


Dairy Regional Assistance Programme Facsimile

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Date:	2 June 2003	Pages (Inclu. Coversheet):	12

Message:

Please find attached letter and attachments regarding Questions on Notice from the Inquiry into a funding matter under the Dairy Regional Assistance Programme.

Original to follow by mail.



Joy Flaherty

Dairy Regional Assistance Programme
Regional Programmes Division

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Mr Alistair Sands
Secretary
Finance and Public Administration Committee
Australian Senate
PARLIAMENT HOUSE ACT 2600

Dear Mr Sands


Inquiry into funding matter under the Dairy Regional Assistance Programme.

During the inquiry on 8 May 2003 the Department took several questions of the Committee on notice, as the detail of information sought from these questions was not at hand at the time. The answers to these questions have now been prepared and can be found at Attachment A.

On 28 May 2003 the Committee Secretariat also requested that several additional documents relating to the Moruya Steel Profiling Plant Dairy Regional Assistance Programme project be provided. Included at Attachment B is a response and copies where appropriate.

I refer to an answer I gave to Senator O'Brien (F&PA 9) during the inquiry on 8 May 2003 where I stated there were no officers currently employed by this department who were involved in the various early stages of the Mordek project. I answered based on what I understood, however, due to my recent arrival in the Department I find I was ill informed. I now understand there are still two officers in National Office who may have been case managers at that time. A third officer still located in the Wollongong Regional Office may have had some knowledge of projects coming into the office at that time.

Yours sincerely



Leslie Riggs
First Assistant Secretary
Regional Programmes

30 May 2003

Questions on Notice
Thursday 8 May 2003
Finance and Public Administration References Committee

Reference: Inquiry into a funding matter under the Dairy Regional Assistance Programme

Q. (1) The number and total value of the Dairy RAP grants made to the Eurobodalla region.

A. From rounds one to nine, the final Dairy RAP round, \$ 638,406 in funds were approved for 7 projects in the Eurobodalla region.

Q. (2)

- i) When did applications for round 6 open, and**
- ii) close**

A. i) Applications could be received post ACC endorsement at any time. Applications were then considered for a following round.
ii) Answer given at the inquiry, transcript page F&PA 37.

Q. (3) What would have been the cut-off date going from round 5 to round 6.

A. Answer given at the inquiry, transcript page F&PA 37.

Q. (4) How many applications were received in round 6.

A. Answer given at the inquiry, transcript page F&PA 37.

Q. (5) How many applications were received from the Eurobodalla region (round 6).

A. Answer given at the inquiry, transcript page F&PA 37.

Q. (6) On whose authority did a departmental officer amend the proponent's (Mordek) application?

A. The proponent's. It was common practice, when assisting an applicant to develop their proposal, to discuss the issue with the applicant, then, as a matter of convenience, to amend the application with the applicant's permission.

Q. (7) Was an application made by the Eurobodalla Shire Council to Regional Solutions to sewer the North Moruya Industrial Estate (lodged in November 2000 seeking \$302,220).

A. Yes. An application was received by DOTARS from the Eurobodalla Shire Council on 20 November 2000 seeking \$302,200 to assist the extension of the existing sewerage system to the North Moruya Industrial Estate.

Q. (8) Does the department have a signed copy of a final (Dairy RAP) application (document 29 declaration in the final application).

A. Yes. The application was received electronically. The department has signed copies of the document submitted on 3 December and the document submitted on 12 December.

Q. (9)

i) Who made the assessment to give the approval to the project on 17 December 2001?

ii) Who was the programme's delegate on that date.

A. i) The assessment process leading to approval includes Regional Office, a National Office Case Manager, Programme Manager and the Delegate.
ii) Answer given at the inquiry, transcript page F&PA 37.

Q. (10) Was the external assessment of the proponent limited to the financial position of Mordek, or did it also encompass Moruya Industrial Estate Pty Ltd.

A. The external assessment was carried out on Moruya Decking and Cladding Pty Limited, trading as Mordek and did not encompass Moruya Industrial Estate Pty Ltd as they were not considered to be the proponent.

Q. (11)

i) When was the proponent informed of the grant, and
ii) ACC informed of the grant?

A. i) There is no copy of a written notification on file.
ii) All ACCs where a Dairy RAP project had been approved were informed on Thursday 17 January 2002.

Q. (12) Would Mr Nairn have been informed prior to the public announcement.

A. Mr Nairn, as with all other members with approved projects in their electorate was informed on Thursday 17 January 2002.

Q. (13)

- i) When did the audit commence?**
- ii) When did it conclude?**

- A. i)** The auditor was commissioned by the proponent. The audit would have begun after the contract end date of 31 August 2002.
- ii)** The audit was completed and sent to the Department on 29 October 2002. The Department received the report on 5th November 2002.

ATTACHMENT B

1. a final assessment of the Mordek application prepared by Dallas Burnes in the regional office (alluded to in document 25)

A final version of the assessment as recorded on RAMIS is attached. RAMIS is the database Dairy RAP uses to record administrative information.

2. Briefing notes or material prepared by national office staff for the delegate's consideration.

Delegates' consideration of Dairy RAP projects is generally given verbally by the relevant Case Manager based on the final RAMIS report and any external assessment reports carried out during the assessment period.

3. Documentation of the decision by the delegate and grounds for that decision.

Documentation of the decision is contained in the RAMIS report as mentioned above. Grounds for the decision of a Dairy RAP project are that the project has met the Dairy RAP guidelines and passed the relevant external assessments.

4. Written notification to Mordek of the successful application.

There is no copy of a written notification on file.

5. positions of the following DEWRSB/DoTARS officers - in particular whether they were located at the national or regional office:

- Steven Dreezer - National Office - Acting Manager Dairy RAP
- Catherine Durney - National Office - Case Manager
- Russell Trebilcock - National Office - Case Manager
- Rachel Marczak - National Office - Case Manager
- Pauline Hefko - Regional Office Manager

6. Can you possibly clarify if there is an earlier version of the application to the one dated June 2001, or is this reference to Round 1 incorrect?

The reference to round 1 is an internal numbering system where each round is considered within a financial year. Round 1 would have been "round 1, 2001/2002", actually the fifth Dairy RAP round.



DEPARTMENT OF TRANSPORT AND REGIONAL SERVICES

Dairy Regional Assistance Programme - Project Profile

State NSW
State Office Contact Mr Dallas Burnes
Phone 02 4251 2133 Current Stage Project Finalised
Approval Round 2 Approval Round Year 2001-02

Project Details

Project name Moruya Steel Profiling Plant
Dairy RAP Funding (GST Inclusive) \$339,900.00
GST amount \$30,900.00
Endorsing ACC South East NSW Area Consultative Committee
Project Description This DRAP project will allow the expansion of Moruya Decking & Cladding Pty Ltd's (Mordek's) operations. The project involves the construction a new building, and installation of additional machinery including machinery of a type not yet used at the existing Moruya plant which will allow for an increase in both the quantity and variety of products provided by the company.

The planned site of the expansion, at North Moruya, is not yet sewered. Eurobodalla Shire Council have undertaken to install the sewer as soon as possible, with headworks partially paid for by the proponent organisation. DRAP funds applied for will not be used to purchase goods or services relating to the provision of sewerage headworks. DRAP funds will be used to pay costs associated with the construction and fit out of the new factory premises.

What will DOTARS funds be used for? To pay for the building and fit out costs associated with the expansion of Mordek's operations in Moruya.

Expected Outcomes The project will increase by 8-10 the number of full time persons directly employed by Mordek within the plant.

Additionally within 3-6 months of commencement of operations a further 6 full time jobs will be created in shed erection division (2 teams of 3 employed by Mordek or an associated company). It is possible that some of these people may also be employed to assist in the construction of the facility.

In total the project will directly lead to the creation of an additional 14-16 full time jobs within the Eurobodalla.

The ongoing regional benefit will be considerable. The industrial estate where this project is to take place has the potential, when fully utilised, to be the place of employment for several hundred persons. It should be noted that Batemans Bay, a much larger nearby centre, has effectively run out of industrial land.

Qualitative information **BACKGROUND**

Mordek has operated in the steel products market since 1979. The company now operates plants in Moruya, Nowra and Canberra.

The company has identified opportunities in shed manufacturing, metal brick clad products, and ceiling battens. Although the region has retail and trade outlets dealing in these products, there is no comparable manufacturer.

As well as reaching domestic markets, there is significant international demand for the items which can be produced by the new equipment.

According to Eurobodalla Shire Council (ESC), the estate at North Moruya on which the new facility is to be constructed is the only significant parcel of industrial land remaining in its shire area. ESC is of the view that once the industrial estate has sewerage available, a number of projects which have been delayed by the shortage will commence.

In addition to this project (as described in the DRAP application) the proponent will be paying for the local council to provide sewerage headworks to the estate. This will have an added benefit of providing the necessary infrastructure to allow for economic development within the Eurobodalla. DRAP funds will not be contributing directly toward the provision of sewerage headworks, as this was deemed to be providing a competitive advantage to the property owner/developer. The project as described in the application does not include the provision of sewerage headworks which is viewed as being separate from the activities which are the subject of the DRAP funding submission. No spending by the proponent on the sewerage headworks has been counted toward their contribution for this project.

DEWR ASSESSMENT

1) Strong Linkage to a Dairy Dependent Community

The project is based in the dairy dependent region of Eurobodalla.

The Eurobodalla region has been assessed by ABARE as HIGH in terms of average on farm impact resultant from deregulation and LOW in terms of regional dependence upon the dairy sector.

The Eurobodalla SLA contains 29 dairy farms.

2) Significant and Sustainable Benefits

The project will generate 16-18 direct jobs once the new plant is operating.

The number of indirect jobs has not been calculated. The likely impact is considerable.

In terms of jobs provision it is important to note that the Eurobodalla has an unemployment rate significantly higher than the state average. In the March quarter Small Labour Markets Report it was found that Eurobodalla unemployment rate (4qtr average) was 13.5% whilst the state average was 6.2%. The provision via this project of an additional 16-18 jobs plus the infrastructure development that would allow for further jobs growth is of enormous benefit to this depressed labour market.

3) Co Funding

The proponent is a commercial entity with co-funding of \$310,000 in cash and \$10,000 in kind. The proponent's cash contribution represents more than 50% of the new investment (GST exclusive) to be established through the DRAP funded project.

4) Financial Viability

The proponent has provided detailed financials and business plans. The proponent was determined to be financially viable by the DEWRSB Financial Analyses Team.

In terms of the amount requested and given the nature of the project and the information provided by the proponent an external assessment of this project was requested.

The external report found that while Mordek's operating profit was low, they had over the past three years engaged in significant capital expansion. The report found the proponent's project financials and projects to be reasonable and determined that in terms of the DRAP guidelines the proponent had

provided evidence that supported the viability of their project and their ongoing operations.

The report noted that the proponent did not have the resources to undertake the project without DRAP assistance.

5) Management Capacity

Mordek has operated successfully in Moruya for over twenty years. The company currently employs over 25 staff through its Moruya operation. Given the company history, the high quality of the additional information provided and the response to information requests to date the proponent is assessed as having the management capacity to undertake the project.

6) Budget Analysis

The budget for the project is valid. The costs associated with the construction work have been backed up by the provision of a written quote for the work.

The external report made comment that some items included in the original project budget to be funded, or subsidised, by DRAP support may constitute a competitive advantage to the proponent organisation thereby breaching the Commonwealths policy of competitive neutrality.

The Department has taken this finding back to the proponent whereby the project was altered through negotiation and those aspects that may have caused a competitive advantage have been removed from the DRAP project.

This negotiation also resulted in the amount of funding requested being reduced by around \$100,000.

7) Value for Money

In terms of direct job outcomes (14-16) and sustainable regional benefit this project offers good value for money. The successful negotiation of the funding amount requested has further improved this projects claims with respect to value for money.

8) Project Plan and Evaluation Process

The project application contains a detailed project plan with measurable performance indicators.

The project will be independently evaluated at completion against the project plan and the objectives and performance indicators contained within.

9) Market Research

The company has identified opportunities in shed manufacturing, metal brick clad products, and ceiling battens. The company business plan contains detailed market research.

The external consultant's report also investigated the market into which the new plant will operate. The report found that Mordek was strongly placed to use the increased production to enter the lucrative export market.

The external report did note that any downturn in the domestic building industry would significantly impact Mordek.

10) Competitive Neutrality

The business plan provided with the application notes Mordek's main competitors. None of these competitors operate out of Moruya, or the Moruya area. As this region has a rapidly expanding housing sector, sales of building products are also on the rise. Given these factors, it is unlikely that Commonwealth assistance to this project will adversely impact Mordek's competitors.

As noted at 6) negotiation with the proponent has moved the project away from activities that may have constituted a competitive advantage. As the revised application has addressed the competitive advantage issues raised by the external consultant, the project, if funded is not now anticipated to impact upon the Commonwealths policy of competitive neutrality.

SUPPORTING DOCUMENTS

Documents received

- DRAP application
- Financial Viability Documentation (including business plans)
- Letters of Support
- Quotations for work.

A copy of the external consultants report is also attached to RAMIS.

Recommendation

This project is recommended for funding. The external report on the project found that the project is eligible for DRAP funding given that certain changes were made to the project. Negotiation between the Department and the proponent have seen these changes adopted in a revised application.

1. The project is to operate within the Eurobodalla, a region identified as a Dairy RAP Target Region
2. The 14-16 fulltime jobs which will stem from the project will be of significance and benefit to the local community.
3. The application has demonstrated that the project will result in sustainable job outcomes.
4. The application and in all dealings, the proponent has demonstrated good management. The proponent was found to have the organisational capacity and the financial status to undertake and successfully implement the project. The project application contains realistic budgeting and achievable outcomes. The project will be completed prior to the end of DRAP funding.
5. The proposal has been found to be viable, and
6. The project exhibits partnership funding from the proponent that represents more than 50% of new investment expenses.

Key Dates	Start Date 1/1/2002	Finish Date 30/7/2002		
Co-funding details	Cash	Source	Amount	Confirmed
	Moruya Decking and Cladding	Private	\$310,000.00	Yes
			Total \$310,000.00	
	In-Kind	Source	Amount	Confirmed
	Moruya Decking and Cladding	Private	\$10,000.00	Yes
			Total \$10,000.00	
		Co-funding Total	\$320,000.00	
Will this project go to tender?	No			
Provide details for tender exemption	Private DRAP proponent			
Subsequent funding	Once operating, the steel operation will be self-financing.			
Paths to Next Stage	The steel operation will exist as a stand alone business and does not require or assume the existence of any further development.			
	The directors have undertaken to look for further opportunities, particularly in export markets.			

Proposed Evaluation	The project will be independently evaluated at completion against the project plan and the objectives and performance indicators contained within.
Funding Duplication	No. No alternative government programmes have been identified that could fund the items listed in the project budget.
Contributory Funding	Moruya Decking and Cladding. factory construction, plant cost \$310,000 cash. Project management \$10,000 inkind.
Small Business Project?	No
Infrastructure Project?	Yes
Please explain background to proposal for Infrastructure support, need for RAP funding and direct link of RAP funding to job outcomes	<p>Project involves DRAP funding just under half the construction and fitout costs for the new factory. The overall cost of the project is made up of:</p> <ul style="list-style-type: none"> • MORDEK \$320,000 (GST exclusive) contribution toward the construction, project management and fitting out of new factory premises. • DRAP \$309,000(GST exclusive) towards the construction and fitout of the new factory premises. <p>Total Project costs \$629,000. DRAP's contribution to the overall project represents 49% of total project costs.</p>

Project Proponent and Region Details

Endorsing ACC	South East NSW Area Consultative Committee
Executive Officer	Mr John Dedman
Executive Officer Phone	02 6492 5688
ACC email	seaccjd@acr.net.au
Proponent name	Moruya Decking and Cladding Pty Ltd
Contact name	John Nader
Contact Phone	02 4474 2800
Not for profit?	No
Primary Electorate	Eden-Monaro
Secondary Electorate	

Assessment Information

This project is recommended for approval

National Office assessment	<p>The proponent, Moruya Decking and Cladding, have passed NO financial viability assessment.</p> <p>This project is assessed as meeting the Dairy RAP guidelines and the State Office recommendation for funding of \$339,900 is supported.</p>
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Stage comment for Project Finalised	6/3/2003
Stage comment for Independent Audit Received	6/3/2003
Stage comment for Final Report Received	6/3/2003
Stage comment for Project Completed	6/3/2003

Stage comment for Contract Execution	3/4/2002	
Stage comment for Project Announced	7/2/2002	Announced by Minister Truss on Thursday 7 February 2002
Stage comment for Proposal Recommended	4/12/2001	
Stage comment for Proposal Registered	19/9/2001	
Stage comment for On Hold	21/8/2001	Shifted to On hold pending external assessment.
Stage comment for Proposal Recommended	30/7/2001	
Stage comment for Proposal Registered	11/7/2001	SEACC comments on endorsement: "The ACC is well aware of the need for industrial land in the Eurobodalla. Additionally, although dairying in Moruya is overshadowed by the size of the industry in Bega, it is nonetheless a significant part of the local economy which was in decline even before the current deregulation commenced. As a consequence, Moruya desperately needs employment in new, clean industries such as Mordek's proposal. Demographic studies suggest that there will be significant regional building activities over the next few years. If this project does not go ahead, most of the building supplies used will be produced elsewhere. Mordek has a good track record and is capable of fulfilling these goals. The ongoing regional benefits will be enormous."
