

Performance Audit Report

**Department of State and
Regional Development**

Provision of Industry Assistance

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Executive Summary

Executive Summary

The Audit

The audit focused on assessing the efficiency and effectiveness of the Industries Assistance Fund (IAF), the Regional Business Development (RBD) and the Regional Headquarters (RHQ) schemes administered by the Department of State and Regional Development (SRD). The total amount of direct financial industry development assistance provided under these three schemes during 1997/98 was just under \$26 million.

The main audit objectives were to:

- assess the adequacy of processes which underpin the provision of industry development incentives
- evaluate the effectiveness of the management and administration of industry development incentives.

Audit Observations and Opinion

The audit commenced shortly after the appointment of a new Director-General for SRD and adoption of a new structure for the Department. The rationale for the restructure was to facilitate customer responsiveness, develop specialist capabilities, improve career path opportunities and reduce inter-divisional competition.

Initiatives in Progress

The Audit Office recognises that the Department has initiated a number of improvements that should lead to a more effective and transparent operation. For example, detailed handbooks should provide better guidance for staff, an improved management information system should enhance resource management and improved recordkeeping should enhance transparency. This Report seeks to provide further input to reform, thus it focuses upon significant areas where change will increase the efficient, effective and transparent administration of industry incentive schemes.

The Audit Office is of the view that there is a need to consider, in particular:

- prioritisation of and the bases upon which assistance is provided
- guidance provided to staff to assess and evaluate proposals
- management controls regarding the assessment of proposals and negotiation of assistance
- record keeping, reporting and monitoring of results.

There is also a need to reconsider the extent of confidentiality and secrecy that surrounds the schemes. At times, there may be a need for commercial confidentiality, but where taxpayers' money is involved, any need for confidentiality must be demonstrated (not just claimed) and more clearly reconciled with the need for transparency and accountability to the public.

The audit opinion is supported by the following findings.

Prioritisation

The assessment processes of SRD are designed to determine whether an individual project offers net economic benefits and, if so, the maximum amount of assistance the project should receive based on these benefits. SRD aims to ensure that assistance is provided to those projects offering significant value for money in terms of technology transfer and contribution to economic efficiency, Gross State Product and employment. However, its processes are not designed to ensure assistance is provided to projects which offer the best value for money.

Assistance is determined on a case by case basis and is not prioritised on the basis of a competitive bidding process. There appears to be few incentives for SRD to prioritise assistance. In particular:

- SRD's performance is largely judged on the basis of jobs attracted/retained where SRD has intervened, and not on the value for money of its intervention
- the open ended funding for the IAF does not encourage strict budgetary management (of which prioritisation is a normal part). This does not suggest that SRD has not managed its budgets, but that the environment is not highly conducive to budgetary control.

A case by case approach means that proponents are not required to compete amongst themselves for a limited pool of industry assistance resources. The absence of a competitive process reduces the negotiating leverage which SRD would otherwise have. Conversely, it actually may increase the leverage of a proponent which is able to identify several competing locations for its investment.

A different approach involving a competitive bidding process would enable more effective prioritisation by SRD based on maximising net economic benefits. The Audit Office recognises that a simplistic tendering arrangement would not cater for the full range of industry assistance objectives and situations. However, the principle of generating competition to select the proposals offering the greatest benefit to NSW can be implemented in a variety of ways. The Audit Office would encourage SRD to apply its expertise to developing appropriate processes to this end.

**Guidance
to Staff**

Guidelines for staff are available for each of the three schemes, but they do not yet provide staff with sufficient information on how to attract proposals, undertake assessments, negotiate agreements and monitor assistance. Some training of staff responsible for assessing proposals, negotiating agreements and monitoring outcomes has been provided, but needs to be enhanced.

In particular, The Audit Office believes that there is insufficient guidance for staff in undertaking economic assessment of proposals. Guidelines do not provide sufficient advice about how best to ensure and demonstrate that judgements and assumptions made in an assessment are sound.

The Audit Office established that, in practice, such guidelines as are available have often not been followed. There is a prevailing view amongst SRD staff that guidelines are just that, and need not be followed. It was apparent, however, that assumptions made in assessments were not always appropriate and may lead to poor decisions. Flexibility need not be impaired by requiring greater adherence to guidelines. This would help ensure minimum standards of process and rigour in all cases.

**Management
Controls**

Different levels of scrutiny and different approaches to assessment of proposals apply depending on whether the level of assistance envisaged is above or below \$250,000.

A lower preliminary assessment of the level of assistance may reduce the level of scrutiny applied to proposals. This area of control could be improved, as it may encourage under-estimation of assistance.

Further, in determining the level of assistance which might be made available to a proponent and which might be justified by a cost benefit analysis, the full costs of that assistance should be reflected in the analysis. In particular, the costs (direct and indirect) associated with funding assistance through taxation are not considered in the assessment of proposals. The Audit Office considers this to be an important missing element in the current assessment model used by SRD.¹ Another is the limited consideration of negative consequences flowing from providing assistance to a firm (and the multiplier effects of these negative consequences). For example, loss of jobs in other competing firms.²

Over-estimation of assistance may also be encouraged by the current funding arrangements, especially for the IAF. Where assistance is estimated at over \$1m (net present value), and the Minister/Treasurer approves assistance, SRD's budget is supplemented. Where assistance is estimated at \$1m or less, SRD does not receive supplementation.³

Refinement of management controls would be beneficial to ensure that accurate assessments are made at an early stage. Improvements in SRD's management information systems would also be of benefit. The interrogation of data and extraction of key information is currently cumbersome. Data captured is also limited. For example, current systems do not allow costs of non-financial assistance (such as the cost of SRD staff time) to be established.

There is also a need to refine the Department's procedures for negotiating assistance. Further, the Country Industry Payroll Tax Rebate Act 1966, which provides automatic entitlements to payroll tax rebates, has proven cumbersome and inflexible, creating difficulties for negotiating assistance under the RBD scheme. Legislative review is suggested.

¹ SRD is of the view that in the case of projects funded via the IAF and RHQ schemes, the costs associated with funding assistance through taxation rebates are usually zero (ie. no cost to budget because SRD is providing a rebate of a portion of a tax revenue stream which would not otherwise come to NSW without SRD's action).

² SRD claims that possible negative consequences such as loss of jobs in other firms are considered in every economic analysis undertaken. The Audit Office, however, considers that such issues are not examined by SRD in sufficient detail nor adequately costed into assistance assessments.

³ SRD advises that reform of funding processes is being negotiated with The Treasury with the intention that pool and supplementary funding will be combined for over 80% of projects to which financial assistance is provided. Pool and supplementary funding concepts are discussed in chapter 3.

The demarcation between SRD and Strategic Projects Division, Premier's Department is not always clear and protocols to guide the working relationships between the two agencies may be of benefit. Protocols would avoid either unwarranted duplication of work by, or a responsibility gap between, the two agencies and would enhance lines of responsibility and accountability.

**Documentation,
Reporting and
Monitoring**

SRD's records and documentation generally did not meet desired standards and do not readily provide for independent review of the basis for judgments made and assumptions used. In addition, monitoring mechanisms provide little early warning that a successful proponent is subsequently facing difficulty, and post-evaluation mechanisms are limited.

The Audit Office considers that the need for commercial confidentiality in the provision of assistance is generally overstated, is not demonstrated and is at odds with achieving necessary standards of transparency and public accountability. There is scope for more transparent reporting of assistance to individual firms/projects. Some information that is unlikely to cause harm, but which may attract more beneficial projects, is not presently published.

The Audit Office accepts that some information may need to be withheld at certain times. However, commercial confidentiality should generally only apply before a decision about assistance is made, and the onus for arguing commercial confidentiality should be placed on the recipient of assistance.

The Audit Office is also uncomfortable with the view that the Department's bargaining position requires non-disclosure of information. Such an approach to confidentiality removes any onus on SRD to demonstrate that it has bargained well. This gives more impetus to the view that SRD should establish a competitive process to the receipt of assistance so that bargaining positions become less important.

One of the consequences of SRD's position on confidentiality is that firms adversely affected by the advent of the Government subsidised competitors are unaware of issues affecting their profitability or viability. Government is thus not accountable to persons directly adversely affected by Government action.

For information which cannot be released at a particular time, there needs to be an independent mechanism to provide a proxy for Parliamentary scrutiny which supplements Freedom Of Information processes.

When a firm departs the State after receiving assistance, greater evidence should be maintained to demonstrate SRD's attempts to recover assistance provided and to document adjustments made to its systems in light of lessons learnt.⁴ SRD has acknowledged that clawback arrangements are an area where further efforts will be directed.

⁴ SRD has recently introduced an Investment Procedures Manual. (The Audit Office's investigation was concluded prior to introduction of this manual). SRD advises that this manual provides for enhanced accountability requirements in the contractual provision, management and follow-up of all clients receiving assistance and that new procedures will provide substantial early warning of contraction or departure planned by clients, along with effective checks and balances on assistance.

Recommendations

It is recommended that SRD:

1. Seek to maximise value for money in the provision of assistance.
 - 1.1. Consider combining the present pool and treasury funded components of the IAF to reduce volatility in expenditure and enhance budgetary management.⁵
 - 1.2. Continue to work towards the development of improved performance indicators which encourage provision of assistance on the basis of maximising net economic benefits.
 - 1.3. Develop options for reform of the Country Industries Payroll Tax Rebate Act (1966) for consideration by the Government to ensure the Act is appropriate for the needs of the State and sufficiently flexible to meet the needs of proponents.
 - 1.4. Develop protocols to cover circumstances where SRD and Strategic Projects Division, Premier's Department are both involved in projects to ensure clear lines of accountability for decision making and commitment of funds.
 - 1.5. Consider adopting an appropriate form of a competitive tendering approach to assist in the prioritisation of industry assistance proposals.
 - 1.6. Enhance provisions relating to proponents guaranteeing benefits to the community, and improve follow-up action and clawback provisions where benefits are not realised or where firms move operations out of NSW after having received State assistance.

⁵ SRD advises that reform of funding processes is being negotiated with The Treasury with the intention that pool and supplementary funding will be combined for over 80% of projects to which financial assistance is provided.

2. Enhance its systems and procedures to minimise the potential for providing more assistance than is necessary to proponents.
 - 2.1. Expedite the introduction of systems to monitor and manage the expenditure and commitment of funds more effectively.
 - 2.2. Expedite the refinement of the management information system and, in particular, the development and utilisation of an activity based costing approach.
 - 2.3. Reconsider the assessment model being used so that it reflects the full costs and consequences of assistance in the decision making process.
 - 2.4. Consider ways of giving assistance to footloose firms to reduce their footlooseness. (For example, providing assistance on the basis that it is recouped if jobs are not sustained for a specified period after assistance is concluded or by linking assistance to investment in infrastructure).
 - 2.5. Consider having all economic assessments undertaken centrally in the Policy and Resources Division (although it may be appropriate to continue to allow the depth of assessment to reflect the level of assistance likely to be offered).
 - 2.6. Introduce procedures to provide assurance that officers who have been involved in the attraction and assessment of a proposal are not also solely involved in negotiation.
3. Increase accountability and transparency for the provision of assistance.
 - 3.1. Do not define information as commercial in confidence unless it is demonstrably so.
 - 3.2. Consider reporting of assistance provided in line with the preferred approach of the Industry Commission (discussed in chapter 5).
 - 3.3. Establish a mechanism to act as a proxy for public scrutiny for decisions regarding assistance (such as an operations review committee) where information is not published.

- 3.4. Ensure Departmental files and records meet desired standards.
4. Improve guidance to staff in how to attract proposals, undertake assessments, negotiate agreements and monitor assistance.
 - 4.1. Expedite the development of more detailed handbooks to supplement guidelines for use by staff.⁶
 - 4.2. Ensure that guidelines/handbooks are sufficiently detailed to guide staff in all steps of the process.
 - 4.3. Clearly record departures from guidelines/handbooks in assessment records.
5. Improve monitoring and evaluation of assistance.
 - 5.1. Develop and implement a framework for regular and on-going monitoring and evaluation of scheme performance.
 - 5.2. Refine current 'organisational' benchmarking initiatives and consider undertaking process and activity benchmarking.

⁶ The Department advises that it has recently published an Investment Handbook and all relevant staff should have attended a supporting training course by the time this report is published.

Response from the Department of State and Regional Development

Thank you for your letter of 13 November 1998 and a copy of the Performance Audit Report into the Provision of Industry Assistance by the Department of State and Regional Development (DSRD). I have reviewed the Report and my formal response appears as two parts: general comments below and more detailed comments in the Appendix.

DSRD welcomes the Performance Audit Report into Industry Development Incentives. As part of this Department's continuous improvement program, a number of the issues raised and a number of the recommendations were already being addressed when the audit started and a number of the others were commenced during the course of the audit.

It is worth noting that an increasing proportion of DSRD's industry assistance work involves the provision of non-financial assistance. Non financial assistance includes help with site identification, introductions and advice on the business environment and facilitation through the regulatory process. DSRD continues to place a growing emphasis on non-financial assistance. This represents a move away from the provision of financial assistance alone, which underpinned much of the assistance reviewed in this audit.

The Performance Audit Report discusses the fact that the funding mechanisms for the Industry Assistance Fund (IAF) are not ideal. DSRD has been discussing with New South Wales Treasury the amalgamation of the two existing funding mechanisms (Budget appropriation and supplementation) for the IAF.

DSRD notes the Audit Office's comments on the treatment of confidential information.

That said, all government business development agencies, both within Australia and abroad, have commercial relationships with their clients which are of a confidential nature. An assurance of confidentiality is fundamentally important to investors. Anything less would compromise DSRD's ability to work with the private sector to develop major projects. The Audit Office has provided no clear evidentiary foundation to support its view that a lowering of DSRD's Commercial-in-Confidence standard will be acceptable to industry and will not impede investment attraction in New South Wales.

Financial assistance for the larger projects is designed not to be provided to a firm which would have invested in New South Wales anyway. In the case of smaller projects criteria include that assistance be required to secure an implementation decision, or accelerate development, or improve the competitiveness/sustainability

of a regional location. Assistance is only provided where it will achieve a positive outcome. Therefore, assistance generally is at no net cost to the Budget and, it is not the case that assistance could have been used in some other capacity to the greater benefit of the State.

A recent benchmarking study comparing the performance of economic development agencies in New South Wales, Victoria, Queensland, Ontario, Scotland, Wales and Ireland, reviewed by the Australian Graduate School of Management, described New South Wales as “the most efficient of all the economic development agencies in the study.”

DSRD will move immediately to give effect to a number of the audit report’s recommendations and will be examining others in the light of its operational imperatives.

In conclusion, DSRD welcomes the performance audit. I would like to place on record my thanks to the staff of the Audit Office, who have worked on this project, for their considerable efforts and cooperative approach in ensuring that the audit has made a valuable contribution to the culture of continuous improvement within the Department.

*Yours sincerely
(signed)
Loftus Harris
Director General
Date: 11 December 1998*

A detailed response from the Department has also been provided and is attached at Appendix 4.

1. Introduction

1.1 Introduction

The goals of the Department of State and Regional Development (SRD) are to:

- increase the level of business development and economic growth in NSW
- increase the export of NSW goods and services and provide advice to government on international trade matters
- strengthen, expand and diversify technical and managerial innovation in the NSW economy for commercial purposes
- create an excellent business climate for economic development in NSW
- bring new business to regional NSW through investment and growth of existing enterprises and by helping regional communities to build the capacity to capitalise on business opportunities.⁷

In NSW Budget Paper No 3, 1998-99, the Department's activities are classified as one program, 'Development of the New South Wales Economy'. The key services and sub-programs offered under this Program include:

- Assistance to industry (which includes the Industries Assistance Fund)
- Regional Development Assistance (which includes the Regional Business Development scheme)
- Regional Headquarters tax rebates (which is the Regional Headquarters scheme)
- AusIndustry
- Small business development
- Grants to organisations
- Payroll tax rebates for secondary industry in country areas (which is the Country Industries Payroll Tax Rebate scheme).

SRD's assistance is generally delivered in three key areas:

New investment

SRD provides a range of services and offers financial and non financial assistance to attract investments to metropolitan and regional NSW.

⁷ As stated in SRD's Strategic Plan, 1998-2001.

Regional development

SRD also helps regional communities to be more attractive to investors and to focus on their local economic priorities. It does this by supporting Regional Development Boards and community economic development programs through a network of regional offices.

Small business development

SRD provides services to new and growing businesses through a network of 49 regionally based, independent, non profit Business Enterprise Centres.

Restructure of SRD

The audit was commenced shortly after the appointment of a new management for SRD and adoption of a new structure for the Department.

The rationale for the restructure is to facilitate customer responsiveness, develop specialist capabilities, provide individual career paths and reduce inter-divisional competition.

1.2 Audit Objectives and Focus

The main audit objectives were to:

- assess the adequacy of processes which underpin the provision of industry development incentives
- evaluate the effectiveness of the management and administration of industry development incentives.

The term incentive was interpreted in the broadest possible way to encompass all types of incentive measures, financial and non financial, provided to businesses on a selective basis. In this report, the terms incentive and assistance are used interchangeably.

Details of the audit hypotheses and criteria are provided in Appendix 1.

The audit focused on assessing the efficiency and effectiveness of the Industries Assistance Fund (IAF), the Regional Business Development (RBD) and the Regional Headquarters (RHQ) schemes as administered by SRD. These were selected for audit because they:

- are examples of firm/project specific assistance
- provide assistance to proponents on a selective basis using assessments on a 'case by case' basis
- generally attract or facilitate projects which are subject of competitive bidding
- form a significant part of the Department's routine activities and a large proportion of its expenditure.

Scheme Expenditure

The following table shows the level of expenditure for the IAF, RBD and RHQ schemes in relation to total departmental expenditure.

Table 1: Scheme Expenditure		
	1997-98	
	\$'000	% Total
Industries Assistance Fund (IAF)	17,566*	20
Regional Headquarters (RHQ)	1,001*	1.1
Regional Business Development (RBD)	7,390*	8.4
Total Expenditure for IAF, RHQ, RBD	25,957*	29.5
Total other expenditure	62,023	70.5
Total SRD Expenditure	87,980	100

* Direct financial incentives only.

The three schemes have different objectives, different criteria (which are commercial in confidence for the IAF and the RHQ) and are administered in different ways. The key characteristics of each of these schemes are summarised in Appendix 2.

Appendix 3 provides a listing of firms/projects approved for financial assistance under the three schemes for the period 1995-1996 to 1997-1998.

1.3 Audit Methodology

The Audit Office examined, by way of detailed case studies, a cross section of projects considered for assistance under the three schemes. Projects were nominated by SRD and supplemented by The Audit Office's research and discussions with Premier's Department and The Treasury. Criteria for the selection of projects were established in consultation with SRD. More than 40 projects were examined between the three schemes. These projects cover a period from the early 1990's to the present. They therefore do not all represent current practices. With the exception of very recent cases, The Audit Office found no significant evidence of differences in practices over time.

The following table shows the projects examined in the course of the audit.

<ul style="list-style-type: none"> • Air International • Albatross Technology Park, Defence Industries (files of feasibility study and working party) • American Express • Ascend • Austral Softwood Processors Ltd • Australis Media Pay TV • Bega Cooperative • Bell Research Laboratory • Berlei • Britax Brylite P/L • Capital Finance Australia • Cargill Australia • Cathay Pacific Catering Services • Cathay Pacific Flight Simulator, Relocation Proposal • Cathay Pacific, Relocation of Communication Centre • Coastal Minehunter, Defence Industries • Compaq Computers • Compaq Call Centre • Cowra Shire Council 	<ul style="list-style-type: none"> • Department of Defence, Guided Missile Frigates - Progressive Upgrade • Foxtel • Fresenius • Fujitsu Call Centre • Galaxy Media • Gunnedah Service Abattoir (Limited) • Hunter Economic Development (Limited) • Lucent Technologies • Lufthansa • Manpower • Miller Metals Imaging Australia P/L • Motorola Private Infrastructure • Nowra Chemicals Manufacturers P/L • Optus Continental Cable Television • Overall Forge Holdings Ltd • Philips Electronics, International Computer Center • Resmed • Teletech, Customer Call Service • Visy Industries (Pratt), Proposed Kraft and Paper Mill • Western Union
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The methodology also encompassed:

- examination of relevant departmental files, policies, strategies, procedures and plans
- review of literature on the provision of industry development incentives
- interviews with
 - ◊ departmental staff, in head office and Newcastle region
 - ◊ staff from The Treasury and Premier's Department
 - ◊ staff from the Independent Commission Against Corruption.

1.4 Acknowledgment

The Audit Office gratefully acknowledges the cooperation and assistance provided by representatives of the Department in the course of this audit to the audit team: Sonia Danzo, Rod Longford, Henriette Zeitoun and Stephen Horne.

The Audit Office also wishes to give special acknowledgment to the highly professional approach of SRD in responding to the draft report, especially given the tight timetable necessary.

1.5 Cost of the Audit

The total cost of the audit was \$211,639 comprising:

	\$
Direct salaries costs	126,286
Overhead charges	54,126
Value of unpaid staff time	12,157
Consultancy (internal) and Miscellaneous	14,069
Printing	5,000
Total Cost	211,639

2. Basis for Assistance

2.1 Approaches to Industry Development

Governments have an interest in attracting and competing for mobile investments because of perceived employment and income generation benefits for the State.

Governments generally compete for mobile investments in two ways. They:

- attempt to contribute to the establishment of an economic environment which attracts such investments. This is often referred to as ‘getting the economic fundamentals right’
- also provide firm/project specific assistance. The hope is that for a relatively small outlay, a State might be able to secure a long-term, substantial addition to its tax base. However, the Industry Commission has observed that in practice competition between States can cause the incentives to be increased, and the addition to the tax base to tend to zero. Investors are aware of this dilemma for the States and it is in investors’ interest to encourage competitive bidding between States for their investment.

Industry assistance is often justified as a response to market failure,⁸ and relies heavily on the promise of positive externalities⁹ arising from the investment projects. Industry development can give rise to positive externalities.

The NSW Approach

A stated goal of the New South Wales Government is:

to provide a high and improving standard of living for the people of the State. This is achieved through four key drivers - social justice, economic development and job generation, environmental protection and financial strength.¹⁰

A key contributor to economic development and job generation is industry development. In many respects, the Government relies upon the State’s natural competitive advantages to attract industries. The bulk of annual investment in the State occurs without overt Government support. It comes to NSW because investors perceive opportunities for a return.

⁸ Sources of market failure relate to the existence of public goods, natural monopoly, uncertainty, externalities, indivisibilities and information costs.

⁹ These are benefits that arise from investment projects. These benefits accrue to society, but are not totally captured by the owners of the investing entity, eg flow on jobs and investments.

¹⁰ SRD’s ‘Policy Approach to Industry Development’.

Much of the NSW Government's microeconomic reform efforts are directed towards improving the economic fundamentals to encourage and reward investment by ensuring:

- a competitive tax regime
- adequate infrastructure, roads, ports etc.
- efficiently priced water, electricity and other government services
- a sound regulatory framework with low compliance costs
- high quality education and training.

**Economic
Fundamentals and
Selective Assistance**

The Government's focus on the State's economic fundamentals is consistent with the views of the Industry Commission. The Final Report of the Industry Commission on Industry Assistance released in 1996 made a number of key points, including:

- significant industry assistance was provided by the States most of which was firm-specific, discretionary and undesirable
- inter-state competition for new investments through the offer of financial incentives may not be in the overall national interest, if it results in a sub-optimal location decision¹¹
- competition between the States on economic fundamentals was desirable
- States often misused evaluation techniques in estimating the net benefits of assistance
- jurisdictions should observe guidelines on transparency and monitoring of any assistance
- there was a strong case for States to consider an agreement to cease or limit firm or project specific assistance.¹²

Whilst the NSW Government submission to the Industry Commission acknowledged the benefits of inter-state competition on the basis of economic fundamentals rather than on firm/project specific assistance, other States indicated to the Commission an intent to continue firm/project specific assistance. Further, no agreement between the States on curtailing selective assistance has been reached despite NSW proposing such an agreement.

¹¹ It needs to be noted, however, that with some larger projects, the choice for a proponent may not be between a location in NSW and one in another State, but in another country. In such circumstances, the potential for economic benefit to Australia from selective assistance may be greater than if the alternative was inter-state. Nevertheless, the Industry Commission noted that the general conclusion of the policy debate about assistance in the international trading environment is that, with the important exceptions of providing general 'good government' and the correction of 'market failures', assistance to industry is not an effective means of improving the standards of living of Australians as a whole. Further, in such circumstances, assistance may be more appropriately negotiated at the Commonwealth level to secure the investment for Australia.

¹² Industry Commission Inquiry into State, Territory and Local Government Assistance to Industry, Report No 55, 29 October 1996.

Prioritisation

The Audit Office sought to identify and assess SRD's mechanisms for promoting best value for money from the provision of selective industry assistance.

The Department's current approach is to assess firm/project specific assistance on a case by case, first come first served basis. The Department argues that a case by case process is necessary as it maintains the flexibility to respond to proposals as they arise. In SRD's view, the availability of Government funds needs to coincide with the timing of proposals. SRD also argues that a case by case process allows negotiation to attract a project for the least cost possible.

SRD operates on the basis that the vast bulk of selective assistance is provided at 'no cost to Government' (ie for the IAF) and therefore need not be prioritised. This stems from the view that assistance is only provided to firms which otherwise would not have located in NSW.

SRD advises that it attracts investment across a broad range of industries, but that it is focusing on:

- identifying the key high growth industries which should be targeted and actions required to promote investment in these industries
- considering proposals in the context of the industry sector they are in and as to whether they fill in gaps identified in the value chain.

**Audit
Observations**

The Audit Office is of the view that assistance should be provided in a way which maximises economic benefits to NSW in net present value terms, regardless of the industry. This provides the NSW community with the greatest overall benefit. Targeting strategic priorities and 'picking winners' are all options a government may wish to employ to guide decision making at the margin, and to attract particular types of proposals. However, The Audit Office considers the over-riding criteria should be to generate the maximum benefit for NSW, regardless of the particular area or industry. The current case by case approach adopted by SRD cannot do this.

In developing an industry targeting approach, SRD has recognised that there are costs associated with the provision of assistance and that there is a need to prioritise. The Audit Office concurs with the need to prioritise, but on the basis of maximising net economic benefits rather than by attempting to pick industry winners.

A case by case approach means that proponents are not required to compete for a limited pool of industry assistance resources. The absence of a competitive process reduces the negotiating leverage which SRD would otherwise have. Conversely, it actually may increase the leverage of a proponent which is able to identify several competing locations for its investment.

A different approach involving some form of competitive bidding process would enable more effective prioritisation by SRD based on maximising net economic benefits. For example, SRD could call for expressions of interest on a periodic basis (say every three months) for a limited pool of industry assistance funds. These funds could then be provided to those proposals which offer the greatest economic benefits in net present value terms. The Audit Office recognises that a simplistic tendering arrangement would not cater for the full range of industry assistance objectives and situations. However, the principle of generating competition to select the proposals offering greatest benefit to NSW can be implemented in a variety of ways. The Audit Office would encourage SRD to apply its expertise to developing appropriate processes to this end.¹³

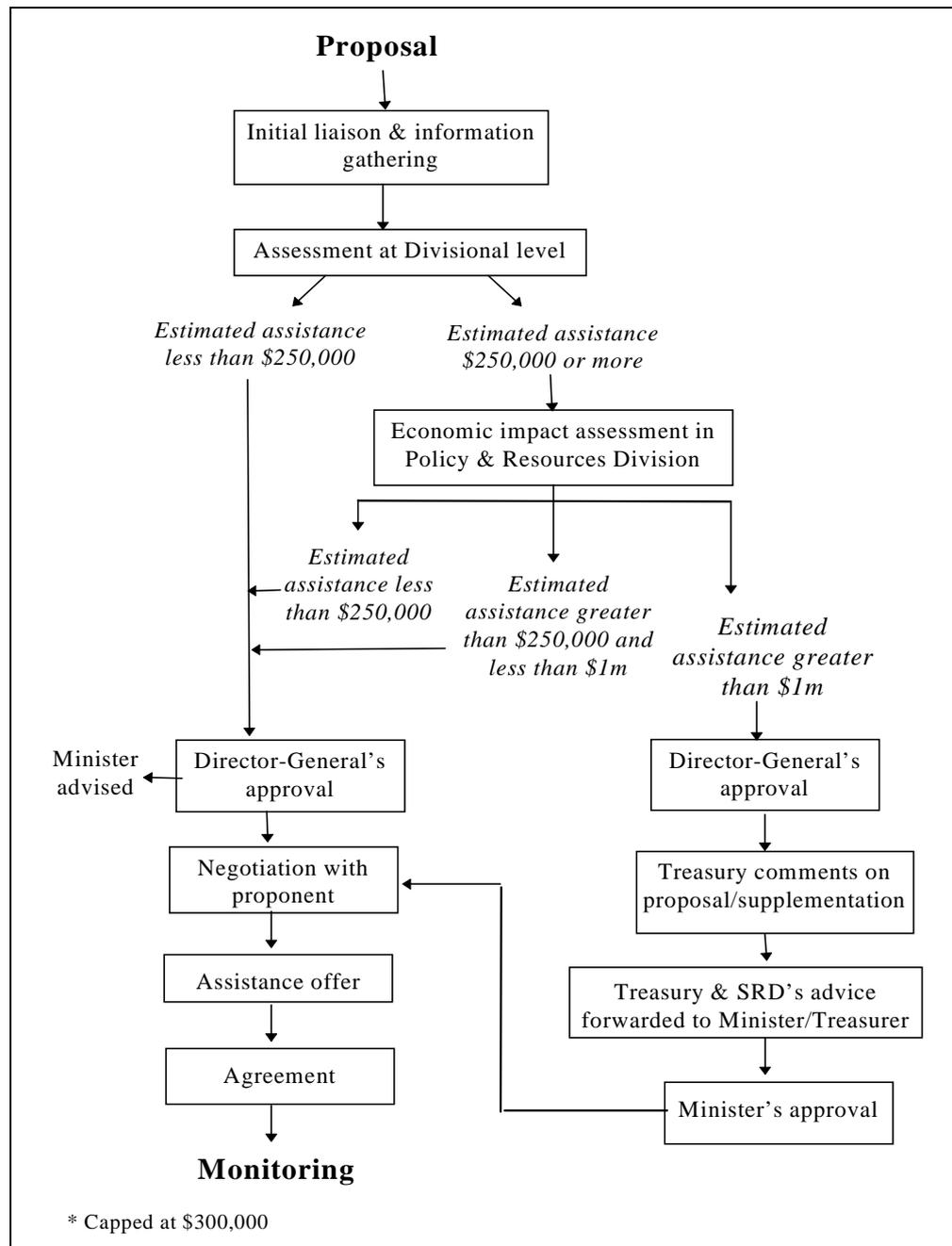
2.2 Case by Case Processes of SRD

In each of the IAF, RHQ and RBD schemes, assistance for firms/projects is assessed on a case by case basis.

Figure 1 outlines the key steps in the provision of assistance by SRD under the IAF, RHQ and RBD schemes.

¹³ SRD advises that it has researched competitive bidding processes, but has been unable to identify a system with application to its activity. SRD also advises that it has been unable to find an economic development agency which uses such a system. The Audit Office nonetheless believes that innovative approaches are possible and warrant exploration.

Fig 1: Key Steps in the Provision of Assistance under the IAF, RHQ* and RBDS



Audit Observations

Whilst noting the absence of a competitive process for the provision of assistance, The Audit Office examined projects, processes and procedures for case by case assistance under the IAF, RHQ and RBD schemes. The following table summarises key findings in relation to the management and administration of the three schemes. Later chapters discuss these issues in greater detail.

Table 3: Summary Of Key Findings		
Issue	Comment	Remedial Action
Objectives	<ul style="list-style-type: none"> ◆ Scheme objectives are generally clear and aligned to policy objectives. 	●
Information To Proponents	<ul style="list-style-type: none"> ◆ High quality and comprehensive information on the NSW economy is readily available to proponents. ◆ Quality and breadth of scheme specific information require further development, particularly for the IAF. ◆ Access of proponents to scheme specific information requires improvement, particularly for the IAF. ◆ Relevance of information for determining eligibility for assistance requires improvement, particularly for the IAF. 	<ul style="list-style-type: none"> ● ○ ○ ○
Assessment Of Proposals	<ul style="list-style-type: none"> ◆ Mechanisms for determining level of assistance to be provided require improvement, particularly to ensure assistance is prioritised on the basis of maximising net economic benefits. ◆ Documentation of assessment mechanisms requires substantial improvement. ◆ Transparency of assessment mechanisms requires substantial improvement. ◆ Quality of guidelines and formal training need to be improved significantly. ◆ Assessment of proposals needs to be more consistently applied. ◆ Documentation of assessments of individual proposals requires substantial improvement. 	<ul style="list-style-type: none"> ○ ⊙ ○ ⊙ ⊙ ⊙
Scheme Funding	<ul style="list-style-type: none"> ◆ Transparency of mechanisms and their application require improvement, particularly for the IAF. 	⊙
Budgetary And Management Controls	<ul style="list-style-type: none"> ◆ Controls need to be improved to promote more effective resource management. 	○

- Remedial action not required.
- ⊙ The Department advised that remedial action has been initiated. This should not be interpreted as a comment on the suitability or otherwise of the action as it is too early to make an assessment.
- Remedial action required.

Table 3: Summary of Key Findings (cont)		
Issue	Comment	Remedial Action
Negotiation	◆ Effective negotiation strategies need to be developed in advance of negotiation.	○
	◆ Roles and responsibilities of parties involved in negotiations require further clarification.	○
	◆ Management controls over negotiation require improvement, particularly for the RBD scheme.	○
	◆ Mechanisms to ensure offers do not exceed maximum recommended level need enhancement.	○
Agreement	◆ Quality of performance agreements requires improvement, particularly in the RBD scheme.	⊙
	◆ Claw back provisions need to be improved and incorporated in all agreements.	⊙
	◆ Transparency of assistance provided needs to be improved substantially.	○
Monitoring, Evaluation & Reporting	◆ Identification of potential problems and response to problems identified require substantial improvement.	⊙
	◆ Procedures to recover assistance when agreements are breached require improvement.	⊙
	◆ Performance evaluation processes and procedures require further improvement.	⊙
	◆ Performance indicators need to be refined to further encourage maximisation of net economic benefits and value for money.	⊙
	◆ Reporting of performance information requires significant improvement.	⊙

- Remedial action not required.
- ⊙ The Department advised that remedial action has been initiated. This should not be interpreted as a comment on the suitability or otherwise of the action as it is too early to make an assessment.
- Remedial action required.

2.3 Inherent Dilemmas and Risks

The process of providing industry incentives to individual firms/projects on a case by case basis presents a number of dilemmas for the Government. These include:

- undesirable incentives
- decision making takes place in the absence of certainty, and therefore substantial judgement and discretion are exercised
- some information relating to the decisions made is treated as 'commercial in confidence'
- the risk that assistance is unnecessary or leads to undesirable outcomes
- preventing corruption.

Undesirable incentives

SRD faces the incentive to maximise the grant of Government assistance to ensure that NSW wins projects and to show that it is doing its job. SRD is likely to be criticised more for failing to secure a project than for offering too much assistance to secure it.

The NSW submission to the Industry Commission noted that:

...it may be difficult to create the appropriate incentives for Government officials who are charged with industry development. It will often be in their interests to be associated with particular developments, irrespective of whether that association is instrumental to the outcome. The incentive acts in the direction of providing too much rather than too little assistance.¹⁵

Audit Observations

It is important to put in place performance indicators, processes and procedures which moderate the incentive to provide more rather than less assistance inherent in the provision of firm specific assistance.

Decision making takes place in the absence of certainty, and therefore substantial judgement and discretion is exercised

¹⁵ Submission by the Government of New South Wales - Industry Commission Inquiry into State, Territory and Local Government Assistance to Industry, April 1996, p. 23.

The Government is not in a position to know precisely how much it has to offer to secure a proposal. Neither the value to the firm of the competitive advantages of NSW nor what other jurisdictions are offering to the firm are known to the Government. The proponents are the only ones that know, and disclosure would diminish their bargaining position. At the same time, there is the potential for a modest amount of Government money to result in significant investment and job creation in the State.

**Audit
Observations**

Given the above, it is important to have rigorous processes and procedures for determining assistance, and transparency in decision making. Further, the absence of information for decision making can encourage the provision of more rather than less assistance. Thus processes, procedures and performance indicators must moderate the incentive to provide more rather than less assistance.

Some information relating to the decisions made is treated as 'commercial in confidence'

The provision of assistance in Australia is usually negotiated in secret. It has been suggested that this may benefit investors seeking assistance, because they may be able to play off one Government against another to try to increase the level of assistance. The lack of transparency in the process creates suspicion that assistance provided is excessive.¹⁶

SRD advises that the release of certain information, such as the nature of the proposal or the amount of assistance offered, has the potential to harm a proponent's competitive position. This has implications for what information can be publicly released and, therefore, for accountability for the expenditure of public money.

The Audit Office accepts that there is a need for some information at certain times to be considered as commercial in confidence. However, the need for commercial confidentiality is often overstated. In this regard, the Industry Commission found that:

...the type of information that is withheld in one State on the basis that is commercial-in-confidence is often freely disclosed in similar situations in other States. The difference in levels of disclosure seems to be related more to the political decisions of the governments in the various jurisdictions than to any coherent or universally applicable principle relating to commercial confidentiality.¹⁷

¹⁶ Submission by the Government of New South Wales - Industry Commission Inquiry into State, Territory and Local Government Assistance to Industry, April 1996, p.12.

¹⁷ Industry Commission Report No 55, 29 October 1996, p. 81.

This comment is supported by the fact that some firms publish the amount of assistance received as part of their 'continuous disclosure requirements'. Further, the Industry Commission also commented that:

While business legitimately seeks to keep certain information confidential for commercial reasons, the impression gained from a review of much of the debate is that commercial in confidence is used by government far more widely than is necessary and more widely than industry appears to consider warranted.¹⁸

**Audit
Observations**

It is important that care is taken to ensure that only that information which, if released, would genuinely cause harm to a proponent or to SRD's future bargaining position is deemed 'commercial in confidence'. However, there is presently a tendency for SRD to ascribe commercial confidentiality to more information than The Audit Office believes is necessary or appropriate. This is discussed in more detail later.

The risk that assistance is unnecessary or leads to undesirable outcomes

There is the risk that assistance:

- is provided to a firm that would have come to NSW anyway and is an unnecessary income transfer from the State's taxpayers to the company's shareholders
- could have been used in some other capacity to the greater benefit of the State
- to the extent that it does influence a firm's decision, the assistance results in sub-optimal location decisions
- may put existing producers at a cost disadvantage, and breach competitive neutrality
- generates demand from existing firms for equivalent assistance
- undermines the integrity of the limited NSW tax base by creating the impression that existing State taxes may be optional or are larger than is optimal for other tax payers
- leads to 'crowding out' of other subsequent potential investments that could have delivered more benefits
- may be provided to a firm that is not financially viable and which ultimately fails

¹⁸ Industry Commission Report No 55, 29 October 1996, p. 78.

- may only retain a proponent in NSW whilst assistance is provided. Footloose firms are the target for assistance, but by their nature they have a greater propensity to move to another jurisdiction.

These risks cannot be removed, but they can be managed. Once again, establishment of appropriate incentives, processes and procedures is critical in controlling such risks.

Preventing Corruption

The provision of selective assistance, by its nature, creates a climate in which great care needs to be taken, and very sound procedures need to be in place, to avoid any perception that corruption could occur.

Audit Observations

There is no evidence to suggest that SRD operates with anything other than high ethics and integrity. However, there are risks which need to be further addressed:

- there is time for staff to develop a relationship with proponents
- there is the capacity for a proponent to share assistance with Government staff
- the advocate for the project often conducts the negotiation
- there is limited external scrutiny of the incentives provided.

It is important that appropriate management controls are in place to ensure the potential for corruption is not realised. For example, SRD needs to balance the benefits flowing from specialist staff knowledge of industries and proponents with the risk of client capture, and allocate tasks accordingly. This should be seen as a supplement to and not a replacement for enhanced external scrutiny (discussed later).

3. Funding Schemes

3.1 Type of Assistance

SRD can assist prospective businesses by, among other services, providing information about the business climate in New South Wales, easing their interactions with Government departments and helping them meet regulatory requirements.

In addition to this facilitating role, SRD is able to provide a wide range of financial assistance to industry in order to attract business ventures to NSW, or to regions within NSW. The actual make-up of the assistance packages tends to vary with the nature of the investment and the particular requirements of the investor. It is SRD's role also to determine the maximum level of assistance which could be provided and to negotiate a minimum concession to secure an investment or walk away from the bidding if the price goes too high.

Incentives Packages Typical incentives packages provided to a project proponent may include one or more of the following:

- payroll and land tax rebate
- stamp duty exemptions or concessions
- workforce training
- provision of infrastructure
- provision of specialist information on Government processes.²⁰

SRD claims that financial assistance is only considered where other measures would not be sufficient. SRD also advises that it does not generally provide assistance to 'prop-up' ailing businesses. However, in exceptional cases, the NSW Government does provide assistance to sustain a firm's operations in order to help overcome social problems associated with declining industries or because particular regions are suffering hardship.

²⁰ SRD is not able to estimate the proportions of each.

3.2 The Industries Assistance Fund

The IAF has two funding components:

Pool-funded component

Each year, SRD is allocated money for the IAF within its global budget. This allocation is called the 'pool fund'. Generally, the pool is used to assist projects where the amount of assistance envisaged is under \$1m in Net Present Value (NPV) terms. The pool fund is spent at the discretion of SRD and is not closely monitored by Treasury. In 1997-98, expenditure was \$5.1m, or 29% of total IAF funding.

Treasury-funded component

Where assistance above \$1m (NPV) for a particular proposal is envisaged, SRD seeks supplementation to its existing budget allocation from the Treasurer. Where assistance is funded in this way, it is referred to as the 'Treasury funded' component.

This funding arrangement was put in place between Treasury and SRD several years ago. SRD advises that the arrangement is currently being reviewed.

In 1997-98, projects classified as Treasury funded commitments accounted for 71% of IAF funding.

Undefined Budget

The Treasury funded component of the IAF is open ended and potentially undefined. This contrasts with the usual scenario where Government departments are provided with a limited budget allocation, and supplementation is usually provided only in exceptional circumstances. This gives agencies a strong incentive to consider expenditure priorities carefully.

The open ended funding approach should require careful case by case analysis of the option to assist proposed projects. The lack of a pre-determined budget also means that the Government should value the proposed investment highly enough to warrant extra budget funding of the proposal.

In practice, however, Treasury is not required to consent to SRD's requests for supplementation and these requests are dealt with by the Minister/Treasurer and are not generally subjected to processes such as the Cabinet Sub Committee on the Budget.

Strategic resource allocation decisions require prioritisation of expenditure at a whole of Government level. By not having a fixed budget for the IAF, it is difficult to see how the Government is determining the budget it wishes to allocate to the scheme vis-a-vis other strategic priorities.

The open ended funding arrangement provides little incentive for SRD to prioritise industry assistance.

The process of seeking supplementation for projects where assistance over \$1m (NPV) is contemplated also has perverse incentives, in that it may encourage SRD to:

- pursue fewer, larger projects rather than a greater number of smaller projects
- inflate the level of assistance proposed to be offered to proponents.

If funding is approved and supplementation is agreed for the provision of more than \$1m (NPV) to a proponent, and negotiation results in the proponent accepting less than \$1m (NPV), SRD still receives supplementation to this lower level. This is necessary to prevent another perverse incentive which would mitigate against negotiating the minimum level of assistance with proponents. However, if in the first place SRD had assessed maximum assistance at less than \$1m it would have received no supplementation.

Management of Financial Commitments

Where payroll tax rebates are the negotiated form of assistance, the successful firm is required to pay its payroll tax liabilities to the Office of State Revenue as they fall due. The firm applies to SRD the following year for a rebate of the agreed share of these tax payments.

Typically, a maximum amount of total assistance has been agreed and assistance is often provided for a limited a period of time, usually five years. The commencing date for assistance will depend upon negotiation and the rate at which jobs are created.

Provision is made in the forward budget estimates based on the estimated timing of claims from approved assistance packages.

The performance agreements which SRD enters into with companies generally do not specify the year in which payroll tax rebates can be claimed. Rather, the rebates are paid as jobs are created. In practice, jobs are often created earlier than expected. Whilst this may be desirable, with the benefits to the State accruing earlier, it presents a problem for budgetary management in that commitments could arise earlier than originally forecast and budgeted.

**Audit
Observations**

There was little evidence that those undertaking negotiation on the provision of financial assistance considered the budgetary implications of the commitments they were offering. Performance agreements rarely specify the maximum level of assistance payable in any year or the year in which assistance can be claimed. SRD considers that the timing of rebates is not a significant issue because, as discussed earlier, assistance payments are, in its view, made at 'no cost to the Government'.

In light of budgetary concerns, the Government might consider amalgamating the pool-funded and Treasury-funded assistance and allowing SRD to budget like any other agency where demand is uncertain. This would provide greater incentive for effective budgetary control. This approach might not remove the need for SRD to seek supplementation for special and unique projects, but it would allow tightening of the circumstances under which SRD would be provided with supplementation. Further, a form of 'advance' system might be considered so that forward budgets are reduced as SRD is provided with additional funds.

Amalgamation of the pool and Treasury funded components would have a beneficial impact on the transparency of the Government's Budget because the Treasury funded component is presently not budgeted if assistance is approved and paid in the same financial year. If the amount of assistance available were pre-determined, it would be important to establish mechanisms to avoid the circumstances where, in some years, projects that are deserving of assistance will go unsupported whilst, in other years, undeserving projects may be funded. The need for such a mechanism is even greater if some form of a competitive bidding process is introduced.

3.3 The Regional Headquarters Scheme

This scheme provides tax rebates, capped at \$300,000 per recipient, for the establishment of footloose Pacific Basin regional headquarters in NSW. Rebates are generally provided for RHQ entrants who meet the criteria for the Commonwealth RHQ program, and in limited circumstances, to proposed RHQs which do not meet the Commonwealth criteria.

There is a separate allocation for the RHQ scheme in the Budget each year. If it is overspent, supplementary funding is automatically provided. If it is underspent, it is automatically returned to the Consolidated Fund.

Funding of the RHQ is not a significant issue due to the capping of assistance levels at \$300,000 and the overall low expenditure on the program in comparison to the IAF (RHQ is about 5% of IAF).

In 1997-98 expenditure for the RHQ was \$1.0m. or 1.1% of SRD's total expenditure.

3.4 The Regional Business Development Scheme

This scheme aims to promote industrial and commercial development in country NSW through the provision of assistance to overcome initial costs incurred by firms.

Expenditure on the RBD scheme for 1997/98 was \$7.4m forming about 77% of SRD's Regional Development assistance expenditure and 8.4% of the Department's expenditure.

Not all regional projects receiving assistance are funded through the RBD scheme. A regional project can be funded from the IAF. Whilst the eligibility criteria for the RBD is wider than the IAF, some projects could be funded from either the IAF or the RBD (ie. they can meet the eligibility criteria for both schemes).

Audit Observations

The basis for decisions about which fund will be used is not clear. At present, Executive Directors determine the appropriate fund, apparently having regard to how strategic the project is and availability of funds in the two schemes.

3.5 Automatic Entitlement to Payroll Tax Rebates

The Country Industry Payroll Tax Rebate (CIPTR) Act 1966 gives firms locating in regional areas, in certain circumstances, automatic entitlements to payroll tax rebates. The Department generally offers assistance to firms under the RBD scheme, asking them to waive their CIPTR entitlement. This approach has benefits for the Department and proponents.

Audit Observations

The Act has proven cumbersome for the Department and firms and assistance is considered to be insufficiently flexible to meet the needs of some proponents. However, for some projects SRD appears not to have considered the value of this entitlement to the proponent in developing its negotiating position.

A further problem is that the limited scope to reject applications due to an automatic entitlement offers few incentives to encourage effective utilisation of funds.

It may be that the Department's condition that acceptance of RBD assistance relinquishes automatic entitlement to assistance under the Act is not enforceable. Legislative review is suggested (however, two previous attempts to repeal the Act have failed).

4. Assessing Assistance

4.1 Factors in Assessing Assistance

SRD seeks to provide assistance:

- to projects which are likely to produce net economic benefits for the NSW economy
- only to the extent necessary to secure a project for NSW, which otherwise would not have located in the State.

The net benefits that a project brings to NSW are usually expressed in terms of its effect on Gross State Product (GSP), and job creation. The economic assessment methodologies are critical in determining whether assistance is required and in estimating the net benefits against which the maximum level of any government assistance can be judged.

‘Footlooseness’

Footlooseness is the notion that the project proponents have some genuine choices regarding the location of the project. If a project would locate in NSW without assistance, it is not footloose and any assistance provided will be an unnecessary transfer of funds from taxpayers to shareholders.

Footlooseness is critical to decisions about assistance, but conceptually difficult to establish. It requires significant professional judgement. At the same time, SRD’s performance and the performance of its officers is largely judged by the number of jobs and amount of investment attracted. This may encourage the classification of projects as footloose even when this may not be the case.

Accordingly, it is especially important to guide staff as to the information they need to acquire and the analysis they need to undertake to make a considered judgement about footlooseness. Because of the high degree of judgement invoked to determine footlooseness, it is also important that documentation of the information obtained and the decisions reached is clear and transparent.

Audit Observations

SRD has in place guidelines to assist staff in determining footlooseness. However, the guidelines are extremely broad. They might not be sufficiently detailed to ensure that staff are aware of what information they need to collect and how this information is to be analysed in order to make a judgement.

SRD advises that some training is provided to staff, but more structured formal training in data collection and analysis for the purpose of determining footlooseness would be useful.

Decisions about providing funds to footlose projects are usually vetted by several senior officers within SRD. This offers protection on the issues of footlooseness and client capture. In most instances, however, consideration of footlooseness by senior staff relies on the advice and information collected by the client manager.

Further, there were a number of projects identified by The Audit Office where there was disagreement between SRD and NSW Treasury as to whether a project was footlose.

Departmental files generally did not provide The Audit Office with a clear indication of the information obtained from proponents and of the analysis undertaken to determine footlooseness.

SRD needs to determine the ‘footlooseness’ of an industry/project and also the minimum level of incentive necessary to attract a footlose proposal. It needs to determine the extent of risk that at the expiry of the assistance program the footlose industry will argue for more assistance or will relocate. It then needs to consider methods of reducing the risk that an assisted firm will depart or reduce its operations or of recovering assistance in these circumstances. The Audit Office found no evidence that consideration had been given to strategies to manage this risk. Potential risk management strategies include:

- only providing financial assistance to an extent that ensures companies have to make a substantial investment in some form of infrastructure, if and where relevant
- making infrastructure investment a milestone for payment of assistance, if and where relevant
- providing assistance on the basis that it is recouped if jobs are not sustained for a specified period after cessation of assistance.

**Financial
Viability**

It is essential that financial assistance not be used to prop up projects which would otherwise be non viable. If a project is not financially viable, then no net benefits to the State economy will be forthcoming from the project.

To minimise the risk that non viable projects are assisted, it is important that staff undertaking assessment are supported by good guidelines and training. It is also important, largely because of the degree of judgement involved in assessing viability, that documentation and files are well kept.

**Audit
Observations**

Consistent with findings discussed under footlooseness, The Audit Office found that:

- guidelines for determining financial viability are extremely broad
- more structured, formal training is needed
- documentation and files were generally poor, so that evidence in support of judgements could often not be found.

**Competitive
Neutrality**

The NSW Government's submission to the Industry Commission Inquiry put forward a view that:

...State industry assistance should not breach competitive neutrality for the following reasons. Firstly, on equity grounds, the taxpayer's money should not be used to advantage one enterprise over another. Secondly, on efficiency grounds, assistance which breaches competitive neutrality is likely to direct production away from existing producers in that industry and the net gain in output and employment may be zero or small.²¹

The Submission went on to say:

Assistance to individual firms by Government may breach competitive neutrality in cases where there are existing business entities engaged in that activity in a State. Consequently, microeconomic reform can be hampered in that the recipient can operate inefficiently and not suffer financial loss.²²

SRD's guidelines acknowledge the need to consider competitive neutrality in assessments. There is a separate section on competitive neutrality in every economic analysis carried out by Policy and Resources Division.

²¹ Submission by the Government of New South Wales - Industry Commission Inquiry into State, Territory and Local Government Assistance to Industry, April 1996, p. 10.

²² Ibid., pp.10-11.

**Audit
Observations**

From the documentation reviewed, several examples were found where assessment of proposals indicated that provision of assistance could breach competitive neutrality. No examples were found where this led to either rejection of the proposal or, apparently, to any reduction of the estimated maximum assistance to be provided. When a likely breach of competitive neutrality was identified by SRD, the only justification for proceeding to provide assistance found by The Audit Office was the claim that if NSW did not provide the assistance another State probably would and competitive neutrality will be breached.

Given the importance of this issue, competitive neutrality issues should be examined in detail and relevant data included in the assessment of proposals. Competitive neutrality should either be a threshold issue (ie assistance should not be provided if competitive neutrality is breached) or at least taken into account in the calculation of net benefits and, therefore, in establishing a maximum amount of assistance which should be provided.

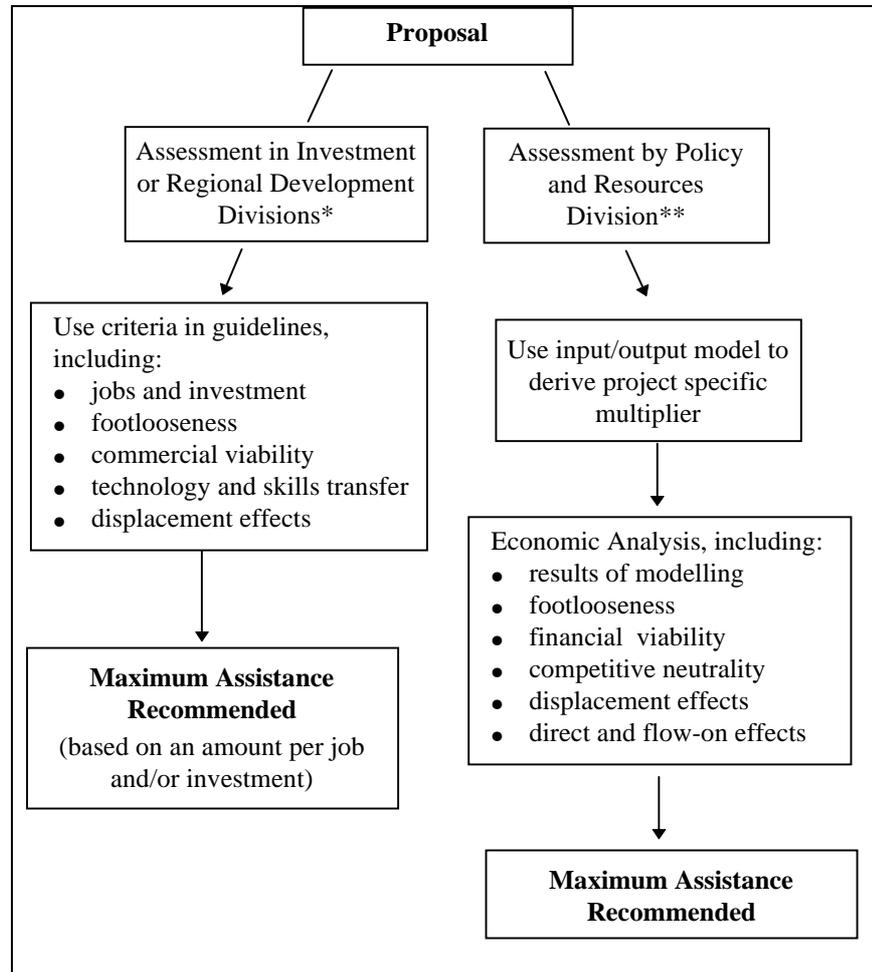
Whilst assessment documentation refers to competitive neutrality, The Audit Office found no evidence that the issue was considered in sufficient depth or data included in the analysis of the assistance provided.

4.2 Assessment of Proposals

The aim of assessment is to determine the value that a proposal is likely to add to the economy if it proceeds and from this derive the maximum amount of assistance that the Government should be willing to provide to secure the proposal for NSW.

The following figure illustrates SRD's assessment methodology.

Fig 2: Assessment Methodology



* Level of assistance envisaged is under \$250,000

** Generally where level of assistance envisaged is over \$250,000

Note: Footlooseness is not a requirement for assistance under the RBD Scheme

Audit Observations

The Department’s current assessment methodology does not consider the costs of raising the taxation required to provide subsidies.²² Tax-financed subsidies have costs in terms of economic efficiency. As discussed in the Industry Commission Report:

In general terms, a tax-financed subsidy package offered by a single State could be expected to impose efficiency costs on the economy as a whole, because both the subsidies and the taxes used to fund them are likely to divert resources from their highest-valued uses.²³

²² Or where assistance is provided by rebate to compensate for revenue forgone.

²³ Industry Commission Report, No 55, 29 October 1996, p. 572.

Tax-financed subsidies also have costs in terms of administration. To again quote the Industry Commission:

Tax-financed administration costs are also likely to impose an efficiency cost on the economy as a whole. Resources used in the administration of assistance packages have an opportunity cost - they could have been used to produce other things. To the extent that administration costs divert resources from producing goods and services to consumers and users, they are likely to impose a net cost on the economy as a whole, as will the taxes used by government to fund them.²⁴

In addition to indirect costs (and their negative multiplier effects), there may also be negative consequences flowing from providing assistance to a particular firm - such as the loss of revenue or jobs for other competing firms. Some economic commentators consider that the costs to the economy of these tax effects and negative consequences may be of such significance as to severely reduce or cancel out the net benefits in some cases. As such, it is of great importance that assessment methodologies address these aspects. SRD's current methodology does not do this.

There are also direct costs which SRD's methodology does not capture. For example, costs involved with raising taxation to subsidise industries and in the assessment and processing of financial assistance. These are incurred by SRD and other agencies, including the Offices of State Revenue and Financial Management in The Treasury. There are costs associated with providing corporate support to those staff involved in assessment, facilitation or processing. SRD's methodology does not factor these costs into assessments.

Staff time involved in providing assistance, such as facilitation and liaison, has a cost in terms of salaries, on-costs and opportunity costs. From the cases examined by The Audit Office, several instances were identified where this kind of assistance was material relative to the financial assistance provided to proponents.

²⁴ Industry Commission Report, No 55, 29 October 1996, p. 573.

At present SRD's staffing and associated costs cannot be disaggregated to activity or project level. The Auditor General in Victoria found a similar situation in SRD's equivalent in that State. The Auditor General there found that as a result of not having an activity based costing system, the agency had

...not been able to undertake periodic monitoring of the level of costs incurred in the provision of particular types of services or to ascertain whether costs have been warranted, or even excessive, relative to the resultant benefits or whether sufficient resources have been directed to those services offering the greatest benefit to industry.²⁵

The same conclusion can be drawn for SRD.²⁶ The Department has advised that it is commencing to develop an activity based costing component of its management information system.

Due to the failure of the assessment methodology to take account of the full costs of assistance, and its propensity to overstate benefits, The Audit Office is concerned that it is likely that NSW may have provided, in some instances, levels of assistance too high for the net economic benefits obtained.²⁷

The Audit Office considers that SRD should reconsider the assessment methodology being used. The assessment methodology needs to more fully examine the full direct and indirect costs and consequences of assistance proposals.²⁸

²⁵ Promoting Industry Development - Assistance by government, Special Report No 37, October 1995, Victorian Auditor-General's Office, p.52.

²⁶ SRD has recognised that the provision of assistance has a cost to Government and that there is a need for all projects assisted to make some contribution to the budget. SRD has recently adopted a policy whereby the maximum payroll tax rebate provided to any proponent will be 90% of the payroll tax paid in relation to additional employees. However, SRD provides forms of assistance other than by way of tax rebate, particularly in the RBD scheme.

²⁷ SRD is of the view that the only cost of assistance not taken into account in its economic analysis is the cost of executive time, which is not material in relation to the benefits obtained from projects assisted. SRD is thus of the view that it is unlikely that assistance too high for the benefits obtained would have been provided. The Audit Office has outlined in the preceding paragraphs a range of factors which it considers are not adequately included in the detailed assessment process.

²⁸ SRD is of the view that in the case of the IAF and RHQ funds, the cost associated with funding assistance through taxation rebates are usually zero (no cost to Budget because rebate is provided on a portion of a tax revenue stream which would not otherwise locate in NSW without SRD's action). SRD is also of the view that possible negative consequences such as loss of jobs in other firms are considered in every economic analysis carried out by SRD. The Audit Office believes that such factors are not examined in sufficient depth and not included as data in the detailed assessment process.

Benefits	<p>For assistance below \$250,000, the focus of benefits is jobs and investment attracted. For assistance over \$250,000, a major benefit measured in the assessment process is increase in Gross State Product. This may not be the most valid measure. Gross State Product is a measure of the size of the State's economy. As the Industry Commission found, a bigger economy may not generate greater welfare for the State's citizens.²⁹ The Industry Commission identified per capita Gross State Resident Product (GSRP) as a measure of economic welfare. GSRP measures the proportion of returns to economic activities flowing to the residents of a State as opposed to being returned to out of state financiers in the form of interest or dividend payments.</p>
Audit Observations	<p>In its submission to the Industry Commission Inquiry, the NSW Government noted that the current assessment process, by focusing on benefits in terms of employment, fails to take into account productivity, with the risk that selective assistance may lead to artificial maintenance of a high level of employment, which can cause long term harm.³⁰</p>
Does Not Prioritise	<p>At present, the assessment processes of SRD are designed to determine, irrespective of budgetary considerations, whether an individual project should receive financial assistance and, if so, to determine the maximum amount. SRD aims to ensure that assistance is provided to those projects offering significant value for money. Processes are not designed to determine which projects should receive assistance (ie. to prioritise between projects). This makes it difficult to determine whether the best proposal was selected.</p> <p>Departmental officers are responsible for the preliminary evaluation of a company's capacity to deliver the projected economic benefits.</p> <p>The level/depth of assessment a particular proposal receives is currently tied to the amount of incentive being envisaged:</p> <ul style="list-style-type: none">• for incentives below \$250,000, an assessment is prepared in the Investment or Regional Development Division based on guidelines. The main focus of the assessment is the number of direct jobs and the amount of direct investment expected from the project

²⁹ Industry Commission Report No 55, 29 October 1996, p. 573.

³⁰ Submission by the Government of New South Wales - Industry Commission Inquiry into State, Territory and Local Government Assistance to Industry, April 1996, p. 11.

- for incentives above \$250,000, the centrally placed Policy and Resources Division within SRD undertakes an economic impact assessment (EIA) of the proposal. It uses a model to derive project specific multipliers and undertakes an economic analysis that considers the results of modelling and a range of other standard analyses such as footlooseness, financial viability and competitive neutrality. This economic analysis is used to come to a view as to whether and to what extent a project should be supported. In addition, for those incentives above \$1m (NPV), Treasury vets SRD's analysis.

The following table summarises the assessment, approval and funding mechanisms for the three schemes.

Level of Assistance Envisaged	Scheme	Level of Assessment	Source of Funds	Approval		
				Director General	Treasury advice	Minister
Less than \$250,000	IAF	Divisional level using guidelines (generally)	From global budget (ie. pool fund)	Yes	Not required	Advised
	RHQ	Divisional level using guidelines	From global budget	Yes	Not required	Advised
	RBD	Divisional level using guidelines	From global budget	Yes	Not required	Advised
Between \$250,000 to less than \$1m	IAF	Economic impact assessment using an input/output model	From global budget (ie. pool fund)	Yes	Not required	Advised
	RHQ	Economic impact assessment using an input/output model	From global budget (capped at \$300,000 per recipient)	Yes	Not required	Advised
	RBD	Economic Impact Assessment using an input/output model	From global budget	Yes	Not required	Advised
Greater than \$1m	IAF	Economic Impact Assessment using an input/output model	By supplementation from Treasury (ie. Treasury funded)	Yes	Advice required	Yes
	RHQ	N/A	N/A	N/A	N/A	N/A
	RBD	None identified	None identified			

NA = Not Applicable

**Audit
Observations**

The Department's assessment methodology, regardless of where assessment is undertaken, requires the exercise of substantial professional judgement. The Audit Office considers that there are weaknesses in the guidance given to staff regarding the exercise of this judgement and in the recording of judgements made. These are discussed in more detail later in this report.

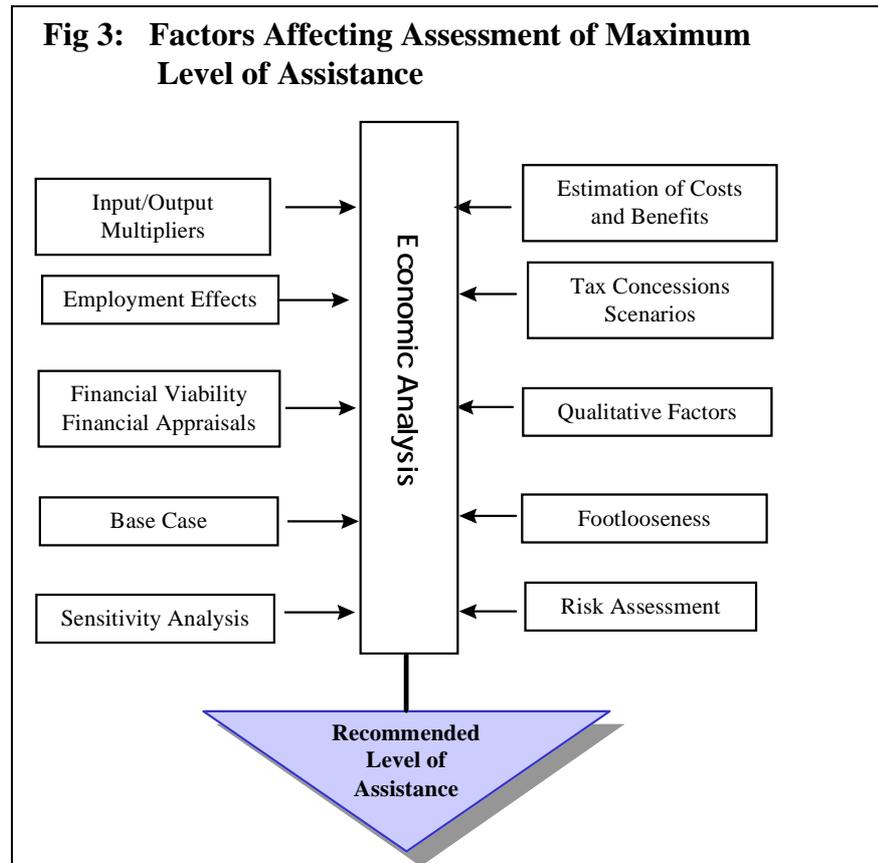
Scrutiny of projects where the level of assistance being envisaged is above \$250,000 is greater than for those below \$250,000. There is therefore some incentive to estimate assistance at below \$250,000 where there are doubts about footlooseness or the financial viability of a proposal. As a result, it is important that the Department puts in place effective procedures to counter this incentive. The Audit Office considers that current procedures could be enhanced in this regard.

**4.3 Economic Analysis in the Policy and
Resources Division**

As part of the assessment process for projects where the level of assistance is expected to be over \$250,000 (and for some other projects at the discretion of the Investment and Regional Development Divisions), the Policy and Resources Division undertakes an economic analysis. As illustrated previously in Figure 2, an input/output model is used to derive project specific multipliers which are used in the economic analysis.³¹

The following figure shows some of the key factors that affect the recommended maximum level of assistance.

³¹ In addition to these multipliers, the economic analysis includes a standard set of other analyses such as project concept, market for the output, direct impacts, comparative advantage, footlooseness, financial viability, flow on effects, revenue impacts, competitive neutrality, consistency with government policy, contribution to microeconomic reform, and contribution to economic efficiency.



Where an economic analysis is undertaken a detailed report is developed.³² To keep the report as succinct as possible, many of the assumptions used to make judgements are not incorporated in it.

Audit Observations

Economic assessment undertaken by the Policy and Resources Division offers a level of scrutiny greater than assessment in other Divisions using guidelines alone.

However, these assessments still require significant exercise of professional judgement regarding the assumptions to be used in their application. Changes in assumptions will have an impact on the maximum level of assistance determined.

The Audit Office found that SRD’s project files do not record key information. The Audit Office’s in-depth examination of six economic impact assessments undertaken for projects showed that generally:

³² This report is used to guide management decision about the maximum level of assistance to be provided.

- assumptions underpinning the input/output model were not clearly documented or adequately justified
- judgements made in using the input/output model and undertaking economic analyses were not clearly documented or adequately justified
- the specifics of any risk assessments undertaken were not recorded
- documentary evidence of validation of proponents claims is not routinely kept
- policies and procedures to ensure consistency in approach were inadequate.

Whilst gaps in information hampered the analysis, The Audit Office has concerns at the validity of some of the assumptions underpinning the model, the ability of the model to be manipulated to achieve a desired outcome (even though there was no evidence of this occurring in practice) and how effectively the model deals with some issues (such as repatriation of profit). The Audit Office also has concerns about how the economic analysis factors issues such as competitive neutrality into the recommended maximum levels of assistance. Other outstanding concerns include:

- how footlooseness is defined and determined
- the derivation of multipliers in some cases, which has significant implications for assessing flow-on effects
- practices in defining and determining the opportunity costs³³ incorporated in the base case³⁴ or null hypothesis (which can have significant bearing on the amount of assistance provided)
- how the repatriation of profits out of the State is dealt with³⁵
- the failure to offset assistance against the estimated net benefits

³³ In order to ascertain the net benefits of a project in NSW, it is necessary to determine what would happen in the absence of the project. There is a need to identify the *opportunity costs* of the project, as a consequence of the project displacing employment and economic activity elsewhere, ideally through undertaking a cost-benefit analysis.

³⁴ In any economic analysis, the methodology and the construction of the so called 'base case model' upon which projections are made are fundamental to the results produced by the analysis. A different set of assumptions and variables would produce a different result, and there is often considerable disagreements between professionals regarding the relative merits of different treatments. This makes it impossible to reach a definitive conclusion on such matters.

³⁵ SRD advises that the methodology does this. However, The Audit Office was not able to observe sufficient evidence to be confident that arrangements are adequate.

- how negative externalities are determined and accounted for
- the lack of procedures for and documentation of sensitivity analysis
- how financial appraisals are undertaken (largely due to lack of documentation)
- how project specific risks are determined and accounted for.

Some of the perceived problems of the assessment methodology may have been mitigated by the conduct of a cost benefit analysis.³⁶ Whilst recognising there would be additional costs in conducting a cost benefit analysis, and therefore that a risk management approach may be needed, The Audit Office found no evidence on files of any cost benefit analyses being undertaken (The Audit Office examined more than 40 projects, including some of the biggest projects assisted in the last three years). SRD claims that cost benefit analyses were undertaken in some of the cases which were not examined by The Audit Office.

Given its outstanding concern, The Audit Office is currently unable to conclude upon the efficacy of the assessments undertaken. Further enhancements to address these concerns are recommended.

Timing of Assessments

To help ensure that the level of assistance provided is not greater than the maximum that assessment would indicate as appropriate, assessments need to be carried out as soon as possible after initial contact with proponents.

Audit Observations

Documents reviewed indicate that assessments can occur well after initial contact with proponents and usually after significant non financial assistance has been provided.

³⁶ A fundamental problem with multiplier analysis is that in itself, it is not an *evaluative* tool because it ignores opportunity costs. Multiplier analysis is simply a tool for estimating the flow on effects associated with a project. Because rigorous cost benefit analyses are rarely undertaken, the opportunity costs of projects are often understated, and therefore, the economic assessment of projects that utilised multiplier analysis often overstate the net benefits.

4.4 Negotiation

The economic assessment establishes the maximum which should be provided to individual proposals.

If this maximum is approved, the amount of financial assistance offered to any project is negotiated with the project principal, and the agreed terms and conditions are set out in a performance agreement.

Audit Observations

There is little evidence that a negotiation strategy is developed prior to the commencement of negotiations (other than the upper negotiating limit). SRD argues that assistance is warranted on some occasions when shareholders are unwilling to put forward their own money on the basis that shareholders are motivated by profit, but the Government is motivated by positive externalities. In the same vein, it can be argued that different types and timing of assistance may have differential values for proponents. If this is the case, there should be some evidence that assistance packages are structured to maximise value to shareholders whilst minimising cost to taxpayers. There is little evidence of this in the scheme guidelines or the projects examined.

Negotiations appear to take place in the absence of information about the sensitivity of factors which will be incorporated in the final performance agreements.³⁷ Companies often over-estimate likely project benefits *prior* to an offer of assistance being made to them and re appraise downward the benefits *after* the offer has been made. Often SRD does not re-evaluate offers in light of new or revised information. To illustrate, it is not clear to negotiators when changes to the number of estimated jobs, the amount of investment, or the timing of either will have a sufficient impact on the net economic benefits calculation to warrant re-analysis and re-negotiation.

No guidelines have been identified for determining the type and form of assistance and particularly implications of offering different types and forms of assistance.

The Audit Office is concerned that the way performance agreements are framed may encourage proponents to overestimate likely benefits (as this may result in a company receiving more assistance than it should).

³⁷ SRD advises that its practice is to prepare a new economic analysis if there are material changes in the proposed project. The Audit Office, however, could not identify any guidelines which defined materiality for this purpose.

It is not clear whether the provision of lower incentives than those assessed is due to good negotiation or inflated assessments. It appears more related to judgement about footlooseness than anything else. For example, on the surface the provision of \$400,000 to a company when the assessment indicated that the State would be willing to pay up to \$1m appears a positive result. If the project is genuinely footloose, and the assessment has been accurate, it may be a positive result. If, however, the project was not footloose and would have located in NSW regardless of assistance, shareholders have received \$400,000 of taxpayers money for nothing. The problem is that only the proponent is ever likely to know for sure whether they were footloose. They will be unlikely ever to admit they weren't as this is likely to shut off any hope of further funding from SRD.

A negotiator is often the 'champion' of the proponent and has invested a significant amount of time and effort in obtaining approval for the provision of assistance. This is likely to encourage offering an amount acceptable to proponents, which is more likely to be at the upper end of the scale. The maximum incentive level determined through the assessment process often becomes the first offer, particularly where proponents claim that they have a competing offer from another jurisdiction.

Other issues identified in the examination of project documentation and guidelines included:

- the amount of financial assistance provided sometimes exceeded the maximum approved, even allowing for NPV adjustments
- the incentives for staff to minimise the assistance provided require enhancement
- indicative oral offers of assistance are sometimes made prior to obtaining approval through proper channels (in contravention of the IAF guidelines)
- companies often put pressure on SRD by indicating that failure to secure incentives will lead to loss of, or withdrawal from, existing investment/operations.

The Audit Office considers that SRD could further enhance its negotiating procedures in several ways, including:

- improving guidance to staff
- developing detailed negotiation strategies in advance, including consideration of the relative value proponents may place on different forms and timing of assistance
- ensuring that a third party not previously involved with the proponent participates in negotiations
- revising incentives so that they promote restraint in the provision of assistance
- improving documentation of the negotiation process.

5. Accountability and Transparency

5.1 Accountability and Transparency

Both accountability and transparency require some degree of disclosure, ideally by way of exposure to the public via Parliament. Accountability plays a particularly important role in the public sector. It is:

... about giving an answer for the way in which one has spent money, exercised power and control, mediated rights and used discretions vested by law in the public interest. It is fundamental to our system of government that those to whom such powers and responsibilities are given are required to exercise them in the public interest....fairly, and according to law.³⁸

For the provision of assistance, The Audit Office examined accountability in terms of six key areas:

- guidance to staff
- eligibility criteria for assistance
- reporting on assistance measures provided
- organisational records
- role of the Coordinator General
- monitoring and evaluation of assistance.³⁹

5.2 Guidance to Staff

The three schemes examined by The Audit Office each have separate guidelines for staff. These guidelines describe the nature of the schemes and eligibility criteria for assistance. The IAF and RHQ guidelines were being redrafted to reflect organisational and other changes at the time of this audit. SRD has advised that revision of these guidelines was in progress, but that their substance will, in the main, remain unchanged.

Audit Observations Close examination of the current guidelines showed that they:

- do not take staff step-by-step through the process from initial contact with proponents to finalisation of the deal. The Audit Office found little evidence of any formal training to address this inadequacy, especially for the IAF and the RHQ schemes

³⁸ Archives Authority of NSW, Documenting the Future, Appendix 2: Records and Recordkeeping, Introducing New Concepts, 1998, p. 11.

³⁹ Addressed separately in the chapter on monitoring and evaluation.

- are not sufficiently specific to guide client managers in how to undertake assessments. That is particularly the case for establishing footlooseness, financial viability, undertaking sensitivity analysis, etc
- do not differentiate between the issues which **determine** whether assistance should be provided and those which **influence** the level of assistance to be provided. As a result, officers could undertake a detailed assessment when examination of financial viability and footlooseness show that the project will not receive assistance
- are classified as ‘commercial in confidence’ for the IAF and RHQ, mitigating against transparency and accountability, including ability for proponents to appeal decisions.

These guidelines are sufficiently broad to be open to many interpretations. There is evidence that these guidelines were not consistently followed and applied. When queried about regular departures from the guidelines, SRD responded that “they were only guidelines”, neither legislatively based nor having the status of Ministerial or CEO directive. Further, departures were often not recorded and documentation reviewed would suggest that decision makers may have been unaware of departure from the guidelines. This is important given that the existence of guidelines encourages a view that, unless otherwise stated, the guidelines have been followed. Therefore, decision makers may have been misled by omission of information on departure from guidelines.

Guidelines should be written to maximise uniformity and consistency. It is acknowledged that there will be occasions when guidelines need to be departed from. However:

- these departures should be limited in number and infrequent
- the guidelines should indicate where departure is appropriate.

Where there is a departure from approved procedures, there is an even greater onus to record the departure in a transparent manner.

Where there is frequent departure from guidelines, it can argued that the guidelines are not meeting their purpose and need to be revised.

5.3 Eligibility Criteria for Assistance

SRD has adequate and useful information available to proponents on the competitiveness and business climate in NSW. However, information provided to proponents specifically about the three schemes varied considerably.

Audit Observations

Information provided to proponents varied in terms of:

- its level of detail, clarity and accuracy
- accessibility to proponents - detailed written information on the RBD scheme can be made available to proponents on request/application whilst only limited public information is available on the RHQ and the IAF.

The lower provision of public information for the RHQ and IAF schemes is used as a demand management tool. Information available on the two schemes is not designed to enable proponents to determine their own eligibility.

SRD is concerned that provision of detailed information on the IAF (and to a lesser extent the RHQ) will inhibit its ability to negotiate assistance packages at least cost. It is also concerned that provision of information will result in it being inundated with applications for assistance.

This might imply that there is a substantial number of potential proponents not aware of the schemes and a substantial number of possible proponents whose projects may be worthy of attention. If this is the case, SRD is not in a position to verify that proposals coming forward are the best available or the most worthy of assistance in the market at any given time. The restriction of information for efficiency purposes can, therefore, mitigate against effectiveness.

It may be that some applications made in the absence of information on criteria would not be submitted if detailed criteria were published. There is, therefore, potential that the publication of detailed criteria may reduce the number of applications for assistance as proponents self-select.

The lack of written information available to proponents in relation to the IAF and RHQ places much reliance on oral information provided by officers. This presents significant challenges for SRD's management, in that such channels of information exchange are difficult to monitor, present real risks of implied commitment prior to assessment and enhance the risk of potential for manipulation.

Non provision of information could also be seen as discriminatory in that it favours firms with established information networks, particularly those that have already received assistance. The system at present enhances the value of 'insider' contacts or prior experience with the assistance process (eg, of companies that have previously received assistance or consultants who have worked with such companies) rather than moderating them. Publication of criteria mitigates the benefits flowing from contacts and prior experience.

Further, a claimed reason for intervention is market failure. The decision not to provide transparent information on the IAF and RHQ, exacerbates market failure when in fact information can be used to address market failure.⁴⁰

5.4 Reporting on Assistance Measures Provided

It is a well established principle under the Westminster system of government that accountability to Parliament and the taxpayers for the use of public funds is paramount. The issue of commercial confidentiality and sensitivity should not override the Government's obligations to be accountable for financial arrangements involving public moneys.⁴¹

SRD is strongly of the view that the publication of the level of assistance provided to a proponent, the reasons for the assistance and even the decision making criteria is inappropriate and could:

- cause harm to proponents' competitive positions
- undermine SRD's future bargaining position in relation to other jurisdictions.

⁴⁰ SRD claims that this weakness is overcome by its marketing program.

⁴¹ The Auditor-General, Victoria (1989, 1991)

**Audit
Observations**

The Audit Office shares the views of the Senate Finance and Public Administration References Committee in relation to commercial confidentiality:

The Committee is concerned that the mantra of commercial confidentiality will increasingly be used to deny Parliament access to the detail of contracting arrangements. The Committee accepts that there are limited aspects of contracts which may be legitimately commercially confidential. However, whenever information is denied Parliament, there will be suspicion that it is to hide sloppy administration, extravagance, incompetence - or worse - in the expenditure of public money.⁴²

There is little consistency between jurisdictions in the information which is classified as commercial in confidence. Some jurisdictions, particularly the Northern Territory and Western Australia generally publish more information than NSW.

If the treatment of certain information as commercial in confidence is to be accepted, some principles need to be adopted. Suggested principles are discussed below.

Only information which would harm proponents or the Department's bargaining position is classified as commercial in confidence

Proponents seeking money from Government have to accept that with the benefits come some obligations in terms of transparency and accountability.

Some information may harm the commercial position of the firm in some circumstances. However, information about decisions made will not always need to be treated as commercial in confidence, as evidenced by current practices whereby the details of assistance provided to some projects is published by the Government or the firms themselves.

Potential for some information to cause harm to proponents and to the Department's bargaining position is also likely to diminish over time so that it will be feasible to publish, after a decision has been made, information that is inappropriate to publish at the time of negotiations or the decision to provide assistance.

⁴² Senate Finance and Public Administration References Committee, Contracting Out of Government Services, 2nd Report, Chairman Tabling Statement, May 1998.

The Senate Finance and Public Administration References Committee felt that:

- once a contract has been awarded, the bulk of its provisions should be placed in the public domain
- the need for confidentiality should only exist for a limited range of matters and even for these not beyond the life of the contract
- the onus should be on the firm to argue for confidentiality at any level.⁴³

It is difficult to accept, on the basis of commercial confidentiality, any arguments that criteria for the provision of assistance should not be published. This is consistent with the views of the Industry Commission on this subject.

There is considerable scope for improvements in the quality of SRD's reporting on assistance provided. The Industry Commission found that this was common across all jurisdictions, although, as mentioned above, some jurisdictions report more transparently than others. The Commission suggested that reporting of all assistance programs should include:

- scheme objectives
- criteria for assistance and approval procedures
- demonstration that expected benefits exceed expected costs
- results of regular monitoring of progress against established performance targets
- annual estimates of the totality of assistance provided, including revenues foregone and estimates of administrative costs.⁴⁴

In relation to firm/project specific assistance, the Commission suggested that in addition to the above, reporting should include for each firm or project:

- duration of assistance
- estimates of the value of any concessions
- details of legislation or regulatory changes and re-zoning
- any guarantees of future Government contracts.⁴⁵

⁴³ Senate Finance and Public Administration References Committee, Contracting Out of Government Services, 2nd Report, May 1998, p. 40.

⁴⁴ Industry Commission Report, No 55, 29 October 1996, p. 87.

⁴⁵ Ibid., p.84.

Where information is treated as ‘commercial in confidence’, the process is subjected to a proxy for public scrutiny

Secrecy and within it commercial secrecy, has a proper place in the conduct of Government. Provided adequate accountability measures are imposed where secrecy is allowed, the risk posed to the public should be kept to a minimum.⁴⁶

Where information is not published because of commercial confidentiality, it is critical that a third party is able to scrutinise SRD’s decision making processes and be able to make reasoned judgement about the decisions made.

At the July 1995 Heads of Treasury Meeting, a suggestion from NSW for States to report all provision of assistance annually to a body such as the Industry Commission was received favourably, but no action has ensued.

Mechanisms need to be in place so that the public can be assured that incentives are provided to firms efficiently and effectively, in compliance with relevant legislation and with probity. There are a number of external review mechanisms which examine the provision of industry assistance, including:

- Parliamentary Estimates Committees
- The Council on the Cost of Government in the preparation of Service Efforts and Accomplishment Reports.

It may be that there are other mechanisms which can provide assurances. One option is an operations review committee, which could comprise representatives of watchdog agencies and/or industry representatives. If industry is to be represented, this will limit the ability to examine individual cases and therefore, such a committee will have to concentrate only on broad guidelines. This perhaps would still need to be accompanied by review of individual projects by a watchdog committee.

The establishment of a more robust external oversight mechanism reinforces the need to make well founded decisions in relation to the schemes’ criteria and to record them more accurately. External scrutiny will help develop a climate conducive to effective decision making and transparency in record keeping.

⁴⁶ Western Australian Government Financial Assistance to Industry, Report No 31, Public Accounts and Expenditure Review Committee, 1996, p. 75.

5.5 Organisational Records

According to the Archives Authority:

Records are a key component of accountability, as they provide the evidence of what has happened⁴⁷

An organisation's records are both a vital resource and its memory. Good recordkeeping systems, practices and programs support and promote an organisation's efficiency and effectiveness. Records support accountability in all its guises. They help protect the rights and interests of the organisation and of individuals....⁴⁸

The Western Australian Commission on Government in its Report No. 2 of December 1995, also noted that:

Official records bear silent testimony to the administration of a government. Proper record keeping serves two purposes. First, it is a prerequisite to effective accountability. Without it, the end purpose of FOI legislation can be thwarted. Without it, critical scrutiny by the Parliament, the Auditor General and the Ombudsman can be blunted. Secondly, records themselves form an integral part of the State itself. A record keeping regime which does not address both of these requirements is inadequate.⁴⁹

In an activity such as the provision of incentives where certain information about the utilisation of public funds is not published on the basis of commercial confidentiality and is, therefore, not open to public scrutiny, the arguments about the importance of record keeping are perhaps even stronger. The ability of a third party to review decisions will depend upon the quality of records kept.

Further, the State Records Act 1998, No 17, requires agencies to make and keep full and accurate records. The Archives Authority of NSW issued under this legislation a 'Standard on Full and Accurate Records', which establishes principles for making and keeping full and accurate records.

⁴⁷ Archive Authority of New South Wales, *Introducing the State Records Act, Why is Legislative Reform Needed*, 1998, p. 1.

⁴⁸ Archives Authority of New South Wales, *Documenting the Future, Appendix 2, Records and Recordkeeping, Introducing New Concepts*, 1998, p. 1.

⁴⁹ The Commission on Government was established in response to a recommendation made by the Royal Commission into the Commercial Activities of Government and Other Matters (WA Royal Commission).

Audit Observations

In examining SRD’s project files, The Audit Office concluded that the standard of record keeping promulgated by the Archives Authority was in general not met by SRD.

Files were often incomplete, with key information on discussions and decisions missing, including detailed evidence in support of assessment of proposals. Documents were sometimes fragmented between files, divisions, and other agencies. Often, the volume of material on projects was large and poorly organised with some duplication of documents.

The following table summarises the key findings in relation to records and recordkeeping.

Table 5: Key Findings - Recordkeeping and Records (IAF, RHQ and RBD Schemes)	
Recordkeeping is not:	Records are not always:
◆ effectively managed	◆ complete
◆ always reliable	◆ comprehensive
◆ sufficiently systematic	◆ adequate
◆ always routine	◆ useable

As a result:

- the transparency of the processes for providing assistance to individual firms was impaired
- The Audit Office was not able to gain assurance of the efficacy of the processes and decisions made in a number of cases.

This does not imply that decisions were necessarily wrong or inappropriate, but that the Department was not in a position to demonstrate they were correct and appropriate.

The Department has recognised the deficiencies of its approaches to record keeping. The new Director General has identified improvement of record keeping as a key administrative priority for the Department.⁵⁰ The files do provide some evidence of recent improvements in record keeping particularly in the Investment Division which administers the IAF.

⁵⁰ SRD advises that a staff training program on filing has recently commenced.

The Audit Office considers that far from being a barrier to competing against other jurisdictions, there are potential competitive advantages flowing from a process which is seen to be fair and transparent.

5.6 Role of the Coordinator General

SRD is responsible for the provision of assistance under the IAF, RBD and RHQ schemes. At the same time, the Director General of Premier's Department has the role of Coordinator General. To support him in this role, the Strategic Projects Division (SPD) of Premier's Department seeks:

To achieve a whole of Government approach to projects of strategic importance both to regional communities and to the State as a whole, in order to maximise their economic, business and social benefits.

It does this by leadership, liaison and coordination across Government agencies in consultation with other levels of Government, and the private and community sectors, to ensure that the Government's strategic, economic, environmental and social objectives are met.⁵¹

As a result of this role, Strategic Projects is another point of contact for private sector proponents seeking assistance. SRD and SPD can both be undertaking work on a particular project at the same time.

Audit Observations

Whilst the role of SPD is concerned with coordination and facilitation from a whole of government perspective and that of SRD is attraction of jobs and investment, the demarcation between the two roles is sometimes unclear. At present, difficulties are minimised by the level of goodwill between the two agencies.

The focus of SRD is on the economic benefits to the State. The focus of SPD encompasses social and environmental as well as economic benefits. SPD has no funding available for providing financial assistance to industry, although staff involvement in facilitation can be considered a form of industry assistance.

⁵¹ Budget Paper No 3, 1998/99, Vol. 1, p.59.

The location of SPD in the Premier's portfolio and under the aegis of the head of the public service places it in a very powerful and influential position within Government. As a result, it is in a position to encourage SRD to commit funds to a project having regard to this broader agenda.

Whilst this approach has some benefits, possible problems include:

- it affords scope for proponents to attempt to play off the two agencies against each other
- the accountability for funds remain with SRD despite the involvement of SPD in the decision
- it blurs the accountability chain.

The Audit Office considers that protocols should be developed to:

- formalise the roles, responsibilities and relationships between SPD and SRD in the provision of assistance
- prevent the commitment by SPD of SRD's funds.

6. Monitoring and Evaluation of Assistance

6.1 Monitoring

A method of reducing risk adopted by SRD is to link assistance to performance and offering assistance by way of tax rebates.

Relating assistance to performance provides an in-built monitoring system. Rebates provide such a mechanism because no assistance is given unless employees have been hired and payroll tax has been paid. Notwithstanding the announcement of the project, and the decision on the package, no Government financial assistance is actually provided initially.

According to the NSW Submission to the Industry Commission Inquiry:

The merit of providing assistance through forgone tax is that if the investment does not eventuate or proceeds on a lesser scale or is delayed, then the amount of assistance is reduced accordingly. Most importantly, there is no direct budget cost to NSW, only revenue forgone that may not otherwise have been available to NSW.

Audit Observations

For the assumption of ‘no direct budget cost to NSW’ to be accurate, only projects which **would not** have come to NSW should receive assistance. As discussed earlier, it is not possible to ensure that all projects assisted would have gone elsewhere. Further, assistance is not provided entirely in the form of tax rebate.

This approach to monitoring does not provide an early indicator of potential problems with the assisted firms.

The efficacy of this in-built monitoring approach relies on effective performance agreements. Examination of documents showed significant variation between projects in quality and level of detail in performance agreements. These varied from being complex legally driven documents through to simple letters, depending on the level of assistance and scheme from which assistance is to be provided.

From the projects examined, the propensity to link assistance to performance was observed to be greater in more recently approved projects, but overall less common in the RBD projects. In part this is explained by the different objectives of the RBD scheme to the other schemes and, in particular, its focus on addressing initial cost impediments to expansion. This often requires provision of assistance early in the project or up-front.

Not all assistance provided, however, is by way of rebate, especially under the RBD scheme. SRD was unable to provide information to The Audit Office in a way which enabled calculation of the proportions of total assistance provided through forgone tax.

In these circumstances, other monitoring of performance would appear necessary. In the main, this would be physical verification of project milestones being achieved and follow up questionnaire.

Examinations of documents has revealed:

- some evidence of physical or oral verification although not consistently across all projects
- very little evidence of follow up questionnaire.

The Audit Office is concerned that when a firm departs the State after receiving assistance, there was limited evidence to document SRD's efforts to follow up or to recover assistance provided. There is also little evidence to document that SRD subsequently reviewed and adjusted its systems to mitigate against similar occurrences in the future.⁵² In response to queries made by The Audit Office, SRD provided advice concerning two high profile deals where companies subsequently varied their operations considerably. SRD's advice indicates that the companies had met their contractual obligations. SRD also advised of a number of firm closures under the RBD scheme. However, SRD feels this is in the nature of such assistance, and is at an acceptable level. SRD has agreed that clawback arrangements are an area where further enhancements are planned.

6.2 Evaluation

Value for money is about proving that public expenditure on a program has generated the best possible outcomes. The accepted approach is to demonstrate, through the relationship between inputs and outputs and between outputs and outcomes, that the program objectives have been achieved in an efficient and effective manner.

⁵² SRD advises that it recently published an Investment Handbook which substantially changes its systems and procedures to ensure greater scrutiny and enhance accountability. This was produced too late for consideration by The Audit Office.

Influences rather than Controls

In relation to economic development in general, the Council on the Cost of Government comments that:

... the NSW Government **influences** rather than **controls** business and, because of this, developing a core group of indicators that measure the causal linkages with industry outcomes is a challenge. Economic development results from the interplay of a complex series of factors many of which can be influenced only marginally or not at all by a state government. These include the prevailing national and international economic conditions, the unemployment rate, international commodity pricing, exchange rates, interest rates and the incentives provided to industry in other countries or states.⁵³ (Emphasis added)

The report goes on to say that:

The work of SRD does not occur in isolation from other areas of government activity. For example, reforms in energy, transport and business regulation, which reduce the cost of doing business in NSW link with the investment attraction activities of SRD. Thus, it is not feasible to identify and quantify the total government contribution to economic development.⁵⁴

Changes in SRD's outputs cannot always be directly attributed to particular internal factors such as changes in departmental strategies and funding levels, or external factors, such as extent of competition from other States and the number and quality of projects available in a particular year.⁵⁵ The individual or combined effect of these factors should be accounted for, but is difficult to isolate for the purposes of measuring SRD's performance at each of the project, scheme and program level. This makes the measurement of SRD's performance a challenging task.

SRD undertakes a range of activities only some of which are directly related to the provision of firm specific assistance. Current management information systems do not dissect inputs and relate these to activities. It is not possible to isolate the impact of project or scheme related activities from other departmental activities to make a meaningful assessment of performance. As a result, the normal process of judging efficiency through the relationship between inputs and outputs is not meaningful. Similarly, it is not possible to make judgement about cost effectiveness by relating inputs to outcomes. If SRD is to measure its performance at a project, scheme and program level, its management information systems will need further development.

⁵³ Economic Development, Service Efforts and Accomplishment (SEA) Report, 1997, p.13.

⁵⁴ *Ibid.*, p.vii.

⁵⁵ *Ibid.*, page 13.

Performance information provided in the three key planks of public reporting⁵⁶ revolves around the inputs, outputs and outcomes of the Department. The key performance indicators of the Department's role are defined as the aggregate level of jobs and investments attracted/retained in projects where assistance was provided.

The outputs and outcomes in these documents directly relevant to industry assistance provided under the three funds are:

- outputs - metropolitan and regional projects facilitated or financially assisted (number and \$m)
- outcomes - metropolitan and regional projects facilitated or financially assisted (\$ investment committed and jobs attracted/retained).

These outputs and outcomes imply that SRD's intervention has resulted in the increased jobs and investments. As discussed above, SRD is unable to establish causality between its intervention and the outcomes achieved. Further, as discussed in a previous chapter, SRD is not able to ensure that all of its interventions are necessary for projects to proceed in NSW.

Aggregating the levels of investment and jobs generated by assisted firms alone ignores the economic benefits that may have been attained without assistance as well as the economic costs of assistance. Further, a financially assisted firm may be expected to perform better than the average unassisted firm. Of more relevance perhaps is to assess the performance of NSW industries, regions and economy relative to what it might have been in the absence, or at a lower level, of assistance.

**Audit
Observations**

There are on-going efforts in SRD to refine its performance indicators and to improve its management information system. In recent months, the Department's key performance indicators have been revised and their range expanded to reflect better the broader outcomes being sought, such as return on Government investment. These revised indicators will, however, require further refinement to:

- clarify targets against which the extent of SRD's achievements can be measured
- differentiate between those indicators of the Department's level of achievement of outcomes and those indicators of the level of 'busyness' of the Department

⁵⁶ The Annual Report, The Budget Papers and the Service Efforts and Accomplishment Report.

- facilitate prioritisation on the basis of maximising net economic benefits.

A common method of assessing public sector outcomes is client satisfaction. Care will have to be taken in the use of client and stakeholders satisfaction in this area of Government activity as, generally:

- those assisted are more likely to be satisfied than those not assisted
- firms may be reticent to respond negatively due to concern that this may harm future prospects for receiving assistance
- it is difficult to capture the views of potential proponents who did not apply for assistance because of their lack of knowledge of the availability of assistance without alerting them to the availability of assistance.⁵⁷

SRD has undertaken brief reviews of the RBD scheme and more recently the IAF. These reviews appear to have been undertaken:

- with no clear and agreed evaluation framework
- on an irregular basis, with a long time between reviews
- on a narrow basis, covering only aspects of a scheme rather than the efficiency and effectiveness of the scheme and its overall impact.

If improved, reviews of the schemes can identify areas for further improvement and engender a climate for continuous improvement. They need to be conducted regularly and supported by an enhanced management information system. They can also provide an additional instrument for monitoring the Department's performance across key areas of operations.

6.3 Benchmarking

SRD has undertaken some preliminary benchmarking work. This was a challenging task for the Department, given the difficulties in obtaining performance information from competitors. Benchmarking is an acknowledged way of obtaining diagnostic information as a platform for developing improvement strategies.

⁵⁷ As discussed earlier, SRD uses availability of information on programs as a 'demand management tool'.

SRD has attempted to compare its efficiency in the provision of industry incentives by comparing its inputs, outputs and outcomes with those of agencies undertaking similar activities in other jurisdictions. The study compared three Australian agencies and four agencies in other countries. This comparison placed SRD's performance in "a metric with agencies with the highest international reputation".⁵⁸

**Audit
Observations**

The review generally reflected favourably on the performance of SRD in terms of its contribution to the outcomes achieved in NSW and its relative cost effectiveness as regards:

- investment attracted per dollar of budget expenditure
- budget expenditure per job attracted
- investment accruing from departmentally influenced investment
- employment accruing from departmentally influenced investments.

The current approach to benchmarking acknowledges that the other agencies differ from SRD in a number of critical ways. The challenge is to develop the methodology so that it can effectively take account of these differences among jurisdictions, including:

- different long-term strategies and incentive policies, particularly whether the aim is to maximise jobs and investment generally or in particular industries
- different approaches to economic and industry development
- different organisational arrangements
- narrow economic vs broader social and economic aims
- different comparative advantages in different jurisdictions
- different geographical and environmental factors
- different existing infrastructure
- different corporate tax regimes
- different requirements for footlooseness.

⁵⁸ Benchmarking SRD with Similar Interstate and International Organisations, May 1998.

The benchmarking results were subjected to an external review. The purpose of the external review was in the main focused on the benchmarking methodology and the appropriateness of the performance benchmarks chosen. The review was not intended to examine or challenge the accuracy and validity of the data used in the benchmarking.⁵⁹

If the Department continues to encounter difficulties in refining its benchmarking to take account of jurisdictional differences, it may benefit from undertaking process or activity benchmarking. Such benchmarking need not be with an industry development organisation making it easier to find benchmarking partners.

⁵⁹ The Audit Office received the results of the external verification process and final draft of the benchmarking initiative too late in the conduct of the audit to examine the accuracy of the data used in the benchmarking and the appropriateness of the selection and compilation of this data. As a result, The Audit Office cannot give an opinion on the validity of the benchmarking results.

Appendices

Appendix 1: Audit Hypotheses and Criteria

Stage	Hypotheses	Criteria
Pre-Proposal Stage	1. Requests for assistance are made by proponents of worthwhile projects where the decision to proceed is likely to be dependent on the provision of incentives	1.1 There are clear objectives for the provision of IDI 1.2 Information regarding IDI is promoted in a manner to allow equitable access by all potential proponents 1.3 Information provided/available to potential proponents is comprehensive, accurate, clear and relevant 1.4 Information provided/available enables proponents to determine which scheme they may be eligible for
Assessment Stage	2. SRD's assessment mechanisms enable the department to determine the maximum level of incentive which could be provided	2.1 SRD has documented assessment mechanisms in place 2.2 Eligibility criteria for all incentives schemes are clear, easy to use and discourage application from non eligible proponents 2.3 Documented assessment mechanisms are consistent with the Principles of National Competition Policy 2.4 Assessments are undertaken in accordance with published information and existing internal guidelines 2.5 Assessment mechanisms are consistently implemented for all types of incentives (and across schemes) 2.6 Assessment mechanisms enable SRD to prioritise competing claims 2.7 Assessment mechanisms can establish potential adverse impact on other competitors or operators
Negotiation Stage	3. The Department provides no more incentives than is necessary to attract/retain desired projects	3.1 Arrangements and approval mechanisms for funding SRD's activities and incentives schemes are defined and transparent 3.2 Valid appraisal of what might be considered an acceptable offer precedes negotiations 3.3 Roles, responsibilities and accountabilities of parties involved in negotiations with proponents are clearly defined and understood 3.4 Incentives offered to proponents do not exceed the assessed levels
Monitoring & Evaluation Stage	4. The Department has effective mechanisms in place to ensure accountability for any incentives provided	4.1 Incentives are provided on the basis of formal performance agreements which incorporate claw back provisions, where relevant. 4.2 The monitoring processes are effective and commensurate with the level of risk to safeguard public funds 4.3 Post evaluation of the impact of the intervention is gauged against objectives 4.3 Information is provided to stakeholders to permit a meaningful assessment of SRD's performance

Appendix 2: Schemes' Main Characteristics

Characteristics	Schemes		
	Industries Assistance Fund (IAF)	Regional Headquarters (RHQ) Scheme	Regional Business Development Scheme (RBD)
Purpose	To be the vehicle for payment of financial assistance made by the Ministerial Corporation for Industry (MCI) to investors on a case by case basis.	To act as an incentive to attract firms to establish Regional Headquarters in NSW.	To promote industrial and commercial development in country NSW through the provision of assistance to overcome initial costs incurred by firms.
Objectives	<p>To provide minimum level of financial assistance necessary to:</p> <ul style="list-style-type: none"> attract new footloose investment support economic development in strategic industry sectors support promotional activity for the development of industry create infrastructure facilities which have flow on benefits. 	To support the development of NSW as a base for RHQ's in the Asia Pacific region by attracting new 'footloose' RHQs	<p>To assist development of sustainable regional enterprises and economies.</p> <p>To boost employment and investment in regional NSW by minimising initial cost impediments to viable firms establishing or expanding in regional NSW.</p> <p>To assist achievement of balanced economic development across the State.</p> <p>To assist implementation of business opportunities which add value to regional resources.</p>
Head of Power	Established under the State Development and Industry Assistance Act, 1966 and administered through the Ministerial Corporation for Industry.	Announced by a Treasurer's media release in 1995.	Established in 1989 as part of the NSW Government's approach to fostering regional development.
Source of Funds	Line item under global budget	Line item under global budget, but also can be funded from the IAF	Funded from the Regional Business Assistance Fund (which is a line item under global budget).
Eligibility Criteria	Commercial in confidence	Commercial in confidence	Available on request/application

Appendix 2: Schemes' Main Characteristics (cont)

Characteristics	Schemes		
	Industries Assistance Fund (IAF)	Regional Headquarters (RHQ) Scheme	Regional Business Development Scheme (RBD)
Key Threshold Issues for Provision of Assistance ⁶⁰	Footlooseness Financial Viability	Footlooseness Firm's acceptance into the Commonwealth's regional headquarters program	No absolute criteria (need to satisfy one of five) ⁶¹
Maximum Level of Assistance	No maximum	Capped at \$300,000 per recipient over a period of up to five years with flexibility in the drawdown period	Fixed within specified parameters for incentives below \$1m
Type / Form of Assistance	Financial and non financial - commonly provided in the form of payroll tax rebate for a nominated period of time	Financial and non financial - normally limited to rebates in: payroll tax, stamp duty, financial institutions duty, debits tax, loan security duty, conveyancing duty, lease duty, and land tax in any combination	Financial and non financial - establishment grant; location feasibility study; business planning and technical consultancy subsidies; plant and equipment/key employee removal costs; skills training and development; contribution toward infrastructure costs; offsetting local Government charges; contribution to payroll tax, land tax, and stamp duty obligations for a finite period
Automatic Entitlements	No	No	Where a firm has an automatic entitlement to rebates under the Country Industries Assistance Act, it must waive its rights to receive rebates under this Act in order to receive assistance under the RBD scheme
Assistance Offers	Generally not published for individual offers	Generally not published for individual offers	Generally not published for individual offers

⁶⁰ Criteria that must be satisfied for the provision of assistance.

⁶¹ The Department advises that in the case of the RBD scheme, one of five threshold criteria has to be satisfied for the project to be eligible for assistance. These criteria are: securing a footloose investment; or securing a 'go' decision for a project at the no go/go investment decision stage; or accelerating the project timeframe or benefits flow to a regional NSW location; or improving the competitiveness/sustainability of a regional enterprise; or entrenching benefits of a project in a regional location.

Appendix 3:

Firms/Projects Approved for Financial Assistance Under the IAF (1995-96 to 1997-98)

Air International Transit Pty Ltd	Gordon Pender and Co
American Express International Inc	Gunnedah Service Abattoir Pty Ltd
Arrowcrest Group	Hawker Pacific Pty Ltd
Australian Challenge for the America's Cup	Hobbs Winning Australia
Australian Concept Car Project Pty Ltd	Industrial Supplies Office
Australian Culinary Consultants	Industrial Supplies Office
Australian electronic Manufacturing Services Pty Ltd	Institute of Magnetic Resonance Research
Australian Film Institute	International Institute of Communications
Australian Interactive Multimedia Industries Association	Medical Industry Association
Australian Multimedia Testing Centre	Memtec Ltd
Australian Technology Park Sydney Ltd	Metro Television Ltd
Australian Technology park Sydney Ltd	Motorola
British Aerospace Australia Ltd	NCR Australia Pty Ltd
Bunge Meat Industries Ltd	Oracle
CAE Electronics	Pacific Circle Music Convention Pty Ltd
Compaq Computers	Parke Davis Pty Ltd
Compaq Computers	Port Kembla Copper Smelter
Craft Australia Pty Ltd	Samsung Electronics Australia Pty Ltd
Dames & Moore	Shoalhaven City Council
Department of Land and Water Conservation	Sinclair Knight Merz Pty Ltd
Estee Lauder Pty Ltd	State Forests of New South Wales
Flower Export council of Australia	State Street Bank & Trust Company
Fox Studios Aust P/L	Sulo MGB Australia
Foxtel	Tourism Task Force Ltd
Furnishing Industry Association of Australia	Towers Perrin
Galaxy Media Pty Ltd	Visy Industries
	Welding Technology Institute of Australia

**Firms/Projects Approved for Financial Assistance Under the RHQ Scheme
(1995-96 to 1997-98)**

Capital Finance Australia
Daisytek Australia Pty Ltd
Digital Equipment Corporation (Aust) Pty Ltd
Expansion Management
First Data Resources Australia Ltd
Fresenius Medical Care Australasia
Global One Communications Pty Ltd
Icon Clinical Research
Intergraph Asia-Pacific Inc
Krone (Australia) Technique Pty Ltd
Lucent Technologies

Manpower Services
Pacific Secure Systems Pty Ltd (BABN)
Phillips Electronics Aust Ltd
Prestige International
ResMed Ltd/ResMed Asia Pacific Ltd
Rockwell Australia Pty Ltd
Sun Microsystems Australia Pty Ltd
Thorn Australia Pty Ltd
Wireless Data Services

Firms/Projects Approved for Financial Assistance Under the RBD Scheme (1995-96 to 1997-98)

21 st Century Boats P/L	Big Springs Riverina
A D & S M McClean Pty Ltd T/A St Annes	Bingara cypress Pine
A.D & S.M McLean Pty Ltd T/A St Annes	Bioclip P/L
A.P.I Security Pty Ltd t/a Lord	Booma Fisheries
Ability Options t/a Aashi Nursery	Borg's Manufacturing Pty Ltd T/a
Abrasiflex Workers Co-operative P/L	Bosmac P/L
Adventure Plastics P/L	Bradman Corporation P/L
AF & HS Cox & Son	Brian & Judy Hill
Agritech Laboratory Services P/L	Brighton Collection by Susan
Air Affairs Australia Pty Ltd	Britex Brylite Pty Ltd/Britax Asia
Aircair Moree P/L	Britex Brylite Pty Ltd/Britax Asia
Allen Precision Engineering Pty Ltd	British Aerospace Flight Training
Alliance Book distributors P/L	British Aerospace Flight Training (Aust) P/L
Alpine Air Services P/L	Broadwater Engineering Pty Ltd
Aluminium & Steel Boats P/L	BTR Engineering (Australia) Ltd
Amazon Bridge P/L	Bundjalung Training & Development
Ant Packaging P/L	Bunyip Brush Panels
ANZCO Foods P/L	Byrne Trailers (Australia) Pty Ltd
Assab Steels P/L	C M Leussink Engineering P/L
Auscott Ltd - Namoi Valley Operations	Calshiraz Pty Ltd T/A
Austral Softwood Processors Ltd	Candle Splash P/L
Australia Still Blooms/Native Oz	Cargill Australia Ltd
Australian Beef Company	Cartigny P/L
Australian Comfortable	Castle Mountain Enterprises P/L
Australian Freshwater Aquaculture	Causmag International
Australian Inland Exports P/L	C-Dax Systems Ltd
Australian Petroleum Refineries Pty	Cedenco Foods Limited
Australian Pyrotechnics P/L	Cee Bee Souvenirs P/L
Australian Queen Bee Exporters P/L	Central Coast Bread P/L
Australian Towbar Company P/L	Central West Economic Development
Australian Traction Corporation P/L	Chadcole P/L
Australian White Cyprus Sawmillers	Cigana Mountain Wear
Austral Industries P/L	Clarissa's Fine Foods P/L t/a
AVC Electronic Services P/L	Clay-Tech Apokis International P/L
Aymeast P/L t/a Canoeworld	Clinkat Pty Ltd
Baiada Poultry P/L	Clinkat Pty Ltd
Baode Holding Pty Ltd T/a H&B	CMC (Australia) P/L
Barraba Manufacturing Pty Ltd	Coffs Harbour Future Development
Barry Smith Grains P/L	Compak (Cootamundra) Pty Ltd
Barwondale Feedlot Pty Ltd	Conkey & Sons Pty Ltd
Bashford Boatbuilder P/L	Connell Group P/L
Bayview Seafoods Pty Ltd	Copeeco Pty
Beaulieu RUM P/L	Corbro P/L
Beechworth Honey	Corrotech Engineering P/L
Beers Abattoirs-36 Dean Street Pty	Cosmetic Products P/L
Bega Co-operative Society Ltd	Country Clubs of Australia Pty Ltd
Bega Valley Shire Council	Cowan manufacturing P/L
Benmor Pty Ltd T/A Cassino	Cowra Export Packers Pty Ltd
Berlei	Crestig P/L t/a Town & Country
Betec Industries P/L	Crystal Creek Rainforest Retreat
Big Rivers Timbers Pty Ltd	CSN Australia Pty Ltd

Cudegon (Abattoir) County Council	Impluse Airlines P/L
Cutting Edges	Inland Packing & Storage P/L
DA & MN Thompson Constructions	IRDB
Dakamar Finance P/L / Ausgold Exports	Ironbark Fabrications
Dawmac Industries Pty Ltd	JJ Cabinets P/L
De Bortoli Wines P/L	John's Farm P/L
Decoin P/L	Kareela Wool
Deluxe Laundry Service	Kemp Aust P/L t/a Master Masonary Taree
Dept of Public Works & Services	Kempsey Timbers Pty Ltd
Devro Teepak Ltd	Kempsey Timbers Pty Ltd
Dimitriou Fabrications (NSW) P/L	Kirrapak P/L
Dinacal holdings Pty Ltd	Kitchens of Sara Lee (AUST) P/L
Ditchfield Contracting P/L	KitKan P/L
Domatex Cotton Processing P/L	Krusscrete International P/L
Dorrigo Plateau Spring Water Co	Kurrajong Waratah Industries Ltd
Dubbo Macquarie Print	Kuta Lines P/L
Dyne Industries P/L	Kylmat P/L / Perfectour P/L / Catch
Ecopaper P/L	Kyndalyn Park P/L
Eickhoff Australia P/L	L & R Ashbolt P/L
Emeco Pty Ltd	La Paloma Pottery
Enict P/L t/a Powdercoat Specialties	Lachlan Valley Food Processors
Enretech Australasia P/L	Langley's Timbers Sales Pty Ltd
Express Coach Builders P/L	Larmon Pty Ltd T/A Hattah Salt
F J Walker Foods	Lentini & Marshall Cranhill Pty Ltd
Fair Dinkum Foods Marketing Pty	Log Homes of Australia
Fantap P/L	Logan Bros Sales P/L
FCL Interstate Transport Services	Lynks Pty Ltd t/as
Felko Nominees Pty Ltd T/T	M A J Artworks P/L
Felkro Nominees Pty Ltd T/A	Macadamia Plantations of Australia P/L
Fenske Tooling P/L	Macquaire Mills Pty Ltd
Fenwick Brothers Pty Ltd	Macquarie Foods (Narromine) Pty
ForBio Plants P/L	Malcolm Flew Air Conditioning P/L
Fraser Sails P/L	MAN Automotive (Australia) P/L
Freshpak International P/L	Manning Valley Premium Meats
Gates Rubber Company	Manpower Services (Australia) Pty
Gates Rubber Company	Markham Manufacturing
Gnaraloo Custom Joinery &	MASEDO
Goddard Wool Marketing Pty Ltd	Max Gregg / Gol Gol Fisheries
Goliath Engineering Pty Ltd	McColl Manufacturing P/L
Gosford Terrazzo Co P/L	McCoy Global Group P/L
Graham Price Pty Ltd	McHardy Pinter Industries
Grasheka P/L T/A Profile	Melnex Pty Ltd T/a
Greater Gloucester Rabbit Co-operative Ltd	Menduni Garden
Gromor Enterprises P/L	Metalert P/L
Gunnedah Timbers P/L	Miller Metal Imaging Australia Pty
Gwydir Grove Pty Ltd	Milton District Meats
H J Heinz Co Aust Ltd	Minad P/L
Halley & Mellows P/L	Minera P/L
Hamparsum Investments P/L	MJM Products
Hawker Pacific P/L	Modern Yach Technology P/L
Hill of Hope Winery	Monbeef P/L
Hillcoat Pty Ltd T/A Rolledge	Moree Seed Graders P/L t/a Austgrains
Hookes Creek Macadamia Nut Log	Mudgee Creative Yarns Co - Op
Hugill Engineering Pty Ltd	Multiquip P/L
Hunter Mining Methods P/L	Murray Shire Council
Illawarra Performing Arts Centre	Murray Valley Recyclers Pty Ltd
Illawarra Woodturning & Supplies	Murrook Farms

Mushroom Composters Pty Ltd	SALJ Technology
National Stockfeeders (Aust) P/L t/a Bidgee	Sapphire Anodisers Pty Ltd
Native Fish Growers Co-operatives Ltd	Sara Lee Clothing
New England Fibre Testing Pty Ltd	Sax Investments P/L
New England Gourmet Rabbit Co-operative	Sci-Tek Systems
Nightcap Thunder P/L	Scone Fresh Meats Pty Ltd
North Bourke Growers Ginning	Secure-A-Bar & Blind Australia P/L
North Coast Plywood Products Pty	Seeley International P/L Braemer Ind
North Coast Plywood Products Pty Ltd	Seton's Specialty Pies
North Plain Pty Ltd	Shipshape Joinery
North Star Motors (NSW) P/L	Sika Aviation P/L
North West Commodities P/L	Ski Trac International Pty Ltd
Northern Rivers Scenic Railway Pty	Smith Family
Norvet Ltd	Snapper Farming
Nowra Chemical Manufacturers Pty	Snowdark P/L T/a Living Fabrics
Nufarm Ltd	Snowdark P/L t/a Living Fabrics
Office Furniture Discounts P/L t/a	Southern Canola Producers P/L
Optimus Creative Manufacturing	Southern Country Foods Pty Ltd (H J Heinz)
Outer Reef P/L previously Beach	Southern Emu Producers Pty Ltd
Overall Forge Pty Ltd	Southern Highlands Institute For Performing Arts
Oxaham Pty Ltd	Southern Stone Processing P/L
P D Mulligan (Holdings) P/L	Southlands Dairies P/L
P O'Brien & Associates P/L	Stainless Tube Mills (Aust) P/L
P R Haseler & Co P/L	Sterlands Pty Ltd
P/Ace Shoes Pty Ltd	Stonetile Australia Pty Ltd
Parle Foods Pty Ltd	Subiaco Pastoral Company
Pet Accessory Products P/L	Surine P/L
PFH P/L	Sushi King P/L
Pineway P/L t/a Andrew Harris	Sydney Yachting Centre P/L
Pisces Marine Aquaculture P/L	Tamair P/L
PKM Nominees Pty Ltd T/A	Taspact Manufacturing Pty Ltd
Plastic Precise Products Co P/L	Technical & Field Surveys Pty Ltd
Polosolo P/L	Technico P/L
Port Stephens Joinery Pty Ltd	Teltrono Pty Ltd
Port Stephens Joinery Pty Ltd	Thermal Electric Elements P/L
Pratt Bros Australia P/L	Thermal Insulations Pty Ltd
Premium Pizza Products Pty Ltd T/A	Thermit Australia P/L
Prestige Imports & Exports P/L	TMP Industries
Primac Pastoral Co P/L	Tremco Pty Ltd
Primary Technologies Pty Ltd	Tropical Shine Holdings P/L
Private Parts P/L	TRW Steering & Suspension
Pro Timber - Casino Pty Ltd	Unique Vanities P/L
Quikshade Australia Pty Ltd	Uralla Shire Council
R J & P J Randall t/a Gwydir Fish	Visioneze Wheelchairs P/L
Reddestone Sapphires Mining P/L	VOR Management Pty Ltd
Reedrill (Aust) Pty Ltd	Vulcano Clay
Rico P/L	Weir Engineering P/L
Ridley AgriProducts P/L	Wellington Car Care Centre
Riverina Stock Feeds P/L	Western Aluminium Ltd
Riverina Wines P/L	Wirrilla P/L
Riverina Wool Growers P/L	Wollondily Abattoir P/L
RM Steel Supplies (Uralla) Pty Ltd	Wood Chem Australia P/L
Rosco Cabban's Engineering	Wrightway Eco Products P/L
Rundles Australia	Yolarno Pty Ltd T/A Bindaree Beef
Rural Commodities Pty Ltd	Yolarno Pty Ltd T/A Bindaree Beef
Russlyn P/L & Russell Dunn T/A	York Foods Pty Ltd
Rutherford Power P/L	

Zenith Employment and Training

Appendix 4 The Department of State and Regional Development's Detailed Response to Issues Raised in this Audit

Comments on the "Recommendations"

DSRD supports the following recommendations:

- 1.1, 1.6; and
- 2.2.

The following recommendations cover areas where implementation is already underway:

- 1.2;
- 2.6;
- 3.4;
- 4; and
- 5.

DSRD will give consideration to the implementation of the following recommendations having regard to legislative and other developments:

- 1.3;
- 2.1; and
- 2.5.

The following recommendations are considered to be not appropriate at the moment, given the Department's experience:

- 1.4, 1.5;
- 2.3, 2.4; and
- 3.1, 3.2 and 3.3.

The Department will, however, re-examine these issues.

1. Comments on the Introduction

- The projects examined by the Audit Office in the course of the audit were, in some cases, projects first negotiated and documented in the early 1990s. In many respects, therefore, they reflect procedures which have since been improved and are no longer representative.
- It is important to understand that the Department uses a process of continuous improvement to refine its approach to industry assistance. For example, in 1995 an input-output modeling capability was introduced for use in the economic evaluation of projects. Also in 1995, a standard report format was introduced to handle the evaluation of major projects in a standard uniform manner. In 1996, a standard report format was introduced for special events. In 1997, there was a major restructure of the organisation of the Department to improve client focus and accountability. In 1998, there has been the production of an Investment Handbook, Handbook training, a new filing Thesaurus and file management training.

Comments on the “Basis for Assistance”

2.1 Prioritisation

- Requests for assistance do not arise at a particular time but are driven by the project proponents’ needs and the economic cycle. Therefore, at no stage are all the possible projects “on the table” for consideration at the same time. Thus it is not possible to prioritise them nor to use a tender process. That said, once the economic analysis has been completed, project officers determine a negotiating upper limit to take forward for approval, after taking into account the project type and its importance to NSW, the budget and forward commitments and other projects in the “pipeline”. DSRD disagrees with the Audit Office view that the DSRD case-by-case approach cannot generate maximum benefit for NSW.
- DSRD is concerned about its bargaining position with project proponents. This was one of the themes of its submission to the Industry Commission’s Inquiry into State and Territory Assistance to Industry. Setting up a competitive bidding process has been considered, but a model which would encompass DSRD activities has not been found nor devised. Furthermore, financial assistance is only one part of the comprehensive “toolkit” DSRD employs to secure investment. A large part of this “toolkit” is non-financial assistance.

2.2 Comments on “Table 3: Summary of Key Findings”

	Audit Office Comment	DSRD comment
Objectives	<ul style="list-style-type: none"> • Scheme objectives are generally clear and aligned to policy objectives 	Agreed.
Information to Proponents	<ul style="list-style-type: none"> • High quality and comprehensive information on the NSW economy is readily available. • Quality and breadth of scheme specific information require further development, particularly for the IAF. • Access of proponents to scheme specific information requires improvement, particularly for the IAF. • Relevance of information for determining eligibility for assistance requires improvement, particularly for the IAF. 	<p>Agreed.</p> <p>IAF assistance is negotiated on a case-by-case basis. DSRD will develop information materials on the IAF. A recent client survey revealed a high degree of satisfaction with other program material.</p> <p>See comments above. Prepared material will be made available through all DSRD outlets.</p> <p>DSRD has a questionnaire/data sheet which is sent to project proponents to obtain the relevant information for determining eligibility for assistance. Where necessary, proponents are “walked through” the information requirements.</p>
Assessment of Proposals	<ul style="list-style-type: none"> • Mechanisms for determining the level of assistance to be provided require improvement, particularly to ensure assistance is prioritised on the basis of maximising net economic benefits. • Documentation of assessment mechanisms requires substantial improvement. • Quality of guidelines and formal training need to be improved significantly. • Assessment of proposals needs to be more consistently applied. 	<p>Mechanisms for determining the level of assistance revolve around the use of financial and economic analysis and standard report formats. With regard to financial and economic analyses, since December 1994 to November 1998, the success rate has been 99.4%. As discussed in the text, it is not possible to prioritise projects in a simplistic way.</p> <p>In 1998, DSRD issued an Investment Handbook for staff; see text. Training in the use of this Handbook has been completed.</p> <p>Formal training is an ongoing process in DSRD. The high success rate of financial and economic analyses will be maintained through continuous improvement.</p> <p>All large projects and special events seeking assistance from the IAF, RHQ and RBDS projects are assessed in the same standard manner where assistance of \$250,000 or more is involved. For smaller projects, briefer analysis is carried out using the same principles.</p>

	Audit Office Comment	DSRD comment
	<ul style="list-style-type: none"> Documentation of assessments of individual proposals requires substantial improvement 	<p>All DSRD staff involved in financial assistance have recently been issued with an Investment Handbook and have had associated training. DSRD staff have all recently received file management training.</p>
Scheme Funding	<ul style="list-style-type: none"> Transparency of mechanisms and their application require improvement, particularly for the IAF. 	<p>DSRD has been discussing a new funding mechanism for the IAF with NSW Treasury which will be more transparent to Parliamentary scrutiny.</p> <p>The RBDS is managed, with other regional development commitments, within a limited budget allocation. This is in line with the Audit Office's stated preferred position on scheme funding.</p>
Budgetary & Management controls	<ul style="list-style-type: none"> Controls need to be improved to promote more effective resource management. 	<p>DSRD has always maintained budgetary control within the confines of the current funding mechanisms. However, to improve these processes, three additional areas have been examined in the last 18 months:</p> <ul style="list-style-type: none"> a complete review of existing commitments for completeness and accuracy updated to a new commitment database; discussion with NSW Treasury to introduce a new amalgamated funding mechanism for the IAF; and investment training for staff including a new investment handbook.
Negotiation	<ul style="list-style-type: none"> Effective negotiation strategies need to be developed in advance of negotiation. Roles and responsibilities of parties involved in negotiation require further clarification. Management controls over negotiation require improvement, particularly for the RBD scheme. 	<p>Negotiation strategies are developed in advance of negotiation for every project. Enhanced guidelines will provide continuous improvement. Strategies are not dependent solely on financial assistance as is implied by the AO report. Non financial assistance including help with site identification, introductions and advice on the business environment and facilitation through the regulatory process, are critical components of the negotiation process.</p> <p>It is the role and responsibility of staff to attract investment at least cost. The bounds of negotiation are set by senior executives.</p> <p>Management controls over negotiation are exercised in a number of ways. It is common for executives to participate in the negotiation process. Further, all letters of offer to project proponents are subject to approval by the Director General and/or the appropriate Executive Director.</p>

	Audit Office Comment	DSRD comment
	<ul style="list-style-type: none"> Mechanisms to ensure offers do not exceed maximum recommended level need enhancement. 	<p>Letters of offer of financial assistance are subject to approval by the Director General and/or the appropriate Executive Director.</p>
Agreement	<ul style="list-style-type: none"> Quality of performance agreements needs improvement, particularly in the RBD scheme. Claw back provisions need to be improved and incorporated in all agreements. Transparency of assistance provided needs to be improved substantially 	<p>Performance Agreements for the IAF and RHQ schemes cover the essential elements of the assistance packages and are legally binding. Letters of offer through the RBDS, establish legal criteria which provide a performance agreement appropriate to each case.</p> <p>Claw back provisions currently cover most project assistance. DSRD is exploring the potential to implement improvements.</p> <p>In the case of the IAF and RHQ schemes, transparency of assistance provided needs to be treated with caution to avoid compromising DSRD's bargaining position. The Internal Audit Bureau "review of RBDS" said "substantially, the systems of internal control under the RBDS are adequate and are operating effectively". The IAB review, had as one of its objectives "to determine if the systems of internal control are adequate to provide reasonable assurance that: appropriate follow up action is taken to ensure post funding conditions are properly fulfilled" as well as "applications for funding are fully and fairly assessed in accordance with established guidelines and conditions "(transparency).</p>
Monitoring, Evaluation & Reporting	<ul style="list-style-type: none"> Identification of potential problems and response to problems identified require substantial improvement. 	<p>The IAB "review of RBDS" found that "substantially, the systems of internal control over the provision of assistance under the RBDS are adequate and are operating effectively". One element of the review "was to determine if the systems of follow up action are adequate to ensure post funding conditions are properly fulfilled". A key post funding condition of the RBDS is that a client provides a report on the impact of a regional location of a business's financial, market and employment position 12 months after draw down of assistance. This report is an important tool to DSRD in evaluating the effectiveness of the RBDS in encouraging regional economic growth. An inspection of the company's operations also forms part of the evaluation.</p>

	Audit Office Comment	DSRD comment
	<ul style="list-style-type: none"> • Procedures to recover assistance when agreements are breached require improvement. • Performance evaluation processes and procedures require further improvement. • Performance indicators need to be refined to further encourage maximisation of net economic benefits and value for money. • Reporting of performance information requires significant improvement. 	<p>In the event of breach of an agreement provisions exist to recover assistance. However, it is important to distinguish between the breach of an agreement and closure of a company due to market forces where the company has met all its obligations. Company closures do occur in the portfolio of companies assisted by DSRD. However, the number of closures in the portfolio of firms assisted is considerably less than the closure in the portfolio of firms overall in the domestic economy.</p> <p>In 1998, DSRD has introduced new management information systems and continues to refine its performance measures.</p> <p>DSRD continues to refine its performance indicators. That said a recent benchmarking study showed DSRD to be the most efficient of a range of seven economic development agencies studied on a value for money basis.</p> <p>DSRD has put considerable effort into refining its performance measures in 1998. That said all statutory performance reporting requirements are met by DSRD.</p>

2.3 Commercial in Confidence

- All government business development agencies, both within Australia and abroad, have commercial relationships with their clients which are of a confidential nature. Business development agencies and enterprises are all dealing in highly competitive markets. Enterprises are very sensitive about the information they provide to Government when seeking assistance, much of which concerns their future key financial and business planning strategies. Its disclosure would cause them to have less confidence in Government and to seek assistance in other locations where such information is guaranteed secure. Alternatively, permitting them to provide less information, would render the Department's assessment processes less accurate than they are currently.

- Current arrangements have been found to be satisfactory to the Department's clients. An assurance of confidentiality is fundamentally important to investors. Anything less would compromise DSRD's ability to work with the private sector to develop major projects. The Audit Office has provided no clear evidentiary foundation to support its view that a lowering of DSRD's Commercial-in-Confidence standard will be acceptable to industry and will not impede investment attraction in NSW.

2.4 The risk that assistance is unnecessary or leads to undesirable outcomes

- Footlooseness is always evaluated and assistance from the IAF and RHQ funds is designed not to be “provided to a firm which would have come to NSW anyway”. In the case of RBDS funds, the threshold assistance criteria is that the project be footloose, or require assistance to secure an implementation decision, or require assistance to accelerate its development, or require assistance to improve the competitiveness/sustainability of a regional location. Therefore, assistance is only provided where it will achieve an identifiable outcome.
- As assistance generally is at no net cost to the Budget, it is not the case that “...assistance could have been used in some other capacity to the greater benefit of the State”.
- NSW assistance is usually less than that offered by other countries and States. Firm’s location decisions, therefore, where they decide to locate here, are influenced primarily by the business fundamentals with the role of NSW assistance mainly being to offer a limited incentive to encourage investment to take place in New South Wales. Therefore, assistance does not result in “sub-optimal location decisions”.
- All economic analyses carried out by DSRD examine competitive neutrality issues in detail.
- Assistance is not provided to firms that are not financially viable. A financial analysis is carried out for every project seeking assistance. Assistance is not provided to firms which DSRD considers would not be profitable without assistance.
- Whilst footloose firms are the target for DSRD’s investment attraction activities, the experience is that they do not move to another jurisdiction once the assistance has run out. Since 1994, only one major project assisted by DSRD has left the State.

2.5 Preventing Corruption

- DSRD already has procedures for all projects, which separate the client advisory role from the approval of financial assistance. DSRD is not organised along industry lines. Staff are generalists and are moved between different types of projects. This reduces the risk of client capture.
- The Department’s operations and procedures have been developed in full knowledge of the Independent Commission Against Corruption Act 1988. DSRD’s processes meet the requirements of this Act.

3. Comments on Funding Schemes

- Whilst the Audit Report emphasises financial assistance, it is important to realise that non-financial assistance is of equal or more importance in attracting new investment to NSW. Over time, the Department has increased its emphasis on non-financial assistance.
- Funding mechanisms for the IAF are less than ideal. The Department has recognised this and has been discussing with NSW Treasury reforms which would reduce the proportion of supplementary funding required and hence improve the oversight of the provision of funds by Parliament.

3.1 Automatic Entitlement to Payroll Tax Rebates

- RBDS internal guidelines clearly indicate that in fixing assistance parameters the baseline level of assistance which may be automatically available to a company under the CIPTR Act 1977 is taken into account.

4. Comments on Assessing Assistance

4.1 Factors in Assessing Assistance

- DSRD considers any negative consequences which may arise from a project proceeding in this State are analysed adequately.
- Competitive neutrality is an important issue and as such it is examined in detail in every economic analysis carried out. It is taken into account in determining whether a project warrants assistance and how much the negotiating upper limit should be.
- DSRD takes account of where equity and debt is raised in each analysis. The effect on GSP which DSRD quotes in project reports is an approximation to “Gross State Resident Product”. However, DSRD is limited in its ability to trace through the ultimate geographic location of debt and equity holders. Therefore, DSRD is reluctant to use the term “Gross State Resident Product” in its reports.
- During the period December 1994 to November 1998, Policy and Resources Division (PRD), carried out a large number of economic analyses of investment projects and special events, achieving a success rate of 99.4%. The economic analysis methodology is therefore considered to be highly successful.
- DSRD staff have attended courses on economic analysis. In addition, approximately every six months, sample economic analyses are forwarded to the consulting firm which trained DSRD staff. This firm then checks the analyses to see if the correct procedures are being followed. DSRD staff are in telephone contact with this firm from time to time to discuss unusual aspects of particular cases. DSRD staff have contributed chapters to a book on the economic evaluation of investment projects and special events (to be published by the Commonwealth Bureau of Tourism Research). From December 1994 to November 1998, DSRD’s Policy and Resources Division completed probably more economic analyses than any other similar organisation in Australia.
- Management controls regarding the assessment of projects are comprehensive. All economic analyses of large projects are reviewed by senior staff of the Policy and Resources Division and by a Senior Manager (Investment).

4.2 Economic Analysis in the Policy and Resources Division

- It is correct to say that the costs of funding assistance through taxation rebates are not considered in the assessment of proposals. There are two reasons for this. Firstly, most assistance is the rebate of taxes to attract a business which would otherwise not locate here (or in the case of the RBDS, is footloose or would not expand or proceed). Therefore, they are at no net cost to the Budget. Secondly, the timing of the process involves the preparation of an economic analysis to determine a negotiating upper limit. Once approved, the project officers negotiate within this limit. It is only after negotiation is completed that the size of the assistance package is known. Therefore, it is not possible to net off this amount at the earlier economic analysis stage.

4.3 Negotiation

- Negotiation strategy for particular projects is determined in meetings between the project officers and the Executive Directors and the Director General (and the NSW Treasury and Minister in cases where assistance valued at over \$1 million is involved). The negotiating upper limit is set in net present value terms to allow the timing of the assistance package to vary to negotiate a timing that is most valuable to the project proponent and at least cost to Government.
- DSRD always re-evaluates projects after there have been material changes in the proposed project.
- DSRD guidelines state that assistance should be performance-related and hence payroll tax rebates are preferred.

5. Comments on “Accountability and Transparency”

5.1 Guidance to Staff

- In 1998, the Department produced an Investment Handbook and all staff involved with the IAF, RDBS, RHQ and CIPTR schemes have been trained in its use. The Handbook:
 - outlines the clear objectives of DSRD and the investment assistance programs;
 - documents and defines clearly the eligibility criteria, types of assistance, application, procedure and assessment mechanisms for the investment programs;
 - defines and makes transparent the approval mechanisms for each program as well as the roles, responsibilities and accountabilities of the parties involved - from the client, through to the project manager, the Executive, NSW Treasury and finally the Minister;
 - provides an audit trail and evidence of activities through the development of standard forms documenting the various stages of decision-making and the levels of approval to culminate in a statement of decisions based on the ICAC Principles for Managing Government Grants; and
 - establishes a level of consistency in the procedures for project managers who deliver the investment assistance programs.

5.2 Organisational Records

- Documentation standards have recently been improved with the introduction of a new Thesaurus and all staff have recently received file management. The introduction of the Investment Handbook and associated training also addresses this issue.

6. Comments on Monitoring and Evaluation of Assistance

6.1 Monitoring

- As part of its current process DSRD verifies project milestones where required prior to payment against those milestones. IAF and RHQ projects are followed up at the end of the assistance period to check results and to encourage further investment in the State. RBDS surveys are dispatched to assisted firms once a critical mass of such firms is reached (to enable an appropriate sample size) some twelve months after the draw-down of assistance.

6.2 Evaluation

- DSRD's performance is judged on a set of performance measures which include dollars of investment per dollar of expenditure. Therefore, DSRD judges its performance on the value for money of its outcomes.
- The most recent reviews of the IAF and the RBDS had clear objectives. For example, the objectives for the review of the RBDS were to:
 - evaluate the impact of RBDS assistance on key project outcomes of investment, employment and turnover;
 - evaluate the impact on client's businesses of their decisions to locate in regional areas; and
 - solicit client's impressions and assessments of the RBDS.

Performance Audit Reports

Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
Department of Housing	<i>Public Housing Construction: Selected Management Matters</i>	5 December 1991
Police Service, Department of Corrective Services, Ambulance Service, Fire Brigades and Others	<i>Training and Development for the State's Disciplined Services: Stream 1 - Training Facilities</i>	24 September 1992
Public Servant Housing	<i>Rental and Management Aspects of Public Servant Housing</i>	28 September 1992
Police Service	<i>Air Travel Arrangements</i>	8 December 1992
Fraud Control	<i>Fraud Control Strategies</i>	15 June 1993
HomeFund Program	<i>The Special Audit of the HomeFund Program</i>	17 September 1993
State Rail Authority	<i>Countrylink: A Review of Costs, Fare Levels, Concession Fares and CSO Arrangements</i>	10 December 1993
Ambulance Service, Fire Brigades	<i>Training and Development for the State's Disciplined Services: Stream 2 - Skills Maintenance Training</i>	13 December 1993
Fraud Control	<i>Fraud Control: Developing an Effective Strategy (Better Practice Guide jointly published with the Office of Public Management, Premier's Department)</i>	30 March 1994
Aboriginal Land Council	<i>Statutory Investments and Business Enterprises</i>	31 August 1994
Aboriginal Land Claims	<i>Aboriginal Land Claims</i>	31 August 1994
Children's Services	<i>Preschool and Long Day Care</i>	10 October 1994
Roads and Traffic Authority	<i>Private Participation in the Provision of Public Infrastructure (Accounting Treatments; Sydney Harbour Tunnel; M4 Tollway; M5 Tollway)</i>	17 October 1994
Sydney Olympics 2000	<i>Review of Estimates</i>	18 November 1994
State Bank	<i>Special Audit Report: Proposed Sale of the State Bank of New South Wales</i>	13 January 1995
Roads and Traffic Authority	<i>The M2 Motorway</i>	31 January 1995
Department of Courts	<i>Management of the Courts:</i>	5 April 1995

Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
Administration	<i>A Preliminary Report</i>	
Joint Operations in the Education Sector	<i>A Review of Establishment, Management and Effectiveness Issues (including a Guide to Better Practice)</i>	13 September 1995
Department of School Education	<i>Effective Utilisation of School Facilities</i>	29 September 1995
Luna Park	<i>Luna Park</i>	12 October 1995
Government Advertising	<i>Government Advertising</i>	23 November 1995
Performance Auditing In NSW	<i>Implementation of Recommendations; and Improving Follow-Up Mechanisms</i>	6 December 1995
Ethnic Affairs Commission	<i>Administration of Grants (including a Guide To Better Practice)</i>	7 December 1995
Department of Health	<i>Same Day Admissions</i>	12 December 1995
Environment Protection Authority	<i>Management and Regulation of Contaminated Sites: A Preliminary Report</i>	18 December 1995
State Rail Authority of NSW	<i>Internal Control</i>	14 May 1996
Building Services Corporation	<i>Inquiry into Outstanding Grievances</i>	9 August 1996
Newcastle Port Corporation	<i>Protected Disclosure</i>	19 September 1996
Ambulance Service of New South Wales	<i>Charging and Revenue Collection (including a Guide to Better Practice in Debtors Administration)</i>	26 September 1996
Department of Public Works and Services	<i>Sale of the State Office Block</i>	17 October 1996
State Rail Authority	<i>Tangara Contract Finalisation</i>	19 November 1996
NSW Fire Brigades	<i>Fire Prevention</i>	5 December 1996
State Rail	<i>Accountability and Internal Review Arrangements at State Rail</i>	19 December 1996
Corporate Credit Cards	<i>The Corporate Credit Card (including Guidelines for the Internal Control of the Corporate Credit Card)</i>	23 January 1997
NSW Health Department	<i>Medical Specialists: Rights of Private Practice Arrangements</i>	12 March 1997
NSW Agriculture	<i>Review of NSW Agriculture</i>	27 March 1997

Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
Redundancy Arrangements	<i>Redundancy Arrangements</i>	17 April 1997
NSW Health Department Corporate Governance	<i>Immunisation in New South Wales Corporate Governance Volume 1 : In Principle Volume 2 : In Practice</i>	12 June 1997 17 June 1997
Department of Community Services and Ageing and Disability Department	<i>Large Residential Centres for People with a Disability in New South Wales</i>	26 June 1997
The Law Society Council of NSW, the Bar Council, the Legal Services Commissioner	<i>A Review of Activities Funded by the Statutory Interest Account</i>	30 June 1997
Roads and Traffic Authority	<i>Review of Eastern Distributor</i>	31 July 1997
Department of Public Works and Services	<i>1999-2000 Millennium Date Rollover: Preparedness of the NSW Public Sector</i>	8 December 1997
Sydney Showground, Moore Park Trust	<i>Lease to Fox Studios Australia</i>	8 December 1997
Department of Public Works and Services	<i>Government Office Accommodation</i>	11 December 1997
Department of Housing	<i>Redevelopment Proposal for East Fairfield (Villawood) Estate</i>	29 January 1998
NSW Police Service	<i>Police Response to Calls for Assistance</i>	10 March 1998
Fraud Control	<i>Status Report on the Implementation of Fraud Control Strategies</i>	25 March 1998
Corporate Governance	<i>On Board: guide to better practice for public sector governing and advisory boards (jointly published with Premier's Department)</i>	7 April 1998
Casino Surveillance	<i>Casino Surveillance as undertaken by the Director of Casino Surveillance and the Casino Control Authority</i>	10 June 1998
Office of State Revenue	<i>The Levying and Collection of Land Tax</i>	5 August 1998
NSW Public Sector	<i>Management of Sickness Absence NSW Public Sector Volume 1: Executive Briefing Volume 2: The Survey - Detailed Findings</i>	27 August 1998
NSW Police Service	<i>Police Response to Fraud</i>	14 October 1998
Hospital Emergency	<i>Planning Statewide Services</i>	21 October 1998

Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
Departments		
NSW Public Sector	<i>Follow-up of Performance Audits: 1995 - 1997</i>	17 November 1998
NSW Health	<i>Management of Research: Infrastructure Grants Program - A Case Study</i>	25 November 1998
Rural Fire Service	<i>The Coordination of Bushfire Fighting Activities</i>	2 December 1998
Walsh Bay	<i>Review of Walsh Bay</i>	December 1998
NSW Senior Executive Service	<i>Professionalism and Integrity Volume One: Summary and Research Report Volume Two: Literature Review and Survey Findings</i>	December 1998
Department of State and Regional Development	<i>Provision of Industry Assistance</i>	December 1998



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