

Evaluation of the Eden Regional Adjustment Package

Prepared for



Australian Government

Department of Agriculture, Fisheries and Forestry

July 2006

Prepared by



Hassall & Associates Pty Ltd

Level 4, 52 Phillip Street

GPO Box 4625

Sydney NSW 1004

Tel 02 9241 5655

Fax 02 9241 5684

**F
I
N
A
L

R
E
P
O
R
T**

AU1-430

Contact Information

	Hassall & Associates Pty Ltd
Address	GPO Box 4625 Level 4, 52 Phillip Street Sydney NSW 2001
Telephone Number	02 9241 5655
Facsimile Number	02 9241 5684
ABN	95 001 211 007

DISCLAIMER

All description, figures, analyses, forecasts and other details have been prepared in good faith from information furnished to the consultants by other parties. These data are believed to be correct at the date of preparation of this report.

However, it should be noted that predictions, forecasts and calculations are subject to assumptions which may or may not turn out to be correct and Hassall & Associates Pty Ltd expressly disclaim all and any liability to any persons in reliance, in whole or in part, on the report in total or any part of its contents.

Table of Contents

1	Introduction	1
1.1	Introduction and the Eden Region	1
1.2	Objectives of the Eden Regional Adjustment Package	1
1.3	Review of the Eden Regional Adjustment Package	1
2	The Eden Region	2
2.1	Introduction	2
2.2	Assistance to the Eden Region	4
3	Description of the ERAP	5
3.1	Grant Process	5
3.2	Grant Recipients and Employment Targets	6
3.3	Conditions of the Grant	7
4	Evaluation Methodology	9
4.1	Introduction and Key Considerations	9
4.2	Effectiveness – Has the objective of ERAP been achieved?	9
4.3	Evaluation of the ERAP Processes	10
4.4	The Efficiency of ERAP	10
5	Outcomes and Evaluation of the Package	11
5.1	Assessment of Effectiveness – Investment and Employment	11
5.2	Efficiency and Sustainability of Businesses	13
5.3	The Efficiency of ERAP	14
5.4	Unintended Outcomes	14
5.5	ERAP Processes	15
5.6	Participant Feedback on Process	15
6	Conclusions	17
6.1	Assessment of Effectiveness	17
6.2	Efficiency and Sustainability of Businesses	17
6.3	The Efficiency of ERAP	18
6.4	ERAP Processes	18
7	Recommendations	19
	References	21
	Appendix 1 Application Process Terms of Reference	22
	Advisory Committee	22
	Independent Assessor	22
	Appendix 2 ERAP Review Terms of Reference	23
	Department of Agriculture, Fisheries and Forestry: Request for tender for the provision of Financial and Business Services	23
	Part 1, Section 7, Description of Services Required	23

1 Introduction

1.1 Introduction and the Eden Region

The Eden Regional Adjustment Package (ERAP) was announced in 1999 by the Minister for Regional Services, Territories and Local Government and the Minister for Forestry and Conservation ('the Ministers') in response to changes in the Eden region's economy. Employment opportunities in the key industries of forestry and fishing were declining as a result of new forestry agreements and the closure of the tuna cannery in Eden.

1.2 Objectives of the Eden Regional Adjustment Package

The ERAP was implemented in response to a sustained reduction in employment in the major industries of forestry and fishing in the Eden region of NSW during the late 1990's. Accordingly, the objective of the package was:

"to supplement private sector investment by businesses in the Eden region to create long-term employment in the region".

The ERAP was implemented to generate sustainable employment in the Eden region by supplementing investment in local businesses. This involved grants to businesses investing in assets that would allow an increase in employment by that business. Grants under the ERAP were required to be at least matched dollar for dollar by the businesses.

1.3 Review of the Eden Regional Adjustment Package

This review of the Eden Regional Adjustment Package was commissioned by the Department of Agriculture, Fisheries and Forestry to determine the extent to which the objectives of the ERAP have been achieved and the efficiency with which the ERAP was administered. Accordingly, the objectives of this evaluation are to assess the extent to which the ERAP:

- § achieved its objectives;
- § led to more efficient and sustainable businesses in the region;
- § assisted with maintaining/increasing employment;
- § resulted in outcomes that otherwise would not have occurred; and
- § was effectively administered by DAFF.

Further issues that are considered as part of the evaluation of the ERAP include:

- § how the outcome was affected by the identified employment targets not being a mandatory part of the Deed of Agreement;
- § why a number of grantee businesses ceased to operate;
- § the effectiveness of the selection process and feedback which could be used to improve the assessment of other DAFF/Commonwealth Government funded projects;
- § levels of grant recipient satisfaction with the processes and outcomes; and
- § the rate of business failure of recipients in comparison to small business failure expectations for the general economy.

The full Terms of Reference for this review have been included in Appendix 2.

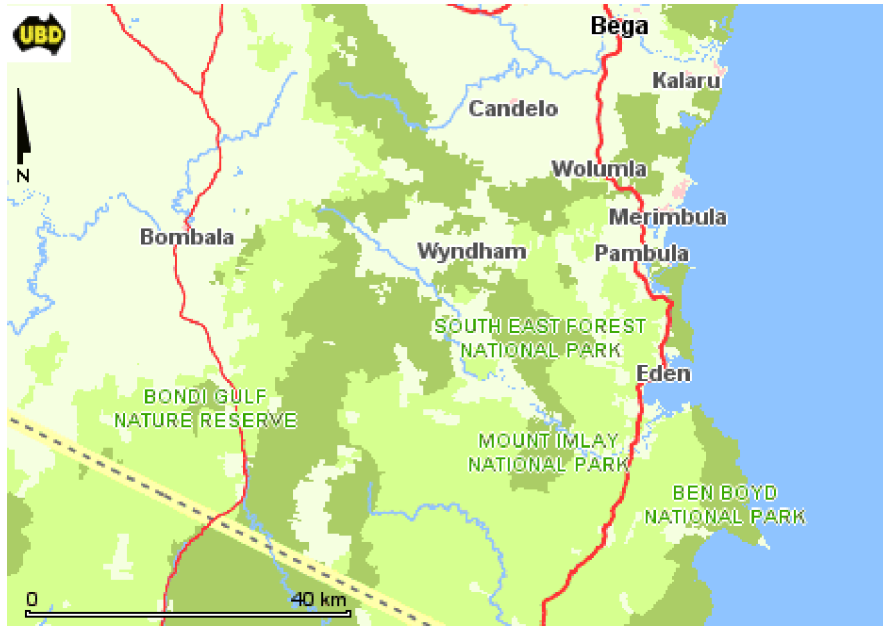


2 The Eden Region

2.1 Introduction

The Eden region is the area of NSW extending south from the Pambula River to the Victorian border, and inland to include the Shire of Bombala (Figure 1).

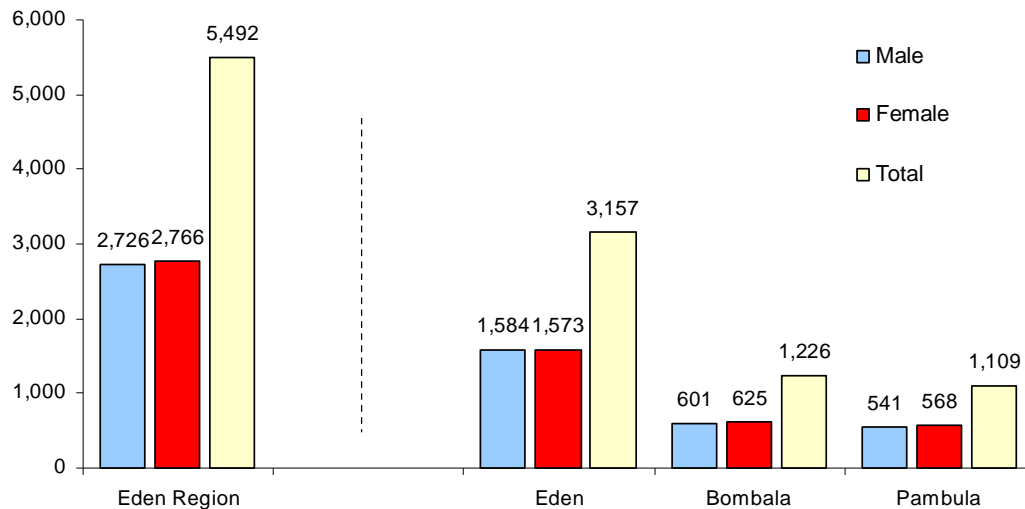
Figure 1 The Eden region



Source: Where is (2006).

The region is located in the Bega Valley Local Government Area (LGA). The LGA has a population of 30,500. The population of the Eden region is estimated to be approximately 5,500, based on the populations of the three main townships of Eden, Pambula and Bombala (ABS 2001). As shown in Figure 2, Eden is the largest township, with an estimated population of 3,350.

Figure 2 Population by Sex and by Age – Eden region 2001

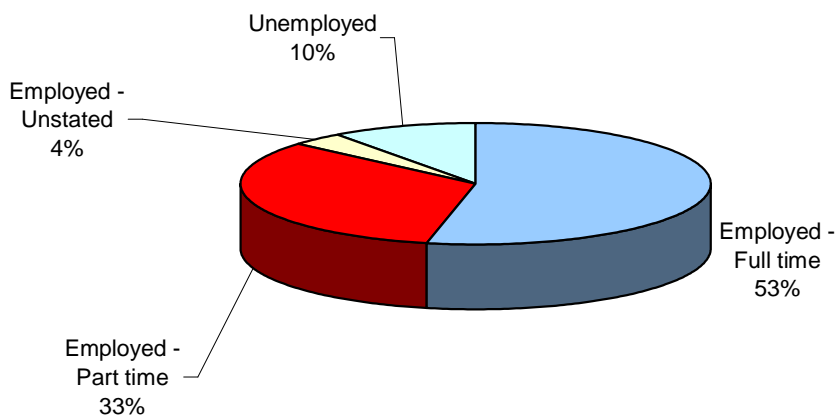


Source: ABS Census of Population and Housing, 2001.

Historically, the Eden regional economy has been based on resource-based industries, in particular forestry and fishing.

Figure 3 shows the employment status of the Eden region labour force in 2001. Unemployment was 10%. The level of unemployment in the region was relatively high compared to the state of NSW, for which unemployment was 7.2%.

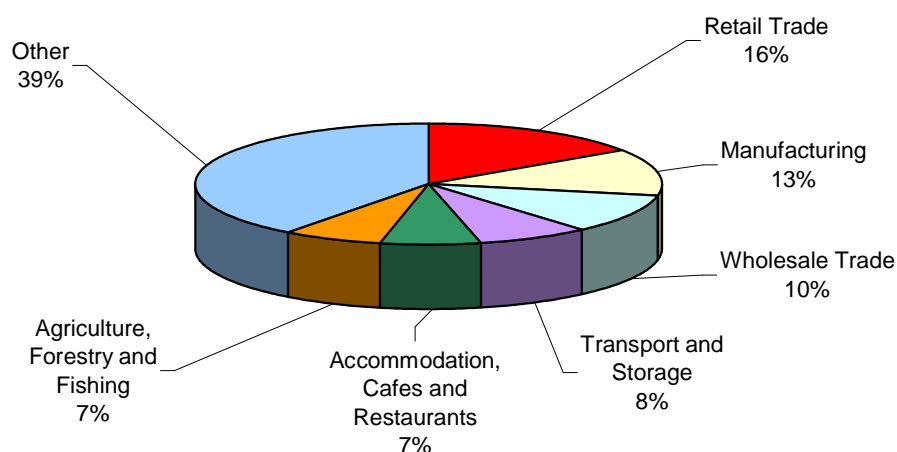
Figure 3 Labour Force Employment Status – Eden region 2001



Source: ABS Census of Population and Housing, 2001.

The key industries driving employment for the Eden region in 2001 are shown in Figure 4. The largest employer is the retail trade, followed by manufacturing and wholesale trade. The agriculture, fisheries and forestry sector employed around 7% of the regional labour force in 2001. This is against a state-wide average of 3.4% for NSW.

Figure 4 Industry of Employment – Eden region 2001



Source: ABS Census of Population and Housing, 2001.

In the Eden township itself, agriculture, fishing and forestry were significant employers with 12% of the labour force, compared with only 7% for the region as a whole.

2.2 Assistance to the Eden Region

The Regional Australia Summit of 1999 set the goals of the Federal Government policy agenda on regional development as the strengthening of regional communities, sustaining the environment and delivering improved regional services (SGS 2002¹). The role of the Federal Government in meeting these goals was to implement programs that encouraged community empowerment, economic and business development and equity of services in regional areas (SGS 2002).

In 1985, the Eden Region was identified as a region of high social and economic disadvantage. Since that time, but prior to the implementation of the ERAP, there had been a long term decline in employment across two of the major regional industries, forestry and fishing. During the 1990's, an estimated 196 jobs were lost in forestry's logging, haulage and processing workforce. From the mid 1980's, the number of fishing boats operating out of the region declined from 148 to 80 in 2001.

In 1999, 143 further jobs were lost when the local canning plant closed down (SGS 2002). Given that the region's total employment was estimated to be 1,744 persons in 1996 (ABS 1996) these reductions in employment represented a significant loss of jobs in the region.

The ERAP was one of a number of programs established to assist the region after the closure of the cannery. These programs included:

- § Eden Regional Business Challenge;
- § Southeast Regional Planning Forum;
- § New Horizons for South East Primary Industries;
- § Eden Business Development Fund (\$500,000);
- § Eden Foundation; and
- § The Living Centres Project.

The aim of these projects was to encourage the social and economic development of the Eden region through community support, training and development and to increase social and economic confidence within the region.

¹ Report prepared for the Department of Transport and Regional Services, 'An Assessment of the Impacts of Change on the Eden and Newcastle Communities'.

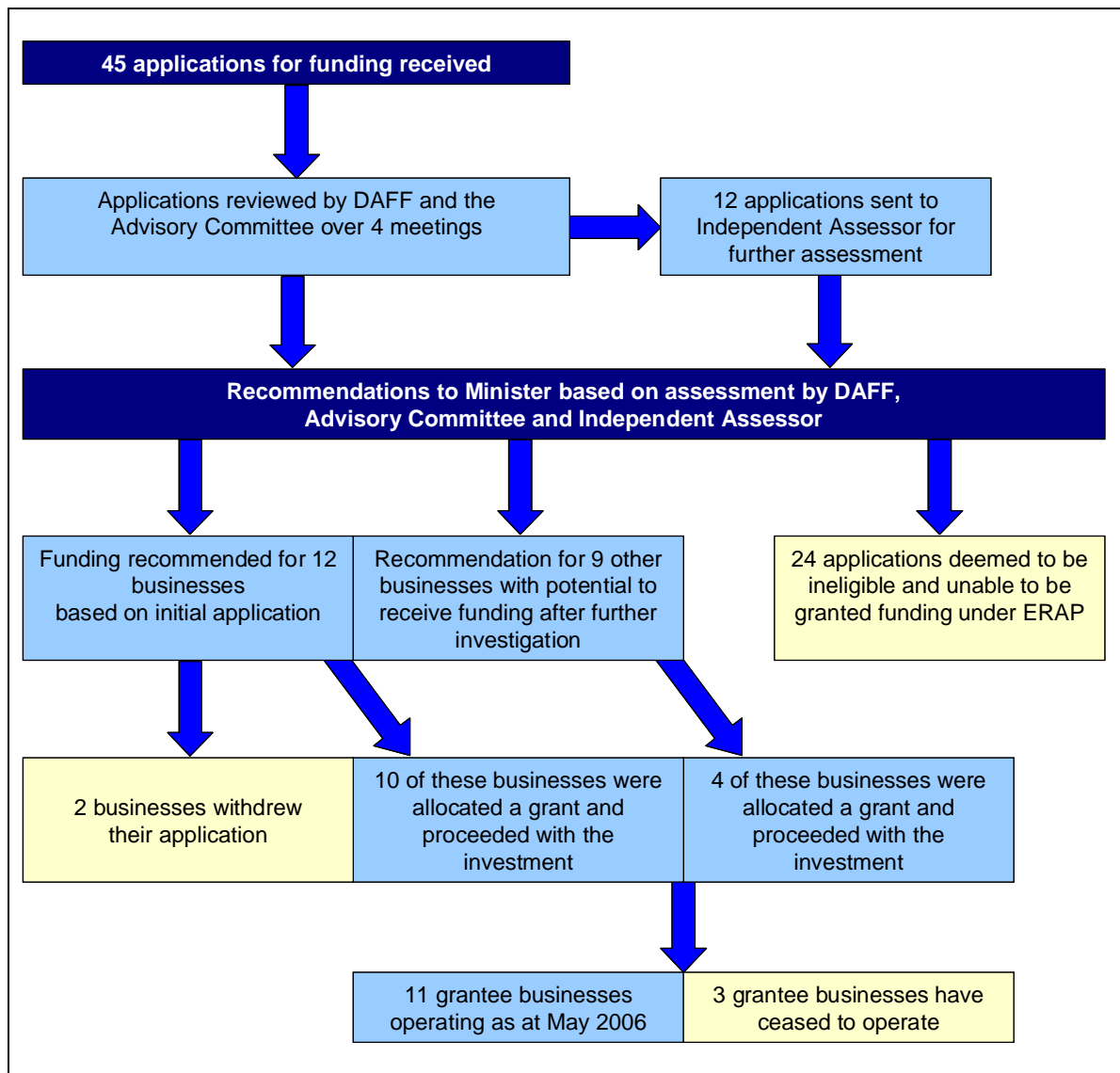
3 Description of the ERAP

3.1 Grant Process

Forty five applications were received in response to advertising the ERAP between November 1999 and February 2000. The total amount of investment funding sought by applicants was \$14 million, with individual applications ranging from \$8,000 to \$1.2 million. A flow chart indicating the grantee selection process is provided in Figure 5.

An Advisory Committee of local community members assisted with the assessment of applications and provided recommendations to the Ministers.

Figure 5 ERAP Grantee Selection Process



The criteria used to assess applications were:

- § creation of employment through the investment;
- § ability of the applicant to match ERAP funding;
- § financial viability and investment risk;
- § access to key resources and infrastructure;
- § implementation of the project;
- § marketing and sales information;
- § support within the region; and
- § environmental considerations.

Over the course of 4 meetings of the Advisory Committee, applications were ranked using a scoring system against the assessment criteria. Twenty four applications were deemed to be ineligible.

Twelve applications were referred to an Independent Assessor (50% of those eligible). These applications were either large or the Advisory Committee felt that specific elements of the proposal required review. The Independent Assessor's role was to check:

- § the financial status and management expertise of the applicant;
- § technical and operational feasibility;
- § financial viability;
- § investment risk;
- § the availability of infrastructure, raw materials and services;
- § capital availability; and
- § licences and approvals.

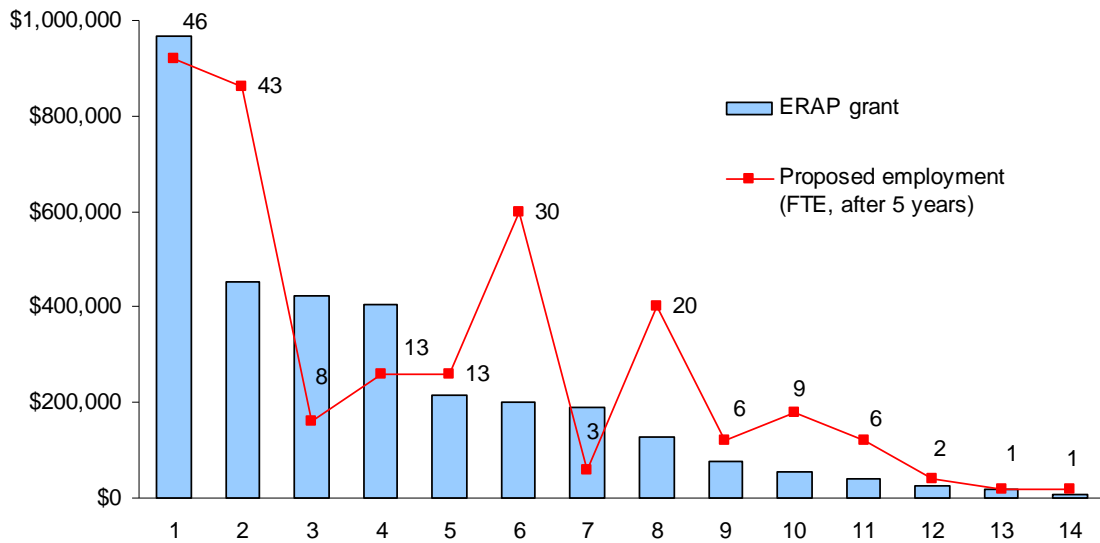
3.2 Grant Recipients and Employment Targets

Ten of the twelve businesses initially recommended to the Ministers for ERAP funding accepted the grant. These businesses received \$1.23 million in grants and were expected to generate employment of 84 full time equivalent (FTE) positions. Four additional grants totalling \$1.97 million were awarded and accepted.

The 14 successful businesses were allocated \$3.2 million in grant funding and were expected to generate 201 employment positions after 5 years. The total cost of ERAP was \$3.4 million, including \$3.2 million in grantee funding and \$200,000 in administration and independent assessment expenses¹ (DAFF 2006). A summary of the expected employment outcomes and amount of grant funding received by the 14 successful applicants is shown in Figure 6.

¹ This was made up of \$70,000 of program funds and a contribution of \$130,000 from the DAFF departmental budget.

Figure 6 Size of ERAP Grant and Proposed Employment at 5-years



The 14 grantee businesses participated in a range of industries including commercial fishing, fish processing, forestry, recreation, agriculture, manufacturing, retail and services. Approximately a third of grantee businesses were based in the fishing industry. Over 70% of the businesses receiving ERAP grants were based within the Eden township, with the remaining businesses located at Bombala, Boydtown and Delegate.

3.3 Conditions of the Grant

Businesses awarded grants were required to provide evidence of the purchase of the asset(s) for their business, as per their application, before they received funding from DAFF. Reimbursements to businesses were made at a rate of 50% of the purchase or construction costs of these assets until the full amount of the grant had been committed.

Grants were paid out to applicants over a 3 to 4 year period from December 2000, with the final payment made to one of the larger projects in June 2004.

A key characteristic of the ERAP program was the joint investment in an asset. Table 1 provides a complete list of the assets that were the subject of co-investment with applicants. Nine of the 14 grants were provided for assets that are fixed. That is, they relate to building or plant that is not easily transferred from its location without incurring costs.

Table 1 List of Grants and Current Status of Asset

Location	Industry	Asset	Use status
Eden	Fishing	Factory and fish processing equipment.	Still in use.
Eden	Fishing	Additional freezing capacity for processing bait fish.	Still in use.
Eden	Services	Surveying equipment.	Still in use.
Eden	Services	Additional motor workshop facility.	Still in use.
Eden	Fishing	Upgrading of commercial fishing boat.	Boat sold.
Eden	Food manufacturing / retail	Land, buildings and equipment for production of wholesale and retail bakery goods.	Buildings for sale/lease.
Eden	Fishing	Aquaculture lease purchase and development.	Still in use.
Eden	Tourism/recreation	Construction of a boat for recreational fishing and whale watching.	Boat sold, operating on South Coast.
Eden	Fishing	Upgrade of commercial fishing vessel freezer capacity.	Still in use.
Eden	Manufacturing	Factory facilities for recreation vehicle manufacturing.	Still in use.
Bombala	Agriculture/forestry	Land and production equipment for seedling tree production.	Still in use.
Bombala	Agriculture	Sinking of a bore and provision of a pump for horticulture.	Still in use.
Boydton	Tourism/ accommodation	Refurbishment and extension of historic hotel.	Still in use.
Delegate	Forestry	Construction of a training facility and forestry equipment.	Facility still in use by forestry business.

4 Evaluation Methodology

4.1 Introduction and Key Considerations

Government intervention in the labour market is generally designed to improve the efficiency of a labour market, improve equity, or to correct an inability to adjust to external factors for change.

The primary purpose of this review is to determine the extent to which the objective of the ERAP has been achieved (effectiveness). As prescribed by the Terms of Reference for this Review, the methodology is design to assess whether the ERAP:

- § achieved its objective;
- § assisted with maintaining/increasing employment;
- § led to more efficient and sustainable businesses in the region;
- § resulted in outcomes that otherwise would not have occurred; and
- § was effectively administered by DAFF.

The objective of ERAP is:

“to supplement private sector investment by businesses in the Eden region to create long-term employment in the region”.

The efficiency with which the package was implemented is assessed on the basis of job creation in relation to the level of program expenditure, and on an evaluation of the ERAP implementation process.

It is also important to address any outcomes, which although not stated as an objective, could still be attributed to the implementation of ERAP.

Outcomes of the ERAP have been identified through consultation with grantees, DAFF staff and Advisory Committee members, and a review of program documentation.

4.2 Effectiveness – Has the objective of ERAP been achieved?

The effectiveness of the ERAP is measured by the extent of its achievement of intended outcomes. The key indicator used to assess effectiveness is the level of sustainable employment created against the employment creation targets submitted as part of each application.

Employment outcomes of grantee businesses have been monitored periodically over the past 5 years, most recently in May 2006. The level of actual employment creation is assessed based on the net increase in employment by grantee businesses since the ERAP was implemented. Although this does not account for any external factors which may have contributed to an increase in employment in the grantee businesses, it provides a broad measure of the employment creation in the Eden region among businesses receiving investment grants under the ERAP.

4.3 Evaluation of the ERAP Processes

This evaluation of ERAP processes consists of an examination of the grantee selection process undertaken by DAFF, including the use of the Advisory Committee and the Independent Assessor. Feedback provided by grantees on the ERAP implementation process and outcomes is reported in Section 6.

The functions of the Advisory Committee, including the assessment of the applications and the administration of the grants process, is an important part of the evaluation. The exercise is informed by the Terms of Reference of the Advisory Committee and of the Independent Assessor. The Terms of Reference of these bodies are provided in Appendix 1.

4.3.1 The Advisory Committee

The primary role of the Advisory Committee was to make recommendations on:

- § the eligibility criteria and guidelines for assessment of applications;
- § the level of review required by the Independent Assessor; and
- § which businesses should receive a grant.

4.3.2 The Independent Assessor

The Independent Assessor was asked to review the business plans of the 12 applicants. In particular, it was asked to request further information regarding key assumptions contained in business plans, view evidence of business bona fides and to use standard criteria to provide a relative ranking of applications.

4.4 The Efficiency of ERAP

Any measure of the efficiency of the ERAP process requires measurement of the costs of achieving the outcomes. The relevant performance indicator used in this study is the level of employment created per dollar of investment.

This parameter is then compared with similar measures from programs of a similar nature. In this case, ERAP has been compared with some other Federal Government structural adjustment and employment programs. As different programs have different goals, contexts and methods, such comparisons are not necessarily straightforward. Despite this, they are assumed to be sufficiently robust for the purpose of the present exercise.

Data for the estimation of ERAP costs is largely based on information provided by DAFF and includes funds allocated to grantees and Package administration costs.

5 Outcomes and Evaluation of the Package

This section provides an outline of ERAP outcomes in the areas of business investment, employment creation, efficiency and sustainability, unintended outcomes and administration, all in relation to the objectives of the ERAP and of this review.

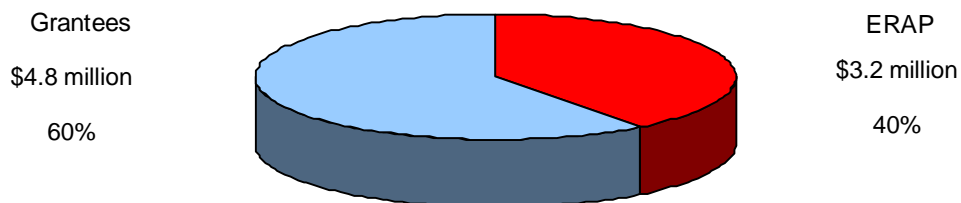
Grantees were interviewed for this review in May 2006. Employment creation, investment, expectations and feedback on the ERAP process were the focus of these consultations. An important part of the discussion with the former operators of now defunct businesses was their perception of why their businesses ceased to operate.

5.1 Assessment of Effectiveness – Investment and Employment

The key objective of the ERAP was to supplement investment in businesses in the Eden Region in order to encourage growth of long-term employment opportunities. A total of \$3.2 million in grants was provided to businesses through the Package. This was more than matched by \$4.8 million in private business investment, thereby bringing total investment in the region associated with the Package to \$8.0 million. Figure 7 illustrates these levels of investment in the Region.

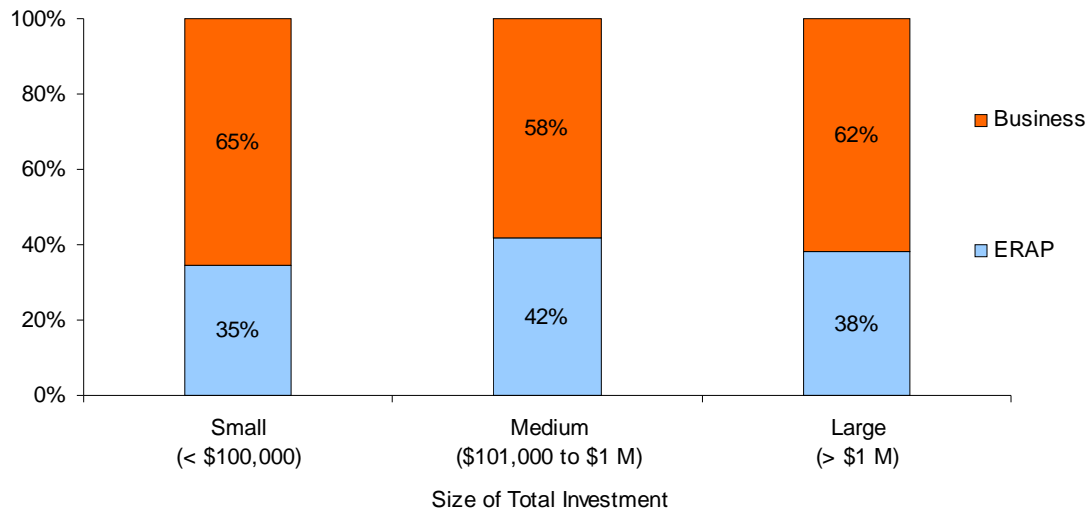
As indicated in Figure 7, 40% of the investment made in the Eden Region as a result of the ERAP was provided through grants. Private business investment associated with the ERAP grant funding provided the other 60%.

Figure 7 Contribution to Total Investment by ERAP and Businesses



The total level of investment in a single business ranged from \$16,500 to \$1.99 million. The ratio of private business investment to ERAP grant funding varied with the overall size of the investment (Figure 8). This highlights the importance of the co-investment criterion in the ERAP guidelines.

Figure 8 Contributions to Total Investment by Size



The majority of the assets in which businesses invested are still used in the Region. Eleven of the applicant businesses were still utilising the asset, despite two of them changing owners. Three businesses are no longer operating. Two of these had invested in non-fixed assets.

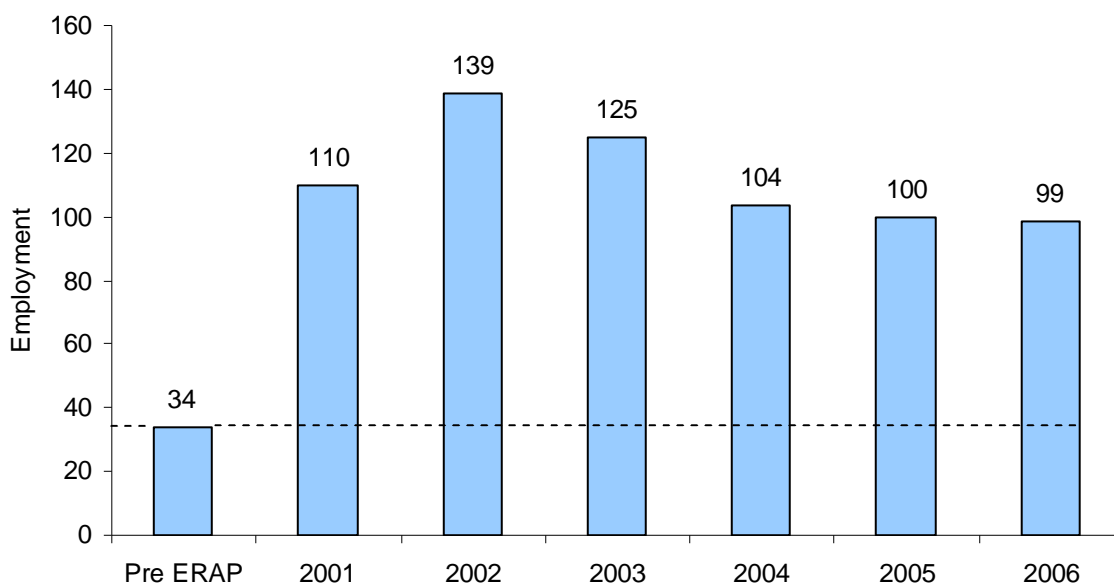
Three business failures from 14 over a period of 5 years gives a failure rate of 21%. Based on figures reported by the Productivity Commission (2000), it is expected that, over a 5-year period, 27% of the small businesses¹ at year one would cease to operate by the end of year five. On this basis, the rate of business failure for the 5-year period after the implementation of ERAP does not seem exceptional. On the other hand, a lower failure rate, reflecting the discipline resulting from the process, might be reasonably expected. Arguably, the joint investment of public funds and the associated review, should lead to the selection of businesses with a higher than average chance of success.

While the closure of these three businesses and the loss to the region of two assets are undoubtedly a blemish on the Package, these are off-set, at least to an extent, by their contribution to employment and overall activity at the time of immediate crisis in the region. The businesses which ceased to operate provided 66 of the employment positions in 2002, which is 48% of the peak level of employment shown in Figure 9. As the total joint investment (ERAP and private) in these three businesses was over \$4 million, or 50 percent of the total investment under the scheme, their closure was otherwise a significant cost of the Package.

The total number of people employed across the applicant businesses prior to the ERAP was 34 full time equivalents. This grew over the two years to 2002, with the 'peak' level of employment reported to be 139 full time equivalent positions. Anecdotal evidence from those in the community interviewed in the course of this review suggests that this was an important development at a time of crisis. Claims were made that it was an important contributor to the 'turn-around' in community attitude and sense of well-being, which appears to have occurred since then.

¹ A small business is defined as a business which has less than 20 employees. Failure did not include those businesses experiencing a change in ownership.

Figure 9 Aggregate Grantee Businesses FTE Employment



The peak jobs shown in Figure 9 indicate the highest level of employment achieved after the implementation of ERAP. A significant number of these were provided by a single business which reduced operations in 2003 and eventually ceased to operate in 2005. Employment levels have fallen over the past 4 years as a result of these three businesses ceasing to operate. However, three businesses have also increased employment over this time and one business began operating in 2006 after delays in the completion of work on the underlying asset.

Grantee businesses were required, at the time of application, to submit estimates of the number of jobs expected to be generated by the investment made under ERAP after 5 years. The total level of estimated job creation was estimated to be 201 FTE positions.

Based on employment levels for 2006, 49% of this target has been reached. At the peak level of employment in 2002, 69% of the employment target had been achieved.

5.2 Efficiency and Sustainability of Businesses

Several grantees reported that the efficiency gains to their businesses resulting from the economies of scale made possible by the ERAP investment were important to the sustainability of their business. Conversely, ERAP was not nominated as the cause of the demise of the businesses which failed. As is discussed below, the Independent Assessor did find evidence of susceptibility to adverse outcomes in the case of two of these businesses.

The ERAP assisted with the efficiency of grantee businesses in a number of ways. By increasing the productive capacity of businesses, the ERAP allowed economies of scale to be achieved. Processors recognised that achieving a certain size of operations allowed for cost efficiencies in the purchase of larger quantities of inputs and lower unit costs of transportation of outputs to points of sale.

ERAP investment used in the development of local fish processing facilities is perceived to have been crucial in sustaining a number of the vessels operating from the Eden wharf. A number of fishing vessel operators indicated that, otherwise, they would have had to send their catch to Port Lincoln, an outcome which may not have been sustainable in the long-run, due to the transportation costs involved.

5.3 The Efficiency of ERAP

Of the estimated total ERAP costs of \$3.4 million, \$200,000 was used for administration. This included DAFF staff time, services provided by the Independent Assessor, advertising and legal costs of the Package. Administration costs were 6% of the total expenditure on the ERAP of \$3.4 million.

Further comment on the administration of the program provided by grantees is reported in Section 5.5.

Based on the level of employment in 2006 and the cost of the ERAP of \$3.4 million, the cost of each employment position created by the Package is estimated at \$34,500.

The Structural Adjustment Fund for South Australia has program expenditure to date of \$35 million for an estimated gain of 1,100 jobs. This is approximately \$32,000 per job (Industry Tourism and Resources 2006). The Victorian Forest Industry Structural Adjustment Package provided \$2.5 million to gain 50 jobs (\$50,000 per job). A Special Adjustment Programme for the Wide Bay Burnett Region of Queensland provided \$203 million for a target 100 direct jobs (\$40,000 per job). On the basis of this evidence, the ERAP has level of performance which is at least comparable with that of these programs.

An alternative comparison is with the 'do nothing' approach with the costs to government taking the form of training, unemployment benefits or employment placement. Employment placement, using these mechanisms is estimated to have cost \$5,000-\$6,000 per employment outcome since mid-1998 (Department Employment and Workplace Relations 2002). Unemployment benefits are estimated to cost \$10,676 per year for a single person over 21 years of age (Centrelink 2006). That is, the cost of ERAP per employment outcome is comparable to the total cost of 3 years of unemployment benefits.

5.4 Unintended Outcomes

As already indicated, a number of important impacts stemming from the ERAP have been identified. These broadly include encouragement of local businesses to assess their operations in a more rigorous way, allowing some businesses to reach higher scales of production with resultant cost efficiencies, and contribution to positive changes in community attitudes.

A number of the grantees reported a positive impact of the ERAP on their business planning. Applying for a grant required them to assess the current state and future direction of their business operations in a more disciplined way. Even businesses which were unsuccessful in obtaining grant funding may have improved their business operations as a result.

Although these outcomes are difficult to assess, and cannot all be directly linked to the ERAP, they have been identified by grantees and other community groups as occurring over a similar time frame and are likely to be associated with the ERAP.

5.5 ERAP Processes

The key areas for consideration under this heading were the guidelines, the criteria for assessment, the Advisory Committee, the independent Assessor and the interaction with DAFF.

The guidelines were considered adequate by those consulted. However, some clarification of the processes following application may have been beneficial as some grantees reported that they were not fully aware of the mechanics of the funding process.

The criteria for assessment were exhaustive. However, the use of a ranking system across the 12 criteria may mean that issues are masked by the overall score.

The Independent Assessor used the same criteria to assess applications and completed checks on the financial credentials of the applicant. The financial estimates provided by applicants in their business plans were checked and sensitivity analysis of projected business profit undertaken.

The primary reasons given for the closure of the three failed businesses all related to access to or reliability of supply of a key input and/or product. The applications of two of these businesses were assessed by the Independent Assessor. Sensitivity analysis showed profit to be sensitive to a rise in costs and decline in income for both businesses. The method of communicating any concerns regarding specific applications to the Advisory Committee is not specified in the terms of reference.

The addition of a phase of technical assessment with industry experience may have proved useful in identifying key issues with business plans of significant or complex grant applications.

Implementation and interaction between DAFF and successful applicants has been adequate and is ongoing. DAFF reported that they were aware of any issues arising, while communications and receipts have been well documented.

5.6 Participant Feedback on Process

5.6.1 ERAP Implementation

Feedback on the implementation of the ERAP covers a number of key areas. These are broadly: the application process, communication with DAFF, employment targets and general administration of the Package. All of the grantees indicated that the objective of the Package, to generate employment in the Eden Region, was made clear from the outset.

A general perception was that the application process was time consuming and costly, particularly when professional services, such as those of an accountant or other business advisor, were used. However, it was recognised by some of the applicants that the time and cost was acceptable in the light of the level of funding they were receiving.

Some confusion on the part of applicants was evident regarding their commitment to their estimates of employment. A number of them thought the estimates they had provided were commitments they had to meet if they were to retain their grant. While a majority of businesses indicated that they would still have proceeded, even if this had been the case, several indicated that the business risk would have been too high for them to proceed.

Grantees generally regarded the level of communication from DAFF throughout the application and implementation process to be satisfactory. It was, however, noted that there was a fairly long lead time between the application and awarding of grants and more information on the timeframe of the process could have been provided at this time.

A number of points made by applicants were:

- § the provision of a minimum level of job creation relative to the size of the grant would have been a good guideline for some people to use in deciding whether or not to apply for funding;
- § it was difficult for businesses to raise all of the initial capital to purchase the asset prior to being reimbursed by ERAP;
- § it was difficult to estimate the earnings for a business reliant on a fishery as the supply is very variable; and
- § a more formal follow-up process with grantees after the allocation of grants to check performance may have been useful.

5.6.2 Overall Impact of the ERAP

A number of operators saw capital as one of the major restrictions on the expansion of business operations. The ERAP allowed this restriction to be eased. Overall, grantees felt that the ERAP had a positive effect on the region, despite the fact that some of the businesses were no longer in operation.

6 Conclusions

6.1 Assessment of Effectiveness

The primary objective of ERAP was to supplement business investment in the Eden Region in order to generate sustainable employment. The investment of \$3.2 million in ERAP grant funds was linked to a further \$4.8 million in grantee business funds. So, for every dollar of ERAP grant funding, a further \$1.50 in private business funding was generated. The target of the ERAP was 201 employment positions after 5-years.

Based on estimates provided by businesses in May 2006, total investment on ERAP related business projects over the past 5 years has exceeded \$10 million.

Actual sustainable employment created has not met the original estimates of the grantees. The peak level was 139 people employed in 2002. As at June 2006 there were approximately 100 employment positions linked to the ERAP. This level of employment represents 49% of the 5-year level nominated.

It is noted that some major employers have faced delays in the implementation of their plans. Consequently, the ultimate employment figure attributable to ERAP may rise. For example, over 40 positions are expected to be generated as the refurbished hotel project continues to develop.

Although unquantified, 'spin-off' employment generated in the region from the purchase of goods and services, and construction associated with a number of the projects, would also have made a contribution to the level of employment in the region and to the economy.

6.2 Efficiency and Sustainability of Businesses

Grantees generally reported that economies of scale achieved through the investments made possible by the ERAP were important to the sustainability of their business. While there were mixed views on whether the ERAP funding was critical to business development, almost all grantees said that the ERAP funding hastened the growth of their business.

A key feature of the ERAP program was the requirement for funds to be used to purchase assets or equipment. The assets in which businesses invested remained in the Eden Region in the majority of cases.

A number of outcomes, that otherwise might not have occurred, were generated as a result of ERAP. Local businesses were encouraged to assess their operations for growth and provision of further employment which in itself was beneficial. Additionally, there was a positive change in the attitudes of the community, though the extent to which this can be attributed to the ERAP is not able to be determined.

Small business failure rates reported by the Productivity Commission (2000) indicate that the number of business which ceased to operate under ERAP is not exceptional. The failure rate of 21% (3 of the 14 grantee businesses) is comparable to the expected rate of 27% of small businesses which could be expected to cease to operate over a 5-year period.

6.3 The Efficiency of ERAP

The cost of the ERAP per FTE position is estimated to be \$34,500, based on the employment level reported by grantees in May 2006. The administrative costs of the ERAP were 6% of the total cost of the program.

Comparison with other government adjustment programs with job creation goals shows that the FTE positions linked to the ERAP are in line with such initiatives.

The ERAP process is considered to have been efficient in achieving its goals. However, this conclusion is dependent on the key assumption of the level of employment creation that is directly attributable to ERAP.

6.4 ERAP Processes

The ERAP guidelines, criteria and process were considered adequate.

The advisory committee was skills based and provided local knowledge. It is noted that two members raised issues of non-pecuniary conflicts of interest on 16 specific applications throughout the process.

The assessment of significant or complex applications could have been better. The process used to assess applications highlighted issues in some cases, but the method used to communicate to the Advisory Committee concerns regarding specific applications were not specified in the terms of reference for the independent assessor.

The addition of a phase of technical assessment with industry experience may have proved useful in identifying key issues with business plans of significant or complex grant applications.

Grantees generally regarded the level of communication from DAFF throughout the application and implementation process to be adequate.

7 Recommendations

While this is an ex-post review of the ERAP, a number of recommendations can be made, which might be taken into account should similar exercises be contemplated by DAFF. The recommendations do not imply any actions with regard to the ERAP.

The recommendations, which relate to the guidelines and assessment process of ERAP, are:

- § consideration of the nature of the assets in any joint investment;
- § use of the independent technical assessor and communication with an advisory committee;
- § exploring the scope for the provision of assistance in the business planning undertaken by businesses.

Assets and Regional Development

Assessment of the mobility of assets purchased using ERAP funds has highlighted some issues relating to the support of investment in easily transferable assets. This is not to say that any of the projects are seen to have been ill considered, particularly as the minimum joint investment of 50% acts to limit strategic behaviour, and the businesses that ceased to operate only did so after 3 years of operation.

One of the criteria used for the assessment of investment in assets could include that they are expected to continue to be used in the target region if the business fails.

Investment in assets which can still be used within the target region/industry should improve the likelihood of generating an increase in sustainable employment. Investment in business assets that build the capacity of the region, regardless of external business factors, should be included in guidelines for supporting the purchase of assets requiring significant levels of government investment (e.g. greater than \$100,000).

Recommendation:

Applications to invest in assets which have a degree of fixity or specificity to a target region should be preferred.

Business Planning

The quality of the business planning in the applications was variable, and, while the independent assessment process considered financial matters, it was not in itself, an exercise in business planning.

It is recommended that once applications have reached a certain stage of the assessment process, perhaps after the generic independent assessment, funds should be invested to assist applicants fully develop their business plans.

Recommendation:

Funds should be made available to suitable applicants, after initial assessment, to complete business plans to a standard that provides the opportunity for technical assessment and delivery of confidence to DAFF.

Assessment of technical feasibility

Analysis of the technical feasibility of major applications, such as that by the Independent Assessor or any technical expert, should be effectively communicated to the relevant advisory committee. It is suggested that this should involve direct interaction.

The analyses by the ERAP Independent assessor were generic and highlighted potential issues. In any future exercise, a further step for larger investments could be the provision of an appropriate independent technical assessment. Using ERAP as an example, there were applicants that requested significant funds and sensitivity testing of revenue assumptions highlighted risks in their proposals. In such a situation, independent technical assessment would have provided the Advisory Committee and DAFF with more assurance in making their recommendations.

Recommendation:

Use of an assessor with more technical industry experience may have proved useful in identifying issues underpinning business plans put forward by applicants.

References

- ABS (1996) Census of Population and Housing, Basic Community Profiles for Eden, Pambula and Bombala.
- ABS (2001) Census of Population and Housing, Basic Community Profiles for Eden, Pambula and Bombala.
- Department of Employment and Workplace Relations (2002) Job Network Evaluation - Stage 3 Effectiveness Report, Commonwealth Government.
- Department of Agriculture Fisheries and Forestry (2001) Grant offers announced for timber businesses in regional Victoria. Media Release, Minister for Forestry and Conservation for Vic. FISAP.
- Department of Agriculture Fisheries and Forestry (2006) Summary of ERAP Administration Expenses, electronic communication.
- Department of Industry, Tourism and Resources (2006) Eight new projects to invest \$53 million in South Australia, Media Release, Minister for Australian Industry.
- Department of Transport and Regional Services (undated) Special Structural Adjustment Programme for the Wide Bay Burnett Region of Queensland, Regional Programmes Division.
- Centrelink (2006) Newstart Allowance Payment Rates.
- Productivity Commission (2000) Business Failure and Change: An Australian Perspective, Staff Research Paper, Commonwealth of Australia, Canberra.
- SGS (2002) An Assessment of the Impacts of Change on the Eden and Newcastle Communities, prepared for the Department of Transport and Regional Services.

Appendix 1 Application Process Terms of Reference

Advisory Committee

The Eden Region Adjustment Package Advisory Committee is appointed by the Commonwealth Minister for Regional Services, Territories and Local Government and the Minister for Forestry and Conservation, to:

- § provide comments to the two Ministers on the eligibility criteria and guidelines for assistance under the ERAP;
- § assess applications for assistance in accordance with the eligibility criteria and guidelines approved by the Ministers;
- § make recommendations to the Ministers on applications for assistance under the ERAP.

Independent Assessor

The Independent Assessor will be required to provide reports to the Executive Officer of ERAP on specific applications referred to it by the Executive Officer. The report will address issues including but necessarily limited to:

- § the bona fides of the applicant including financial status and review of recent performance;
- § assessment of the technical and operational feasibility of the project proposal;
- § assessment of the financial viability of the proposal including review of projected cash flows provided by applicants and identification of key variables;
- § Investment Risk Analysis including sensitivity of key variable;
- § sustainability of extra jobs created;
- § management expertise of the applicant;
- § availability of infrastructure, raw materials and other support services necessary to implement the proposal;
- § ability of applicants to provide 50% capital contribution;
- § confirmation of necessary licence approvals etc, to implement the proposal; and
- § provide a relative ranking of projects according to the attached Ranking Criteria.

The Independent Assessor will provide advice covering all of the above issues and report on other related matters as requested. It would also be expected that field visits be kept to a minimum.

Appendix 2 ERAP Review Terms of Reference

Department of Agriculture, Fisheries and Forestry: Request for tender for the provision of Financial and Business Services

The Department is seeking tenders for the evaluation of the efficiency and effectiveness of the Eden Regional Adjustment Package. The specifications for those Services are set out at Part 1 of this Request for Tender.

Part 1, Section 7, Description of Services Required

The Department Agriculture, Fisheries and Forestry is seeking to engage an expert in government grant program evaluation.

The tenderer will be required to provide an evaluation report of the Eden Regional Adjustment Package to the Department of Agriculture, Fisheries and Forestry. The report will address issues including but not necessarily limited to:

- § Did the ERAP achieve its objectives?
- § Did the grant lead to more efficient/sustainable businesses in the region?
- § Did the grant assist with maintaining/increasing employment?
- § Did the grant result in outcomes that otherwise would not have occurred?
- § Was the ERAP effectively administered by DAFF?
- § Were ERAP recipients satisfied with the ERAP processes and outcomes?
- § Was the rate of business failure of ERAP recipients consistent with small business failures generally?