



Regional Partnerships Program

and

Sustainable Regions Program

Inquiry

SUBMISSION

From the office of Hon Bob Katter MP
27 January 2005

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QUALIFICATION

This submission is a compilation of information, discussion and viewpoints expressed and provided by persons both within and without the electorate of Kennedy, in relation to perceived irregularities associated with the award of Commonwealth grant monies. Certain information is known to have been sourced from news media.

Notwithstanding that this submission directs focus on to negative aspects of the grants systems, the view is overwhelmingly held that no outcome of the inquiry should in any way diminish the flow of grants monies to rural and regional Australia, where such are an essential contribution to the economies of those areas. Rather the objective of this submission is to assist to resolve the obvious shortcomings of the systems, and create appropriate transparency of process, equity across regions and probity within decision-making entities.

EXAMPLES OF GRANTS OF CONCERN.

The following outlines are in no particular order of significance or chronology.

EXAMPLE 1.

On September 9 last, during the election campaign when the caretaker convention was understood to be in place, Member for Dawson De-Anne Kelly announced a \$1.27M grant to help company A2 Dairy Marketers set up a processing plant for A2 milk on the Atherton Tablelands. She reportedly acted even though she knew of a pending Court case over the claimed benefits of A2 milk. Mrs. Kelly signed off on the grant on August 29, the day the election was announced, and signed a letter to this office about it dated 31 August. She said it had passed all due diligence tests when in fact it could not have with litigation pending. The company was subsequently convicted of having made misleading statements and fined \$15 000. The grant was withdrawn. The action by Mrs. Kelly had several undesirable outcomes, not the least of which is the example of a farmer who took delivery of a herd of cattle, specifically purchased for the A2 program, on the day the grant was cancelled. The overall impact of the project was that it would have initially taken two and a half percent of throughput from the local Malanda milk factory, which already has declining throughput because of deregulation. This reduction would have taken it closer to crisis point. The A2 farmers were guaranteed an attractive price for 2 years, but after that the price would have been market driven. Potentially the project amounted to a small number of farmers and a small processor being assisted over 2 years, to the detriment of the remainder of farmers and the major processor, but what would have happened after that is most uncertain. Had there been consultation with the local Federal member, as there should be for all applications, it would have been explained that the industry on the

Tablelands needs production increases rather than hiving off throughput or the promotion of one type of milk over another, and especially on the basis of questionable scientific support data. It is understood the Dairyfarmers Group advised Senator Boswell against the grant and contacted both Deputy Prime Minister John Anderson and Minister Mark Vaile with the same advice when it was announced, but the Group was told that neither knew of the grant.

There is also the issue of the grant being approved by Mrs. Kelly while she employed a Mr. Ken Crooke, who had connections with a lobby company which was lobbying for the applicant.

A further issue seen as irregular was the involvement in the announcements of the National Party candidate for the electoral division.

EXAMPLE 2.

Deputy Prime Minister John Anderson announced a grant of \$1.1M towards an ethanol plant in his electorate of Gwydir under the previously unpublished Strategic Opportunities Notional Allocation (SONA) scheme, after it had been ruled ineligible under the normal Regional Partnerships program. Mr Anderson subsequently denied this and said a local structural adjustment package was sought, and that this was later combined with the Regional Partnerships together with a greenhouse gas abatement program (supposedly pre-registered with but never formally applied for) and the bio-fuels capital grants scheme. The grant was approved for a CSIRO study and an environmental impact study when the guidelines say grants are NOT available for "planning studies or research".

It is noted that the SONA scheme is the way the Government intends to fund nationally significant projects which do not fit normal guidelines. The existing sugar industry reform package was funded this way, as well as a national beef industry exposition. However, \$1.1M for a single ethanol plant and \$1.4M to drain a creek in the marginal Dobell electorate is questionable in terms of national significance. It has been reported that twelve projects that were not successful under the Regional Partnerships program have been approved under SONA.

EXAMPLE 3.

The Regional Icons project has guidelines that are so flexible that in at least one case, the R.M. Williams Bush Centre in the marginal Hinkler electorate, \$4M funding was granted before an application was received. There were six regional icon projects awarded a total of \$27.5M during the 2004 election campaign without having been formally assessed. The Government says it had always intended that the projects would be fully assessed after the election, which shows scant regard for the process, but then in the next breath the Government says it intends to keep all of its election promises. This can only mean that even if the process is applied, any negative assessment will be ignored. The Eidsvold Bush Centre received a \$4M grant on September 20 on the basis of a four page submission, one page of which was a map.

EXAMPLE 4.

Two projects in Calare, reported by Mrs. De-Anne Kelly's successor as Parliamentary Secretary John Cobb as having not been approved because due diligence had not been completed, were announced during the 2004 election campaign by Mrs. Kelly, in letters to the Member for Calare dated 28 and 29 September. Deputy Prime Minister John Anderson's office said later that the projects had passed due diligence. The projects approved were \$275 000 for Blayney Sea-link Services and \$845 668 for MacSmith Milling. Both could apparently stand up on their own merit as projects, one having been in the pipeline for some time and the other for not so long, but the concern was with timing of the announcements and the related uncertainty of the process. A further concern was the involvement in the announcements of the National Party candidate for the Calare electorate.

EXAMPLE 5.

Documents tabled by Deputy Prime Minister John Anderson in Parliament on the Thursday before Parliament rose for the summer break appear to show that a company associated with Coalition fund-raiser Everald Compton and other associates will receive \$193 000 over 3 years and possibly \$900 000 over 15 years.

EXAMPLE 6.

During the 1998 election \$70M was distributed through the Federation Fund to sensitive seats. An Audit Office report lists numerous departures from transparent processes. It is a concern that despite an Audit Office investigation and report there seems to have been a replication of those events in the 2004 election.

EXAMPLE 7.

The Atherton Tableland Potato Growers Co-op. Assn. is facing bankruptcy because two potato processors have set up in competition to the Co-operative with the assistance of Government grants. Four directors have underwritten a debt of approx. \$0.5M in an attempt to keep going but the position is critical. One grant of \$555 612 was provided to CosRock Pty Ltd to establish an EXPORT potato processing facility near Atherton. The defence for the awarding of this grant was that it would be exclusively an export operation and would not impact on the domestic market. However, CosRock Pty Ltd sold a substantial number of tonnes of potatoes to a buyer for Smiths and then bought overseas potatoes to meet its export commitments. The potatoes sold by CosRock Pty Ltd would normally have been supplied by a number of Tableland growers and although the industry is experiencing a slump it would have kept the Tableland growers viable. Instead the Tableland industry is now in crisis. There are also reports that CosRock are washing potatoes for local farmers in direct competition to the Co-op.

A second grant of \$275 000 was provided to Barron Bella Farms Pty Ltd, trading as Norqual Produce, to assist the progress of a second stage upgrade of their washing and packing plant in Atherton. This plant has also taken business away from the Co-operative and members feel it has contributed to its demise.

In a further blow to the potato industry, Freers Foods obtained an \$80 000 federal grant in 2001/2002 to develop a fat free potato chip. The Brisbane company was placed in receivership at the end of 2004 with debts of over \$10M of which \$1.5M was owed to Qld. potato growers, and at least three of these are on the Atherton Tablelands.

EXAMPLE 8.

Mount Isa City Council commissioned Alderson and Associates Landscape Architects and Hassell Pty Ltd to prepare a conceptual design plan for development of a specialist outdoor events facility in Mount Isa, to be located at the city's horse racing venue at Buchanan Park. The plan (released in March 2003) whilst conceptual, has major flaws particularly when justifying the need for the project.

Section 2.3 of the plan outlines the rationale for transfer of rodeo, campdraft and annual show events from Kalkadoon Park to Buchanan Park. To justify the concept, anecdotal evidence is presented which is bereft of financial rationale or statistical data such as survey results or historical attendance figures. For example, the following quotation dealing with underutilisation has been extracted from page 8:

"Notwithstanding the fact that the site is also used for the staging of the show and for western riding and camp drafting activities, there is a perception that the facilities as they stand remain underutilized for much of the year".

Elsewhere in the report it states *"In terms of current prospects for horse racing in the city, regional racing has been in decline for some time with the number of race days recently being reduced from 25 to 15 per annum at Buchanan Park. This development is likely to further exacerbate the difficulties facing the racing club both in terms of its operation and overall viability on the site as it currently stands".*

Mt. Isa Rodeo has also seen a decline in its popularity, as evidenced in the following quotation, also from page 8 :-

“That after a 42 year period, the event is beginning to lose some of its appeal and numbers, in recent years, have been generally declining. This is considered in large part to the lack of suitability and ongoing deterioration of the existing facilities”.

The same trend applies to the three day Annual Show recently reduced to two days.

Mt. Isa City Council is responsible for maintenance of Kalkadoon Park and over the years reiterated its support for the Rodeo and the Show. Therefore it is reasonable to question why the Council did not address the issue of deterioration of facilities if it was committed to a successful Rodeo and Show.

It may well be that Buchanan Park is the right option, however it has been presented as a “fait accompli” without public evidence of exploration of other options that may have been less costly.

What Council did address was the opportunity presented by the Regional Partnerships program, which came into effect on 1 July 2003.

On 14 July 2004 Deputy Prime Minister John Anderson, in the company of National Party candidate and selected guests, attended a breakfast meeting at Buchanan Park. The purpose was for Mr. Anderson to be briefed on the Hassell Ltd conceptual plan for Buchanan Park.

The following day in a press release Mr. Anderson backed the project and said “the Federal Government should have known about it earlier”.

He also said “it was not until James Doyle (National Party Candidate) invited me up here that I knew about it. Every other (Federal) member would be shouting from the rooftops about the project like this”.

The inference here is that Member for Kennedy should have alerted him to the project. The fact is that the Mt. Isa City Council did not involve nor advise the member of the project.

An electronic version of the application was lodged with DOTARS Canberra on 28 July 2004.

On 2 August 2004 a leather bound copy was sent to DOTARS Canberra.

The Regional Consultative Committee's Western Sub Committee assessed the application on 3 August 2004, and the Regional Consultative Committee (ACC) itself assessed it on 7 August 2004.

Comparing this timeframe to what normally happens it would appear that that the ACC were under the impression (possibly direction, but this is unknown) to expedite the process.

Mr. Anderson came back to Mount Isa on 7 August 2004 for the Rodeo, attended the VIP tent during the morning accompanied by James Doyle, and mingled with Councillors, North West Star management and other dignitaries.

On 18 September 2004 Mr. Anderson and Mr. Doyle attended a breakfast at Buchanan Park, announcing the approval of \$5M for Buchanan Park.

On 20 September 2004 a press release by Mr. Anderson confirmed the announcement, and it was reconfirmed by the North West Star newspaper on 21 September 2004 stating that the money "**was not conditional**".

Regional Partnerships guidelines state:

"Applications will be subject to substantially higher levels of scrutiny where it is:

- *From a private sector and/or for profit entity;*
- *Seeking more than \$250,000 from Regional Partnerships: and/or*
- *For projects that will operate in a commercial environment.*

Buchanan Park is clearly in this category. In fact a further \$1.5M from Queensland Government Regional Centres Programme, \$2M from Mount Isa City Council, \$1M from Xstrata Copper, and \$1.4M "in kind" from various sources has also been allocated. Thus the total project cost is \$10.9M.

To assess a project in just over a month does not appear that it has been subjected to a higher level of scrutiny.

Significantly repeated requests for the submitted marketing plan for Buchanan Park Operation beyond project life have been denied to Member for Kennedy Office by DOTARS on instructions from Mount Isa City Council. The question is whether a Council can direct a Commonwealth Department what it can and cannot release to a Federal Member?

DISCUSSION OF APPARENT PROCEDURES.

Consequent to the media exposure given to the matter of Commonwealth grants during the 2004 election, there is a clear perception within the community that the administration of the grants programs is both susceptible to interference and indeed subject to interference. This perception is well founded when grants were announced before applications were received, or before due diligence was carried out, or on the basis of token applications.

Further on this is the referral of grant applications to the SONA scheme and the associated controversy about the same applications failing to meet eligibility criteria of other funding programs. A compounding feature is the secrecy associated with the existence of the SONA scheme, which was not on public record for some time, and the apparent departure from its intended function of addressing nationally significant projects which do not fit normal guidelines. It could be argued that proposals referred to the SONA scheme easily did not fit normal guidelines, but to attempt to argue that they were also all of national significance is another matter entirely.

There is also a perception that the process is insufficient in terms of the ability of consultative committees and other decision makers to accurately determine which way proposals are balanced between community benefit and company/individual benefit. A case in point is the community outrage at the award of a grant of \$500 000 to the Atherton Hotel in North Queensland, which was to include among other things the construction of a 350 seat auditorium. Disregarding reports that this auditorium has not yet been built, there are other venues in existence on the Atherton Tablelands which can accommodate functions of this magnitude, and which are underutilised. Not only is this grant facilitating unnecessary competition, operators in the tourism industry believe that due diligence was not appropriately undertaken because they were not consulted.

However, the core reason for the wide public concern is that, in addition to the foregoing reasons, it is perceived that the grant provided considerable assistance to an individual or family company but no apparent community benefit.

Another concern with the approval systems is the high attrition rate of projects, and the Freers Food grant is an excellent example. The community is justifiably unhappy with such misdirection of their tax dollars. Clearly the capacity of committees and decision-makers to competently assess the financial viability of applicant organisations before, during and subsequently, is insufficient. Whether the necessary skills are not available, or are available but limited in application, is a matter for the inquiry. Either way, a necessary outcome is that the financial strength of each applicant organisation can be scrutinised to the extent that there can be an assurance that the organisation will sustain a period sufficient for the community to obtain a commensurate benefit from any grant awarded.

In the same connection, the practice of requiring applicant organisations to produce a business plan is not producing the required result in every instance. The quality of business plans can be as diverse as the reasons for seeking grants, and again the skills of committees and decision-makers are critical to the process. At the end of the day the composition of committees and the framework within which they work has to be such that long term outcomes are both identifiable and measurable. They must be identifiable as being sufficiently sustainable to produce a benefit for the community and at the same time be non-competitive in respect of other businesses and organisations in the same economic zone. Similarly, they have to be measurable in a manner such that unachieved outcomes are tied to a proportional liability for the grant over a defined period. Technically the latter proposition should not be necessary if the process is flawless, but it would not be competent to not have a recovery mechanism where public money is concerned.

Given the number of grants approved over the term of any Government, those brought under media scrutiny during the 2004 election may not, in fairness, be representative of the broader grants process. However, the politicisation of the process as exposed in the media reflects adversely not only the grants systems but also on the standards applied by those involved. This latter reflection has resulted in an expectation within the community that the potential for such interference has to be addressed. The demonstrated attitudes that grant monies were a commodity to be used in election campaigns, and that the grants systems could be exploited for the advantage of political aspirants, are primary concerns. The associated release of misleading statements, deliberate or otherwise, that for instance due diligence had been completed or applications had been correctly submitted, when in fact they had not, only served to raise public anger about the misuse of the process.

Another cause of anger, and specifically within industry and commerce, are the situations where a grant is awarded to the advantage of a few over many, or as referred to previously where a grant creates unnecessary competition. However, these situations could have been avoided if the advice of the local Federal Member had been sought.

Finally, in respect of the terms of reference, the question posed in (1)(i) of those terms draws attention to system for appraising applications. The fact that the Auditor-General's guide was available and yet many projects created more problems than they sought to resolve is a statement in itself. It provides an argument for better qualified scrutineers and more extensive eligibility criteria, but inherent in this is a risk that the process could become too cumbersome, too restrictive and too bureaucratic. The essence of success is in finding a reasonable balance.

RECOMMENDATIONS

A first and obvious step is TO ENSHRINE THE 'CARETAKER CONVENTION' IN LAW, to the extent that processes relating to grants and other specifically uncommitted funds cannot be progressed by a caretaker government.

Because elections can be anticipated, this alone would give urgency to activity in the months leading up to an election, and further regulation of the process is required to avoid the same result at an earlier time.

To preclude fast tracking and similar departures altogether, and to go some way towards the issues of transparency, consistency and accountability, A MONITORING ENTITY NEEDS TO BE CREATED ACROSS THE BREADTH OF GOVERNMENT, to ensure the timely completion of each and every prescribed step in grant approval processes. Although the concept of independent grant approval commissions exists in other areas of government, it is not what is suggested here. The bureaucratic centralism which that concept represents is not outweighed by the possible advantages of standardisation and autonomy.

There are electronic on-line precedents for the proposed monitoring entity which preclude process delays but provide early warning of default. Such an entity would have to be empowered to the extent that it could prevent the approval of a grant unless due process had been followed.

The advantage of such an entity is that the activities of the committees and other decision-makers in rural and regional areas, which have some knowledge of the needs and conditions of those areas, can essentially continue. The monitoring process will serve to protect them from outside influence while at the same time ensure they follow procedure. It is most important that grant administration remains in the regions.

However, there is an issue of quality in any decentralised process and in order to enhance the capabilities of these committees to better assess the business plans and financial viability of applicant organisations THERE HAS TO BE A STANDARD PRESCRIPTION OF BUSINESS AND FINANCIAL SKILLS WITHIN OR ACCESSIBLE TO EVERY GRANT PROCESS. The acumen of qualified financial and business managers must be applied to every grant application.

Embodied in this recommendation is A REVIEW OF THE ELIGIBILITY CRITERIA APPLIED TO GRANT APPLICATIONS, not only so that the competence of the measurer is matched by the measure but also to preclude such practices as the creation of unnecessary local competition and premature demise of applicant organisations.

However, any criteria preventing unnecessary competition or organisational unsuitability should be a second barrier of detection and elimination. Primarily, it is recommended that MEMBERS OF FEDERAL PARLIAMENT BE INVOLVED IN THE PROCESSING OF GRANT APPLICATIONS to the extent of being notified of all grant applications at an early stage, and be given an opportunity to identify to the grant administrator any difficulties which approval of the grant might bring about. An administrator might avoid unnecessary effort and concern if the local knowledge of the community's representative is taken into account. Alternately, if no difficulties are perceived, the way is clear for the Member to support the application at the appropriate time.

Finally, A RECOVERY PROCESS LINKED TO PROPORTIONAL LIABILITY OVER A PRESCRIBED PERIOD will protect the community against unscrupulous intent.

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