



**THIRTY-EIGHTH PARLIAMENT**

**REPORT 20**

**STANDING COMMITTEE ON ESTIMATES AND  
FINANCIAL OPERATIONS**

**"ROYALTIES FOR REGIONS" POLICY**

Presented by Hon Giz Watson MLC (Chair)

May 2009

## **STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS**

### **Date first appointed:**

30 June 2005

### **Terms of Reference:**

The following is an extract from Schedule 1 of the Legislative Council Standing Orders:

#### **“2. Standing Committee on Estimates and Financial Operations**

- 2.1 *An Estimates and Financial Operations Committee* is established.
- 2.2 The Committee consists of 5 Members, 3 of whom shall be non-government Members.
- 2.3 The functions of the Committee are to consider and report on -
- (a) the estimates of expenditure laid before the Council each year;
  - (b) any matter relating to the financial administration of the State;
  - (c) any bill or other matter relating to the foregoing functions referred by the House;
  - (d) to consult regularly with the Auditor General and any person holding an office of a like character.”

### **Members as at the time of this inquiry:**

Hon Giz Watson MLC (Chair)

Hon Sheila Mills MLC

Hon Ken Travers MLC (Deputy Chair)

Hon Helen Morton MLC

Hon Brian Ellis MLC

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# REPORT OF THE STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

## IN RELATION TO THE

### "ROYALTIES FOR REGIONS" POLICY

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#### 1 REFERENCE AND PROCEDURE

1.1 On 1 December 2008 the Estimates and Financial Operations Committee (**Committee**) resolved to undertake an inquiry into the "Royalties for Regions" policy (**RFR**) and to report to the Legislative Council by 14 May 2009.

#### Terms of Reference

1.2 The terms of reference for the inquiry are:

- a) to establish a clear understanding of the "Royalty for Regions" policy;
- b) how the policy will operate and be administered;
- c) what the Department of Treasury and Finance has done with respect to any modeling or cost-benefit analysis of the policy;
- d) the implications of the policy, including but not limited to:
  - the possible impacts of the policy on the State's AAA credit rating;
  - the possible impacts of the policy on the State's budget; and
  - the potential operational impact of the policy on government agencies.
- e) any other relevant matter, including but not limited to:
  - the ability of the government to adjust the policy in response to changing financial circumstances.

1.3 The Committee advertised for written submissions in *The West Australian* newspaper on Saturday, 6 December 2008. Details of the inquiry were also placed on the parliamentary website ([www.parliament.wa.gov.au](http://www.parliament.wa.gov.au)).

1.4 The Committee also wrote to key stakeholders seeking written submissions. A list of the stakeholders that the Committee wrote to is attached at **Appendix 1**.

- 1.5 The Committee received seven submissions. A list of the written submissions accepted by the Committee is set out at **Appendix 2**.
- 1.6 The Committee held public hearings on 9 and 16 March 2009. A list of the hearings is set out at **Appendix 3**.
- 1.7 The Committee thanks the individuals and organisations that provided evidence and information for the inquiry.

**2 TERM OF REFERENCE A - TO ESTABLISH A CLEAR UNDERSTANDING OF THE “ROYALTIES FOR REGIONS” POLICY**

- 2.1 Following the Western Australian State election on 6 September 2008, the new Liberal National Government decided to pursue a “Royalties for Regions” policy, as promoted by the Nationals during the election campaign. RFR was endorsed by Cabinet on 13 October 2008.<sup>1</sup> The claimed intent of RFR is to build the capacity of regions with additional funding.<sup>2</sup>
- 2.2 RFR requires 25 per cent of all mining and petroleum royalty payments to the State to be set aside each year (in a Special Investment Fund) for investment into regional Western Australia (WA) infrastructure, community projects and services.

**Stated Aim of the “Royalties for Regions” Policy<sup>3</sup>**

- 2.3 The stated aim of the RFR funding is to support and maintain strong and vibrant regions through improved infrastructure and headworks, across-government strategic regional and community services projects, and the provision of contestable grant funding for the community to access.<sup>4</sup>
- 2.4 Planned expenditure for regional projects and services will not be accounted for as RFR funding but all additional expenditure for those projects and services will be funded under RFR.<sup>5</sup>

*Royalties for Regions has been established to supplement - not supplant - the existing provision of basic, essential infrastructure and services across regional Western Australia.<sup>6</sup>*

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<sup>1</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p3.

<sup>2</sup> 2008-09 Government Mid-year Financial Projections Statement, p14.

<sup>3</sup> As advised by the Minister for Regional Development and the Department of Local Government and Regional Development.

<sup>4</sup> Submission No 4 from Hon Brendon Grylls MLA, Minister for Regional Development, 6 February 2009, p2.

<sup>5</sup> Ibid, p4.

2.5 Funding will be invested in rural and regional WA based around six policy objectives:

- building capacity in communities;
- retaining benefits in local communities;
- improving services to achieve equality with metropolitan communities;
- attaining sustainability;
- expanding opportunity; and
- growing prosperity.<sup>7</sup>

2.6 In conjunction with the above, the central principles underpinning the overall RFR are that:

- strategic projects in regional WA are a priority;
- local decision making in regional areas is fundamental; and
- State Department administration and processes should provide for and support decision making in regional areas.<sup>8</sup>

2.7 There is a strong emphasis on local priority setting and decision making in RFR, to best ensure government service delivery will effectively address regional need.<sup>9</sup> In this regard, the Minister for Regional Development submitted to the Committee that:

*The policy promotes increased local decision making on issues of planning, allocation of priorities and expenditure in regional areas on infrastructure and services, together with increasing local capacity and accountability.*<sup>10</sup>

#### *Rationale for the Policy*

2.8 The aim of RFR is to provide a different approach to address the issues associated with the development of regional WA. The Minister for Regional Development

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<sup>6</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p6.

<sup>7</sup> 2008-09 Government Mid-year Financial Projections Statement, p14.

<sup>8</sup> Submission No 4 from Hon Brendon Grylls MLA, Minister for Regional Development, 6 February 2009, p2.

<sup>9</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p5.

<sup>10</sup> Submission No 4 from Hon Brendon Grylls MLA, Minister for Regional Development, 6 February 2009, p2.

advised the Committee of some examples of some circumstances that highlighted the need for such a policy, including:

- a resources boom in regional areas that generated rising population numbers that outstripped the capacity to deliver services;
- housing affordability in regional areas has generally reduced and, coupled with other pressures on family budgets, there is an emerging crisis in ‘affordable living’;
- an increased emphasis on sustainability and the need for communities to be normalised across WA;
- the ‘sea change’ and ‘tree change’ movers impacting on population growth and increased service delivery needs in many rural and regional areas;
- the social and economic circumstances of the Indigenous population which has attracted public and government attention and led to a Bilateral Agreement between Commonwealth and State Governments to address socio-economic disadvantage; and
- intergovernmental relations with the Commonwealth Government which have entered a new phase and there is the opportunity to clarify the future role of Regional Development Australia (Area Consultative Committees) and relationships with Regional Development Commissions.<sup>11</sup>

2.9 Hon Wendy Duncan MLC, Parliamentary Secretary to the Minister for Regional Development explained to the Committee how RFR was devised:

*Hon WENDY DUNCAN: Yes, thank you. Honourable members, I welcome the opportunity to assist you in reaching a clear understanding of the royalties for regions policy.*

*The royalties for regions policy came from the people of regional Western Australia. The Nationals’ team travelled the length and breadth of regional Western Australia and constantly heard of the wilful neglect and consistent underfunding of regional communities. We heard of Indigenous children suffering in squalor and neglect in the north. We heard of people living in containers and caravans in the Pilbara and paying thousands of dollars in weekly rent. We heard of and saw sewage running in the streets of Wiluna. We heard of the Kalgoorlie hospital begging for a long promised upgrade. The Royal Flying Doctor Service was underfunded and branded as an “interest*

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<sup>11</sup> Ibid, p3.



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*group” whilst it was undertaking 80 per cent of its work transferring government patients between hospitals. We heard the WA Country Health Service being described as “blatantly bloody unsafe” by its own recently retired chief executive officer and she said it was suffering from chronic underfunding. We heard of a \$1.5 billion backlog in local government infrastructure funding.*

*This was all taking place against a backdrop of unprecedented wealth being generated by the state’s resource industries. The regions of Western Australia generate 82 per cent of the value of Western Australian exports and 22 per cent of the nation’s export revenue. At this time the state generated over a \$2 billion surplus, most of which was spent on the Mandurah railway, city projects and the retirement of debt. The Nationals’ team travelled extensively in regional Western Australia throughout 2005 to 2008 and all we heard about was the inequity and neglect in the treatment by government of their needs. All we heard about was the generation of royalties and the lack of any local community benefit for that contribution. Regional Western Australians had had a gutful of working so hard contributing to the state’s wealth and yet being ignored when it came to distributing the spoils. That is how royalties for regions was born—a promise to return the equivalent of 25 per cent of royalties to regional projects, infrastructure and community services. The state election result clearly shows the mandate for this policy and subsequent polling in the media indicates that around 80 per cent of Western Australians, including city dwellers, support this policy. I am immensely proud to have been part of the team that delivered this policy to Western Australia and would recommend that it be implemented Australia-wide. Thank you.<sup>12</sup>*

#### *Committee Comment*

- 2.10 The Committee supports the intent of RFR of maintaining vibrant regional communities and the fair allocation of the State’s resources to those regions.
- 2.11 The Committee notes the Government’s stated rationale and aims for RFR. The Committee understands the broad thrust of RFR but has been unable to develop a clear understanding of RFR as no details have been provided on how the Policy will be realised, the legislative framework, the administration, and the implementation of RFR. The Committee notes that RFR is still in the inception stage and believes it is essential that this detail become evident early in the progress of implementation.

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<sup>12</sup> Hon Wendy Duncan MLC, Parliamentary Secretary to the Minister for Regional Development, *Transcript of Evidence*, 9 March 2009, p2.

**3 TERM OF REFERENCE B - HOW THE POLICY WILL OPERATE AND BE ADMINISTERED**

**The RFR Fund**

3.1 It is intended that RFR funding will be provided for in legislation. The Minister for Regional Development advised the Committee as follows:

*Royalties for Regions funding will be enshrined in legislation, to ensure its long-term continuity, and it will be governed through a body to be created under the same legislation. It is proposed to introduce the draft Bill into the 2009 Parliamentary Autumn Session and in the meantime, suitably established administrative processes within government will be used to manage expenditures within the initiative.*<sup>13</sup>

3.2 The Committee was advised by the Minister for Regional Development that the proposed legislation intends to create the Western Australian Regional Development Trust. The framework to be established to administer the fund under the legislation will be determined by the following factors:

- the appointment of the Director General for Regional Development and Lands;
- the administration of the Royalties for Regions Act; and
- the development of the Western Australian Regional Development Trust.<sup>14</sup>

3.3 Prior to the establishment of RFR legislation, the RFR Fund has been formed as a Treasurer's special purpose account pursuant to section 10(a) of the *Financial Management Act 2006* by the Department of Treasury and Finance (DTF). It is administered by the Under Treasurer in accordance with the *Financial Management Act 2006* and the *Financial Management Regulations 2007* and Treasurer's Instructions.<sup>15</sup>

3.4 This administrative arrangement will subsequently be replaced by a legislative fund once the relevant legislation is passed.<sup>16</sup>

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<sup>13</sup> Submission No 4 from Hon Brendon Grylls MLA, Minister for Regional Development, 6 February 2009, p2.

<sup>14</sup> Letter from Hon Brendon Grylls MLA, Minister for Regional Development, 29 April 2009, p4.

<sup>15</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p9.

<sup>16</sup> Ibid.

- 3.5 Mr Timothy Marney, Under Treasurer, DTF, explained to the Committee how this arrangement works in practise:

***Hon KEN TRAVERS:** I just want to clarify that. Is it the department of local government, or, until legislation is passed, is it the Under Treasurer who has responsibility in terms of financial accountability? From a policy point of view the department of local government might be involved, but my understanding is that until legislation goes through it is the Under Treasurer who is responsible. Is that correct?*

***Mr Marney:** That is correct. I will be the custodian of the funds on behalf of the Parliament and the Treasurer, and the Department of Local Government and Regional Development will request disbursement of those funds for a specific purpose. My department will then analyse the request for disbursement and determine whether the quantum and rate of draw-down is appropriate and reasonable given the agency's previous demonstrated performance in expending funds and also the current cash holdings of the agency. If after that analysis it is deemed appropriate, the funds will be released.<sup>17</sup>*

- 3.6 The RFR Fund will be administered by the Department of Local Government and Regional Development (**DLGRD**) once the relevant legislation is passed.<sup>18</sup>
- 3.7 Funds will be appropriated at the start of each financial year and drawn upon through the normal Cabinet processes.<sup>19</sup>
- 3.8 The Committee was advised that the DLGRD is working with DTF on the establishment of an appropriation approval process. The Committee asked Mr Marney, Under Treasurer, DTF, what this process entailed. Mr Marney responded as follows:

***Mr Marney:** There are a number of processes by which the appropriation approved by the Parliament are drawn down by agencies; that is, the appropriation is released from the central consolidated account to agencies' own accounts and then spent from there. One of the things we have been working with the Department of Local Government and Regional Development on is the approval processes for those disbursements and particularly the acquittal of the various funds and how applications might be made to those funds,*

<sup>17</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, p10.

<sup>18</sup> Ibid.

<sup>19</sup> Ministerial Media Statements, Hon Brendon Grylls MLA, Minister for Regional Development, 'State Government underlines commitment to regions', 24 October 2008.

*and the levels of authority that we will need to see prior to allowing disbursement from the central consolidated account.*

**The CHAIRPERSON:** *Is that process in relation to the whole of the fund or specific aspects?*

**Mr Marney:** *It will differ with each of the components of the fund. Some of them require a different approach based on different models of governance, and patterns of draw-downs that may be grant-related versus a draw-down that is infrastructure-related and being spent by government on particular infrastructure projects.*

**The CHAIRPERSON:** *Do the appropriation approval processes have to be in place before any money is spent, or is it an ongoing process? I am trying to ascertain whether the process has to be in place before the funds are dispersed, or whether it is an ongoing relationship or process.*

**Mr Marney:** *We would need to have confidence that Department of Local Government and Regional Development either had robust processes in place already or will soon have them prior to disbursing funds from the consolidated account, otherwise there is a risk is [sic] that the funds do not get spent in the time frame or the manner anticipated. That obviously has implications for our financial management more broadly.*

**The CHAIRPERSON:** *Is it on track to achieve that sort of timing?*

**Mr Marney:** *It depends what the track is.*<sup>20</sup>

- 3.9 For 2008-09, an amount of \$337 million was allocated to the RFR Fund under the authority of the Treasurer's advance. Funds are invested through the *WA Treasury Corporation Act 1986*.<sup>21</sup>
- 3.10 From 1 July 2009, the equivalent of 25 per cent of the budget estimate of annual mining and petroleum royalty revenue (up to a maximum of \$675 million) will be appropriated to the RFR Fund as part of the annual budget process.
- 3.11 The approved allocation of these funds is detailed in **Table 1** below:

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<sup>20</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, p9.

<sup>21</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p9.

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**Table 1****Royalties for Regions Fund application<sup>22</sup>**

| <b>Project/Service</b>   | <b>2008-09<br/>\$m</b> | <b>2009-10<br/>\$m</b> | <b>2010-11<br/>\$m</b> | <b>2011-12<br/>\$m</b> | <b>Total<br/>\$m</b> |
|--|------------------------|------------------------|------------------------|------------------------|----------------------|
| <b>Recurrent</b>   |                        |                        |                        |                        |                      |
| Country Local Government Fund  | 100                    | 100                    | 100                    | 100                    | 400                  |
| Regional Development Infrastructure and Services Grants Fund             | 40                     | 110                    | 120                    | 130                    | 400                  |
| BushChange Housing Grant   | 10                     | 25                     | 25                     | 25                     | 85                   |
| Country Age Pension Fuel Card  | 20                     | 20                     | 20                     | 20                     | 80                   |
| Exploration Incentive Scheme   | 20                     | 20                     | 20                     | 20                     | 80                   |
| Housing Our Workforce  | 8.3                    | 16.9                   | 17.2                   | 17.5                   | 59.8                 |
| Telecentres  | 5                      | 10                     | 12                     | 13                     | 40                   |
| Northern Towns Development Fund  | 10                     | 10                     | 10                     | 10                     | 40                   |
| Patient Assisted Travel Service  | 7.7                    | 7.7                    | 7.7                    | 7.7                    | 30.8                 |
| Royal Flying Doctor Service  | 5.7                    | 9.2                    | 8.3                    | 2.9                    | 26.1                 |
| Regional Airport Development Fund  | 2                      | 5                      | 5                      | 5                      | 17                   |
| Boarding Away From Home Allowance  | -                      | 1.8                    | 1.9                    | 1.9                    | 5.6                  |
| Pre-Feasibility Funding for Gascoyne Food Bowl and Pilbara Water Project | 0.5                    | -                      | -                      | -                      | 0.5                  |
| <i>Total Recurrent</i>   | <i>229.2</i>           | <i>335.6</i>           | <i>347.1</i>           | <i>353.0</i>           | <i>1267.8</i>        |
| <b>Capital</b>   |                        |                        |                        |                        |                      |
| Housing our Workforce  | 64.7                   | 143.1                  | 156.8                  | 173.5                  | 538.2                |

<sup>22</sup> 2008-09 Government Mid-year Financial Projections Statement, p15.

| <b>Project/Service</b>                   | <b>2008-09<br/>\$m</b> | <b>2009-10<br/>\$m</b> | <b>2010-11<br/>\$m</b> | <b>2011-12<br/>\$m</b> | <b>Total<br/>\$m</b> |
|--|------------------------|------------------------|------------------------|------------------------|----------------------|
| Ord River Scheme Stage 2                 | 30                     | 90                     | 60                     | 40                     | 220                  |
| Bunbury to Albany Gas Pipeline           | -                      | -                      | -                      | 20                     | 20                   |
| Kalgoorlie Hospital - additional funding | -                      | -                      | 10                     | 2                      | 12                   |
| Currently unallocated                    | 13.1                   | 106.3                  | 101.1                  | 86.7                   | 307.2                |
| <i>Total Capital</i>                     | <i>107.8</i>           | <i>339.4</i>           | <i>327.9</i>           | <i>322.2</i>           | <i>1097.4</i>        |
|  |                        |                        |                        |                        |                      |
| <b>Total</b>                             | <b>337</b>             | <b>675</b>             | <b>675</b>             | <b>675</b>             | <b>2362</b>          |

3.12 The RFR funds are applied to the nine regions defined in the *Regional Development Commission Act 1993*:

- Gascoyne
- Goldfields-Esperance
- Great-Southern
- Kimberley
- Mid-West
- Peel (which includes Mandurah and other local governments in the region)<sup>23</sup>
- Pilbara
- South-West
- Wheatbelt

3.13 Three sub-funds have been created to distribute the money and implement specific RFR initiatives. These are the:

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<sup>23</sup> Mandurah will not however be included in the fuel card for pensioners' program as they have access to the train line. Hon Brendon Grylls MLA, Minister for Regional Development, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 26 November 2008, p515.

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- Regional Infrastructure and Headworks Fund;
  - Country Local Government Fund; and
  - Regional Community Services Fund.
- 3.14 New regional projects that do not fit the criteria established for these three funds, such as the South-West Gas Pipeline, may also qualify for RFR funding. Such projects will be presented as part of an overarching RFR Fund.<sup>24</sup>
- 3.15 The DLGRD have advised that methodologies for the distribution of all funds are progressively being finalised. Funds are distributed on the principal that:
- delivery agencies have an administrative, governance, implementation, reporting and auditing process already in place in accordance with the *Financial Management Act 2006* obligations;
  - governance and branding agreements are adhered to in administering the projects; and
  - standard asset management practices are in place to deliver these projects and services.<sup>25</sup>

*The Country Local Government Fund*

- 3.16 The stated primary objective of the Country Local Government Fund (**CLGF**) is to address infrastructure backlogs across the country local government sector.<sup>26</sup> The CLGF will provide tied funding for infrastructure provision and renewal directly to local government and regional organisations of councils. The funding will be provided to all local governments within the nine regions.<sup>27</sup>
- 3.17 The Director General of DLGRD advised the Committee on how the fund will work:

*Ms Mathews: The fund will work in this way. Funds will be allocated in accordance with a particular formula in year one to each individual local government, and then over years two, three and four*

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<sup>24</sup> Submission No 4 from Hon Brendon Grylls MLA, Minister for Regional Development, 6 February 2009, p4.

<sup>25</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p12.

<sup>26</sup> Royalties for Regions Country Local Government Fund Guidelines 2008-09, [http://www.dlgrd.wa.gov.au/FinancialAssist/Docs/CLGF\\_Guidelines2008-09.pdf](http://www.dlgrd.wa.gov.au/FinancialAssist/Docs/CLGF_Guidelines2008-09.pdf) (viewed on 5 May 2009).

<sup>27</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p13.

*a proportion of that funding will go out to regional organisations of councils to encourage collaboration at a regional level.*<sup>28</sup>

- 3.18 Funds from the CLGF are distributed through an allocation model based on WA Local Government Grants Commission (**WALGGC**) horizontal equalisation, and road needs assessments and population caps.<sup>29</sup>
- 3.19 The purpose of horizontal equalisation is to ensure that every local government in the State has the ability to function, by reasonable effort, at a standard not lower than the average standard of other local governments in the State.<sup>30</sup> The WALGGC calculates the amount of funding (or equalisation requirement) of each local government authority taking into account that certain local government authorities are disadvantaged in their ability to raise revenue or provide a service by factors such as locations, population dispersion and climate. The WALGGC has developed a range of disability factors, which are applied to the standards. The disability allowances are added to the expenditure standards to reflect local circumstances impacting on the cost of local government operations.<sup>31</sup>
- 3.20 The DLGRG advised that population caps and road needs assessment have been added to the initial allocation model as it was considered too narrow. The addition of these two additional components was considered to make it a more comprehensive and equitable model.<sup>32</sup>

*Committee Comment*

- 3.21 The Committee notes, however, that the addition of the population caps component distorts the horizontal equalisation process. The Committee is not certain if this is favourable or not as it received no evidence to support the benefit of the caps.
- 3.22 It will be for the local governments and regional organisations of councils to determine what to spend the funding on, however, spending will be tied to expenditure against asset classes according to the Local Government Accounting Manual. Local governments will be required to provide agreement in writing that they will expend

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<sup>28</sup> Jennifer Mathews, Director General, Department of Local Government and Regional Development, *Transcript of Evidence*, 9 March 2009, p4.

<sup>29</sup> Letter from Jennifer Mathews, Director General, Department of Local Government and Regional Development, 30 March 2009, p1.

<sup>30</sup> Principle 1 of the National Principles set by the Commonwealth for the allocation of funding by the Western Australian Local Government Grants Commission.

<sup>31</sup> Western Australia, Legislative Council, Standing Committee on Public Administration and Finance, Report 10, *Local Government Rating System and Distribution of Funds*, November 2004, p27.

<sup>32</sup> Letter from Jennifer Mathews, Director General, Department of Local Government and Regional Development, 30 March 2009, p1.



funds for the purpose intended in addition to acceptance of reporting and acquittal requirements.<sup>33</sup>

3.23 A total of \$400 million over four years has been allocated to the Fund. The first \$100 million is allocated in the 2008-09 financial year and is to be shared between the 110 regional local governments.<sup>34</sup>

3.24 The application of the CLGF is outlined in **Table 2** below:

**Table 2**

**Country Local Government Fund application<sup>35</sup>**

| <b>COMPONENT</b>   | <b>YEAR 1<br/>2008-9</b> | <b>YEAR 2<br/>2009-10</b> | <b>YEAR 3<br/>2010-11</b> | <b>YEAR 4<br/>2011-12</b> | <b>TOTAL</b> |
|--|--------------------------|---------------------------|---------------------------|---------------------------|--------------|
| <b>Local Government</b><br>Local infrastructure asset renewal and new assets                             | 97.5                     | 62.5                      | 48.75                     | 48.75                     | 257.5        |
| <b>Regional Organisations of Councils</b><br>New regional infrastructure assets                          | 0                        | 35                        | 48.75                     | 48.75                     | 132.5        |
| <b>Capacity Building</b><br>For regional governance services and asset management programs through DLGRD | 2.5                      | 2.5                       | 2.5                       | 2.5                       | 10.0         |
| <b>TOTAL \$Million</b>   | 100                      | 100                       | 100                       | 100                       | 400          |

3.25 The Committee was advised that the reason for the allocations to regional groups of councils was so that any new infrastructure would have regional credibility.

*Dr Berry: The comment I was thinking of was: in terms of the sustainability, from year 2, year 3 and year 4, a portion of the country local government fund will be allocated through regional groups of local government, and that was to be for new infrastructure. The rationale there was that, for local governments building any new infrastructure, it would have to have regional credibility and be recognised as being a need across their region, rather than just*

<sup>33</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p13.

<sup>34</sup> Ministerial Media Statement, Hon Brendon Grylls MLA, Minister for Regional Development, 'Regions to share \$400million', 16 December 2008.

<sup>35</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p13.

*something that the local government would want. All new infrastructure potentially creates a burden, but the regional credibility meant that there could be some regional ownership of the support for it.*<sup>36</sup>

*Committee Comment*

- 3.26 It is of concern to the Committee that there appears to be no ability to strategically manage the spending of funds across a region.
- 3.27 The Committee notes that RFR promotes local decision making by empowering local governments to determine how to spend RFR funding. Local decision making will ensure that the CLGF is directed to local infrastructure priorities.<sup>37</sup> However, the Committee is unsure if this process will ensure funding is spent on projects that are sustainable.

**Hon KEN TRAVERS:** *Where in this scheme and the guidelines to this scheme does that ensure the sustainability? For instance, you could send the money to a collection of regional local governments, and if they just say, "All right; we've got two million. We'll all take 500 000 each and you go away and work out what your project is and we'll work out what our project is and we'll agree on that", is there anything to stop that occurring in the guidelines?*

**Dr Berry:** *I do not believe there is in the guidelines. The intent is that they would use it for new projects and operate similar to the regional road groups, in the sense that regional road groups used by Main Roads were allocating regional road money within the regions. Any one council would not get money in every year of the allocation, but there would be some process by which they would agree that council A might get funds in year 2 and council B would get it in year 1 and so on.*

**Hon KEN TRAVERS:** *That is my point. Even with regional roads, there are sometimes arguments that it is a case of your turn, so there is no attempt to look at the sustainability of the whole region, but it is your turn to get the \$2 million or the \$1 million, and there is not that. What I am asking is where are the guidelines that will ensure that the money is going to the long-term sustainability of the region, as opposed to continuing to support the current unsustainability?*

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<sup>36</sup> Dr Chris Berry, Manager, Regional Policy Unit, Department of Local Government and Regional Development, *Transcript of Evidence*, 9 March 2009, p9.

<sup>37</sup> <http://www.dlgrd.wa.gov.au/RegionDev/RforR/CLGF.asp> (viewed on 6 May 2009).

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**Dr Berry:** *I use the analogy of the regional road groups because I guess that is how, to some extent, I have personally presented it to local governments in terms of how we see it working. We have put out guidelines for the country local government funds for year one, and we are working further on guidelines for year two, which will cover the regional aspect. The points the member is making will be covered in the future guidelines.*

**Mr Rosair:** *I think it is also important to reiterate that the model for royalties for regions is about local decision-making and having the local experts embedded in their plans, not only in the local government fund but also in the regional grants fund through the regional development commissions. It is about local decision-making, part of their local priorities and part of their local strategic plans. There is an element and onus on the local communities and local governments to be sustainable under that model.*

**Hon KEN TRAVERS:** *I would have thought you would still need to have some mechanism to ensure that when they make their local decisions, it is still with the goal in mind of long-term sustainability, and having a mechanism to ensure that. That is what I am trying to ascertain.*

**Mr Rosair:** *I suppose that later on, during Jennifer's presentation, we will talk about the governance and reporting of the entire royalties for regions program, and about measuring the impact of these decisions, the sustainability of these decisions, and the social impact and benefits that are achieved, and that is part of our reporting and governance across the whole of royalties for regions.<sup>38</sup>*

- 3.28 During the hearing the Committee sought to clarify from DLGRD what constituted the infrastructure backlog.

**Hon KEN TRAVERS:** *Also, the parliamentary secretary mentioned at the beginning that part of the reason for this was that there was a \$1.5 billion backlog. Are you able to provide any breakdown of what areas that backlog is in?*

**Hon WENDY DUNCAN:** *Not here; I do not have the detail with me, but it is based on the sustainability study that was done by the WA Local Government Association. Chris might be able to add some details.*

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<sup>38</sup> Dr Chris Berry, Manager, Regional Policy Unit, Department of Local Government and Regional Development, *Transcript of Evidence*, 9 March 2009, p10.

**Hon KEN TRAVERS:** *In terms of these categories, is there a rough breakdown for each of these categories here as to where the backlog is? Is it roads; is it bridges; is it parks and gardens; is it airports; is it sewerage?*

**Dr Berry:** *I would not like to comment, honourable member, in the sense that my experience would suggest that it would be significantly in roads, but the councils have a lot of other buildings as well. But I do not know how they have arrived at that figure, without referring to the source again.*

**Hon KEN TRAVERS:** *Surely that would be a fairly fundamental issue, though, if it is about resolving the backlog, to know what the backlog is and where it is.*

**Ms Mathews:** *It is detailed in the SSS report. The statement is about really being across infrastructure, and that is really around all the infrastructure that local governments own, particularly throughout the regions. It is community halls; it is sports and rec; so we would probably need to then —*

**Hon KEN TRAVERS:** *I understand the range but —*

**Ms Mathews:** *— look for you just to drill down.*<sup>39</sup>

- 3.29 The Committee requested detail of the backlog as supplementary information to the hearing. The response provided by DLGRD did not provide any further information on what constituted the infrastructure backlog.

*Committee Comment*

- 3.30 The Committee notes that the stated primary objective of the CLGF is to address infrastructure backlogs across the country local government sector. The Committee is of the view that it is important to have a clear idea of what constitutes the backlog and a mechanism in place to ensure that the backlog is being addressed. The Committee has not been able to ascertain what action the DLGRD is taking to ensure this.

*Regional Community Services Fund*

- 3.31 The DLGRD submitted that the Regional Community Services Fund (**RCSF**) will support priority services that have shown their effectiveness in enhancing the quality

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<sup>39</sup> Hon Wendy Duncan MLC, Parliamentary Secretary to the Minister for Regional Development, Dr Chris Berry, Manager, Regional Policy Unit, Jennifer Mathews, Director General, Department of Local Government and Regional Development, *Transcript of Evidence*, 9 March 2009, p8.

of life for residents in regional areas and providing access to government services and infrastructure.<sup>40</sup>

- 3.32 The RCSF has been allocated to support established programs and two new election commitments (Country Age Pension Fuel Card and Bushchange Housing Grant). Funding will be allocated to the relevant state government agency, with skills to establish, administer implement, govern and manage the project.<sup>41</sup>
- 3.33 The Committee asked the DLGRD for detail on how the RCSF will be administered and was advised as follows:

*Essentially all funding in the Regional Community Services Fund has been allocated to election commitments on new and existing service programs. The fund will be administered in the same way as all other funding within the Royalties for Regions program. The funding is subject to normal DTF and cabinet approval processes with the delivery agency preparing an EERC submission, sending it to cabinet for noting and/or approval, establishing an MOU with Department of Local Government and Regional Development and negotiation draw-downs before commencement of the project. The Department of Local Government and Regional Development will monitor cash flows in consultation with the delivery agency according to the signed MOU.<sup>42</sup>*

- 3.34 The DLGRD advised that the Major Regional Projects Division of the DLGRD is working with the relevant delivery agents to develop more detailed project proposals to be considered through established Economic and Expenditure Reform Committee (EERC) and cabinet processes.<sup>43</sup>
- 3.35 The application of the RCSF is outlined in **Table 3** below:

**Table 3**

**Regional Community Services Fund application<sup>44</sup>**

| Approved Initiatives \$m | Responsible Agency | YEAR 1<br>2008-9 | YEAR 2<br>2009-10 | YEAR 3<br>2010-11 | YEAR 4<br>2011-12 | TOTAL |
|--------------------------|--------------------|------------------|-------------------|-------------------|-------------------|-------|
| Telecentre Support       | DLGRD              | 5                | 10                | 12                | 13                | 40    |

<sup>40</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p13.

<sup>41</sup> Ibid.

<sup>42</sup> Letter from Jennifer Mathews, Director General, Department of Local Government and Regional Development, 30 March 2009, p2.

<sup>43</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p11.

<sup>44</sup> Ibid, p13.

| <b>Approved Initiatives \$m</b> | <b>Responsible Agency</b> | <b>YEAR 1 2008-9</b> | <b>YEAR 2 2009-10</b> | <b>YEAR 3 2010-11</b> | <b>YEAR 4 2011-12</b> | <b>TOTAL</b> |
|---------------------------------|---------------------------|----------------------|-----------------------|-----------------------|-----------------------|--------------|
| Country Age Pension Fuel Card   | DLGRD                     | 20                   | 20                    | 20                    | 20                    | 80           |
| Patient Assisted Travel Scheme  | Health Department         | 7.7                  | 7.7                   | 7.7                   | 7.7                   | 30.8         |
| Royal Flying Doctor Service     | Health Department         | 5.7                  | 9.2                   | 8.3                   | 2.9                   | 26.1         |
| Bushchange Housing Grant        | DLGRD                     | 10                   | 25                    | 25                    | 25                    | 85           |
| Housing Our Workforce           | DTF                       | 8.3                  | 16.9                  | 17.2                  | 17.5                  | 59.8         |
| Boarding Away from Home         | Education Department      | 0                    | 1.8                   | 1.9                   | 1.9                   | 5.6          |
| <b>TOTAL COMMITMENTS</b>        |                           | <b>56.7</b>          | <b>90.6</b>           | <b>92.1</b>           | <b>88.0</b>           | <b>327.4</b> |

*Regional Infrastructure and Headworks Fund*

3.36 The Regional Infrastructure and Headworks Fund is made up of a mixture of strategic and contestable funds, accessible to both public and private organisations. It will be made available through the:

- a) Strategic Major Regional Projects; and
- b) Regional Grants Scheme.

Strategic Major Regional Projects

3.37 The DLGRD have advised that the Strategic Major Regional Projects initially allocated to fund projects and government programs through election commitments and also new projects which are subject to project business cases, in consultation with relevant project proponents.<sup>45</sup>

3.38 Funding will be allocated to the relevant state government agency responsible for implementing and/or managing the program.

3.39 The application of the fund is outlined in **Table 4** below:

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<sup>45</sup> Ibid, pp11-12.

**Table 4****Strategic Major Regional Projects allocation<sup>46</sup>**

| Approved Projects                      | Responsible Agency                    | Capital/ Recurrent | YEAR 1 2008-9 | YEAR 2 2009-10 | YEAR 3 2010-11 | YEAR 4 2011-12 | TOTAL         |
|--|---------------------------------------|--------------------|---------------|----------------|----------------|----------------|---------------|
| Pre-feasibility (Gascoyne and Pilbara) | DLGRD                                 | Recurrent          | 0.5           | 0              | 0              | 0              | 0.5           |
| Ord Stage 2                            | DOIR                                  | Capital            | 30            | 90             | 60             | 40             | 220.          |
| Housing our Workforce                  | Housing Authority (Housing and Works) | Capital Recurrent  | 64.7          | 143.1          | 156.8          | 173.5          | 538.1         |
| PACE - Exploration Incentive Scheme    | DOIR                                  | Recurrent          | 20            | 20             | 20             | 20             | 80            |
| Northern Towns Development Fund        | Landcorp                              | Recurrent          | 10            | 10             | 10             | 10             | 40            |
| Bunbury-Albany Gas Pipeline            | DOIR                                  | Capital            | 0             | 0              | 0              | 20             | 20            |
| Pilbara Power                          | DOIR                                  | Capital            | 0             | 0              | 0              | 0              | 0             |
| Kalgoorlie Regional Hospital           | Health Department                     | Capital            | 0             | 0              | 10             | 2              | 12            |
| Regional Airport Development Scheme    | DPI                                   | Recurrent          | 2             | 5              | 5              | 5              | 17            |
| Regional Grants Scheme                 | DLGRD and RDCs                        | Recurrent          | 40            | 110            | 120            | 130            | 400           |
| <b>TOTAL</b>                           |                                       |                    | <b>167.2</b>  | <b>378.1</b>   | <b>381.8</b>   | <b>400.5</b>   | <b>1327.6</b> |

Regional Grants Scheme

3.40 The Regional Grants Scheme is made up of contestable grants and strategic reserve.

3.41 The Minister for Regional Development has stated that the purpose of the fund is to support projects *‘that help attract investment and increase jobs or improve the quality of life in regional WA’*.<sup>47</sup>

<sup>46</sup> Ibid, p14.

*This scheme is targeted at providing financial assistance to regionally based organisations such as volunteer and business groups, educational institutions, philanthropic foundations and community organisations.*<sup>48</sup>

- 3.42 Funding is available to assist infrastructure, services and community projects, including the provision of headworks, and to assist in the broad development of the community. This includes the establishment of services and programs that will support the development of resilient communities and contribute to regional areas being vibrant and interesting places to live.<sup>49</sup>
- 3.43 \$40 million dollars has been allocated to the Regional Grants Scheme for the 2008-09 financial year which will be shared between each Regional Development Commission (RDC), (approximately \$4.4 million for each RDC in 2008-09).<sup>50</sup> The Regional Grants Scheme will be managed and administered through the State's nine RDCs.<sup>51</sup>
- 3.44 The DLGRD in their submission acknowledged the expanding roles of the RDCs and the need to resource them accordingly.<sup>52</sup>
- 3.45 Mr Marney, Under Treasurer, DTF advised the Committee that whilst the RDCs currently administer grant and funding applications, this is done on a small scale. The RDC's will now be responsible for much larger sums of money:

*Mr Marney: They do have limited existing responsibilities in this space, but not for amounts of money of the magnitudes proposed. We are talking hundreds of thousands as opposed to millions.*<sup>53</sup>

- 3.46 The Minister for Regional Development advised the Committee that the RDCs are responsible for all aspects of the administration of the Regional Grants Scheme. This includes undertaking assessments of Regional Grants Scheme applications, submitting assessments to the RDC Boards and to the Minister where appropriate, development of funding agreements with successful grant recipients, monitoring of each agreement

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<sup>47</sup> Ministerial Media Statements, Hon Brendon Grylls MLA, Minister for Regional Development, '\$40million for regional communities', 12 February 2009.

<sup>48</sup> Ibid.

<sup>49</sup> <http://www.dlgrd.wa.gov.au/RegionDev/RforR/RGS.asp> (viewed on 28 April 2009).

<sup>50</sup> Ministerial Media Statements, Hon Brendon Grylls MLA, Minister for Regional Development, '\$40million for regional communities', 12 February 2009.

<sup>51</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p15.

<sup>52</sup> Ibid, p12.

<sup>53</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, p10.



against project milestones, ensuring the appropriate acquittal of grant funds and reporting to the Minister on the outcomes of approved grants.<sup>54</sup>

- 3.47 Funding is to be applied for through the RDCs. The RDC Boards will approve applications up to and including \$250,000. Applications up to \$500,000 would require Board and Ministerial approval and grants over \$500,000 would require Cabinet approval.<sup>55</sup>
- 3.48 A defined application and assessment process has been established and put in place for the Regional Grants Scheme.
- 3.49 Funding allocations, administrative costs, and resource requirements for program management, administration, reporting and monitoring have been determined initially as follows for each RDC's allocation:
- contestable grants 77.5 per cent;
  - strategic 20 per cent; and
  - administration 2.5 per cent.<sup>56</sup>

*Committee Comment*

- 3.50 The Committee notes that each RDC will receive an equal amount of funding under the Regional Grants Scheme regardless of the identified needs for that region.

*New regional and State-wide initiatives*

- 3.51 An amount of \$307.2 million has been allocated for new regional and state-wide initiatives which are yet to be scoped. Once new projects are approved they will be placed in the most suitable sub-fund.<sup>57</sup>

*Regional Development Commissions*

- 3.52 As well as administering the fund, the RDCs will play an important role in setting future regional direction and establishing regional priorities.<sup>58</sup>
- 3.53 On the role and function of the RDCs in RFR, the DLGRD submitted:

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<sup>54</sup> Letter from Hon Brendon Grylls MLA, Minister for Regional Development, 29 April 2009.

<sup>55</sup> Ministerial Media Statements, Hon Brendon Grylls MLA, Minister for Regional Development, '\$40million for regional communities', 12 February 2009.

<sup>56</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p15.

<sup>57</sup> Ibid.

<sup>58</sup> <http://www.dlgrd.wa.gov.au/RegionDev/RforR/TheFunds.asp> (viewed on 28 April 2009).

*Regional Development Commissions are a local presence in regional communities and play a role in coordinating government agencies to work closely together, identifying regional issues and promoting development in the regions.*

*They stand as a crucial instrument through which the Royalties for Regions policy can be delivered. In light of their current roles the Regional Development Commissions are envisaged to undertake the following:*

- *Providing a shop front for Royalties for Regions*
- *Assisting in developing priorities for target areas, for example Bush change Housing Grants Scheme*
- *Assisting in developing networks to provide leverage of funds, for example, the Northern Towns Development Funds*
- *Forming relationships with Community Resource Centres*
- *Providing a conduit to support decision making and develop initiatives within communities*
- *Utilising their local presence in rolling out other Royalties for Regions initiatives.*<sup>59</sup>

#### *Committee Comment*

3.54 The Committee notes the evidence given that the RDCs will have an expanded role. The extent to which this role has expanded in practise will become evident as RFR evolves.

#### **Administration of the RFR Fund**

3.55 The Major Regional Projects Division within the DLGRD has been established to administer and coordinate the implementation of RFR. The role of this division is to:

- consult on the establishment of suitable frameworks for RFR funds to be distributed and ensure the agreed outcomes are implemented;
- develop and maintain reporting mechanisms to capture information on the progress and outcomes of RFR initiatives;

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<sup>59</sup> Letter from Jennifer Mathews, Director General, Department of Local Government and Regional Development, 30 March 2009, p3.

- co-ordinate activity associated with implementing the RFR program and associated projects;
- monitor the progress of agreed strategic line agency RFR projects;
- establish and manage a communications plan for the RFR program;
- regularly report to government on overall progress of the RFR program; and
- ensure that the DTF and Auditor General's governance requirements are met.<sup>60</sup>

3.56 At the hearing with the DLGRD, Ms Mathews, Director General, advised the Committee that this division was set up specifically to implement RFR as the Department did not have sufficient resources to implement the new regional development policy direction. The new division has 14 FTE. In addition to that, six FTE are working on the Ord project.<sup>61</sup>

3.57 The Minister advised that an increase in FTEs to administer RFR is likely.

*As the Royalties for Regions represents new activity above the current activities of the Department of Local Government and Regional Development, additional resources are required to implement the programs. While every effort is being made to utilise appropriate agencies to deliver Royalties for Regions, it is likely there will be an increase of FTEs to administer the Royalties for Regions Fund within the Department of Local Government and Regional Development and other implementing agencies. The increase will be determined by a number of factors which include:*

*the recent announcement of the Department of Regional Development and Lands;*

*the administration of the Royalties for Regions Act and development of the Royalties for Regions Trust;*

*the support needed to enable agencies to plan and implement projects; and*

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<sup>60</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, pp9-10.

<sup>61</sup> Ms Jennifer Mathews, Director General, Department of Local Government and Regional Development, *Transcript of Evidence*, 9 March 2009, p19.

*appropriate level of reporting and branding requirements.*<sup>62</sup>

*Committee Comment*

- 3.58 The Committee believes that this should be monitored and queries how many of the new FTEs will be based in the regions. The cost of administering RFR needs to be factored into its overall cost, despite the administration of RFR being centrally located in the metropolitan area.

**Governance and Accountability**

- 3.59 The DLGRD has advised the Committee that it is establishing a governance framework for RFR, which will outline principles, roles and responsibilities and support mechanisms for the administration of the fund.<sup>63</sup> The governance framework will be finalised to coincide with the establishment of the RFR bill.<sup>64</sup>

- 3.60 The DLGRD further advised that the areas being looked at for inclusion in the governance framework include operational plans for each of the supporting funds, risk management plans at the policy, program management and individual funds level, reporting mechanisms, evaluation frameworks, and communication and marketing plans.<sup>65</sup>

- 3.61 The Committee notes that the governance framework for each sub-fund will be different. As stated by Mr Marney, Under Treasurer, DTF:

*... hence the need for different governance arrangements depending on the nature of the fund and how the draw-down pattern is anticipated and indeed how the application to the funds actually occurs, and how they get approved and authorised and so on.*<sup>66</sup>

- 3.62 A common reporting framework is being established to determine the economic, environmental and social outcomes of various activities under RFR.

*Discussions are currently being held between the Australian Bureau of Statistics, the Department of Treasury and Finances and the Department of Local Government and Regional Development to*

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<sup>62</sup> Letter from Hon Brendon Grylls MLA, Minister for Regional Development, 29 April 2009, p3.

<sup>63</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p17.

<sup>64</sup> Letter from Jennifer Mathews, Director General, Department of Local Government and Regional Development, 30 March 2009, p3.

<sup>65</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, pp19-20.

<sup>66</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, p10.

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*measure and assess the effect of investment in Royalties for Regions projects and benefits derived.*<sup>67</sup>

3.63 The framework to administer the fund under the new legislation will be determined by the following factors:

- the appointment of the Director General for Regional Development and Lands;
- the administration of the Royalties for Regions Act; and
- the development of the Western Australian Regional Development Trust.<sup>68</sup>

3.64 Similarly, the performance indicators that will be used for RFR are still being developed. The Minister for Regional Development advised:

*The performance indicators to be used will be determined in relation to the target audience, project/program characteristics, relevance and priority of information. Discussions are being held with the Department of Treasury and Finance and the Australian Bureau of Statistics to determine the indicators to be considered and to ensure the information can be benchmarked and monitored over a period of time. The Department of Local Government and Regional Development is developing an evaluation framework as the mechanism for measurement.*

*The Department of Local Government and Regional Development has developed a number of draft indicators that may be utilised to evaluate the Royalties for Regions Program. These will be reviewed and further refined as related variables and data sources are acquired. The Department is currently undertaking a pilot study to evaluate the social and economic impacts of projects with the Royalties for Regions program.*<sup>69</sup>

3.65 The Committee was interested in ascertaining how the benefits of the Policy will be measured. The Minister for Regional Development advised:

*The outcomes and benefits of the various projects and schemes under RFR will be measured through the reporting framework and laid out in agreements with funding agencies. Key evaluation questions are being formulated, and form the basis of data collection for evaluation.*

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<sup>67</sup> Letter from Hon Brendon Grylls MLA, Minister for Regional Development, 29 April 2009, p1.

<sup>68</sup> Ibid, p4.

<sup>69</sup> Ibid, p3.

*An interim template has been produced and discussions are currently being held with funding agencies on its application. The Department is in the process of developing a model for measuring the social impact of the Royalties for Regions funding which goes beyond objective cost benefit analysis. The Department is also in discussion with the Australian Bureau of Statistics to develop baseline data for future measurement.<sup>70</sup>*

*Committee Comment*

- 3.66 The Committee notes that the administration framework, key performance indicators (KPIs) and reporting framework for RFR are currently being developed.
- 3.67 The Committee notes that a significant amount of funding has already been allocated under RFR without these accountability measures being in place.
- 3.68 It is important that the outcomes of RFR can be measured against the stated aims of the Policy. Further, that the issues outlined at paragraphs 2.8 and 2.9 above, as the reasons for RFR, are being addressed. The KPIs and the reporting framework which are currently being developed must be sufficient, so that the outcomes may be accurately measured. The Committee will remain vigilant on this matter.

**Committee Observation**

- 3.69 The Committee notes that substantial funding has already been allocated under RFR prior to the completion of the legislative and administrative framework to govern its operation. The Committee does not believe that this is best practice and would have expected the implementation of RFR to occur after the framework had been finalised.
- 3.70 It is of concern to the Committee that the hurry to commence implementation of RFR may have not allowed sufficient consideration and planning of the allocation of funds in order to ensure the aims of RFR are fully met.

**4 TERM OF REFERENCE C - WHAT THE DEPARTMENT OF TREASURY AND FINANCE HAS DONE WITH RESPECT TO ANY MODELING OR COST-BENEFIT ANALYSIS OF THE POLICY**

- 4.1 The Committee asked the Minister for Regional Development if it was the Government's intention to carry out a cost-benefit analysis of RFR and also of particular programs that are to be funded or proposed to be funded under RFR. The Minister for Regional Development responded as follows:

*Election commitments are being implemented and are subject to existing Cabinet and Economic and Expenditure Reform Committee*

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<sup>70</sup> Ibid, p2.

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*(EERC) deliberative process. All new projects are developed in line with existing government approval processes including cost benefit analysis and are subject to Department of Treasury and Finance scrutiny as part of that process. Agencies also have the opportunity to provide comment through both the Cabinet and EERC.<sup>71</sup>*

- 4.2 The Under Treasurer advised the Committee that the DTF has not undertaken a cost-benefit analysis of the RFR Policy or Fund. The DTF was advised of the Cabinet decision to adopt the Policy and were directed to implement it.<sup>72</sup>

*I have had communicated to me the cabinet decisions of 19 October. They go to the amounts to be set aside. The implementation and intention of the programs will be established by the relevant minister and his department.<sup>73</sup>*

- 4.3 The Under Treasurer added that it is likely that the RFR will be subject to ex-post evaluation:

*If I might add, it would be a normal part of the process, as a minimum, for the implementation of a large suite of expenditures like this to go to some form of ex-post evaluation, at the least to ensure that the expenditures and the policies were implemented in such a way as were consistent with the original intent.<sup>74</sup>*

#### *Committee Comment*

- 4.4 The Committee notes that no cost-benefit analysis was undertaken on the overall Policy.
- 4.5 The Committee is of the view that the initiatives and programs to be implemented as part of RFR require a cost-benefit analysis. Where decisions are still to be made on how funding is to be allocated, cost-benefit analysis should be undertaken. Such analysis will assist in ensuring that these programs when implemented will be consistent with the aims of RFR.
- 4.6 The Committee is of the view that there should be ongoing evaluation of benefits of the programs and initiatives under RFR to ensure it is achieving its stated aims.

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<sup>71</sup> Ibid, p1.

<sup>72</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, p2.

<sup>73</sup> Ibid, p3.

<sup>74</sup> Ibid, p2.

## 5 TERM OF REFERENCE D - THE IMPLICATIONS OF THE POLICY

### The Possible Impacts of the Policy on the State's AAA Credit Rating

- 5.1 Credit ratings assess the credit worthiness of the State. It is an opinion about credit risk. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan. A poor credit rating indicates a high risk of defaulting on a loan, and thus leads to high interest rates, or the refusal of a loan by the creditor.<sup>75</sup>
- 5.2 WA's current credit rating is provided by two international credit rating agencies, Moody's and Standard and Poor's. The rating expresses the opinion of these agencies about the ability and willingness of the State to meet its financial obligations in full and on time.
- 5.3 Typically, ratings are expressed as letter grades that range from AAA to D to communicate the agency's opinion of relative level of credit risk.<sup>76</sup>
- 5.4 The State's fiscal strategy, as outlined in the 2008-09 Budget includes a series of medium-term financial targets. These targets were to:
- maintain or increase real net worth of the total public sector (i.e. the value of the State's net assets is not diminished);
  - achieve an operating surplus for the general government sector (i.e. day to day revenue exceeds day to day spending);
  - retain the State's AAA credit rating, represented by the following specific targets:
    - maintain the net debt to revenue ratio for the total non-financial public sector at or below 47 per cent (as a proxy measure of a sustainable level of debt burden); and
    - ensure that real per capita own-purpose expenses for the general government sector do not increase (i.e. contain spending to the rate of increase in inflation and population); and
  - maintain WA's tax competitiveness, as measured by maintaining tax revenue as a share of Gross State Product below the other State's average.<sup>77</sup>

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<sup>75</sup> [http://en.wikipedia.org/wiki/Credit\\_rating#Sovereign\\_credit\\_ratings](http://en.wikipedia.org/wiki/Credit_rating#Sovereign_credit_ratings) (viewed 16 January 2009).

<sup>76</sup> See General Summary of the Opinions Reflected by Standard & Poor's Ratings at p10 of *Guide to Credit Rating Essentials*, [www.aboutcreditratings.com](http://www.aboutcreditratings.com) (viewed 8 May 2009).



- 5.5 Current projections are for a net debt as a share of revenue ratio to be 60.9 per cent in 2011-12, which is well in excess of the 47 per cent target limit necessary to maintain the AAA rating.<sup>78</sup> (Note: This is the current published figure for net debt to revenue, however, the financial factors that drive the State's budget and its level of debt are volatile, and the figure fluctuates daily.)
- 5.6 Retention of the AAA credit rating is important for WA for two reasons:
- it provides a signal to investors that the State is a stable, safe and low risk place to invest; and
  - the higher the credit rating of the State, the less expensive it is for the State to borrow money, easing the burden on the State budget.<sup>79</sup>
- 5.7 The Committee notes that the Treasurer, Hon Troy Buswell MLA, has stated that losing the rating would have a significant impact on business confidence in WA and increase the Government's borrowing costs.<sup>80</sup>
- 5.8 The Committee asked Mr Marney, Under Treasurer, DTF, what it would mean if the State's credit rating were to be downgraded. Mr Marney advised:

*Probably the greatest impact at the moment would be on confidence within the state, both with respect to the state's financial stability and the state's economy more broadly, and the impact on investor confidence. At the moment it would not substantially impact on our debt costs, for a number of reasons—the biggest reason being the commonwealth guarantee, which has been in place since October last year or thereabouts. That has had a substantial distortionary impact on the debt financing market, to the extent that it bestowed upon sub-AAA entities a AAA credit rating overnight. That meant that overnight state government debt issuance became dramatically less attractive. With the downgrade in Queensland, being an economy of a similar nature and being a semi-government entity, my understanding is that our cost of debt increased slightly as a result of that in any case. It is not unusual in financial markets to have that sort of contagion from like product to like product. So the short answer is that it would impact our confidence more than anything, because there are*

<sup>77</sup> 2008-09 Government Mid-year Financial Projections Statement, December 2008, p27.

<sup>78</sup> Ibid, p30.

<sup>79</sup> Government Financial Results Report 2004-05 Fact Sheet, p2.  
[http://www.dtf.wa.gov.au/cms/uploadedFiles/info\\_sheet\\_operating\\_surplus.pdf](http://www.dtf.wa.gov.au/cms/uploadedFiles/info_sheet_operating_surplus.pdf) (viewed 16 January 2009).

<sup>80</sup> Ministerial Media Statement, Hon Troy Buswell MLA, Treasurer, 'Rating agency warning spurs State Government budget resolve', 28 January 2009.

*substantial distortions in the debt market at the moment, which are already causing us grief.*<sup>81</sup>

- 5.9 The DLGRD has advised the Committee that the amount allocated to RFR is subject to retaining the State's AAA credit rating.<sup>82</sup>

*The exact amount may vary from year to year depending on the royalty revenue collected. The aim of funding allocated to Royalties for Regions is to preserve the State's AAA credit rating. The Government will play a part in the recalibration of the State's finances to ensure that the State remains strong; cutbacks will be reflected in this year's budget.*<sup>83</sup>

- 5.10 The Committee wrote to the Treasurer and asked what strategy is the Government undertaking to ensure that the State's AAA credit rating is maintained? The Treasurer responded as follows:

*It is not possible to provide answers to your questions at this stage. The Committee will be able to obtain information relating to these questions through the Budget papers when they are tabled in Parliament.*<sup>84</sup>

#### *Committee Comment*

- 5.11 The Committee acknowledges that the Government has stated that RFR will be adjusted if the State's AAA credit rating is at risk. The Committee supports this approach. The Committee notes the Government's commitment to maintain the AAA credit rating and believes the Government will need to have addressed this in the 2009-10 State Budget to meet their stated intent. The Committee will remain vigilant on this matter.

#### **The Possible Impacts of the Policy on the State's Budget**

- 5.12 The 2008-09 Government Mid-year Financial Projections Statement (**mid-year review**) published in December 2008 states that the implementation of RFR will present an increase in government expenditure by a total of \$2.362 billion of recurrent and capital spending from 2008-09 to 2011-12.<sup>85</sup>

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<sup>81</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, p8.

<sup>82</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p4.

<sup>83</sup> Letter from Hon Brendon Grylls MLA, Minister for Regional Development, 29 April 2009, p4.

<sup>84</sup> Letter from Hon Troy Buswell MLA, Treasurer, 20 April 2009.

<sup>85</sup> 2008-09 Government Mid-year Financial Projections Statement, December 2008, p2 and p15.

- 5.13 The mid-year review highlights that general government expenses are projected to be \$18,853 million, \$881 million higher than the estimate published in the Pre-election Financial Projections Statement (PFPS) on 16 August 2008.<sup>86</sup> Increased expenses have also occurred in the out-years (2009-10 to 2011-12) by between \$877 million and \$1 billion per annum relative to the PFPS projections.<sup>87</sup> RFR is the most significant policy decision to have impacted on this increase.
- 5.14 The Treasurer has acknowledged that State revenues are under pressure from a range of areas including:
- cuts to GST revenue from the Commonwealth;
  - reductions in property taxes because of the slowdown in the property market; and
  - cuts in royalty incomes because of volumetric and price-related factors associated with royalties.<sup>88</sup>
- 5.15 Similarly, the mid-year review identified that the continued turmoil on world financial markets, the consequent international economic slowdown, and the State's declining share of lower projections of national GST collections have also impacted on the State's revenue outlook.<sup>89</sup>
- 5.16 It was noted that Mr Marney, Under Treasurer, DTF stated that RFR was creating an added challenge in an already difficult financial climate.

*Anything of that magnitude being introduced into the state's finances at the moment is of concern because the finances are tenuous by virtue of numerous factors including the world economic conditions so it just makes the environment that little bit more challenging.*<sup>90</sup>

- 5.17 Mr Marney advised the Committee that the trend seen in the mid-year review has been brought forward and is rising and that there have been further substantial

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<sup>86</sup> For details of the increase in expenses and the variations in revenue and expenses since the 2008-09 PFPS, see Tables 2 and 3 contained in 2008-09 Government Mid-year Financial Projections Statement, December 2008, pp5-7.

<sup>87</sup> 2008-09 Government Mid-year Financial Projections Statement, December 2008, p13.

<sup>88</sup> Hon Troy Buswell MLA, Treasurer, Legislative Assembly, *Parliamentary Debates (Hansard)*, 11 November 2008, pp70-71.

<sup>89</sup> 2008-09 Government Mid-year Financial Projections Statement, December 2008, p7.

<sup>90</sup> ABC News, 'Renewed warning over WA's finances', 16 March 2009. [www.abc.net.au/news/stories/2009/03/16/2517702.htm](http://www.abc.net.au/news/stories/2009/03/16/2517702.htm) (viewed on 6 May 2009).

deteriorations in particular items of revenue as well as further substantial expenditure pressures on the State's budget.<sup>91</sup>

- 5.18 The Committee wrote to the Treasurer and asked whether the State's fiscal strategy was being modified to take into account the impacts of RFR? The Treasurer responded as follows:

*It is not possible to provide answers to your questions at this stage. The Committee will be able to obtain information relating to these questions through the Budget papers when they are tabled in Parliament.*<sup>92</sup>

- 5.19 The Committee notes the comments of Dr Michael McLure, Senior Lecturer, Economics, University of Western Australia, that as the State's budget is currently not reported on a geographical basis it is difficult to measure what the fiscal impact of the Policy is and what the Policy has achieved over time:

*At this stage, information is not publicly available to enable the decomposition of the State accounts into component geographically defined accounts, or even to identify the direction of net fiscal transfers within the State. While royalties may suggest a partial fiscal transfer from the regions to Perth, State taxes are mainly collected in Perth and the cost of service provision in regions is typically higher than in the metropolitan area. The geographic direction of net fiscal transfers within WA as a result of State Government activity simply remains uncertain. Consequently, the proposed new budget papers should include 'Perth' and 'regional' accounts for a number of years immediately prior to the introduction of the 'royalties for regions' program. As the 'royalties for regions' program represents a major reallocation of State resources within WA, special 'Perth' and 'regional' accounts should also be extended beyond the budget year (2009-10) and across the forward estimate period too. The resulting mini time-series would not only reveal the immediate net redistributive effect of the 'royalties for regions' program, it would also assist informed discussion of the State Government's general net fiscal transfer between Perth and the regions, or the regions and Perth, before and after the implemental [sic] of the 'royalties for regions' program.*<sup>93</sup>

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<sup>91</sup> Timothy Marney, Under Treasurer, Department of Treasury and Finance, *Transcript of Evidence*, 16 March 2009, pp4-5.

<sup>92</sup> Letter from Hon Troy Buswell MLA, Treasurer, 20 April 2009.

<sup>93</sup> Submission No 1 from Dr Michael McLure, 30 January 2009, p2.

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*Committee Comment*

- 5.20 The Committee notes that the policy decisions of the Government, including RFR have impacted on the increase in expenditure in the State budget and that RFR is creating an added challenge in a difficult financial climate.
- 5.21 As the State budget is not reported by geographical regions, the Committee has not been able to determine how much of the RFR funding is new funding for the regions and how much of the RFR funding is simply a rebranding of existing funding as funding for the regions. It is, therefore, difficult to measure what the real impact of RFR is on the State budget.
- 5.22 The Committee notes that it is too early to determine what the impact of RFR will be on the State's budget.
- 5.23 The Committee believes there will need to be greater transparency in the reporting of funding to the regions for the public to be able to monitor the additional expenditure in the regions.
- 5.24 The Committee will remain vigilant on these matters.

**The Potential Operational Impact of the Policy on Government Agencies**

- 5.25 On the potential operational impact of the Policy on government agencies, the DLGRD advised the Committee that they will liaise with government agencies responsible for implementing the RFR projects to monitor expenditure and cash flows. The DLGRD acknowledged that beyond this, the Policy may have a wider impact on government agencies but did not provide any further comment on what this impact would be.<sup>94</sup>

*Committee Comment*

- 5.26 The Committee notes that it is too early to determine what the operational impact of RFR will be on government agencies. The Committee will remain vigilant on this matter.

**6 TERM OF REFERENCE E - ANY OTHER RELEVANT MATTER****The Ability of the Government to Adjust the Policy in Response to Changing Financial Circumstances**

- 6.1 The DLGRD has advised the Committee that Memoranda of Understanding will be established with departments and agencies responsible for delivering RFR. Contained

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<sup>94</sup> Submission No 7 from the Department of Local Government and Regional Development, February 2009, p21.

in this will be specific requirements concerning expenditure which will enable recording of cash flow of all RFR strategic projects currently approved.<sup>95</sup>

6.2 In order to respond and adjust to changing economic circumstances, the DLGRD advised that they have the following arrangements in place:

- RFR has the amount of \$307.2 million for new regional and state-wide initiatives which are yet to be scoped. It may be used in circumstances where the case profile of projects change, or as priorities or initiatives come to light. An example of a response to changing economic circumstances includes the government's response to Ravensthorpe;
- Given the current economic circumstances, programs are continuously under review - a monitoring and reporting process is being established for all projects; and
- Funding is provided directly to the regions with priority funding set by local agencies that are best placed to gauge changing circumstances and direction of communities. Funds are distributed on the principle that agencies have rigorous reporting and auditing processes in place. Each fund is planned on an implementation basis. This provides agencies with the ability to list priorities and ensure appropriate changes in direction are made to account for changes in circumstances.<sup>96</sup>

6.3 The Committee asked the Minister for Regional Development if RFR will be adjusted to respond to the changing financial circumstances of government. The Minister advised as follows:

*The Royalties paid to the State are subject to international market forces and currency movements and, as such, are already exposed to the changing financial circumstances. A consultative process is in operation and remodeling of RFR will reflect the financial circumstances of the State. The Minister is committed to meeting the needs of Government including efficiency requests to which all Government agencies are subjected.*<sup>97</sup>

### **Environmental Sustainability**

6.4 It was not evident to the Committee how RFR addresses environmental issues. There is no specific mention of environmental sustainability in any of the information the Committee obtained on RFR.

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<sup>95</sup> Ibid, p22.

<sup>96</sup> Ibid.

<sup>97</sup> Letter from Hon Brendon Grylls MLA, Minister for Regional Development, 29 April 2009, p4.

- 6.5 The Committee asked the Minister for Regional Development if RFR includes consideration of long term sustainable development, including environmental sustainability. The Minister advised as follows:

*Royalties for Regions is provided to enable regional communities to shape their future locally and plan for longer-term sustainable development so that they can build stronger, vibrant local communities. To be sustainable is to develop and implement economic, social and environmental sustainability strategies.*

*The Policy is able to put sustainability projects on the ground and where environmental issues are a consideration, they will be made in concert with current environmental practices being promoted by State and Commonwealth Governments.*

*Presentations have been made to the Natural Resource Management Review Group, Department of Agriculture, and Department of Water about opportunities to work together to assess the relevance, effectiveness and sustainability of projects. Already new project initiatives are looking at mechanisms to adhere to triple bottom line.<sup>98</sup>*

- 6.6 The Minister further advised that:

*Currently, the Policy does not make specific reference to environmental sustainability though reference is made to sustainable development implying the inclusion of environmental and social sustainability as a consideration for projects. The Royalties for Regions Policy is implicit in its alignment with existing State and Government environmental policy and legislation.<sup>99</sup>*

- 6.7 The Minister submitted that projects and initiatives under RFR have capacity to impact on protecting the environment:

*Royalties for Regions involves a wide range of projects and initiatives which have varying capacity to impact on protecting the environment. For example, the Regional Grants Scheme may provide funding to new projects which have an impact on protecting the environment. The construction of new homes as part of Housing for Workers would utilize current environmental standards to minimize the impact of*

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<sup>98</sup> Ibid, p6.

<sup>99</sup> Ibid.

*Green House gases. The Country Local Government Fund is open to projects that both enhance and protect the environment.*<sup>100</sup>

- 6.8 Further, that reporting on environmental issues may be factored into the reporting framework:

*As the reporting framework is established and reporting mechanisms are implemented, the program will be in a position to provide details on how projects are able to protect the environment as well as determining economic and social benefits.*<sup>101</sup>

*Committee Comment*

- 6.9 Whilst the Committee notes that RFR does not make specific mention of environmental sustainability, it also notes the Minister's advice that he expects environmental sustainability will be addressed.
- 6.10 The Committee awaits the finalisation of the reporting framework and anticipates that the KPIs being established for RFR will include indicators to measure achievement of environmental outcomes.
- 6.11 The Committee will continue to monitor this issue to ensure that RFR projects meet environmental sustainability standards.

**Economic Sustainability**

- 6.12 Dr Michael McLure, Senior Lecturer, Economics, University of Western Australia submitted to the Committee his view on the sustainability of the economic interest that each citizen of the State has in maintaining (or enhancing) the real value of commonly owned public property over time.
- 6.13 In his submission, Dr McLure notes that natural resources are the property of both the current and future generations of the people of WA. He submits that care must be taken to ensure that the RFR is sustainable in every sense so as not to deprive future generations from sharing in the benefits of WA's current royalties:

*Natural resources are the property of the State or, more concretely, the property of the people of WA now and over the full life of the State i.e current and future generations of Western Australians. Resource royalties may be considered a payment to the State in exchange for giving up title to a resource. As the title to a resource sold by the State was effectively owned by current and future generations, there is*

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<sup>100</sup> Ibid, pp6-7.

<sup>101</sup> Ibid, p7.



*an obligation on the state to largely transform that royalty stream into publicly owned assets that will provide benefits for current and future generations. Great care will be needed to ensure that the operational details of the ‘royalties for regions’ program is sustainable in the sense that it does not deprive future generations from sharing in the benefits of WA’s current royalties.<sup>102</sup>*

- 6.14 In Dr McLure’s view using royalty revenue for recurrent spending is not sustainable, and, in doing so, the capital base of the State is being depleted. Royalties should be excluded from the recurrent budget and instead be treated as capital revenues and be employed in the acquisition of public assets.<sup>103</sup> The Committee explored this view with Dr McLure:

***Dr McLure:** ... I am also concerned that we partially, I suppose, account for our assets in the balance sheet, which does not include the value of natural resources to the state. In effect, when we sell those resources, the value of our balance sheet would diminish. My suggestion is that we should be at least making sure that resources that come into the state in the form of royalties are allocated for capital purposes so that our notional, if you like—*notion of our net balance sheet*—shows no loss. The issue here is we do not have the capacity to value our stock of mineral resources and try and include a balance sheet which includes the value of natural resources. But as a sort of a minimum where we do have the information, I believe we should be looking at a requirement to make sure that there is no net depreciation in the state’s assets, for current and future generations, and therefore allocate amounts to capital accounts rather than those funds be used for recurrent expenditures. That is, in a nutshell, my concern.*

***The CHAIRPERSON:** Can I just clarify that for my own thinking—because the royalties reflect a return on a non-renewable resource, that that should then be expended on capital to kind of keep the notional capital equal?*

***Dr McLure:** That is exactly right. I am suggesting that there is some notion of a stock of wealth that the community as a whole holds, some of it is in physical capital, or infrastructure and the like, and some of it is in natural resources, and that is the property of our generation and future generations. When part of that is depleted, be it even physical stock, or be it resources, there should be some attempt to*

<sup>102</sup> Submission No 1 from Dr Michael McLure, 30 January 2009, p4.

<sup>103</sup> Ibid, p5.

*make sure that the total stock itself does not decline over time. A requirement along the lines that I am suggesting, I think, would achieve that. I should also add that it is not an onerous thing, to the extent where that should be a minimum requirement. That is just maintaining stock of wealth that the state of Western Australia has at its current level and any forward looking view would actually be trying to increase the stock of wealth over time. I do not think what I am suggesting is even controversial; it is just a relatively conservative proposition.*<sup>104</sup>

...

**The CHAIRPERSON:** *You said in the paper that great care will be needed to ensure that the operational details of the royalties for regions program is sustainable in the sense that it does not deprive future generations from sharing the benefits of WA's current royalties. You touched on that a bit, but could you elaborate a little bit more on that?*

**Dr McLure:** *Okay. It goes back to the point I made in the very opening comment that the stock of wealth of the state is the stock for now and for all generations. It is the community's over time. If one generation is to treat the next equitably in an economic sense—and it is a narrow economic sense which I mean here—then it is an obligation for us to make sure that any stock of wealth that we consume in one form or another is replaced by another stock of equal value. Economists generally would not say we do not do anything; we just have to retain it as it is, and you can transform it how you like as long as the aggregate value that is passed from one generation to the next does not diminish. My concern with the royalties for regions program is that part of it is being spent not on recurrent, so there is a potential for it to diminish. It is a fair point the Premier makes—that the total expenditure is higher than what royalties for regions is. It is a valid point, but I still think that over time, that will not necessarily be the case because there is no fiscal framework requirement for this to be maintained. I also firmly believe that documentation of these things is appropriate and useful for reflection that this is what we have done with our royalties; this is where it is.*

*The other point which I make is that royalty values typically appreciate over time in real values. If you put money into a port, it*

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<sup>104</sup> Dr Michael McLure, Senior Lecturer, Economics, University of Western Australia, *Transcript of Evidence*, 9 March 2009, p2.

*will typically depreciate fairly quickly if it is being used. There needs to be a record of this over time so that if things are depreciating and there is actually a real decline in values, you have the records which will show you and make remedial action as you go. If you do not have records and you just assume that we are going to allocate a certain amount to capital and there is no framework within which that amount is allocated, there is a risk of not identifying problems that can occur in terms of intergenerational equity.*

**The CHAIRPERSON:** *And is the problem solved if the fund was used only for capital rather than recurrent expenditure, apart from the comment you just made about the depreciation of certain capital assets?*

**Dr McLure:** *I think so, but I am sympathetic to the view that the demands—I suppose this is the policy context within which all this occurred and the demands for regions is not only for capital; it is for recurrent expenditures as well. If the royalties for regions scheme is to be set up that way and it has a recurrent element and a capital element, I believe there needs to be some requirement within the state budget somewhere that says at least the equivalent of what is spent under royalties for regions on the current exercise should be spent on capital areas elsewhere. I do not even think it would matter which area. It depends on where the priorities of the government of the day are. It may be in the metro area or it may be outside the metropolitan area.<sup>105</sup>*

#### *Committee Comment*

- 6.15 The Committee draws to the attention of Government the views of Dr McLure and urges the Government to take into account the economic sustainability of RFR when making decisions as to RFR funding allocation so as to not deprive future generations of Western Australians of the benefits of the State's royalties.

#### **Indigenous Population**

- 6.16 The Committee notes that one of the issues which highlighted the need for RFR was the social and economic circumstances of the indigenous population in rural and regional areas (see paragraphs 2.8 and 2.9). The Committee notes, however, that there is no recognition of the specific funding needs to address the social and economic circumstances of indigenous populations in the allocation of funds to date.

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<sup>105</sup> Ibid, pp8-9.

### **Amount of Royalties Retained by the State**

6.17 The Committee received some evidence from the Under Treasurer as to the amount of royalties that are retained by the State. It is currently estimated that WA keeps 10 per cent of its offshore petroleum royalties, reflecting our population share, and around 40 per cent of its onshore mining royalties. Together WA effectively keeps around 30 per cent of its total royalties. The Committee has been unable to ascertain if this fact has been considered in developing RFR.<sup>106</sup>

### **Local Government Grants Process**

6.18 The Committee is concerned about the impact of grants under RFR, in particular the CLGF on grants received by local governments from the WALGGC. The Committee believes this issue will need to be monitored to ensure that regional local government does not receive reduced funding from the WALGGC as a result of receiving funding under RFR.

**Recommendation 1: The Committee recommends that the Government give consideration to the issues raised in the Committee's comments and observations throughout the report.**



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**Hon Giz Watson MLC**  
**Chair**

**Date: 13 May 2009**

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<sup>106</sup> Letter from Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, 14 April 2009.

**APPENDIX 1**  
**LIST OF STAKEHOLDERS TO WHOM THE COMMITTEE**  
**WROTE<sup>107</sup>**

| <b>Name</b>            | <b>Position</b>  |
|------------------------|--|
| Hon Colin Barnett MLA  | Premier  |
| Hon Brendon Grylls MLA | Minister for Regional Development  |
| Mr Timothy Marney      | Under Treasurer<br>Department of Treasury and Finance                          |
| Ms Jennifer Mathews    | Director General<br>Department of Local Government and Regional<br>Development |
| Mr James Pearson       | Chief Executive<br>Chamber of Commerce and Industry Western Australia          |
| Cr Bill Mitchell       | President<br>Western Australian Local Government Association                   |
| Mr Reg Howard-Smith    | Chief Executive<br>Chamber of Minerals and Energy of Western Australia         |
| Dr Michael McLure      | Economics Program<br>University of Western Australia                           |
| Mr Brian Cahill        | Managing Director<br>Moody's Investors Service Pty Ltd                         |
| Mr Deven Sharma        | President<br>Standard and Poor's   |

<sup>107</sup> Letters sent 9 December 2008.



**APPENDIX 2**  
**LIST OF WRITTEN SUBMISSIONS RECEIVED**

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| <b>No</b> | <b>Submission</b>   | <b>Date</b> |
|-----------|---|-------------|
| 1         | Dr Michael McLure<br>Economics Program<br>University of Western Australia                       | 30/01/09    |
| 2         | Michelle Scott<br>Commissioner for Children and Young People                                    | 05/02/09    |
| 3         | James Pearson<br>Chief Executive<br>Chamber of Commerce and Industry Western Australia          | 06/02/09    |
| 4         | Hon Brendon Grylls MLA<br>Minister for Regional Development                                     | 06/02/09    |
| 5         | Mr Reg Howard-Smith<br>Chief Executive<br>Chamber of Minerals and Energy of Western Australia   | 06/02/09    |
| 6         | Tony Brun<br>Chief Executive Officer<br>City of Geraldton-Greenough                             | 06/02/09    |
| 7         | Jennifer Mathews<br>Director General<br>Department of Local Government and Regional Development | 18/02/09    |





**APPENDIX 3**  
**LIST OF WITNESSES WHO APPEARED BEFORE THE**  
**COMMITTEE**

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| <b>Witnesses</b>   | <b>Date</b> |
|--|-------------|
| Hon Wendy Duncan MLC<br>Parliamentary Secretary to the Minister for Regional Development                         | 09/03/09    |
| Ms Jennifer Mathews<br>Director General<br>Department of Local Government and Regional Development               | 09/03/09    |
| Dr Chris Berry<br>Manager, Regional Policy Unit<br>Department of Local Government and Regional Development       | 09/03/09    |
| Mr Paul Rosair<br>Director of Major Regional Projects<br>Department of Local Government and Regional Development | 09/03/09    |
| Mr Derek Carew-Hopkins<br>Consultant to Minister Grylls<br>Office of the Minister for Regional Development       | 09/03/09    |
| Mr Doug Cunningham<br>Chief of Staff<br>Officer of Minister for Regional Development                             | 09/03/09    |
| Dr Michael McLure<br>Economics Program<br>University of Western Australia  | 09/03/09    |
| James Pearson<br>Chief Executive<br>Chamber of Commerce and Industry Western Australia                           | 09/03/09    |
| Hon Barry House MLC<br>Parliamentary Secretary to the Treasurer  | 16/03/09    |

| <b>Witnesses</b>   | <b>Date</b> |
|--|-------------|
| Mr Timothy Marney<br>Under Treasurer<br>Department of Treasury and Finance | 16/03/09    |