LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REPORT ON

THE

INDUSTRY ASSISTANCE PROGRAM

AND THE

BUSINESS INCENTIVE SCHEME

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Report Number 31

December 1997

RESOLUTION OF APPOINTMENT

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 9 March 1995 with the following terms of reference:

(a) examine:

  (i) the accounts of the receipts and expenditure of the Australian Capital Territory;

  (ii) the financial affairs of authorities of the Australian Capital Territory; and

  (iii) all reports of the Auditor-General which have been laid before the Assembly;

(b) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(c) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(d) inquire into and report on the implementation of the *Public Sector Management Act 1994* with particular reference to:

  (i) the public interest; and

  (ii) any other related matter.

On 4 September 1997 the Assembly resolved that the committee inquire into and report on by 2 December 1997, the efficiency and effectiveness, since their inception, of the Industry Assistance Program and its successor the Business Incentive Scheme and that the inauiry have particular reference to:

  (a) the economic and employment benefits for the ACT that have been generated by the IAP and BIS; and

  (b) possible measures to improve the operation and scope of the BIS to promote greater economic and employment growth in the ACT.

MEMBERSHIP OF THE COMMITTEE

Mr Andrew Whitecross MLA (From 18 February 1997. Elected Committee Chair 19 February 1997)

Ms Louise Littlewood MLA (From 18 February 1997. Elected Deputy Committee Chair 19 February 1997)

Ms Lucy Horodny MLA

Mr Bill Wood MLA (From 26 March 1996 to 18 February 1997. Former Committee Chair)

Mr Trevor Kaine MLA (To 18 February 1997. Former Deputy Committee Chair)

Ms Rosemary Follett MLA (To 26 March 1996. Former Committee Chair)

Secretary: Bill Symington

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RECOMMENDATION 2

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RECOMMENDATION 3

5.10. The committee recommends that the Standing Committee on Public Accounts in the new Assembly consult with the ACT Auditor-General on a program embracing a performance audit of the BIS and on progress with outcomes agreed to by those businesses which have received assistance under the BIS.

RECOMMENDATION 4

5.26. The committee recommends that the Department of Business, The Arts, Sport and Tourism review its BIS assessment and grant approval procedures to ensure that proposed assistance is appropriate in form, level and timeliness to the needs of the business activity of a claimant and that the viability of a claimant business is subject to appropriate financial and market assessment.

RECOMMENDATION 5

6.14. The committee recommends that the Department of Business, The Arts, Sport and Tourism in cooperation with ACT business and industry organisations develop appropriate means of promoting the BIS to the business community to ensure that potential applicants are fully aware of the conditions under which applications may be considered.

RECOMMENDATION 6

6.21. The committee recommends that the Standing Committee on Public Accounts in the next Assembly inquire into the Business Incentive Scheme under the terms of reference for this inquiry, and that it be authorised to access and use for the purpose of that inquiry all committee documents related to this inquiry.

RECOMMENDATION 7

6.34. The committee recommends that the Government review all ACT Government departmental and agency consultative arrangements, including the Partners in Progress initiative, as they bear upon the establishment of business operations in the ACT, that it ensure that there is complete harmony between the objectives of BASAT in relation to the BIS and other regulatory departments and agencies, and that the Assembly be informed on the outcome of this review.

RECOMMENDATION 8

6.40. The committee recommends that the Government administering agency ensure that where land grants form part, or all, of an assistance package under the BIS, that recipients understand the legal, planning and financial imperatives and limitations associated with land grants.

RECOMMENDATION 9

6.45. The committee recommends that the Government have regard to and consider proposals for change to the forms and conditions of assistance under the BIS, including the valuation of land grants and warranties for grant recipients, financial grants to cover manufacturing materials, and loans against established orders.

1. INTRODUCTION

1.1. Business incentive schemes have existed in the ACT since 1982 when the Federal government introduced an ACT industry assistance program. The programs which are currently administered by the Department of Business, The Arts, Sport and Tourism (BASAT) are intended to provide a public benefit for the ACT in terms of attracting investment, expanding the economy and generating employment.

1.2. However, such schemes and programs, by definition, involve significant financial outlays on behalf of the community, both directly in cash terms and indirectly through revenue forgone in areas such as stamp duties, payroll tax, sale of land and from rents on government owned properties.

1.3. It is therefore appropriate to review the current Business Incentive Scheme (BIS) and its predessor, the Industry Assistance Program (IAP), to assess the extent to which economic and employment benefits have been realised, whether they have been cost-effective and whether the ACT's resources could be more effectively used to promote its economic objectives. These are matters which the ACT community is entitled to know about and they are matters about which the Public Accounts Committee has a responsibility in assessing accountability in the use of public funds.

1.4. The committee acknowledges that the public sector will remain the largest single influence on the ACT economy, currently accounting for about 43% of Gross State Product of an economy which is slowing, due principally to Government cutbacks, and restructuring. The committee was advised that the government's strategy is to encourage increased diversity in industry and employment through further incentives for private sector expansion.[1]

1.5. The committee has no argument with this strategy of private sector expansion. The uncertain position of the public sector needs to be counter balanced by increased private sector activity. While economic growth is not an end in itself, it is a means of maintaining and improving the standard of living of the ACT community, particularly by providing new employment opportunities.

1.6. Accordingly, the committee is firmly of the view that the ACT should be doing all it can to encourage private sector investment and to build a strong and vibrant mixed private and public sector economy.

1.7. In this context, it may be appropriate to encourage certain types of business to locate to or expand in the ACT. However, it is important that incentives for such businesses do not result in unfair competition which may undermine other established businesses, and that the opportunity cost of business incentives in terms of resources diverted from other community claims upon government is carefully weighed.

1.8. All states and territories are actively involved in direct assistance and incentives to attract new business investment. The committee was advised that under the IAP the ACT was only able to offer financial grants or direct grants of land under the Land (Planning and Environment) Act 1991. BASAT argued that the ACT needed to be able to offer attractive

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[1] Department of Business, The Arts, Sport and Tourism (BASAT), submission, p5
Trans, p20 et seq

incentive packages for larger projects, noting that in recent years major information technology and telecommunications firms had established new operations in the states with the help of incentives and that the ACT had not been seriously considered despite its strengths in this sector.[2]

1.9. The committee invited submissions from interested organisations and individuals. All organisations which received assistance under the AIP and BIS for 1994/95, 1995/96 and 1996/97 were invited to address the committee on issues of efficiency and effectiveness of the programs and whether they see scope for improvement in the BIS.

1.10. The committee also sought from the Minister details of organisations and individuals who accessed the IAP and BIS, the criteria for assessing forms and levels of assistance, acceptable risk profiles, guarantees or undertakings from grantees, revenue forgone, and the effectiveness of assistance provided in generating employment or other benefits to the ACT economy. A submisison was subsequently received from the Department of Business, The Arts, Sport and Tourism.

1.11. In total 15 submissions were received and these are listed in attachment 1. Public hearings were held on 29 October and a list of those who gave evidence at the hearing is in attachment 2.

1.12. The committee appreciates the assistance given by those who participated in the inquiry.

Preliminary nature of this report

1.13. For reasons which are apparent at various stages of this report, but essentially because of difficulty encountered in receiving relevant and vital information from the administering department within reasonable time frames, the committee has been unable to test the merits of the BIS and its administration within the time available for the inquiry. Accordingly, the committee's recommendations reflect the preliminary nature of the report.

1.14. The committee considers the BIS should be subject to a searching analysis, and will recommend that the Standing Committee on Public Accounts in the next Assembly resume this inquiry.

Commercial in confidence

1.15. The sensitivity of information relating to commercial business dealings was acknowledged during the Assembly debate which preceded the reference of this matter to the committee. In the public hearing, the committee emphasised that confidential material relevant to the commercial operations of private companies would be respected.

1.16. During the hearing the committee requested from BASAT information about the total monetary value of assistance provided to the Fujitsu company and

[2] BASAT sub, p10

AOFR/ADC Communications. Although BASAT was given the opportunity to provide the information on a confidential basis the Department advised it would need agreement from the companies. BASAT subsequently advised that additional information in relation to assistance provided to AOFR/ADC Communications and Fujitsu is subject to commercial in confidence agreements and the companies did not want this information disclosed.[3]

1.17. From the raw information provided by BASAT it would be possible to construct an approximate value of assistance provided to these two companies.

1.18. In the case of AOFR/ADC Communications, assistance has been provided in a combination of $300,000, land at a value of $800,000, and payroll tax and stamp duty waivers.[4] Again the monetary value of the payroll tax waiver can be approximated. The committee understands that the company purchased land adjacent to the land grant but, in fact, paid stamp duty on the transaction.[5]

1.19. Fujitsu has been granted payroll waiver and rent assistance (undefined).[6] Assumptions could be made about staff numbers and average wages and salaries to assess revenue forgone through payroll tax waiver. The inability to scrutinise agreements also prevented the committee from considering whether the assistance to Fujitsu satisfied the "no significant detriment to existing businesses" test[7] given the acknowledgement by BASAT that the company would be competing for Commonwealth outsourcing.[8]

1.20. Given that broad estimates of revenue foregone from payroll tax waivers can be made the committee has some difficulty in comprehending why the companies should be reluctant to disclose the actual figures and thus avoid the possibility that inflated estimates of assistance may result from speculation. Further, the committee sees no plausible reason why it should be required to make estimates when the actual figures are available within the Department.

1.21. However, the non disclosure to the committee of such information raises an important matter of principle in relation to the role and function of this committee in discharging its responsibility to the Assembly.

1.22. The committee readily acknowledges that company business plans are confidential to those companies, but where those plans are the basis for receiving assistance from the public purse the committee is entitled to assess them in order to determine the benefit to the ACT in providing assistance.

1.23. The committee considers that the level of assistance provided to companies should not be the subject of confidentiality agreements.

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[3] BASAT, response to questions on notice, 17 November 1997
[4] ibid and trans, p21
[5] trans, p22
[6] BASAT sub, att H
[7] ibid, att G
[8] trans, p19

1.24. The committee's responsibilities as provided in the Assembly resolution appointing the committee include the examination of the accounts of the receipts and expenditure of the Territory and the financial affairs of the authorities of the ACT. It should be noted too that the Assembly has delegated to the committee compulsive powers in relation to the provision of papers and records. The committee also has the power to take evidence or receive documents "in camera" or on a confidential basis which remains confidential unless publication is authorised by the committee or the Assembly.

1.25. In the time available for this inquiry the committee was not able to pursue this matter to its conclusion but would expect that should the Standing Committee on Public Accounts in the next Assembly resume this inquiry as is recommended in this report, that committee will progress this matter further.

1.26. However, it must be borne in mind that ministers are responsible for the terms of agreements which involve the expenditure of public funds, which entail the use of public assets by private bodies or confer a financial benefit upon those bodies. It follows that they must be accountable to the Assembly for them and it is therefore the right of the Assembly and its duly authorised committees to inquire into the terms of those agreements, the financial arrangements and compliance with the agreements.

1.27. The committee has become aware in recent times of an increasing use of the "commercial in confidence"claim for the non disclosure of documents to committees and considers that the principles outlined above may have been misunderstood or forgotten.

1.28. The underlying principle should be that if information can be disclosed to the government on a confidential basis there is no reason for it not to be disclosed to an Assembly committee also on a confidential basis.

2. BACKGROUND

2.1. The original Federal government scheme included assistance for feasibility studies, relocation assistance, payroll tax rebates, loan guarantees, rate rebates and capital funding assistance for premises, plant, fitout, rental etc.[9]

2.2. The IAP introduced in November 1989, following self-government and which was linked to promotion of the Canberra Region Campaign launched in 1990, incorporated:[10]

- business development assistance, providing direct support for new businesses project expenditure
- workforce development assistance, providing support for job design, recruitment, relocation of staff and training for new and expanding projects
- direct land purchase, enabling direct land purchase without auction competition
- national industry extension service, providing access to information and advisory services

2.3. The IAP was enhanced in 1994 with a revised industry assistance package focussed upon providing sustainable employment, increased ACT exports or import replacement, new skills or technology and an efficient and competitive private sector.

2.4. The BIS, based on a perceived need for a broader range of incentive options and more flexible packaging superseded the IAP in 1996. The change in title had some significance, the committee's attention being drawn to the "assistance" element being now referred to as an "incentive".[11]

2.5. The BIS comprises:[12]

- tax concessions such as waiver of payroll tax, land tax, stamp duty and rates over a defined period
- financial grants towards the cost of establishment, relocation and training
- land grants at or below market value
- workforce training

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[9] BASAT sub, p10
[10] ibid, p8
[11] Transcript, p2
[12] BASAT sub, p11

Assistance to business in the national context

2.6. The Industries Commission in its 1996 report on State, Territory and Local Government Assistance to Industry noted that much of the considerable assistance provided to industry by governments has little or no positive effect on the welfare of Australians as a whole. The Commission found that at best most selective assistance shuffles jobs between regions and at worst reduces overall activity, and that the most wasteful elements of rivalry between governments could be avoided or reduced by an agreement among the states to make the provision of assistance more transparent and to limit its extent.[13]

2.7. In terms of budgetary outlays, the Commission noted that in 1993/94 the ACT provided assistance at $27 per head compared with the national average of $139 per head by the states, and compared with $12 per head by local governments and $359 per head by the Northern Territory, $212 per head by Tasmania and $188 per head by South Australia. NSW and Victoria were at the national average and Queensalnd was at $104 per head. The Commission noted that these are approximate indicators as the budgetary outlay estimates cover all sectors except health, welfare, education and governance and do not include assistance from underpricing of government-owned natural resources and infrastructure. Further, most revenues forgone as part of project-specific schemes of assistance were also excluded from the estimates.

2.8. While business incentive competition between states and territories can be beneficial in certain areas, it can involve costly transfers of funds from tax and ratepayers to selected businesses and can result in a misallocation of resources.

2.9. Because of its resource limitations the ACT will always have difficulty in competing with the states on direct financial grants when seeking to attract business. However, it is a fact of life that the ACT must compete if it has to have any reasonable hope of maintaining and further developing its business base even though there must be reservations about the states and territories competing for the location and relocation of business.

2.10. The committee considers that to effectively utilise the limited resources available to the ACT, the government should develop in consultation with business and the community an industry plan as a policy framework against which assistance decisions can be made.

2.11. The committee noted the Department's statement that an industry strategy is currently being prepared by the government.[14] However, clearly this has not been available as a guide to past assistance decisions and was not available to the committee as a basis for evaluating those decisions.

RECOMMENDATION 1

2.12. The committee recommends that the Government develop an industry plan and that the Assembly refer the plan to an appropriate standing committee in the next Assembly for consideration and report.

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[13] Industry Commission, report on State, Territory and Local Government Assistance to Industry, 1996, pxi

[14] BASAT sub, p6 and trans, p3

2.13. The committee considers the ACT must, therefore, use its natural advantages to the fullest extent. Thus, the BIS should be flexible to the extent that it can be adjusted to meet unusual demands and to also build on the ACT's existing strengths such as research and development, educational facilities, its financial and industrial infrastructure, transport and communication linkages, its skilled workforce and its central geographic location within a region of some 600,000 people.

2.14. Industry clustering in the ACT also presents opportunities for relocating business to the Territory. The ACT being a relatively small business community allows for increased networking and communication which in tangible ways can enhance the BIS. It was suggested to the committee that the ACT Government should explore opportunities for packaging joint programs with existing NSW and Commonwealth industry assistance schemes for regional businesses.[15]

2.15. While the committee acknowledges the potential limitations of any joint programs it considers the proposal is worthy of the committee's support and it recommends accordingly.

RECOMMENDATION 2

2.16. The committee recommends that the Government explore with the Commonwealth and NSW Governments the possibilities for developing a cooperative Commonwealth/ACT/NSW industry incentive program to encourage defined business developments within the ACT and South-East region of NSW.

2.17. On the basis of information provided by BASAT and evidence provided by others during the inquiry, the committee's preliminary (but untested) conclusion is that, on a global basis, assistance under the BIS has been at acceptable levels and a reasonable response to an emerging need to encourage productive investment especially having regard to the ACT's resources and the far more aggressive nature of incentive schemes administered by other states and territories.

2.18. However, the committee is concerned that no matter how appropriate and relevant the BIS is as an incentive scheme tailored to the ACT's needs its success in encouraging viable business development will hinge to a large extent on the capacity of the departmental infrastructure to be responsive to the demands placed upon it by new and developing businesses. Issues pertinent to this observation are discussed in detail in later sections of this report.

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[15] Sub no 11

3. INDUSTRY ASSISTANCE PROGRAM

Assistance provided

3.1. Six companies were approved for financial assistance under the amended IAP in 1994/95 and 1995/96 to a total value of $297,857. A further $250,000 was provided to a company (Auspace Ltd) prior to the introduction of the IAP.[16] A further company, AOFR (later AOFR/ADC Telecommunications), was shown in later documents provided by BASAT as having been granted $150,000 in 1995/96. (As noted in the committee's comment on the BIS, a futher grant of $150,000 was provided under the BIS in 1996/97). The all up total of financial assistance for the IAP in that year was given as $447,857, plus a further amount of around $20,000 included by BASAT for IAP expenditure in the 1996/97 year.[17]

3.2. This may not be a complete list as prior to the formation of BASAT in July 1995 the IAP was administered by the Chief Minister's Department. BASAT advised that in the transfer of information and files details of the IAP had not been as readily available as has been the case with the BIS, and it has experienced some difficulty in accessing files relating to the IAP.[18]

3.3. Each business was required to enter into an agreement with the ACT which set out the activity to be undertaken by the business and the conditions under which the assistance was provided. The agreements, ranging from 12 - 18 months depending on the nature of the assistance, typically obliged the companies to provide six monthly reports on the progress of the project and copies of annual audited financial statements.[19] The IAP was also limited in its scale, with assistance generally limited to financial assistance and training packaging of the order of $50,000 to $200,000, although, as noted above, Auspace Ltd received $250,000 before the IAP formally came into operation.[20]

Program costs

3.4. The committee had difficulty in separating out program costs under the IAP and the BIS especially where assistance was provided under both schemes during the same financial year and due to BASAT's apparent inability to provide more detailed figures.[21]

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[16] BASAT, sub, p9, and response to question on notice 17 November 1997
[17] BASAT response to question on notice, op cit
[18] trans, p10
[19] BASAT sub, p9
[20] transcript, p2
[21] ibid, p11

3.5. In the time available for this inquiry, the committee has not pursued this matter, but it would recommend to the Standing Committee on Public Accounts in the new Assembly, should it proceed with the inquiry as recommended in section 6 below, that it do so.

Comment

3.6. As already noted, the IAP was superseded by the BIS in 1996 and, as advised by BASAT, a relatively limited number of grants were made under the IAP in the most recent years of relevance to this inqiry. BASAT's problems in accessing data on the IAP due to administrative restructuring has been noted above. The committee has, therefore, focussed primarily on the BIS as the more contemporary assistance program. The experience of some respondents to this inquiry in relation to the IAP are subsumed in the committee's broader discussion on the BIS.

4. BUSINESS INCENTIVE SCHEME

Assessment of applications

4.1. The committee was advised that applications for assistance are assessed on the grounds of suitability of the industry for the ACT, soundness of the business case as detailed in the business plan, and contribution to the ACT economy. Applications are assessed by an ACT BIS panel which includes a person from the private sector with business and financial experience. The panel recommends the level and form of assistance and, for larger packages, that is, those in excess of $100,000, the panel accesses independent financial analysis. Such packages require Cabinet approval. Proposals under $100,000 require ministerial approval.[22]

4.2. Applicants are advised that other agencies will consider and assess claims as appropriate and, in some circumstances, proposals may be referred to outside experts for analysis and advice on feasibility. It is made clear to applicants in the BIS guidelines that they will be assessed on criteria including advanced manufacturing technology, design and engineering services, recycling, demonstrated market research management skills and planning, type and size of employment generation, effect upon existing businesses and demonstrated multiplier effects on the ACT economy. The guidelines also warn that applications for less than $20,000 in total are unlikely to be considered.[23]

4.3. Given the assessment criteria, the committee notes with interest that certain approved proposals apparently did not meet the guidelines in some important areas, and that at least one project appears to have foundered as a result. The committee alludes to this matter in section 5 below dealing with assistance outcomes.

Assistance provided

4.4. For the financial years 1995/96, 1996/97 and 1997/98 (to date) 26 companies (including AOFR/ADC Communications which was approved a further amount of $150,000 prior to formal introduction of BIS) have been approved for assistance under the BIS. The Department advised that 73% of these were local companies.[24]

4.5. From figures provided by BASAT the total value of assistance provided over the two and half financial years to date appears to be of the order of $2.7m. This figure is comprised of some $1.493m in cash grants, some $1.1m in land grants and $110,000 in payroll tax forgone as identified by BASAT. Further unidentified amounts of payroll tax, stamp duties and rents foregone are associated with grants made to certain companies identified by BASAT.[25]

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[22] BASAT, sub, p11 and att G
[23] ibid, att G and trans p4
[24] ibid, p12
[25] ibid, att H, response to question on notice, op cit, and Government response to report of the Select Committee on Estimates 1996/97

4.6. As with the former IAP, each business was required to enter into an agreement with the ACT which set out the activity to be undertaken by the business and the conditions under which the Territory provided the assistance. The terms of agreement generally vary between one and five years depending on the nature of the assistance, and specific employment targets may be included. However, the achievement of employment targets is not a condition.

4.7. Financial grants are conditional on substantiation of relevant expenditure and companies are required to provide six monthly reports on the progress of the project during the agreement. The companies are also required to provide annual financial statements with the assistance clearly identifiable. The committe was not provided with any of the six monthly reports.

4.8. Should a business fail to meet its obligations under the agreement the Territory may terminate the agreement and, where appropriate, request repayment of all or part of any assistance provided.[26]

Program costs

4.9. As noted above in relation to the IAP, the committee had difficulty in assessing program costs under the IAP and the BIS especially where assistance was provided under both schemes during the same financial year.

4.10. During the public hearing on 29 October BASAT undertook to establish the costs of administering the BIS. Departmental advice received on 17 November confirmed that the costs in 1994/95 were not available as the program was part of the Chief Minister's Department at that time.

4.11. However, BASAT advised that its financial structure encompasses the operation of all business development services, with the BIS as one element, and that there are no specific cost centres for the individual streams. BASAT assessed costs for administering the BIS by apportioning relevant staff and related administrative costs to arrive at total costs of $347,800 for 1995/96 and $260,000 for 1996/97. Costs for 1997/98 were not provided but BASAT noted that five additional staff are on secondment to assist with the program.[27]

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[26] BASAT, sub, p12

[27] BASAT, response to question on notice, op cit

5. ASSISTANCE OUTCOMES

Employment and investment projections and outcomes

5.1. Of the 6 contracts entered into under the IAP during 1995, one was completed within 7 months and the others between 11 and 19 months, with a median time frame for completion of 14 months.

5.2. Business projections over 3 years for the 6 contracts in total were for the creation of some 95 full-time and 3 to 12 part-time and casual jobs and for investment totalling $8.37m.[28]

5.3. The committee was advised that all contract projects were completed.[29] However, this did not reflect the status of the companies in terms of their business activities.[30] Data subsequently provided by BASAT indicated that four of the companies were employing 15 people full-time and 7 part-time or casual. In two other cases employment numbers were not provided, although one company was stated to have minimal turnover. The Department's advice did not indicate which of these positions were the result of assistance provided under the IAP.[31]

5.4. With regard to the BIS, the total projections over 3 years for the 26 approved assistance programs are for about 2000 jobs and $54.9m in investment. Noting that one project which projected 40 new jobs and $600,000 in new investment did not proceed and assistance was withdrawn, another has yet to commence, and that around 10 companies which received assistance within the past 6 months have yet to report on progress, other progress reports indicate that some 217 full-time and 28 part-time jobs have been created up to the present time.[32]

5.5. BIS application documentation requires that where assistance is provided businesses will report regularly on progress of the project for an agreed period and will provide a final report.[33]

5.6. It may be too early to make a definitive judgement on the BIS proposed outcomes on the basis of information supplied by BASAT. And, for reasons mentioned earlier in this report, the committee was unable to access the agreements between the ACT and AOFR/ADC Communications and Fujitsu in respect of which the strongest claims on employment and investment have been made.

5.7. However, the real test about the value of the current BIS program will be the extent to which any gains are sustained over the longer term. In this regard, the committee has some reservations about the form of project progress reports and

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[28] BASAT, sub, att F
[29] ibid, p9
[30] trans, p9
[31] BASAT, response to questions on notice,op cit
[32] BASAT, sub, att I
[33] ibid, attG

whether they would be sustainable if subject to independent audit. As the outcomes are crucial to the veracity of the BIS it is both timely and appropriate that they be subject to a performance audit.

5.8. The committee also has reservations as to the extent to which payroll tax waivers have directly resulted in the levels on increased employment claimed in relation to those bodies which have received assistance in this form. For example, no apparent allowance has been made for employment growth which may have occurred naturally and without the waiver as a result of increased business activity or strategic development decisions unrelated to the assistance provided. In other words, there is no evidence that all employment growth can, or should, be attributed to the IAP or the BIS. The committee also noted that the failure to meet specified targets is not, in itself, cause for default in any agreement between the Territory and a grant recipient under the BIS.[34]

5.9. As mentioned earlier in this report, BASAT declined to provide information about high profile grants such as Fujitsu and AOFR/ADC Communications. In fact, at one stage the Department sought to claim commercial in confidence for information which is already on the public record.[35]

RECOMMENDATION 3

5.10. The committee recommends that the Standing Committee on Public Accounts in the new Assembly consult with the ACT Auditor-General on a program embracing a performance audit of the BIS and on progress with outcomes agreed to by those businesses which have received assistance under the BIS.

Selected case studies

5.11. Progress and outcomes with several cases where assistance has been provided was considered by the committee.

5.12. One recipient planned development over a 4 year period to reach a continuously fully loaded main assembly line at the end of the fourth year. The BIS grant of $85,000 in March 1997 enabled the company to fast track development to reach its target in 2 years with an immediate increase in economic benefit to the ACT and region. This company gives preference to ACT - based suppliers and by networking with other ACT companies has expanded its market and product range with increased sales and benefits to the other companies.[36]

5.13. A service organisation received assistance on payroll tax, valued by BASAT at $75,000 (in terms of revenue forgone) estimated that allowed it to expand and employ more staff than would otherwise have been possible, with indirect benefit to many ACT suppliers and increasing their employment. Through increased activity and

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[34] BASAT, response to questions on notice
[35] trans, p21 et seq, Govet response to Select Committee on Estimates, op cit
[36] Sub no 4

and turnover, employment by the organisation increased from 3 full time to some 43 full time employees.[37]

5.14. Another company granted $15,000 for fitout of new premises and a 3 year payroll tax exemption was able to upgrade and relocate premises to increase size and become presentable to the market. The company considered that its BIS grant was directly responsible for a growth in employment from 18 to 50 in the past 14 months, a sizeable overseas contract and the prospect of further substantial contracts.[38] However, the committee was unable to test these claims because the company failed to appear at the committee's hearing where it could have responded to questions.

5.15. On the other hand the committee was made aware of a grant which went wrong due apparently to administrative delays and variations in the assistance package and partly by misunderstandings by the company as to the status and the form of the projected grant.[39]

5.16. The company claimed that in May 1996 it sought financial assistance of $198,000 under the BIS for plant and equipment but in December 1996 was offered $50,000 cash and land to the value of $100,000.

5.17. The cash grant was made in February 1997 and the company sought a means whereby it could convert the land to working capital.[40] In the meantime the company leased premises, expended significant amounts in establishing the production infrastructure and sought leasing finance for further plant. In the event, the provision of land and lack of working capital did not facilitate the achievement of the company's objectives[41]

5.18. It was not clear to the committee why BASAT had chosen to offer a land grant given that this was not part of the company's business plan and the company did not have the capital to erect a factory on the land. The company testified that it was offered, and accepted, the land grant on the understanding that it could be converted to cash.[42] By mid 1997 BASAT had developed a proposal to replace the land grant with a further $100,000 cash grant.[43]

5.19. Although the company was in financial difficulty by mid 1997 and was unable to operate, the company claiming that it provided BASAT with a statement of its financial affairs, it was granted a further $100,000 as late as 12 September 1997[44]

5.20. The Department noted that although it had received consultant's advice as recently as August 1997 that funding the applicant should be regarded as being of medium to high risk, a situation which would become even riskier with delay in the

[37] Sub no 5, BASAT sub att I and trans p47
[38] Sub no 10
[39] Sub no 2, trans pp13-15 and 25-36
[40] ibid, p2
[41] Sub 2, BASAT response to questions on notice, op cit and trans p25 et seq
[42] Sub 2,p3
[43] BASAT, response to questions on notice, op cit
[44] trans, p14, p33 et seq, and Sub 2, pp7-9

funding decision, the project itself, from a financial and business opportunity perspective, was well reasoned and should be viable if market expectations were met.

5.21. The Department further advised that at the time the grant was made no indication was given by the company that there might be a problem with the company and indicated that the matter is now subject to a legal action.[45]

5.22. The committee is concerned about the failure of process in this case, as much as with the failure of the venture itself. The circumstances in which the BIS grant was made cause the committee to question whether the assessment process is sufficiently "fail safe" in ensuring that projects are fully viable in their own right.

5.23. The committee notes that the ACT BIS panel recommended an assistance package and that the original cash grant was made without an independent financial analysis of company and its proposed enterprise.

5.24. It could be argued that any large scale program is bound to have the odd hiccup but there is a responsibility on administrators to ensure that any proposal for public funding under the BIS is fully supported with an appropriate business plan and that the intended recipient fully understands the basis upon which funding may be provided.

5.25. However, with its limited resources the ACT cannot afford to have any failures under the BIS which might be attributable to shortcomings in the grant assessment and approval process.

RECOMMENDATION 4

5.26. The committee recommends that the Department of Business, The Arts, Sport and Tourism review its BIS assessment and grant approval procedures to ensure that proposed assistance is appropriate in form, level and timeliness to the needs of the business activity of a claimant and that the viability of a claimant business is subject to appropriate financial and market assessment.

[45] trans, p15 and BASAT response to question on notice, op cit

6. EFFICIENCY AND EFFECTIVENESS - ISSUES ARISING

6.1. Some 25 companies and organisations which had or were receiving assistance under the IAP and the BIS were invited to make submissions to the committee on the issues of effeciency and effectiveness, and whether they considered there was scope for improvement. Of the 11 which responded, 8 accepted invitations to address the committee in its public hearing.

6.2. The committee also invited ACT business, employer and union organsations to comment on the issues. Three business and employer organisations did so and two also gave oral evidence to the committee.

6.3. From its consideration of the experience of a sample of companies covering a range of business activities and which received assistance under the BIS, the committee concludes there is something of a cultural gap between the administering agency (BASAT) and its BIS client base.

6.4. Several companies pointed to the need for officials to have a better understanding of the environment within which business must function, and a more realistic appreciation of timelines for business if grants are to be effective. These issues are discussed below in some detail with other related matters.

6.5. BASAT was given the opportunity to comment on these issues and responded to them when in responding to questions on notice during the hearing. Where relevant, the Department's comments are noted.[46]

6.6. The committee has been unable, in the time available for this inquiry, to explore the cost effectiveness of the BIS as an industry development tool, particularly in regard to assistance provided through land grants and payroll tax and stamp duty waivers. For example, while the committee acknowledges that payroll tax waiver can encourage increased employment for specific companies it may not account for all or even most of the additional employment. In such cases there could well be significant amounts of revenue forgone as a result of the payroll tax waiver. This matter could be examined in any future inquiry by the Public Accounts Committee in the next Assembly.

Understanding and promoting the BIS

6.7. It was put to the committee that there needs to be an acknowledgement that the private sector has a critical role to assist in the advocacy of the BIS as, with the full effects of public sector downsizing not yet realised, the private sector can be maintained only if it can develop new markets either in the region or on an export basis. However, this view noted that the scope and depth of the BIS are not commonly known or understood by local business and that there is a need for the

[46] BASAT, response to questions on notice, op cit

Scheme to be explained to those who can work to achieve results within the business community.[47]

6.8. This point was exemplified by the Canberra Business Council. A Council survey of a range of members found that a large number were not explicitly aware of the various programs incorporated under the Partners in Progress (see paragraph 6.31 below). The Council stressed the need to ensure that the local business community is aware of programs such as the BIS.[48]

6.9. The Master Builders Association recommended to the committee that a panel of local business representatives be established to sell Canberra whenever prospective businesses come to town to discuss opportunities for relocation to the ACT.[49]

6.10. BASAT advised it has already implemented a number of initiatives targeting national associations its policy being to attract national associations and any new business by linking incentives in "Partners in Progress" (see paragraph 6.31) and the BIS with opportunities in the private sector.

6.11. The ACT & Region Chamber of Commerce & Industry advised that in its dealings with clients of its ACT Business Link, set up to use the expertise of local business to provide professional advice to business, the name "Business Incentive Scheme" created an expectation that funding would be available for ventures and that there was disappointment when they did not qualify. The Chamber advised that the perception for some entreprenuers who do not have viable propositions was that the BIS offerred venture capital. The Chamber suggested that the marketing of the BIS needed to be more targetted.[50]

6.12. A commercial view expressed to the committee was that regular advertising promoting the advantages of establishing business in the ACT would benefit the success of the BIS. As a first step, it was proposed that a Canberra Business Forum be established to market the BIS and identify the benefits incorporated in the Scheme.[51] BASAT advised that this proposal would need to be considered within the context of existing inductry liaison arrangements, noting that Cantrade has broad representation from the business community.

6.13. Nevertheless, the committee noted a real concern by the peak business organisations it has mentioned that more needs to be done in developing a cooperative Government/business approach in promoting and targeting the BIS.

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[47] Submission no 1 and Sub no 10
[48] Sub no 11
[49] Sub no 1
[50] Sub no 12, trans p74 et seq
[51] Sub no1

RECOMMENDATION 5

6.14. The committee recommends that the Department of Business, The Arts, Sport and Tourism in cooperation with ACT business and industry organisations develop appropriate means of promoting the BIS to the business community to ensure that potential applicants are fully aware of the conditions under which applications may be considered.

Departmental understanding of business

6.15. In its initial grant applications one company was criticised by computer analysis for having optimistic sales forecasts. In addition, the financial comparison by the government recommended consultant was not suitable for the company's circumstances. Considerable delays were incurred before the company's original analysis was accepted. The company proposed that people with current experience in small to medium size enterprises would be ideal for BASAT to use for the analysis of grant applications.[52]

6.16. Another grant recipient claimed that the BIS applicant briefing material did not make it clear that the Scheme appeared to be directed to high technology type industries. This successful company which does not require high technology was bemused that the initial response by officials to its application was to know where their computer was. The company felt that its business proposition did not fit, or was hard to fit, within a set of objectives related to high technology and, as a consequence, its initial request for a serviced site, which would have saved time and stress in the establishment of the business, failed. This company was surprised that for the amount of its eventual grant ($22,000) it was scrutinised by a major accounting firm and consultants who made little positive impact on the project.[53]

Timelines and delays

6.17. Concerns were expressed by a number of respondents to the committee about process delays. It was suggested by another recipient of assistance that the efficiency of the BIS would be enhanced by a considerably faster processing time for applications.[54] Another recipient noted the excessive amount of consultation and meetings leading to a grant and a final meeting with the department which involved some 8 officials. This respondent surmised that the cost of salaries for officials including pre briefing was probably not much less than the value of the grant received.[55]

6.18. The committee's experience with BASAT during this inquiry lends some emphasis to concerns about bureaucratic delay. The committee invited a government submission on 5 September when it also advised that a hearing would be held during

[52] Submission no 4
[53] Sub no7
[54] Sub no 5
[55] Sub no 7

the last week of October. The submission, which is relatively brief and unremarkable in substance, was received two days before the public hearing on 29 October and an amended version of the submission was presented to the committee on that day. As mentioned earlier in this report, responses to questions taken on notice during the hearing were not received until 17 November.

6.19. BASAT advised that it is currently finalising revised detailed procedures for assessment and approval of BIS applications which address these issues, but noted that some of the matters raised occured at early stages of the IAP and the Department had taken steps to improve the application and approval process and train staff.

6.20. In the time available to the committee for this inquiry, and having regard to difficulties it has experienced in accessing departmental information essential to the committee in properly investigating the issues, this inquiry has perforce been limited to making preliminary findings. However, the committee has sufficient material to indicate that this is an area which is worthy of more detailed examination by the new Assembly, and it will recommend accodingly.

RECOMMENDATION 6

6.21. The committee recommends that the Standing Committee on Public Accounts in the next Assembly inquire into the Business Incentive Scheme under the terms of reference for this inquiry, and that it be authorised to access and use for the purpose of that inquiry all committee documents related to this inquiry.

Cost effectiveness for business

6.22. Business administrative costs in securing grants was also a factor of note. While appreciating assistance it received under the IAP, one company considered that the administrative overhead in meeting departmental requirements were excessive, as was official intrusion into the company's affairs. This company had a better experience with an application under the BIS where the process leading to final approval was handled with a minimum of official intervention.[56]

6.23. Another company representative in its views of others considered the value of its grant was reduced by administrative obstacles and delays.[57]

Inter departmental cooperation and coordination - problems

6.24. A company with experience with overseas business incentives schemes noted a more pro-active approach in other countries where the government project manager acted as a facilitator through all the governmental procedures necessary in establishing business. By comparison, the company noted that the ACT system, so far as land lease and building approval is concerned, is bureaucratic and time consuming, and the

[56] Sub no 9
[57] Sub no 7

system needed to be coordinated across the several departments which are involved in land use and building approval.[58]

6.25. The experience of one grant recipient exemplified the problem of a clear lack of coordination in policy objectives between one arm of government (BASAT) in seeking to stimulate business investment and activity and other regulatory arms of government as well as the imperitives of ACTEW.[59]

6.26. The company found that the Territory Plan decreed only one area for its operation and that a costly, time consuming, and uncertain, process would be required in seeking to change the Plan. To obtain a lease to fit the Territory Plan, the company could not find out the cost of such a lease without paying a non refundable deposit of $5,000, and the company was obliged to retain a consultant to negotiate a reasonable lease price.

6.27. The company required the construction of a relatively simple industrial building at the end of a gravel road but it described the approval process as grossly over complicated in achieving its objective. Other planning aspects involving electricity, sewerage, water, roadway and environmental regulations were administered by the various regulatory authorities in a manner which indicated they were apparently not in sympathy with the objectives of BASAT in approving assistance under the BIS.

6.28. This gap between departmental and agency objectives is of considerable concern to the committee. It is a failing in policy execution which the committee considers must be addressed as a matter of urgency in order to achieve close and productive interaction and cooperation between all the arms of government when dealing with the needs of business, and especially those which are being actively encouraged to establish or expand their operations in the ACT.

6.29. Improved coordination between departments and agencies should not compromise safety, quality or environmental standards. Indeed, they should enhance these.

6.30. If the ACT is to have any real success in attracting business and in demonstrating a real return on its investment in the BIS, unnecessary bureaucratic involvement in planning processes and the provision of services must be eliminated.

6.31. BASAT advised that the Partners in Progress concept introduced in May 1997 was a recogntion of the need to provide a more coordinated service with a one-stop-shop approach and although considerable progress has been made in streamlining a focussed response to business inquiries, it must be further developed. BASAT went on to say that adequate resources were needed for this function which, ideally, should be resourced to be pro-active with specific targets in addition to simply responding to industry inquiry.[60] Unfortuately, although the BASAT submission to the committee mentioned that the Partners in Progress guidelines were attached they were, in fact, withdrawn from the submission and not made available.

[58] Sub no 2
[59] Sub no 7
[60] BASAT sub

6.32. In the absence of more definitive evidence from BASAT as to the effectiveness of the one-stop-shop approach, the committee is unable to assess whether it has addressed, or will address, the problems of coordination between ACT Government departments and agencies and BASAT in relation to the delivery of business incentives.

6.33. Accordingly, the committee calls for a dynamic and structured interrelationship between all ACT government agencies which have any role in relation to the establishment of all business operations in the ACT irrespective of whether those operations are being assisted though the BIS.

RECOMMENDATION 7

6.34. The committee recommends that the Government review all ACT Government departmental and agency consultative arrangements, including the Partners in Progress initiative, as they bear upon the establishment of business operations in the ACT, that it ensure that there is complete harmony between the objectives of BASAT in relation to the BIS and other regulatory departments and agencies, and that the Assembly be informed on the outcome of this review.

Scope and depth of the BIS - proposals for change

6.35. It was proposed that national associations should be encouraged to relocate to the ACT by being brought within the scope of the BIS. The committee was advised that initiatives could include the offer of sites on a joint basis where groups have a common interest, and structured financial packages to reduce their operating costs and improve their net asset positions.

6.36. The committee was advised that such a proposal would stimulate particularly the building, construction and property industries with improved values in the commercial office market.[61]

6.37. It was brought to the committee's attention that assistance in the form of land grants would be significantly improved by changing the terms and conditions to enable a "real" current market valuation to be established. At present, land grants include clauses requiring the grantee to repay the value of the land under particular circumstances. The effect of this is to reduce the value of the land for borrowing purposes, a circumstance which can act to frustrate the objective of stimulating business activity through its expansion.

6.38. In response to this proposition, BASAT advised that it was considered a responsible approach in protecting the public interest for the Territory to have a reducing claim related to the value of land granted to a company against the unlikely event of company failure in the short (noting that failure to meet specified employment targets is not, in itself, cause for default). The Department further

[61] Sub no 7

advised that it would examine measures to address the issue of land valuation as security for borrowing.

6.39. It was noted that since lease terms include restriction on the use of land for specific purposes, this restriction ought to be sufficient protection for the ACT, without requiring payback clauses. However, it was suggested that some other forms of warrantee could be developed to preserve the current market value of land granted under the BIS.[62]

RECOMMENDATION 8

6.40. The committee recommends that the Government administering agency ensure that where land grants form part, or all, of an assistance package under the BIS, that recipients understand the legal, planning and financial imperatives and limitations associated with land grants.

6.41. For most new business, the most important need is working capital and for government the need is for its funds to be allocated with due care and minimum risk. One company advised that it had to walk away from significant orders because of lack of working capital. In this case, the company noted that while banks and others are willing to fund against orders, a practice known as factoring, the client must be advised that a company is to be factored and this can be interpreted as a sign that the company is in financial difficulty, an unfavourable situation for any company.[63]

6.42. It was proposed that, to redress this situation, the range of BIS assistance be extended to include purchase of maufacturing materials or loans against blue chip confirmed orders, or other grants or finance secured by tangible assets.[64]

6.43. BASAT advised it would closely examine this proposal, noting that access to loans will be considered in the context of the arrangements available under the Business Development Fund.

6.44. Another recipient of assistance considered the operation of the BIS would benefit from feedback from the government on the usefulness of information provided by the recipient and its activities in promoting economic growth in the ACT.[65]

RECOMMENDATION 9

6.45. The committee recommends that the Government have regard to and consider proposals for change to the forms and conditions of assistance under the BIS, including the valuation of land grants and warranties for grant recipients, financial grants to cover manufacturing materials, and loans against established orders.

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[62] Sub no 3
[63] Sub no 4
[64] ibid
[65] Sub no 5

7. CONCLUSIONS

7.1. The committee was not aided in testing the merits, or in fully exploring the cost-effectiveness and efficiency, of the IAP and the BIS as industry development measures by its inability to access agreements between the Territory and certain companies, including Fujitsu and AOFR/ADC Communications, which have received high levels of assistance.

7.2. The committee is concerned that confidentiality clauses in assistance agreements and other claims of commercial in confidence applying to grants made from public funds or assets have prevented the committee in the time available for this inquiry from discharging its responsibility to the Assembly to examine the accounts and expenditures of the Territory. The committee expects that such issues of confidentiality will be pursued by the Public Accounts Committee in the next Assembly.

7.3. Nevertheless, the committee has made as thorough an examination as has been possible in the circumstances. It has recommended that the Public Accounts Committee in the next Assembly resume the inquiry and in that event would expect the committee to make a searching examination of the BIS, the assistance provided under the Scheme and the extent to which companies and organisations which have received assistance have delivered on their agreements with the Territory.

7.4. The committee examined employment outcomes for the IAP and found them to be substantially lower than predicted.

7.5. The committee also noted the experiences of a number of companies in their dealings with the Territory administration which indicated problems with financial and business advice, and delays and problems with coordination between government agencies. The committee has commented on these matters and made certain recommendations.

7.6. There is a need to avoid wasteful industry assistance bidding wars and to build cooperation between the States and Territories. Thus, although not pursued in detail in this report, the committee has discussed assistance to business in the national context and has recommended that the Commonwealth, NSW and ACT Governments explore the possibility of developing a joint ACT and South-East region industry incentive program..

7.7. The committee has also recommended that the Government develop an industry plan which the committee sees as crucial to an effective business incentive program. Such an industry plan should be considered by an appropriate standing committee in the next Assembly.

Andrew Whitecross

Andrew Whitecross MLA
Chair

SUBMISSIONS RECEIVED

1. Master Builders Association of the ACT
2. Capital Plastics Australia Pty Ltd
3. Sustainable Technologies Australia Ltd
4. Modernfold Australia
5. ACT Rugby Union Inc
6. Australian Drug Management And Education Pty Ltd
7. Earthcare Industries Pty Ltd
8. Red Cat Systems Pty Ltd
9. Technologies Pty Ltd
10. Coms21 Ltd
11. Canberra Business Council Inc
12. ACT & Region Chamber of Commerce and Industry
13. Olivetti Australia Pty Ltd
14. Department of Business, The Arts, Sport and Tourism
15. National Federation of Independent Business Inc
16. TimberCrib Retaining Walls

WITNESSES AT PUBLIC HEARING

Ms A Pegrum	Department of Business,The Arts, Sport and Tourism
Mr M Tidball	Department of Business,The Arts, Sport and Tourism
Mr H Sommer	Department of Business,The Arts, Sport and Tourism
Mr L Osborne	Department of Business,The Arts, Sport and Tourism
Mr P Masson	Capital Plastics Australia Pty Ltd
Mr D Phipps	Modernfold Australia
Mr D Darbyshire	Earthcare Industries Pty Ltd
Mr M Sinderberry	ACT Rugby Union Inc
Mr N Marshall	Australian Drug Management And Education Pty Ltd
Mr J Farrell	National Federation of Independent Business Inc
Ms S Tulloch	Sustainable Technologies Australia Ltd
Mr C Peters	ACT & Region Chamber of Commerce and Industry
Mr J Louttit	ACT & Region Chamber of Commerce and Industry
Ms H Leayr	Canberra Business Council Inc

DISSENTING REPORT by LOUISE LITTLEWOOD MLA

I disagree with many findings of this report and recommendations 2, 6 and 8.

Parts of the report are simply incorrect. For example, in paragraph 1.4 it claims the ACT economy is slowing, yet the fact is that the economy is growing. A look at the most recent indicators shows that: there have been two consecutive quarters of growth in Gross State Product; the ACT has the strongest growth in retail spending of any State or Territory; ANZ Job Advertisement data for October show the ACT recording the strongest growth in jobs advertised of any State or Territory; and over 6,000 new full time jobs have been created in Canberra over the past year. That is not an economy slowing. Rather it is an economy characterised by strong private sector investment, employment growth and diversity. It is curious that the report does not acknowledge the evidence of this.

Other parts of the report convey an inaccurate version of events, presumably in an attempt to make a political point rather than inform the reader or analyse information. An example is at paragraph 1.13 where BASAT is criticised for not providing "vital information .... within reasonable timeframes". However, the report fails to point out that, apart from confidential matters, all information <u>was</u> provided on time. What the majority of the committee calls "vital information" was in fact confidential information which, by its very nature, could not be disclosed. Moreover, the seeming interest displayed by the majority of the committee in this confidential information was more a trawling exercise in the hope of embarrassing the Government than a serious desire to understand the workings of the Business Incentive Scheme (BIS). Indeed, it should be noted that the committee was twice offered access to sensitive information about administrative procedures and the conduct of 'due diligence' exercises, but declined.

I disagree with Recommendation 2 (cooperative Commonwealth/ACT/NSW incentive program for the region) because it is abundantly clear from the NSW Premier's refusal to contribute to Youth 500 for the region and the self-serving attitude of NSW to the question of assisting Bega Cheese that the proposal is naive and unworkable.
The report criticises BASAT (paragraph 3.4) for its "apparent inability to provide more detailed figures" of the previous government's assistance program, whereas the real cause is the previous government's inadequate records. In other words the previous government did not leave enough information. You cannot blame BASAT for that. The accusation shows the political bias of the majority of the committee and I reject it.

Reference is made at paragraph 4.3 and in section 5 to certain approved proposals not meeting the guidelines for assistance, thereby seeking to denigrate BASAT for not administering the BIS properly. However, the members of the committee pushing this line are being disingenuous because they know the details of the particular case in question and they also know that although the guidelines <u>were</u> met, some information was withheld and that this matter is currently the subject of police investigation. Accordingly I disassociate myself from those sections of the report.

Paragraph 6.15 is also misleading because it cites with approval the criticism of a grant recipient that the BIS is directed to high technology industries to the apparent exclusion of others. However the majority report lacks balance because it then fails to point out – what committee members know – that there are many other suitable industries, including financial and business services, health care, personal services, media, recreation, tourism and so on.

The latter part of paragraph 6.15 is an example of a contradiction inherent in the report, namely the call for greater scrutiny of applications in some parts of the report against the criticism of too much detail being required and too much time being taken for assessments in other parts. This matter is left unresolved.

Recommendation 6 sits oddly with the other recommendations in that it calls for the reactivation of this inquiry – implying that this inquiry is incomplete and therefore not in a position to make recommendations – but it makes recommendations all the same! Logic dictates that if Recommendation 6 is accepted, all others are deleted, or if the others are accepted then Recommendation 6 is deleted. It is, however, nonsense to retain all recommendations. This logical flaw in the report seems to have escaped the majority of committee members.

From the text leading up to Recommendation 8 it is apparent that a change in the form of assistance is envisaged after approval has been given. The arguments are not well canvassed, but the proposal seems to open up the scope for continuing intervention and increasing dependency by recipient firms. That prospect may sit well with the majority of the committee but it is not the economic environment in which firms become competitive and create a sound basis for employment growth. I therefore do not support it.

In addition to disagreeing with many aspects of this report, I specifically dissent from recommendations 2, 6 and 8.

Louise Littlewood MLA