

Rural & Regional Affairs and Transport Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Budget Estimates 2021 - 2022
Infrastructure, Transport, Regional Development and Communications

Committee Question Number: 65

Departmental Question Number: SQ21-000313

Program: 3.1 Regional Development

Division/Agency: Regional Development Local Government and Regional Recovery

Topic: Community Chef Program

Proof Hansard Page: Hansard, pages 70-71 (24 May 2021)

Senator Eric Abetz asked:

Senator ABETZ: In that case, allow me to put some questions on notice about that. It relates to a program in 2009, where infrastructure funded to the tune of \$9 million a program called Community Chef. It was a provider of food services to aged care facilities. After the initial 2009 funding, was any further funding provided to this organisation? What was the rationale for the funding? How was it justified under infrastructure? Were there any other similar type programs funded from that particular fund? The issue here is that it was a joint venture with the Victorian government. It has since lost \$30 million. A private provider has gone bankrupt. I want to know who did the assessment in relation to the viability and feasibility of this program. Apologies to the officials. I thought you had been advised by the minister's office that these questions were going to be asked. Take all these on notice for me. I understand that you won't be able to answer them now.

Mr Atkinson: It sounds like a community aged care program. Are you sure it is in the infrastructure program? Senator ABETZ: It was under Minister Albanese as minister for infrastructure. He entered a joint venture with the then health minister Dan Andrews in the state of Victoria. Like you, I am gobsmacked that this was funded under infrastructure.

Mr Atkinson: I will take your questions on notice.

Senator ABETZ: Take them on notice. If all my advice is that it is incorrect, so be it. That is the best information I have. Is there any documentation available in relation to the assessment made of this project, the appropriateness of its funding, who supported the proposed funding of this arrangement and who takes responsibility for the assessment, which has seen this organisation run at a \$30 million loss and bowling out a private enterprise in the meantime, costing jobs? Given all the circumstance, it is clearly not viable. It is a bit of a disaster. Has any audit been undertaken in relation to this project and the program under which it was funded? Any documentation that can be provided would be greatly appreciated. Thank you.

Mr Atkinson: I will take all that on notice, noting it was 12 years ago.

Senator ABETZ: Absolutely. That is why I sought to give officials notice via the minister's office. Clearly that was not passed on. My apologies for that.

Answer:

Under the Regional and Local Community Infrastructure Program – Strategic Projects program, funding was available for community infrastructure, including new and major renovations or refurbishments, 134 projects were funded to a total commitment of over \$540 million.

Hobsons Bay City Council was awarded Australian Government funding of \$9 million under Round One of this program (later known as the Community Infrastructure Program) for the Regional Kitchen Project.

An Independent Viability Assessment dated 9 February 2009 was conducted by McGrath Nicol Corporate Advisory for this project, as a result of this assessment the Department recommended the project for funding to the then Minister for Infrastructure, Transport, Regional Development and Local Government.

Funding was approved in April 2009 for the construction of a modern meal production facility that would produce 1.3 million meals a year for older citizens and people with disabilities. The Completion Report for this project was received in October 2011 and under the Funding Agreement the project was required to be operational for five years (ending October 2016).

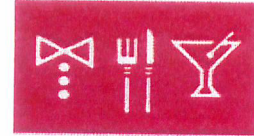
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The Department has confirmed that as at 24 February 2016, Regional Kitchen leased building, plant and equipment to Community Chef.

The Regional and Local Community Infrastructure Program has been subject to two Australian National Audit Office (ANAO) Performance Audits, with reports published 27 July 2010 and 18 May 2011. These documents are publicly available.

Other documentation held by the Department cannot be disclosed to any other party without prior consent in writing.

**I COOK
CATERING
AGED CARE
SERVICES**



5TH May 2009
The Hon. Anthony Albanese
Federal Member for Grayndler

**Re: Concerns and Issues relating to the establishment of the Regional Food
Kitchen- Vic**

Dear Mr Albanese

I.Cook Catering Aged Care Services (ICCACS) is a long established Commercial Catering business which is located in your Dandenong Victoria, employing approximately 30 staff. Our operations are focused on the production of meals for the Aged Care Sector, currently servicing four Municipalities and a couple of Aged Care Facilities across Metropolitan Melbourne.

We write to you as a result of information brought to our attention by our employees and subsequent media information on the proposed establishment of a Regional Food Kitchen (RFK) in the Western Suburbs through the financial support obtained from collaboration of 14 Municipalities, State and Federal Grant Funding of ranging from \$14.4 Million to \$30.0 Million.

We have attached a detailed list of issues and concerns for your information and consideration and accordingly seek a meeting with you or your representatives so as to discuss these issues.

In summary ICCACS has recently acquired a new facility in the Dandenong area at which we are going to expand our operations through our establishment of a larger modern state of the art commercial kitchen which will provide the benefits of those stated in the Media releases at a **fraction of the cost compared to the Grants being committed to the RFK**. ICCACS believe that the same level of output and efficiency can be established for amounts less than those committed by the Federal Government and without the need for State or Local Government Contributions.

We would be pleased to be able to meet with you so as to discuss the issues we raise and to enlist your advice on how best to bring to light available cost effective options in an all engaging scenario.

As Ratepayers we have initiated discussions with our Ward Councillor, on behalf of ourselves and our employees, who are concerned about the impact the RFK will have on their job security, we written to our Local Member and herein we write to invite you to meet with us to be better informed of available options and potentially substantial capital expenditure savings by Government.

Yours faithfully
Ian William Cook – Managing Director

Executive Summary

ICCACS is a current Meals on wheels service provider to four Municipalities delivering approximately 500,000 meals per annum.

The proposed RFK presents many issues that require consideration:

- **The justification of Government Funding anywhere from \$14.4 to \$30.0 Million on a facility which is quoted to produce between 1,500,000 to 2,500,000 meals per annum – Does this level of Government Grant need to be committed to achieve the desired outcomes. ICCACS – No.**
- **The substantial financial contributions effectively bind the parties into a project with little to no exit strategy in the event of inefficient or ineffective service delivery- other than through significant future capital loss.**
- **The number of Councils consolidating in the project and the terms of the commitment – up to ten years – creates a platform for Institutional Monopoly and destroys the foundation of a competitive market with it's inherent checks and balances**
- **The Government has not provided the Private sector with an opportunity to submit an offering on a similar well informed and supported playing field – subsequently more appropriate or effective solutions dissolve without proper support or consideration.**
- **The reduction in the sector of financially viable operators reduces the capability of contingency supply and a deterioration of Industry Specific Intellectual property, Skills and Know How.**
- **The Capital injections are creating an artificial environment whereby the cost base of the institutions is Academically evaluated through false costs of Capital and thereby creating ineffective parameters for assessment of future viability. The rental returns need to be negated in the proper evaluation of the service delivery costs.**
- **There was no Equity in the process by Government in that no through document or engagement was effected with existing Service Providers so as to consider all options for the benefit of the Sector as a whole.**
- **Sector requirements need to be clearly specified and all proposals considered and encouraged.**
- **The RFK creates a false environment through which Bench Marking becomes difficult and if not impossible to implement change through the fact that 14 Councils will be tied in and committed without recourse for 10 years.**
- **The RFK reduces the sectors financial viability and opportunities hence reducing the encouragement of either market sector entry or continuous improvement within the sector due Capital recovery limitations imposed by the consolidation.**

ICCACS seeks the opportunity to firstly be informed of the objectives of the Sector and then to be provided an equal playing field incorporating the same degree of cooperation and support in a multi stakeholder environment to develop an all engaging solution to the sector with the elimination of the current bias of singularly channelled Government Support.

I.Cook Catering Aged Care Services

Views and Comments on the proposed Regional Food Kitchen (RFK)

Based on Council and general Media Releases ICCACS has been made aware of the establishment of a Regional Food Kitchen – RFK .

This RFK is being established through the collective efforts of 14 Local, State and Federal Government Funding.

In a recent Herald Sun Article – 28th April 2009 it states that \$9 million has been spent on a RFK based in Altona and will cost nearly \$30 Million to produce 10,000 meals per day – the RFK is expected to be completed by 2010.

Initial Media Releases by Hobsons Bay City Council dating back to 2008 indicated that the RFK would cost \$14.4 Million and create 30 – 50 jobs which would produce 1.5 Million Meals per annum.

ICCACS understands that the decision to proceed with the RFK was based on a report produced by the Department of Human Services and via the promotion and lobbying of Metropolitan Councils by Hobsons Bay City Council – which is a current service provider to Meals on Wheels contracts.

The capability of the RFK to be established appears to be based on the following;

- **Long term 10 year commitments by approximately 14 Municipalities**
- **Financial Contributions by Local Governments – media quotes at \$200,000 per Council – totalling \$2,800,000**
- **State Government Funding providing \$6,000,000**
- **Federal Government Commitment to \$9,000,000**

The total of the quoted expected contributions equates to \$17.8 Million Dollars against the expected expenditure being quoted at between \$14.4 and \$30 Million

The Organisational structure of the RFK has been presented as a two part option ie; equity in the building and contractual commitment to the service operations for a minimum of ten years. Councils will thus be involved as Property Investors and Buyers of products/ meals.

As expressed in a Media release by Moreland City Council 28th July 2008 the benefits expected from the RFK are:

- A modern, up to date kitchen
- Efficiencies of scale
- Increased delivery options for clients, due to modern food production technologies.
- Long -term savings in both capital and operational costs.

ICCACS raise the following issues and concerns in relation to both the process of evaluation and the decision to proceed with funding of the proposed RFK.

ICCACS currently produce up to 500,000 meals p.a. for 4 Metropolitan Municipalities and Aged Care Facilities, employing approximately 30 employees.

ICCACS services entered the Meals on Wheels Service delivery sector via the Competitive Tender Processes, meaning that the cost of service delivery being both the Capital and Operational components were privately funded and due compensation is obtained through the tendered contract price of meals.

Hobsons Bay City Council is currently in the same arena competitively tendering for service delivery to other Municipalities as a potential service provider.

The Meals on Wheels market currently comprises Councils that either produce their own service delivery in house or alternately outsource to external contractors/service providers.

The proposition to establish a RFK immediately shrinks the size of the potential market for Service Providers and effectively reduces the viability of operating in this Sector as a Meals on Wheels Service Provider. Thus, Government support is establishing a platform for a future monopolization of the Meals delivery Services through the elimination of Competition via an environment of artificial financial advantage via grants and long term contract commitments.

The process undertaken has not considered all potential options available as there has not been any engagement with existing service providers.

ICCACS is not aware of any opportunity or invitation by Government Departments to present alternative proposals on an equal playing field and a similar offering of Financial Support.

Councils that have expressed participation in the consortia included Brimbank and Greater Dandenong. ICCACS currently are the Meals Service Provider to Brimbank and the ICCACS operations are located in Dandenong and accordingly employ a significant number of Dandenong residents.

ICCACS believes the decision making process undertaken was inequitable and potentially ill informed leading to incomplete conclusions to Government based on the following points.

An Expression of Interest to the Wider Market was not published with the requirements to meet the Local Government Aged Care Sector meals needs.

Based on the perceived benefits published in Media Releases ICCACS has the following points and issues for consideration.

A Modern up-to-date kitchen.

The financial support required to established the RFK was not evaluated against other potential options eg; the quoted financial support to establish the RFK ranges from values of between \$14.4 and \$30.0 Million dollars with an expected output of between 1.5 to 2.5 Million meals per annum. ICCACS currently produces 500,000 meals per annum and considers the Capital requirements specified as exorbitant to achieve the stated outputs.

Meals Service Unit costs have not been presented for public consideration however the fact that such significant financial assistance has been offered in the form of grants, the cost base is artificially lowered through inequitable support. Any existing service provider would be able to reduce their cost base if provided the levels of quoted cash injection. The point being what degree of cost reduction can be achieved at various capital contributions.

A property holding entity funded by external sources will naturally be able to contribute back commercial rental returns as an off set – such an arrangement would be attractive to any participant in the meals delivery area, however does this support stimulate prudent business decisions or does it create an environment of false economy and luxurious financial decision making through artificial financial underpinning.

Once committed all parties are locked in to the project even if it doesn't perform effectively in the future – they will be bound to financial underwriting.

Issue:

Is the level of Financial Support being enlisted necessary to achieve the level of current and future cost effective service delivery required? What degree has financial risk assessment played in the formation of the model – based on the fact that funding has not been personally guaranteed – why was not the same level of financial support offered to the wider industry.

ICCACS believes the stated levels of output can be achieved at significantly lower levels of capital/grant contribution.

Question:

What is the structure and composition of the financial model behind the RFK and has this been competitively assessed against other options and structures?

Efficiencies of Scale

The Consolidation of 14 Councils under a single long term service agreement will naturally create an environment for the achievement of Economies of Scale particularly when the stated term of commitment will extend out to a minimum term of ten years.

This is currently unprecedented in that all current Service Providers have to assume contract terms for periods significantly shorter than 10 years, thus having significant impact on the financial modelling and recovery periods for capital, the term is potentially three times that of current terms.

Has the costing model been measured against alternate options and market players to determine the degree of economies of scale capable of being achieved and hence being reflected in the final unit costs of meals produced.

Furthermore, there are Councils in the Consortia that currently produce their own meals service, these opportunities have not been presented to the wider market so as to provide a greater opportunity to private industry to compete for contracts – increasing the size of the market opens the possibility for greater financial viability of the sector and sustainable competition.

Issues:

ICCACS was not placed on an equal playing field nor given the opportunity to present a competitive and sustainable option for comparison against the RFK proposal.

Does an Institutionally run operation produce a more cost effective business model than a privately run entity?

What impact would the consolidated offering over the longer contract term have on the market long term – what checks and balance are there to ensure future cost effective operations?

What is the basis of the measurement of economies of scale financial benefits, particularly comparing based on a common offering to the market place eg terms of contract and financial investment by Government?

The consolidation of Councils will lead to a potential Monopoly market – with limited checks, balances and future cost effective alternatives. Reduced Contingency options through shrinkage of market suppliers.

Would it not be prudent to have established a platform of co operation across a number of existing players so as to achieve a diversity of supply and efficiency with benchmarking capabilities? Does this proposed structure present the ultimate financially viable option?

Increased delivery options

The delivery options traditionally have been specified by Councils and have been serviced in accordance with contract specifications. This is an area that is not

necessarily an advantage that comes from the RFK but rather through logistics planning.

ICCACS are currently evaluating changing the delivery dates of their meals to coincide with rescheduling requests from a particular Municipality – this form of change and in particular the scheduling of deliveries is collaboration between the parties taking into consideration whether there is a volunteer base to work with or are they paid staff for delivery – the number of drop off points and the value or need given to frequency of resident contact.

There was no public forum, nor workshop discussions or future directions in terms of requirements presented by Councils on this matter.

Points to consider ICCACS are located in Dandenong and it would be fair to say that an operation based in the Municipality could best provide the service requirements – fair to say as a general statement however there was no opportunity to test the scenario?

Modern food production technologies.

The available literature does not specify what forms of advance modern technologies will be applied. Traditionally Councils have specified whether they require their meals delivered as either hot or as Cooked Chill products.

As we cannot comment on the technologies to be employed it must be stated that Service providers have historically supplied within the scope of the Council Specifications.

ICCACS as a current meals supplier initially supplied meals as cooked chill in foil containers – during the term of our contracts and at no additional cost to Councils ICCACS in consultation with Councils have introduced the Modified Atmosphere Packaging System. Further details on MAPS are contained as part of our profile information.

This improvement to the service delivery was done as part of our continuous improvement practices wherein ICCACS introduced the change rather than being requested to change.

ICCACS considers itself as a leader and innovator in Meals production and delivery yet no consultation or engagement was facilitated so as to consider existing available supply options.

The most important point in this statement about technologies is that ICCACS have privately funded the purchase of relevant technologies and currently provide it as part of the service delivery.

No Government funding was received in pursuit of the advancement in packaging, presentation and shelf life of meals and no competitor currently offers the same.

What are the comparatives between the proposed technologies to be employed by the RFK compared to the currently delivered MAP meals produced by ICCACS.

Long term savings in Capital and operational Cost

In general terms without privilege to specific details and based on the output volumes quoted ICCACS believes the Capital being deployed towards the RFK could be substantially less if consultation was facilitated with ICCACS.

What basis of measurement was used to determine the potential long term savings and what were they measured against? What alternative structures and co operation was considered or invited to ensure prudent spending of Tax and Rate payers dollars.

Employment

Media releases quote the creation of between 30-50 jobs through the investment of up to \$30 Million in this project – What is the negative impact of this project on Employment through both closing existing in house facilities and against existing service providers.

The impact on ICCACS of Brimbank changing to the RFK would be the redundancy of up to 10 people.

What figures are available to show what redundancies are to be made due to the introduction of the RFK?

The Australian Services Union fear that at least 10 positions will be made redundant in Moreland Council if the RFK proceeds.

As a multiplier across 14 Councils it appears as a project supported by Government Funding there will be a significant negative employment result, redundancy rather than opportunity.

While ineffective and inefficient operations need restructure it is important to consider all options when the public purse is used and how those funds are applied.



Australian Government

Department of Infrastructure, Transport,
Regional Development and Local Government

File Reference: 03748-2009

Mr Ian Cook
Managing Director
I Cook Catering Aged Care Services
16 Adelaide St
DANDENONG VIC 3175

Dear Mr Cook

Thank you for your letter dated 5 May 2009 to the Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, about concerns and issues relating to the establishment of the Regional Food Kitchen. The Minister has asked me to reply on his behalf.

The Regional Food Kitchen (RFK) project is being funded through a competitive grants component of the **Community Infrastructure Program (CIP)**. The aim of the CIP is to provide an immediate economic boost throughout Australia. The RFK project is just one of many local community infrastructure projects receiving record funding of \$800 million by the Australian Government under the CIP – the single largest investment in local infrastructure in Australia's history and an integral part of the National Stimulus Package.

Under the CIP, the Australian government has chosen local government to be the vehicle for injecting funds immediately into the economy. Local government has a national network, organisational structure and capability in place to ensure that the investment transfer is swift and efficient across Australia.

Under the *Strategic Projects* component of the program, local councils had the opportunity to submit infrastructure proposals as part of a national competitive grants process. Within a broad choice of eligible infrastructure types, each council chose to submit the project they considered most necessary for their communities.

It would be a breach of commercial-in-confidence protocols to discuss the specific details of the RFK project to a third party, but I can advise the following, as a result of discussions with the project manager about your concerns.

The RFK project was initiated following a state wide review of Meals on Wheels in Victoria that concluded that food security for older people was at risk, and that the current system exposed local governments to unacceptable standards of financial risk.

The development of the Regional Kitchen Facility was intended to provide certainty to a large group of older Australians. Fourteen local government authorities are partnered in this arrangement. The capacity to provide long term certainty to a wide group of older Australians in a way that maximised economies of scale was sufficient for the State Government to make an exemption of the *Local Government Act 1986* to tender. Under this arrangement, the Local Governments, as share holders, can now provide the service.

The Council's project manager is aware of the concerns of ICCACS and has committed to working with you to find ways that your two companies can complement each other.

I trust this information is of help to you and I wish you the best in working with the RFK in a mutually beneficial way.

Yours sincerely

Gordon McCormick
Acting General Manager
Local Government Programs
7 June 2009