

# Chapter 1

## Background

### Terms of reference

1.1 This inquiry was founded upon the most partisan of terms of reference that the Senate has seen for some time. Indeed, it was largely born out of the opposition's desire and need to explain away its defeat at the 2004 federal election, which flowed in part from its failure to take seats in regional Australia. The terms of reference were thus born out of a plan to attack one of the best government programs ever seen in regional and rural Australia—a program that is providing a simply outstanding return on taxpayer's investment. This inquiry was an attempt to denigrate a successful Australian Government public policy initiative that is bringing investment and development to regional areas—and at the same time to endeavour to smear the good names of two senior members of the Federal Parliamentary National Party.

1.2 One of the terms of reference emerged from a scurrilous and baseless claim of electoral bribery made by a mischievous Member of the House of Representatives (himself a disgruntled former member of the Nationals) against the former Deputy Prime Minister and Minister for Transport and Regional Services, and the Deputy Leader of the National Party in the Senate. The facts surrounding these flimsy and contrived claims, based upon third-hand accounts and assumptions, are discussed in Chapter 3 of this report.

1.3 Government members note that several of the terms of reference have been neglected or glossed over in the majority report, presumably for lack of any or sufficient credible negative evidence to impugn or smear either the integrity of the applicant/proponent or the Commonwealth officers charged with administering Regional Partnerships funding.

### Conduct of the inquiry

1.4 Notwithstanding a complete lack of direct and credible evidence as to the maladministration of Regional Partnerships funding, the Committee majority report has sought to make findings and reach conclusions blissfully oblivious to the facts and the evidence. In accord with this pre-determined approach, a small number of projects were cherry-picked by ALP members of the Committee with relatively minor administrative and other discrepancies sought to be blown up and magnified beyond any reasonable sense of proportion. As discussed in Chapter 3 of this report, most of the perceived issues associated with these grants only emerged through unforeseeable circumstances such as a storm partially clearing a blocked creek or a railway bridge burning down.

1.5 The Committee's inquiry unfortunately degenerated down into a calculated and sustained attack by some members of the Committee on the good character and

integrity of several of the witnesses who volunteered to give testimony to the Committee or who were involved in the administration of these generally highly successful programs. As further proof of the partisan nature of this inquiry, the Committee referred a matter of privilege to the President, despite there not being a hint of or a scintilla of credible direct evidence supporting a prima facie case. The Committee's claim that misleading evidence was knowingly and falsely given to it does no credit to those laying this charge, a charge which was patently politically motivated and immersed in ambiguities and subjective and partisan interpretation. This matter is further discussed in Chapter 3 of this report.

### **The claims of politicisation**

1.6 The Government Senators note that despite the unfounded and unsupported allegations aired by the Australian Labor Party in Parliament and during the course of this inquiry, the majority report is curiously silent on any substantiation of the claims that the regional programs were used as 'slush funds' during the 2004 federal election or that funding decisions were subject to politicisation. This highlights the fact the Committee received no evidence to back up these claims despite travelling the length and breadth of the nation seeking to find such evidence.

1.7 Indeed, the Committee received evidence that approval rates of Regional Partnerships applications emerging from Labor electorates are the same as the approval rates for projects from coalition electorates.<sup>1</sup> The table showing this incontrovertible evidence is attached to this report.

1.8 The percentage rates of projects approved are consistent, in fact almost identical, between ALP and coalition seats, with projects from ALP seats actually showing a 78% approval rate and coalition seats 76%. This evidence completely refutes any allegations of pork-barrelling in coalition seats throughout Australia, in rural and regional seats in particular, because the success rates are the same whether the application is made through a coalition or an ALP seat.

1.9 The RPP funding approved for the sixteen electorates in the 'provincial' remoteness category puts to rest any claims of politicisation. The eight electorates held by ALP members before the 2004 election received \$7.51 million—*more than double* the \$3.16 million of Regional Partnerships funding received by the eight provincial seats held by coalition members.

1.10 The evidence showing analysis of approved grants by electorate conclusively answers the allegation that there has been any political bias or favouritism in the administration of the Regional Partnerships Program. The consistent project approval rates show that all projects have the same chance of success, whatever the political complexion of the local member. While seats held by Australian Government

---

1 DOTARS, *Equity of Funding – Regional Partnerships programme*, answer to question on notice, received 11 May 2005.

---

members received more funding overall, this simply reflects the fact that the Australian Government holds more seats and it had encouraged more of its constituents to put forward projects. In the majority report, the Committee questions why there are a lower number of applications from ALP-held seats. The only question this raises, however, is why ALP members underachieved in encouraging their constituents to apply for grants. The evidence also reflects the fact that even before the inquiry, ALP members attempted to denigrate the program for political purposes, rather than promote it for the benefit of their local community.

### *Election commitments in Tasmania*

1.11 Government members are amazed by the hypocrisy of the majority report's attack on the Australian Government's 2004 election commitments to provide funding to RPP projects in Tasmania. During and before the inquiry, members of the ALP implied that the seat of Bass had been 'bought' by the Australian Government. The evidence categorically refutes these allegations. Election commitments to the south of Tasmania were double those to the north. Funding for the south included \$46 million for the Australian Antarctic Airlink which will operate out of Hobart. Furthermore, the Australian Government's election commitments in Bass totalled \$16.48 million—just over half of the ALP's financially irresponsible election promises, which totalled \$29.35 million. The real situation is that it was the ALP that attempted to buy Bass.

1.12 The Australian Government's election commitments also differed from the ALP's in the quality and sustainability of the projects. Many of the Australian Government's projects were put forward by local government and the Northern Tasmanian regional development body. The projects were strategically chosen to maximise benefits to the community by addressing areas of real need. The following projects are just two sterling examples of this:

- Providing \$600,000 over three years to implement initiatives suggested by the report on economic development in Northern Tasmania; and
- Contributing \$370,000 to the Youngtown Community and Sports Complex to develop a multi-purpose, community, social and recreational complex for a broad range of community members.<sup>2</sup>

1.13 The majority report also criticises the Australian Government because some of its election commitments were subject to partnership funding by the Tasmanian Government. It is, however, entirely appropriate that state and local governments should contribute to projects that fall under their areas of responsibility.

---

2 Mr Michael Ferguson MP, Member for Bass, *Submission 28*, pp 3-4.

## **The programs**

1.14 The majority report is dismissive of the benefits of the Regional Partnerships and Sustainable Regions program. ALP members have demeaned and criticised the programs while ignoring the weight of the evidence to the inquiry.

1.15 The Regional Partnerships Program and Sustainable Regions Program have been highly successful in creating jobs and delivering services into Australia's regions. Between 1 July 2003 and 31 December 2004, over 500 Regional Partnerships projects were approved, totalling \$123.3 million in funding. For every \$50,000 Regional Partnerships invests in communities, on average three jobs are generated, rising to four over the longer term. Between 700 and 1,000 new jobs had already been created by 31 December 2004 through the Australian Government's investment in regional communities.<sup>3</sup>

1.16 The Regional Partnerships Program has also attracted other sources of investment into the regions. For every dollar from the Australian Government towards these projects, approximately \$3 is leveraged from other sources – the private sector and/or state and/or local governments.

1.17 Local governments of all political persuasions have expressed their appreciation for the Regional Partnerships Program and have benefited from it. State Labor governments, which often provide partnership funding for RPP projects, also strongly support the program because of the real benefits it brings to residents of their states. Indeed, DOTARS informed the Committee that the first internal evaluation of the RP Program found that for every \$1 committed to projects by the Australian Government, state governments had provided \$0.93.<sup>4</sup> These indicators clearly demonstrate the bipartisan, cross-government support for the Regional Partnerships Program.

1.18 By any objective measure, these programs have been a success, have met their target objectives and deserve to be applauded, rather than subjected to an ALP attempt to rewrite the history of its latest election defeat.

### ***Robust policy framework***

1.19 Government members of the Committee note that the majority report fails to acknowledge the robust policy framework of the Regional Partnerships Program and Sustainable Regions Program. As DOTARS' submission to the inquiry quite clearly explains, both programs emerged from the 1999 Regional Australia Summit, which involved:

---

3 *Committee Hansard*, 2 February 2005, pp 48-49.

4 Ms Riggs, answers to questions on notice, received 16 May 2005, p. 3.

...over 280 delegates representing communities, business and government met to develop a national appreciation of the challenges facing regional Australia. The Summit identified the following priority areas of action:

- improving access to essential services in regional areas;
- upgrading physical infrastructure;
- designing more flexible assistance programmes;
- addressing major environmental concerns; and
- empowering communities to drive their own futures because they are in the best position to propose their own plans for dealing with the challenges and opportunities confronting them.<sup>5</sup>

1.20 The Australian Government responded to the Regional Australia Summit with the *Stronger Regions, A Stronger Australia* Statement in August 2001. This Statement demonstrated the Australian Government's strong commitment to regional development and outlined its framework for regional development through the next decade:

Through applying the *Stronger Regions* principles, the Government is working in partnership with other tiers of government, regional communities and the private sector to increase the economic diversity of regional areas. The Government looks to communities themselves to identify and work to realise the potential of their regions.<sup>6</sup>

1.21 Government members agree with the majority report that the processes and procedures governing the Regional Partnerships and Sustainable Regions programs are sound. The detailed evidence from DOTARS shows the checks and balances evident in every step of the process, from the application and assessment stage to the acquittal of a grant.<sup>7</sup>

### ***Rigorous due diligence and contractual arrangements***

1.22 The rigorous nature of the due diligence frameworks of both programs was also obvious from the evidence to the inquiry. Under the RP and SR program procedures, there is no scope for maladministration of any aspect of the due diligence or funding processes. The viability of proponents and projects are assessed according to the level of risk and the value of the project, and proponents are clearly advised of the conditions they must meet before they can enter into a funding agreement. This is all before one cent of public money is expended.

1.23 Applications made by private sector proponents must meet even more rigorous assessment criteria. Besides the normal requirement that there must be a

---

5 DOTARS, *Submission 14*, p. 3.

6 DOTARS, *Submission 14*, p. 3.

7 DOTARS, *Submission 14*. Also see *DOTARS Internal Procedures Manual for Regional Partnerships* and *Sustainable Regions Internal Procedures Manual*.

demonstrated community benefit, projects must also be competitively neutral. The Government members were interested in the suggestion made by Mr Paul Vukelic, Chair of the South West ACC, that private sector proponents funded by RPP may be able to make a partial repayment of the grant if the project reached a certain level of profitability two to three years after the grant had been made.<sup>8</sup> We believe this suggestion merits attention.

1.24 The next stage, of entering into a funding agreement or contract, involves linking payments to milestones that must be met and reported against. Proponents are accountable and responsible in accordance with the contract and are subject to normal contractual laws. Even in the examples cited as supposedly problematic by the Committee in the majority report, full due diligence requirements were upheld (as discussed in Chapter 3).

1.25 The Government members note that there has been no evidence of any breaches of the contractual arrangements governing the programs. On the rare occasions proponents experience delays in reaching milestones, DOTARS acts quickly to re-negotiate funding agreements. This strict adherence to the contractual arrangements means that no taxpayer's money has been used for any purpose other than that for which it was intended and no money has been expended without the approval and authorisation of the department.

### ***Audits, reviews and program evaluation***

#### ***Key Performance Indicators (KPIs)***

1.26 The outcomes of the RP program, and the ACCs which play an important role in delivering the program, are routinely assessed against Key Performance Indicators. These indicators are developed between the department and the ACCs and are included as part of the Commonwealth's operational funding contract with the ACCs. The KPIs cover a range of areas including business, community and government liaison, program assistance, whole of government service delivery, community outcomes and corporate governance. Measuring outcomes against these indicators ensures that a solid return on the investment of taxpayers money through these programs is achieved.

1.27 For example, in relation to 'community outcomes' the KPIs measure the impact of RP funding both in terms of job outcomes and community benefits. Some of the KPIs include the number of direct jobs created, the additional services provided to communities and funds invested in community infrastructure.

---

8 Mr Vukelic, *Committee Hansard*, 18 July 2005, pp 58-59.

---

*Internal and external reviews*

1.28 Many rigorous audits and reviews of the programs have been carried out, by both internal and external auditors and evaluation experts. The external audits and reviews are as follows:

- The Auditor General Performance Audit Report No.48 (2001-02) Regional Assistance Programme.
- Senate Finance and Public Administration References Committee Report, A Funding matter under the Dairy Regional Assistance Program (June 2003).
- The Auditor General Performance Audit report No.12 (2003 -04) The Administration of Telecommunications Grants - which looked at the Rural Transaction Centre (RTC) programme.
- Deloitte Touche Tohmatsu, Evaluation of the Commonwealth Regional Assistance Programme (2004).
- Deloitte, Evaluation of Dairy Regional Assistance Programme (2004).

1.29 The internal reviews are as follows:

- KPMG (2004), Findings and Recommendations on the Review of Regional Partnerships Programme (internal delivered in April).
- KPMG (2004), Review of Regional Office Delivery.
- KPMG (2004), Review of the Sustainable Regions Programme Internal Audit (in progress).

1.30 DOTARS' submission provides executive summaries of all of the completed reviews and audits and provides evidence that recommendations from these reviews have been incorporated to further strengthen the programs. There is also evidence of a regular and rigorous internal evaluation process that gathers and analyses data on the performance of the programs against their objectives.<sup>9</sup>

1.31 DOTARS also provided the Committee with an analysis of the programs' administrative processes against the principles of the ANAO's *Better Practice Guide for the Administration of Grants*. This assessment clearly demonstrates the department and the Australian Government's commitment to achieving continuous improvement in the development and administration of its regional programs.<sup>10</sup>

1.32 In other words, both programs are already subject to extensive accountability and scrutiny, and both have come through with a clean bill of health, with the department making minor adjustments where required and recommended.

---

9 DOTARS, *Submission 14*, pp 20-22.

10 DOTARS, *Submission 14*, Attachment J, Responses to Audit and Evaluation Findings DOTARS Regional Programs 2001-2004.

1.33 In the chapters that follow, the Government members offer a number of suggestions for improvement. These suggestions are aimed at further finetuning procedures and administrative practices which were found to be essentially sound.