of assistance on the basis of maximising net economic benefits.	DSRD continues to refine its performance measurement system with the introduction of a monthly performance report to management to supplement reporting in the Annual Report and the Budget papers. are currently being sought for an independent review of statistics in the monthly report.
1.3. Develop options for reform of the Country Industries Payroll Tax Rebate Act (1966) for consideration by the Government to ensure the Act is appropriate for the needs of the State and sufficiently flexible to meet the needs of proponents.	DSRD is giving consideration to the implementation of this recommendation having regard to legislative and other developments.
1.4. Develop protocols to cover circumstances where SRD and Strategic Projects Division, Premier's Department are both involved in projects to ensure clear lines of accountability for decision making and commitment of funds.	Premier's Department's publication "Working Together" provides guidelines for collaboration and integrated services in the NSW public sector.
1.5. Consider adopting an appropriate form of a competitive tendering approach to assist in the prioritisation of industry assistance proposals.	Requests for assistance do not arise at a particular time but are driven by the location decision process amongst target companies. Therefore, at no stage are all the possible projects "on the table" for consideration at the same time. Thus it is not possible to prioritise them nor use a tender process. That said, once the economic analysis has been completed, project officers determine a negotiating upper limit to take forward for approval, after taking into account the project type and its importance to NSW, the budget and forward commitments and other projects in the "pipeline". DSRD has developed this case-by-case approach to generate maximum benefit for NSW.



Audit Recommendations	Department's Response
1.6 (continued)	Setting up a competitive bidding process has been considered, but a model which would encompass DSRD activities has not been found nor devised. Furthermore, financial assistance is only one part of the comprehensive "toolkit" DSRD uses to secure investment. A large part of this "toolkit" is non-financial assistance.
1.6. Enhance provisions relating to proponents guaranteeing benefits to the community, and improve follow-up action and call-back provisions where benefits are not realised or where firms move operations out of NSW after having received State assistance.	Where financial assistance is provided to a company a Deed of Agreement is signed by the company and DSRD. The Deeds provide for assistance to be forwarded in line with the company achieving performance milestones. The Deeds also incorporate claw-back clauses.
2. Enhance its systems and procedures to minimise the potential for providing more assistance than is necessary to proponents.	
2.1. Expedite the introduction of systems to monitor and manage the expenditure and commitment of funds more effectively.	Commitment database development has continued within the Department. Commitment databases have been developed for all forms of Industry Assistance and provide current information on approved project assistance.
2.2. Expedite the refinement of the management information system and, in particular, the development and utilisation of an activity based costing approach.	DSRD has commenced discussions with the Council on the Cost of Government regarding its activity based costing system and is considering the applicability of this system.
2.3. Reconsider the assessment model being used so that it reflects the full costs and consequences of assistance in the decision making process.	The assessment model has been highly refined to embody the key financial and economic criteria needed to analyse projects. Developments in this field are continually monitored and incorporated where appropriate.
2.4. Consider ways of giving assistance to footloose firms to reduce their footlooseness. (For example, providing assistance on the basis that it is recouped if jobs are not sustained for a specified period after assistance is concluded or by linking assistance to investment in infrastructure).	DSRD's practice includes only assisting those companies for which the fundamental attributes of the NSW economy are attractive. Also more recently assistance has in a number of cases been linked to investment in fixed assets.



PUBLIC ACCOUNTS COMMITTEE

Audit Recommendations	Department's Response
2.5. Consider having all economic assessments undertaken centrally in the Policy and Resources Division (although it may be appropriate to continue to allow the depth of assessment to reflect the level of assistance likely to be offered).	A change in procedures means that all economic assessments relating to Investment Division projects are carried out in Policy and Resources Division. Economic assessments relating to regional projects and industry development which involve potential assistance of less than \$250,000 are still carried out in Regional Development Division and Industry Division respectively. These Divisions use economic analysis parameters in assessing these small projects.
2.6. Introduce procedures to provide assurance that officers who have been involved in the attraction and assessment of a proposal are not also solely involved in negotiation.	Policy and Resources Division staff involved in the assessment of projects are not involved in negotiation. Our practice is for officers involved in the attraction of a project to be accompanied by a senior manager or director in the negotiation phase.
3. Increase accountability and transparency for the provision of assistance.	
3.1. Do not define information as commercial in confidence unless it is demonstrably so.	DSRD notes the recommendations of the Audit Office on the treatment of confidential information. That said, all government business development agencies, both within Australia and abroad, have commercial relationships with their clients which are of a confidential nature. An assurance of confidentiality is fundamentally important to investors. Anything less would compromise DSRD's ability to work with the private sector to develop major projects. In its report the Audit Office provided no clear evidentiary foundation to support its view that a lowering of DSRD's commercial-in-confidence standard would be acceptable to industry and would not impede investment attraction in NSW.
3.2. Consider reporting of assistance provided in line with the preferred approach of the Industry Commission (discussed in chapter 5 of the Audit Office Report).	The Industry Commission suggested the reporting of: ?? The duration of assistance; ?? Estimates of the value of any concession; and ?? Details of legislation or regulatory changes or rezoning. DSRD does not provide guarantees of future government contracts, legislation, regulatory changes or rezoning. Whilst financial assistance is provided, details of its duration and value are generally held confidential. For a discussion of the reasons for this see the above point.

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Audit Recommendations	Department's Response
3.3. Establish a mechanism to act as a proxy for public scrutiny for decisions regarding assistance (such as an operations review committee) where information is not published.	Decisions are subject to scrutiny by the Budget Estimates Committee, the Audit Office, the Parliamentary Accounts Committee and the Council on the Cost of Government. It is considered that a further scrutiny mechanism is not needed.
3.4. Ensure Departmental files and records meet desired standards.	In 1998 a new filing Thesaurus was introduced and all staff were given file management training.
4. Improve guidance to staff in how to attract proposals, undertake assessments, negotiate agreements, and monitor assistance.	
4.1. Expedite the development of more detailed handbooks to supplement guidelines for use by staff.	In 1998 an Investment Handbook was introduced and all staff in Investment Division and Regional Development Division have been trained in its use.
4.2. Ensure that guidelines/handbooks are sufficiently detailed to guide staff in all steps of the process.	The Investment Handbook lists and explains all steps involved in the investment attraction process.
4.3. Clearly record departures from guidelines/ handbooks in assessment records.	From time to time there is reason to depart from established guidelines. When this occurs the variation is then incorporated into the electronic and paper versions of the Handbook.
5. Improve monitoring and evaluation of assistance.	
5.1. Develop and implement a framework for regular and on-going monitoring and evaluation of scheme performance.	DSRD has implemented a database of input, output and outcome data. This system produces monthly reports on scheme performance. It is intended that these monthly reports will be checked by external auditors.
5.2. Refine current 'organisational' benchmarking initiatives and consider undertaking process and activity benchmarking.	DSRD carried out performance benchmarking of its activities against a range of economic development agencies in other States and countries in 1998. This benchmarking work is being further developed and it is also intended to undertake process and activity benchmarking.



Appendix F

EU Guidelines on Regional Aid

In 1998, the EU released guidelines on national regional aid that interpret Articles 87(3)(a) and 87(3)(c) of the EC Treaty. These provisions are major exceptions to the principle of competitive neutrality. The former permits aid where the standard of living is abnormally low or where there is serious unemployment. The latter permits aid for certain economic activities in certain economic areas where the common interest is not adversely affected. The key points of the EU's framework are:

- ?? Such aid should be used sparingly and only in the most disadvantaged regions.
- ?? The guidelines apply to all sectors except for agriculture, fisheries, and coal.
- ?? The ceiling for assisted areas is 28.7% of the population.
- ?? All firms in the relevant sectors should be eligible to apply.
- ?? Assisted areas should have a minimum population of 100,000 and be a compact geographic unit.
- ?? Areas under 87(3)(a) should have a per capita GDP of less than 75% of the EU average.
- ?? Areas under 87(3)(c) should be disadvantaged and their aid should form part of a coherent regional policy.
- ?? Aid should be given only for initial investment (capital) or job creation (wages). Aid that reduces a firm's current expenses (operating aid) is normally prohibited.
- ?? Aid limits are determined by the percentage contribution to the total capital investment over five years, or the contribution to wages over two years. Payments in later years are reduced by a discount factor. This percentage is the net grant equivalent (NGE).
- ?? If aid is given for both capital and wages, the NGE is the weighted average of the two.
- ?? In 87(3)(a) areas where per capita GDP is above 60% of the EU average, the NGE limit is 40%. Where per capita GDP is less than 60% of the average, the NGE limit is 50%.
- ?? In 87(3)(c) areas, the NGE ceiling is 20%. Where per capita GDP is above the EU average, and unemployment below the EU average, then the ceiling is 10%.