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**Western Australian
Regional Development Trust**

**2016–17
ANNUAL
REPORT**

STATEMENT OF COMPLIANCE

Hon Alannah MacTiernan MLC
Minister for Regional Development

Dear Minister

In accordance with section 28 of the *Royalties for Regions Act 2009* (Act), I submit for your information and submission to Parliament the annual report for the Western Australian Regional Development Trust (Trust) for the financial year 2016–17.



Tim Shanahan
CHAIR

7 September 2017

ABOUT ROYALTIES FOR REGIONS

Royalties for Regions promotes and facilitates economic, business and social development in regional Western Australia (WA) for the benefit of all Western Australians. It underpins a long term commitment to developing regional areas into strong and vibrant regional communities that are desirable places to live, work and invest.

Since December 2008, the Royalties for Regions Fund (the Fund) has invested over \$7.7 billion of the State's mining and onshore petroleum royalties, including transfers to the Future Fund and other Special Purpose Accounts. These investments have focussed on addressing many of the infrastructure and service gaps caused by decades of under investment and have built the economic strength and capacity of our regions. During this period over \$620 million has been returned the consolidated account.

Across the State, many of the most pressing infrastructure and service gaps have been addressed and the impacts of this sustained investment are visible in improved regional communities. The context for regional development has changed significantly in the last few years. With the transition of the WA economy from the mining construction phase, our regions face slower growth and more challenging employment and business opportunities. The focus of the Fund is also shifting. It seems likely that in the future the Fund will become more integrated with the general public sector.

Opthalmia Dam (Credit – Shot in Oz)

ROLE OF THE WESTERN AUSTRALIAN REGIONAL DEVELOPMENT TRUST

The Trust is an independent statutory advisory body to the Minister for Regional Development (Minister) established under the *Royalties for Regions Act 2009* (Act). The functions of the Trust are to provide advice and make recommendations to the Minister:

- for the purposes of sections 5(2) and 9(1) of the Act
- on any other matter relating to the operation of the Fund that is referred to it by the Minister.

Section 5(2) of the Act relates to the allocation of Royalties for Regions funds between subsidiary accounts. For example, between the Country Local Government Fund, Regional Community Services Fund and Regional Infrastructure and Headworks Fund or other established accounts.

Section 9(1) relates to the application of the Fund, whereby the Minister, with the concurrence of the Treasurer, may authorise expenditure for the following purposes:

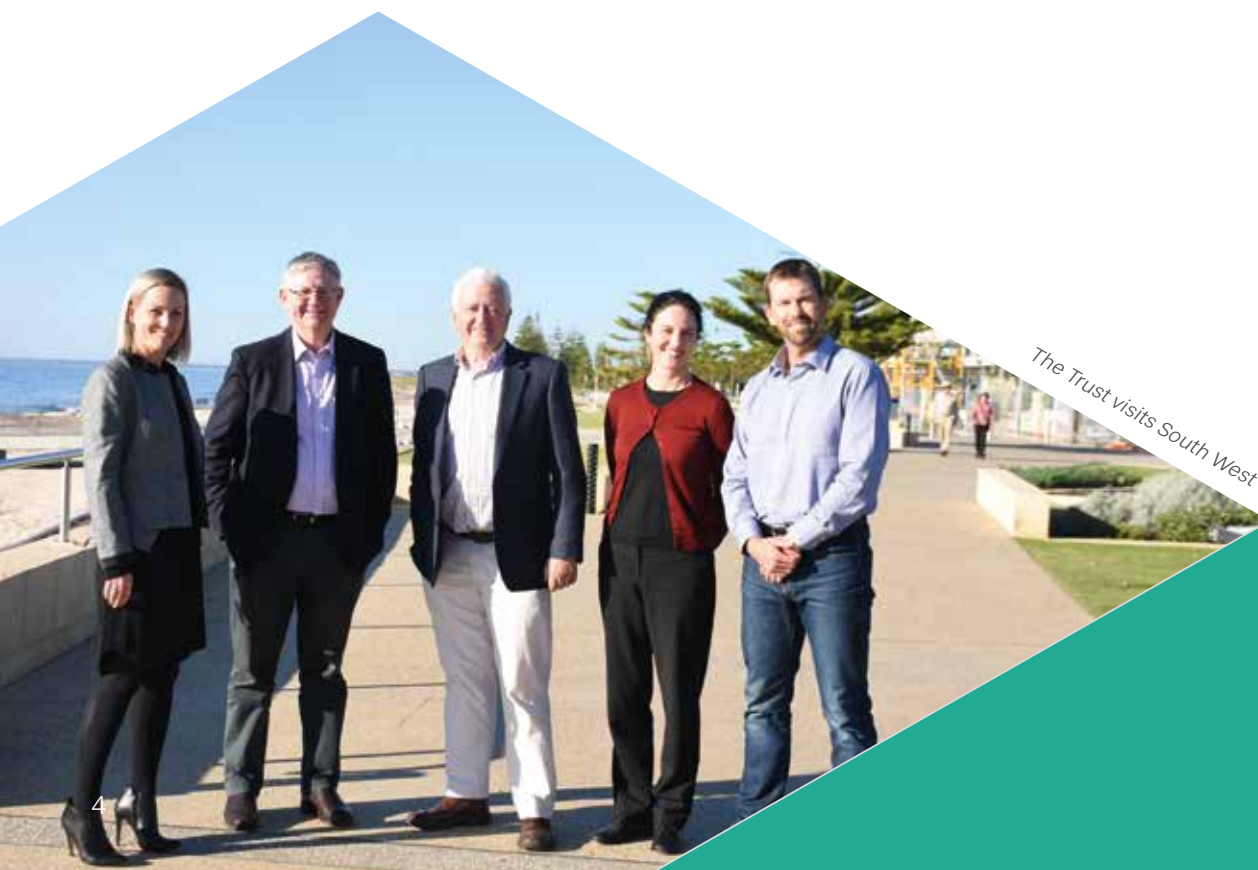
- to provide infrastructure and services in regional WA
- to develop and broaden the economic base of regional WA
- to maximise job creation and improve career opportunities in regional WA.

In addition to its monitoring and advice role the Trust also works to engage and enhance relationships with key regional stakeholders and influencers with the aim of driving greater collaboration and innovation. Trust members visit the regions and include regionally based Trust meetings into their agenda.



"The Trust's role has largely been as steward and advisor, providing a sounding board on project themes, effectiveness and efficiency. In the last year, this role has extended into external stakeholder engagement and aligning strategy with jobs and economic growth."

Extract from Trust advice to Minister, 2 June 2017.



The Trust visits South West

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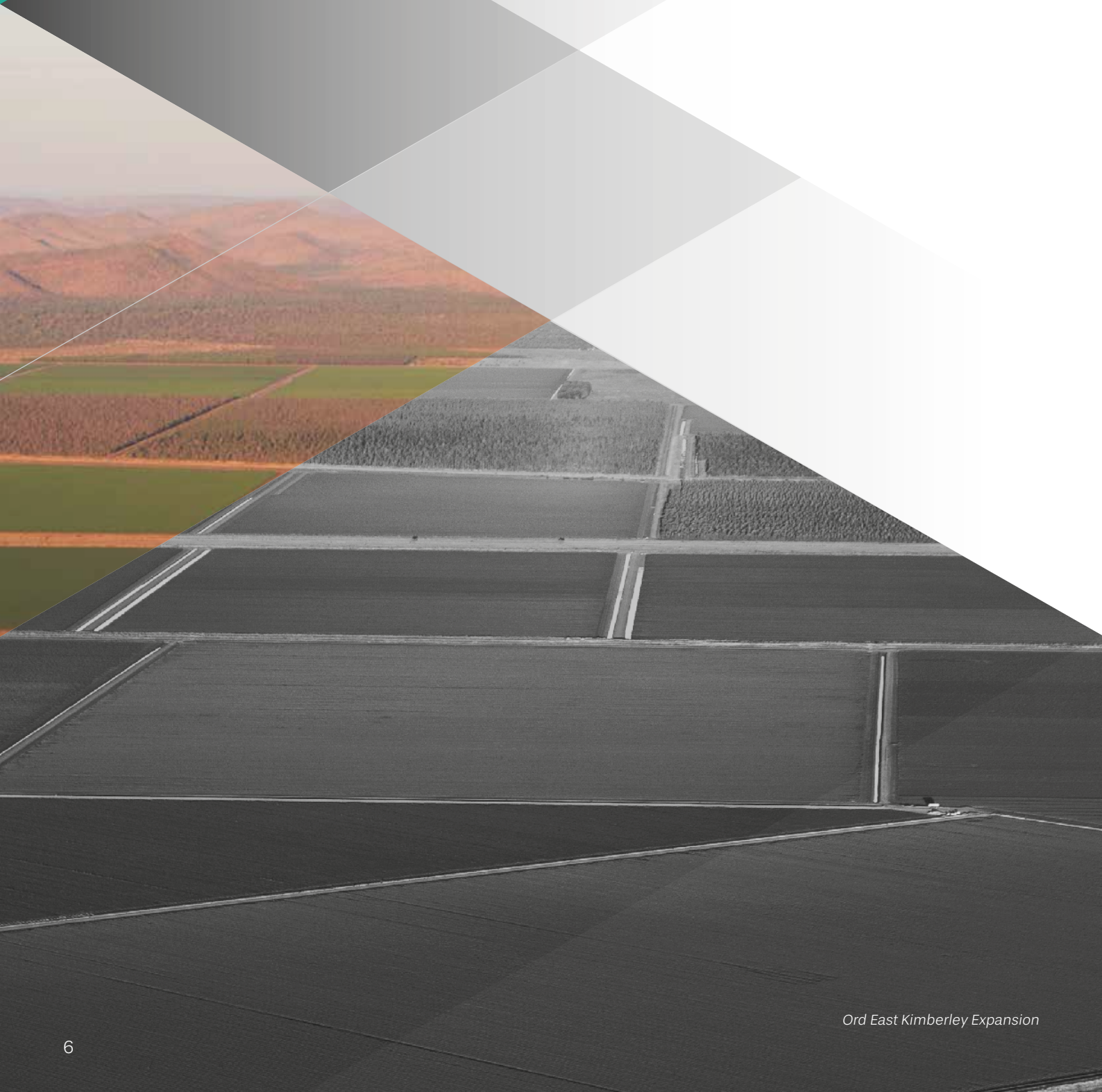
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OVERVIEW



CHAIR'S REPORT

The last 12 months have been a watershed period for Royalties for Regions.

The result of the state election has marked a change in the administration of the Fund from its policy and political foundation.

The change in government and the broader economic context has increased the pressure on the Fund to contribute to the financial challenges the state is facing.

The structure and focus of the Fund today is influenced by that fiscal pressure and the mandate of the Government to meet its election commitments. The Fund will have to accommodate a broad range of cost shifting to meet those objectives.

The Trust's role to date has been to act as the steward of an hypothecated Fund. As with most hypothecated programs, there is a tension between the defined purpose of the program reflecting the intent of the legislature at the time and the pressure of the changing circumstances of the day.

In establishing the Fund, the WA Parliament provided for a dedicated mechanism to return more of the Royalties earned in the regions to those regions. Prominent in any discussion on the Fund should be the starting point of an amount equivalent to 25% of the forecast royalty stream.

Prior to the establishment of the Fund there had been significant under-investment in regional WA, both in terms of facilities and services. In this context, it was reasonable for most of the monies to go towards new areas of expenditure or to accelerate projects that otherwise would not be possible in an appropriate time frame.

Since establishment, the Fund has invested over \$7.7 billion in the regions.

The Fund has returned \$620 million to the consolidated account, through the operation of an imposed expenditure limit and the operation of the statutory cap. Indirectly the Fund has contributed a material amount to free up the consolidated account via a series of cost shifting initiatives. Exactly how much has been cost shifted may be contested but no example is clearer than the funding of the Department of Regional Development (Department) and the Regional Development Commissions (Commissions).

The Fund has also contributed the majority of the WA Future Fund, some \$930 million.

In this report the Trust has sought to provide a clear snapshot of the Fund, not only of the last financial year but also summarising the past seven years of administration. This data will act as a useful baseline from which to monitor future changes in policy and management.



7.7 billion

Since establishment, the Fund has invested over \$7.7 billion in the regions.

Over the last 12 months the Trust has worked hard to consult with stakeholders to determine what might be more optimal investment decisions for the Fund and has developed a draft Strategic Plan to assist in focussing and measuring its work, primarily around jobs and economic growth.

The Trust visits Busselton Foreshore



The Trust has worked intensely with the Department to commission work on Jobs for WA. The work, which echoes the NSW approach, provides a rigorous framework to determine how the Fund might be invested to create more jobs in regional WA. The new Government has indicated that it will prioritise "budget repair" and its election commitments, which prominently includes a WA Jobs package. There is a strong opportunity to harness the work done by the Trust and the Department to contribute to the Government's priority for jobs.

The Machinery of Government (MoG) process provides a real opportunity to create more effective harnessing of the Fund, especially with the amalgamation of the Department to include Agriculture and Fisheries.

In reforming the Regional Development Portfolio (Portfolio), it is imperative that clarity of roles is achieved and that the input of regional people to the program is not lessened. The Fund has achieved great things for regional Western Australians although

The new Government has indicated that it will prioritise "budget repair" and its election commitments, which prominently includes a WA Jobs package.

there are undoubtedly areas where the Fund can be improved and focussed. The compass at all times should be the legislated purpose of the Fund and respecting the hypothecated nature of the Fund.

It has been my privilege to Chair the WA Regional Development Trust over the last year and I would like to acknowledge and thank my fellow Trust Members, particularly Deputy Chair, Karlie Mucjanko and to acknowledge retiring member Mr Stuart Hicks AO.

I would also like to thank the Departmental officers that have provided the Trust with the support to enable it to undertake its role.



Tim Shanahan
CHAIR

Carnarvon Flood Mitigation

ROYALTIES FOR REGIONS ACT

Responsible Minister

Hon Alannah MacTiernan MLC

Enabling legislation

Royalties for Regions Act 2009

Excepting for Parts 3 and 5, the *Royalties for Regions Act 2009* (Act) was proclaimed on 27 March 2010 to provide for the operation of the Royalties for Regions Fund (Fund). Prior to the proclamation of the Act, the Royalties for Regions Fund operated pursuant to section 10(a) of the *Financial Management Act 2006*.

Parts 3 and 5 of the Act were proclaimed on 13 July 2010 and concern the Trust. Following proclamation, the Trust held its first meeting on 16 July 2010.

Object of the *Royalties for Regions Act 2009*

Section 4: The object of the Act is to promote and facilitate economic, business and social development in regional WA through the operation of the Fund.

Functions

Pursuant to section 12 of the Act the functions of the Trust are –

- (a) To provide advice and make recommendations to the Minister for the purposes of sections (5)(2) and 9(1); and
- (b) To provide advice and make recommendations to the Minister on any other matter relating to the operation of the Fund that is referred to it by the Minister.

Section 5(2) of the Act – The Treasurer, on the recommendation of the Minister, is to determine from time to time the way in which money standing to the credit of the Fund is to be allocated between the subsidiary accounts.

Section 9(1) of the Act – The Minister, with the Treasurer's concurrence, may authorise the expenditure of money standing to the credit of the Fund for the following purposes –

- (a) to provide infrastructure services in regional Western Australia;
- (b) to develop and broaden the economic base of regional Western Australia;
- (c) to maximise job creation and improve career opportunities in regional Western Australia.

Section 9(2) of the Act – These are to be charged to the Fund –

- (a) expenditure authorised under subsection (1);
- (b) expenditure incurred in the administration of the Fund;
- (c) expenditure incurred in the administration of the Trust, including any remuneration or allowances payable to its members; and
- (d) any other expenditure incurred in the administration of this Act.

The Fund

Under the Act, the Fund is to receive an amount equal to 25 per cent of the mining and onshore petroleum royalties forecast in the annual State budget to accrue to the State Government in the following financial year. This is credited to the Fund periodically during the financial year. Section 8 of the Act requires the Treasurer to ensure that the credit of the Fund at any time does not to exceed \$1 billion.

Section 5(1) of the Act states that the Fund is to consist of the following subsidiary accounts:

- (a) the Country Local Government Fund;
- (b) the Regional Community Services Fund;
- (c) the Regional Infrastructure and Headworks Fund;
- (d) any other account determined by the Treasurer, on the recommendation of the Minister, to be a subsidiary account.

TRUST MEMBERSHIP

As per Section 13 of the Act, Trust Members are appointed by the Minister and the Trust is to consist of:

- The chairperson of a regional development commission (for a prescribed one-year term); and
- At least 3 but not more than 5 other people (for a term of three years).

Tim Shanahan, former Deputy Chair of the Trust was appointed Chair from 4 July 2016 and Karlie Mucjanko, former member, as Deputy Chair, for terms to 8 June 2018 and 1 December 2018, respectively.

Two new members were welcomed to the Trust during the year, Paul Farrell was welcomed at the commencement of the financial year for a term to 8 June 2019 and Kate Chaney commenced with the Trust on 12 December 2016 for a three year period.

Stuart Hicks continued his role throughout 2016–2017 as representative of the Commissions.

As at 30 June 2017, the membership of the Trust was as follows:

Tim Shanahan **PSM FAICD** **Chair**

Appointed as Chair from 4 July 2016 to 8 June 2018. Trust Member since June 2010.



Tim is a passionate advocate for regional WA, having previously held roles in organisations including the Chamber of Minerals and Energy WA, the Pilbara Development Commission and the WA Regional Development Council.

Tim works at the University of Western Australia as Principal Adviser and was the founding Director of the Energy and Minerals Institute at UWA. Tim was the Executive Director of the then WA Municipal Association for ten years, until 2000, was involved in many regional initiatives. Until 2014 he was Deputy Chair of the Esperance Port Authority.

He is a Past President of the RAC and continues as an RAC WA Councillor and RACWA Holdings Director. Tim was a founding Trustee of the Country Medical Foundation.

Tim is also Chair of WA Super stewarding \$2.88 billion for 30,000 members.

Tim was awarded the Public Service Medal in 2011 and the Centenary medal in 2003 for service to Local Government.

"Royalties for Regions is a transformational program for WA, delivering huge benefits not just in services and facilities but in the way we think about our communities and ourselves. Fostering aspiration and rewarding effort have been under appreciated outcomes for the program. Communities and people all over Western Australia have benefited from enhanced opportunities because of the program."

Karlie Mucjanko **MAICD** **Deputy Chair**

Appointed from 4 July 2016 to 1 December 2018. Trust Member since November 2015.



Karlie is a strategic communications specialist with experience in managing brands and reputations, complex stakeholder relationships and communications. She has spent the last 17 years working in agriculture in Australia, primarily communicating with and on behalf of farmers and rural communities through her roles with farm organisations such as the WA Farmers Federation and the national farm information group, Kondinin Group.

In 2005, Karlie joined the CBH Group to continue this work and in 2008 took on the role of General Manager Grower and External Relations where she has carriage for managing CBH's relationships with its grain growers, rural communities, Federal, State and Local governments, media and industry groups.

Karlie is a member of the Executive Management Committee at CBH and is heavily involved in the day to day management of one of Australia's largest agribusinesses.

Karlie is a member of the Australian Institute of Company Directors.

"Without a doubt, the highlight of the past year has been the regional visits we've been able to make. To speak with the people taking leadership roles within the communities and see first-hand what they are trying to achieve with the help of the Royalties for Regions Program reminds me that we can easily lose sight of what is important and necessary for healthy and functional regional communities and economies.

The Trust's interaction with a broader stakeholder group will be an important contribution going forward. It increases awareness and understanding of the Fund and it stirs up a different way of thinking about how industries and businesses can be interacting with the regions."

Paul Farrell

Trust Member

Appointed from 4 July 2016 to 8 June 2019.

Paul is the Managing Director of NGIS



Australia, who deliver digital and location technology solutions to business. He has worked in this industry for 25 years in a variety of locations, including Vietnam, Hong Kong and Singapore.

Paul has an appetite for seeing how far digital technology can change business and society for the better. He is sought after by both government and commercial entities to lead business transformation by making data and technology open, accessible and available to all.

Paul has an interest in assisting regional areas to be more connected and productive, as well as helping to promote the comparative advantages for each of our regions both nationally and internationally.

Paul is Vice Chair of the Australian Information Industry Association, as well as being a past National Chairman of the Spatial Industry Business

Association (representing over 500 member firms). He has completed an Executive MBA at the University of Western Australia, and a Graduate Certificate of Management from the Australian National University.

"Building very strong alignment between the Department and the Trust has been important. In a time of change both from a personnel (both Trust and Department) and political standpoint, a positive and helpful working relationship was developed which I assisted both parties work very constructively and align on the jobs and economic growth focus for the Fund.

In my view, the visits to the regions were the highlight. It was great to be able to see local projects and provide support & encouragement to the entrepreneurial individuals at the forefront of progressing regional initiatives. As a body that is independent, it's a very worthwhile role that the Trust plays well."

Kate Chaney

Trust Member

Appointed
12 December
2016 to
15 December
2019.



Kate has worked in a range of strategy roles in the private sector, with a focus on the community impact of business.

Kate has led projects for commercial and non-profit clients for a leading global strategy consulting firm, The Boston Consulting Group. She spent seven years at Wesfarmers, as Aboriginal Affairs Manager, Sustainability and Community Partnerships Manager and General Manager Emerging Ventures.

Kate was General Manager Business Development at Perth Airport, managing retail, ground transport and route development. Before obtaining her Masters of Business Administration she was a commercial lawyer at a leading national firm.

Kate currently sits on the board of The Australian Futures Project, Awesome Arts and the advisory board of the WA Venture Philanthropy Fund. She spent five years on the board of Lifeline WA, including as Chair and Deputy Chair.

"As a new Trust member, attending the roundtables was a great way to get up to speed with community expectations and understanding of the Fund."

"The strategic planning process undertaken by the Trust triggered some very useful conversations with Department representatives about the next phase of the Fund."

Stuart Hicks AO FAICD

Trust Member

Representing
Regional
Development
Commissions.
Trust member
since December
2014.



Stuart is a business policy and planning advisor and an adjunct professor at a number of WA universities. He has previously been head of a range of WA government agencies, including Transperth, the Department of Transport, and the Department of Marine and Harbours. Stuart was formerly a Commissioner of the Western Australian Planning Commission, Chairman of the National Transport Commission and Chairman of the East Perth Redevelopment Authority.

In 2006 he was made an Officer of the Order of Australia for services to the road transport industry, the public sector, and the community.

Stuart was Chair of the South West Development Commission and a member of the Regional Development Council during 2016–17.

"With the Trust at Busselton–Margaret River Regional Airport as work got underway, I was reminded again of the great outcomes that can follow from high levels of collaboration between three levels of government, a community and a region, backed by an innovative funding program that helps to deliver."

"It has been a privilege to work with Trust colleagues in the important role of custodianship of Royalties for Regions during a year of significant change. Throughout the state I can see evidence of the value of a strong program, conscientiously administered."

TRUST AND FUND PERFORMANCE



*Views from Leonora, along the Golden Quest Discovery Trail
(Credit – Australia's Golden Outback)*



The Trust at Forest Heritage Centre Dwellingup

TRUST STRATEGIC PLAN

Under the Act, the Trust is to provide independent and impartial advice to the Minister on the allocation of monies from the Fund to each of the subsidiary accounts, and advice and recommendations on the purposes for which monies are to be used.

To assist in fulfilling that role the Trust conducted a strategic planning process throughout the last year.

The objective was to sharpen the focus of the Trust work and to aid in providing advice to the Minister that enhanced the effectiveness of the Fund.

The Fund is not just about an abstract advancement of "regional WA" but about the impact on people and the lives that they live in regional WA.

The work of the Trust in this area remains in draft due in part to the change in Government, as well as material changes to the structure of the Portfolio and prospective changes to the membership of the Trust.

The strategic planning process has been useful in highlighting a number of key elements of the Fund and the focus of the Trust.

In measuring the contribution of the Fund, the Trust came to the view it was impact on regional Western Australians that was most important.

The Fund is not just about an abstract advancement of "regional WA" but about the impact on people and the lives that they live in regional WA.

The Trust also came to the view that the next phase of the Fund should be more about jobs and economic growth than the significant "enabling investment" evident in the first seven years of the Fund.

It is also perhaps obvious but worth re-iteration that economic growth is not the same as jobs growth. In an era of robotics and automation, creating and retaining jobs is an even more challenging task.

The Trust, as the statutory adviser to the Minister for Regional Development, is seeking to position the work it undertakes to:

- align regional programs to achieve jobs and economic growth
- facilitate a pipeline of programs which the Trust envisages as large, high impact and leveraged through partnerships
- improve the sustainability of the Fund with better coordination and restructuring of the Portfolio

Above all to drive these outcomes, the Trust has advocated measurement of the Fund's success in creating jobs and economic growth.

TRUST ENGAGEMENT



In July 2016 the Trust began a series of consultations intended to contribute to a formal stakeholder engagement strategy. The purpose of this strategy is to engage with key entities in shaping the next phase of the Fund. The underlying objective is to evolve the Fund's focus to long term investment in significant or turn-key projects.

Round table discussions held concentrated on mineral and energy resources, agriculture, business and innovation and education and technology.

"The Trust, as custodian of the Royalties for Regions Fund in Western Australia has a unique role in liaising between different areas of the regional development portfolio as well as with diverse stakeholder groups in order to effectively advise on the program".

(Report on Roundtables November 2016)

Attendees included Ministers and Directors-General of relevant agencies. A number of common themes emerged in terms of a focus on large scale investment:

- the need for robust metrics to measure Fund impact
- the need for coordination and alignment within government on regional policy
- the importance of a cross agency cooperation and partnerships
- promotion of technology and connectivity as a driver of regional growth
- capacity development – attracting and retaining talent in the regions
- opportunities and support for Aboriginal people

The detailed findings of this exercise have been shared with the Minister to guide the approach to regional development by the new government.

"Stakeholders and partner hosts welcomed the engagement process. They enthusiastically and knowledgeably shared their experiences of living, working and doing business in the regions and easily identified critical areas for attention."

(Report on Roundtables November 2016)

Trust Royalties for Regions Roundtable



ROYALTIES FOR REGIONS FUND SNAPSHOT

Under the Act, in each financial year the Treasurer is to cause to be credited to the Fund an amount equal to 25 per cent of the forecast royalty income for the financial year. The following snapshot reflects the Royalties for Regions Fund at the time of the 2016–17 Mid–Year Review Budget. It should be noted that the forward estimates do not necessarily reflect the policy and investment objectives of the new State Government. These will become apparent on the release of the 2017–18 State Budget.

Royalties for Regions Account

Operation of the Act provides **for 25 per cent** of the forecast royalties for **2016–17** to be credited to the Royalties for Regions Account as follows:

Country Local Government Fund	\$10.0 million
Regional Community Services Fund	\$337.9 million
Regional Infrastructure and Headworks Fund	\$631.4 million
New Regional and Statewide Initiatives	\$60.7 million
	\$1,040.0 million
Less over programming provision ^(a)	–\$164.0 million
Total Approved Expenditure Limit	\$876.0 million^(b)
Appropriation Required^(c)	\$610.6 million
Top Up Royalties for Regions Fund to \$1 billion	\$130.2 million
25% of Royalties Plus Interest	\$977.7 million
Funds Returned to Consolidated Account	\$236.9 million

Source: 2016–17 Government Mid–Year Projections Statement

^(a) Over programming recognises there will be individual project underspending by adding an over programming percentage to the Royalties for Regions budget. It allows individual project budgets to total more than the total approved expenditure limit, as historically the full amount is not spent.

^(b) This expenditure limit is less than the statutory formula of entitlement to the program.

^(c) Appropriation required differs from the budget amount due to transfers from other Special Purpose Accounts.

In addition to the \$1 billion legislated cap on the balance of the Fund, an annual expenditure limit of \$872 million was imposed by the State Government as part of the 2016–17 Budget.

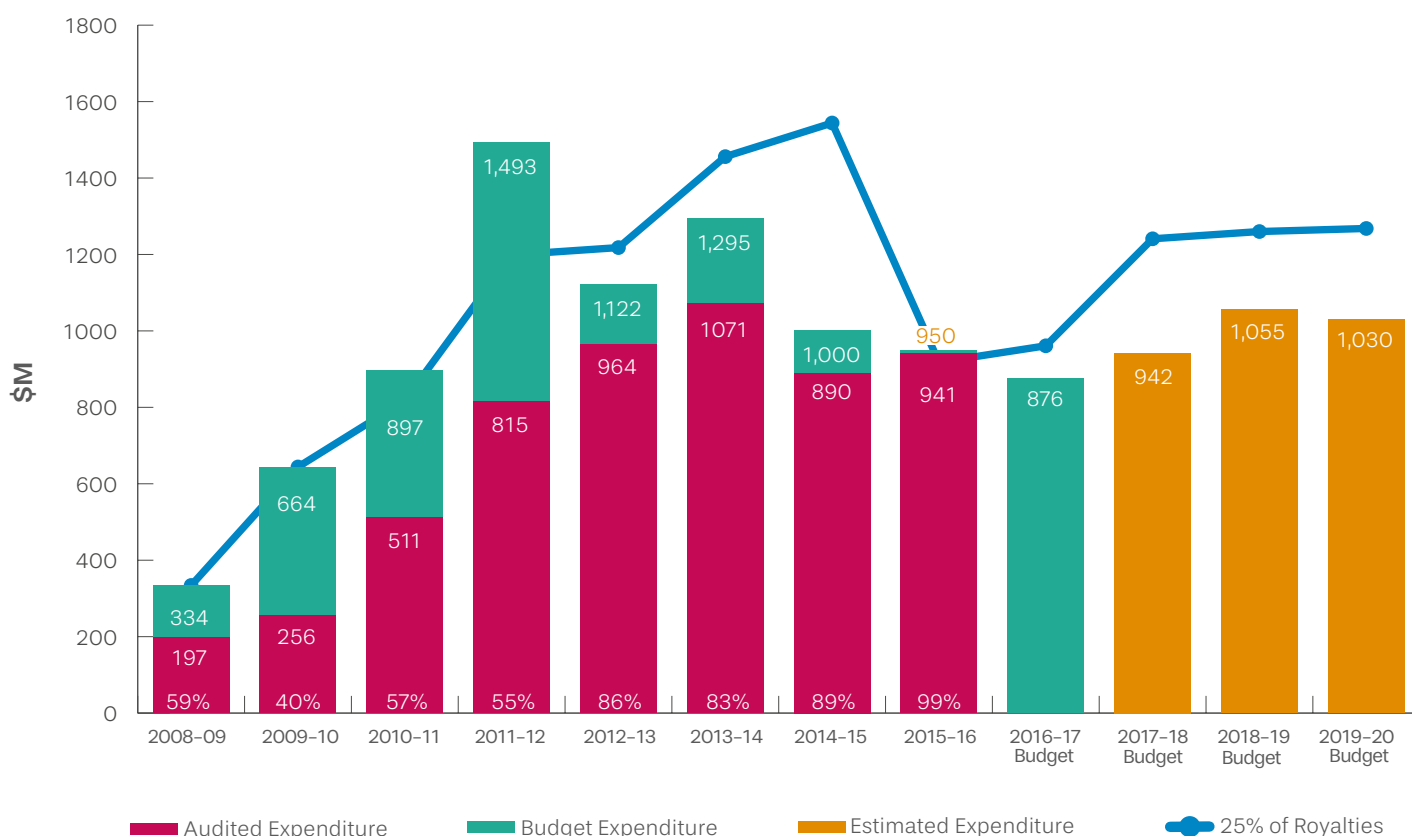
As part of the 2016–17 Mid–Year Review Budget process, the Royalties for Regions expenditure limit was increased to \$876 million to accommodate expenditure associated with the Kimberley Schools Program.

Expenditure Limit

The Trust has commented on the expenditure limit in the Advice and Recommendations section of this and previous reports.

The following diagram shows that at the 2016–17 Mid-Year Review, royalty income was forecast to increase in the out-years, without a commensurate rebasing of the expenditure limit. Based on current expenditure limits for 2017–18 to 2019–20 on the previous government's forecast around \$1.5 billion would be returned to the Consolidated Account. It should be noted that the Royalties forecast represented below will need to be revised in line with the 2017–18 State Budget which will include revised royalties forecasts from the Department of Treasury and expenditure forecasts. Critical numbers are the royalty forecasts in the budget papers (and not the Mid-Year Review).

Diagram 1: Royalties for Regions Budget Compared to Expenditure History and Forward Estimates with 25 per cent of Royalties



*Note: 2016–17 to 2019–20 out-year budgets are subject to change annually. % includes the amount spent.

Grennough River Solar Farm

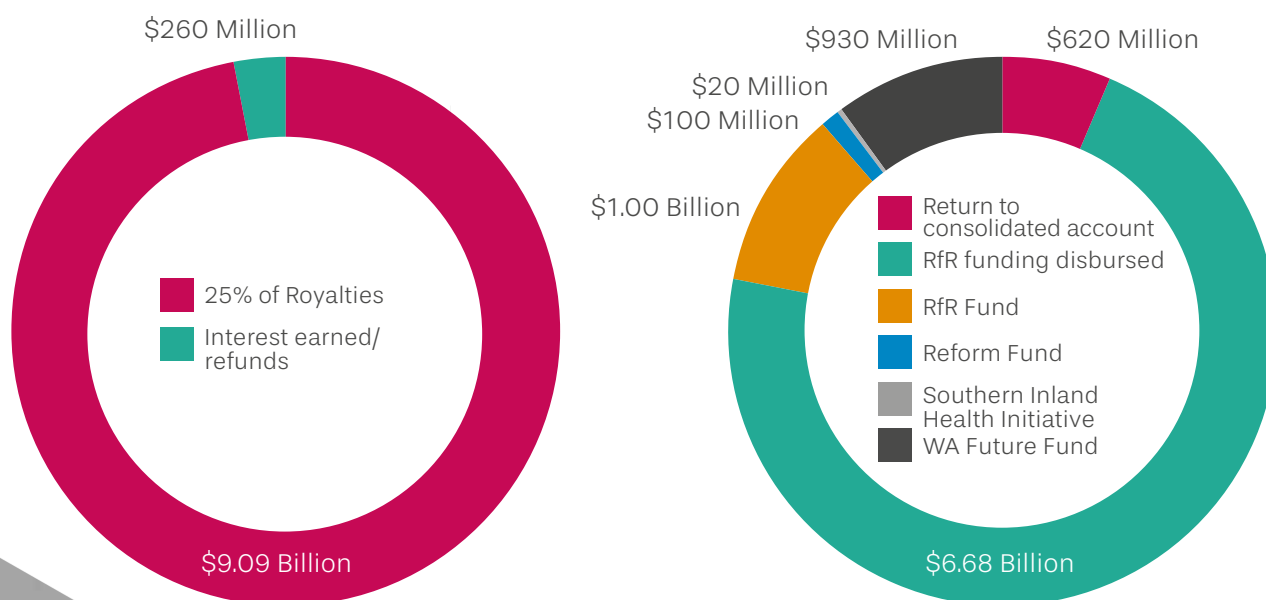
Cash flow

The diagram below is a summary of the Royalties for Regions budgeted cashflow from the 2008-09 to 2016-17 financial year (as at Mid-Year Review Budget 2016-17).

Since the inception of the Fund to 2016-17 a total of \$620 million is estimated to have been returned to the consolidated account.

By the end of the 2016-17 financial year a total of \$930 million will have been transferred to the Future Fund and \$100 million into the Regional Reform Fund.

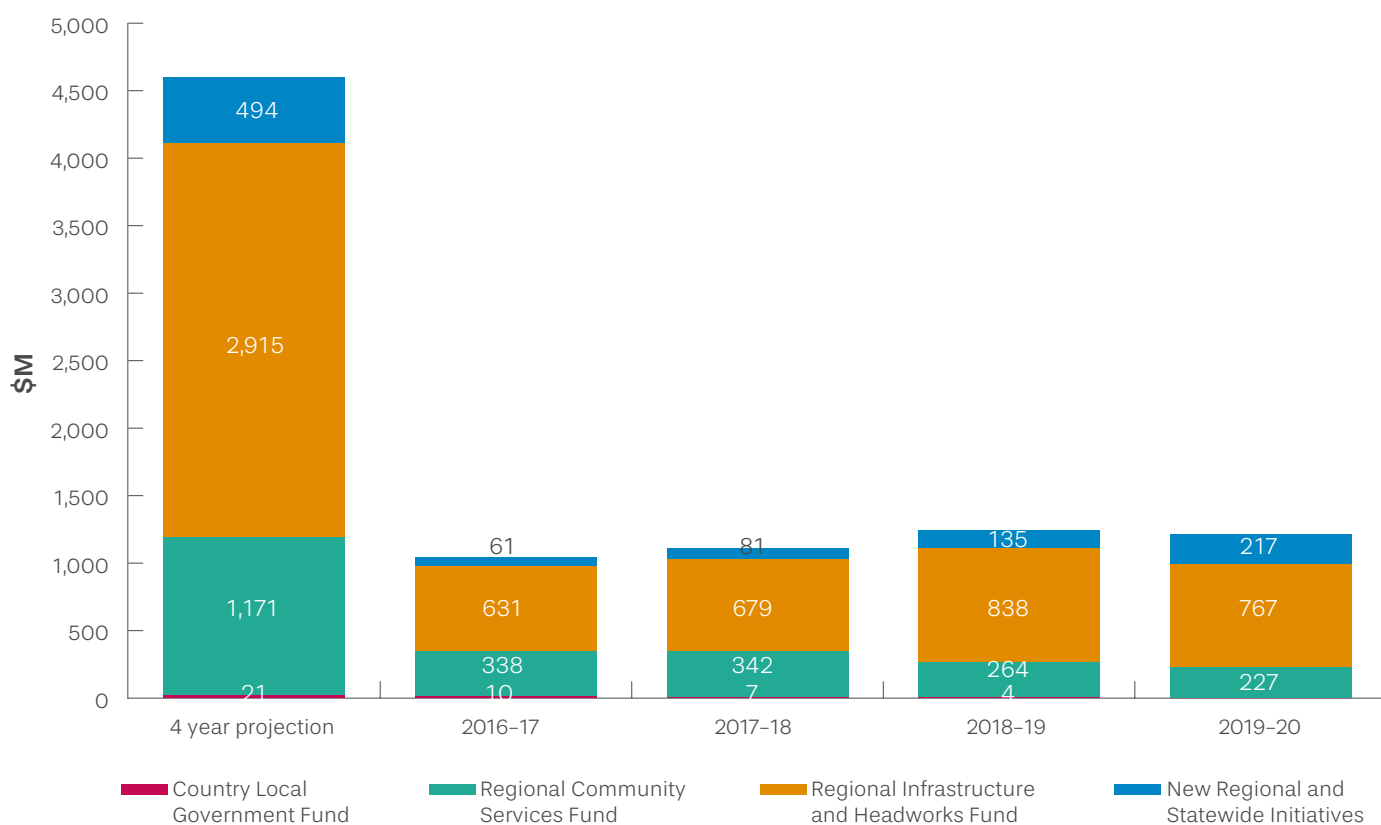
Diagram 2: Royalties for Regions Projected Cash Flow Summary: 2008-09 to 2016-17



Subsidiary Accounts

The allocation of Royalties for Regions funds to the subsidiary accounts over the projected forward estimates period is shown in the diagram below. It should be noted that this graph reflects the forward estimates at the time of the 2016–17 Mid-Year Review Budget and may change as a consequence of the 2017–18 State Budget.

Diagram 3: 2016–17 Budget and Forward Estimates

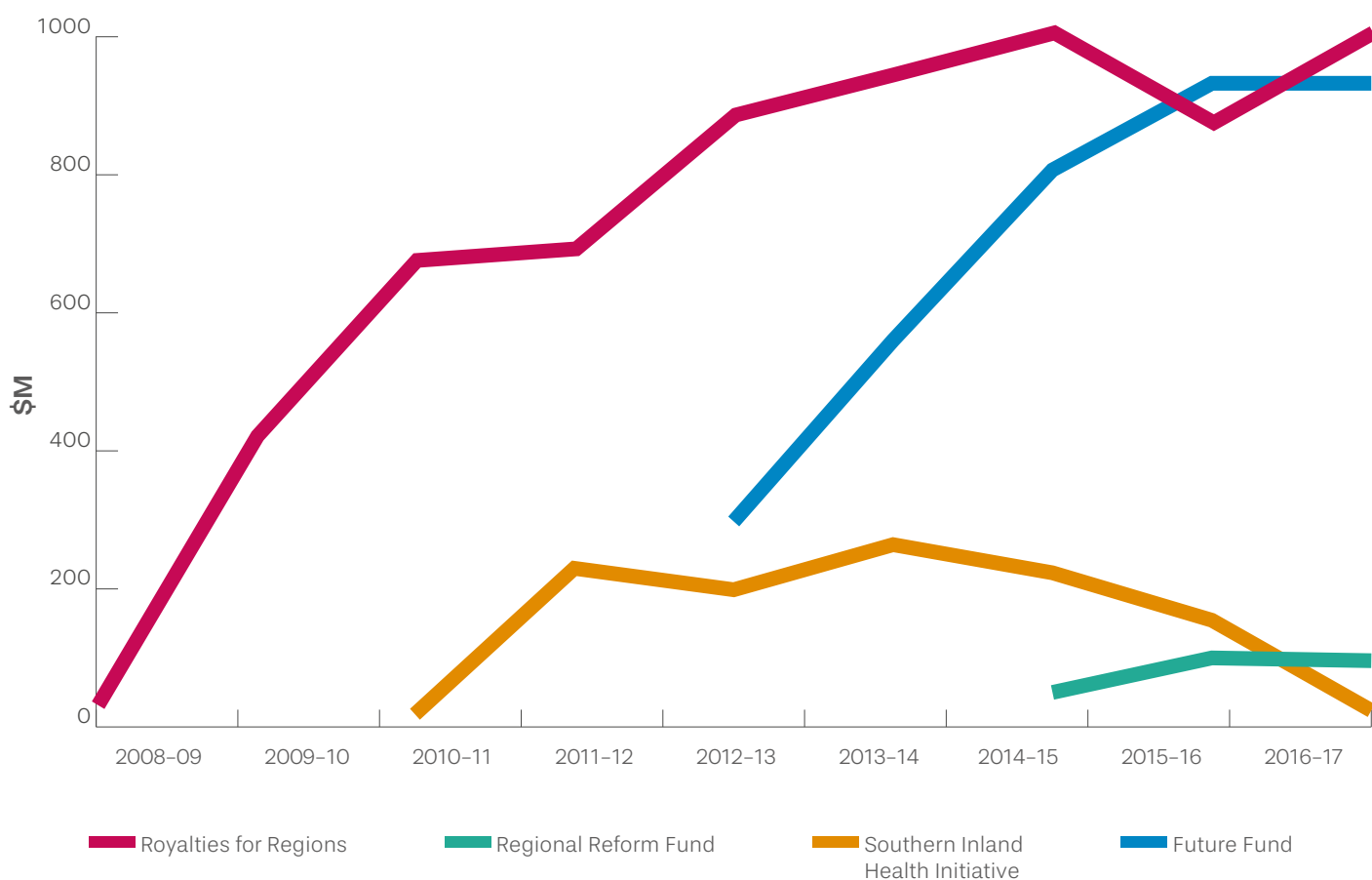


Special Purpose Accounts

There are three Royalties for Regions Special Purpose Accounts (SPA) – the Royalties for Regions Fund, the Southern Inland Health Initiative and the Regional Reform Fund. In addition, Royalties for Regions funds are also held in a SPA for the Western Australian Future Fund, established under the *Western Australian Future Fund Act 2012*.

The diagram below shows when the Royalties for Regions SPA and Future Fund were created and their balances as at Mid-Year Review Budget 2016–17.

Diagram 4: Royalties for Regions Special Purpose Accounts and Future Trends: 2008–09 to 2016–17



Crab Catch Carnarvon (Credit Gascoyne Development Commission)

Allocation of Funds by Category

The diagram below shows the allocation of Royalties for Regions across categories of expenditure from program inception to 2016–17 as at the 2016–17 Mid-Year Review Budget.

Diagram 5: Royalties for Regions Category Spending 2008–09 to 2016–17

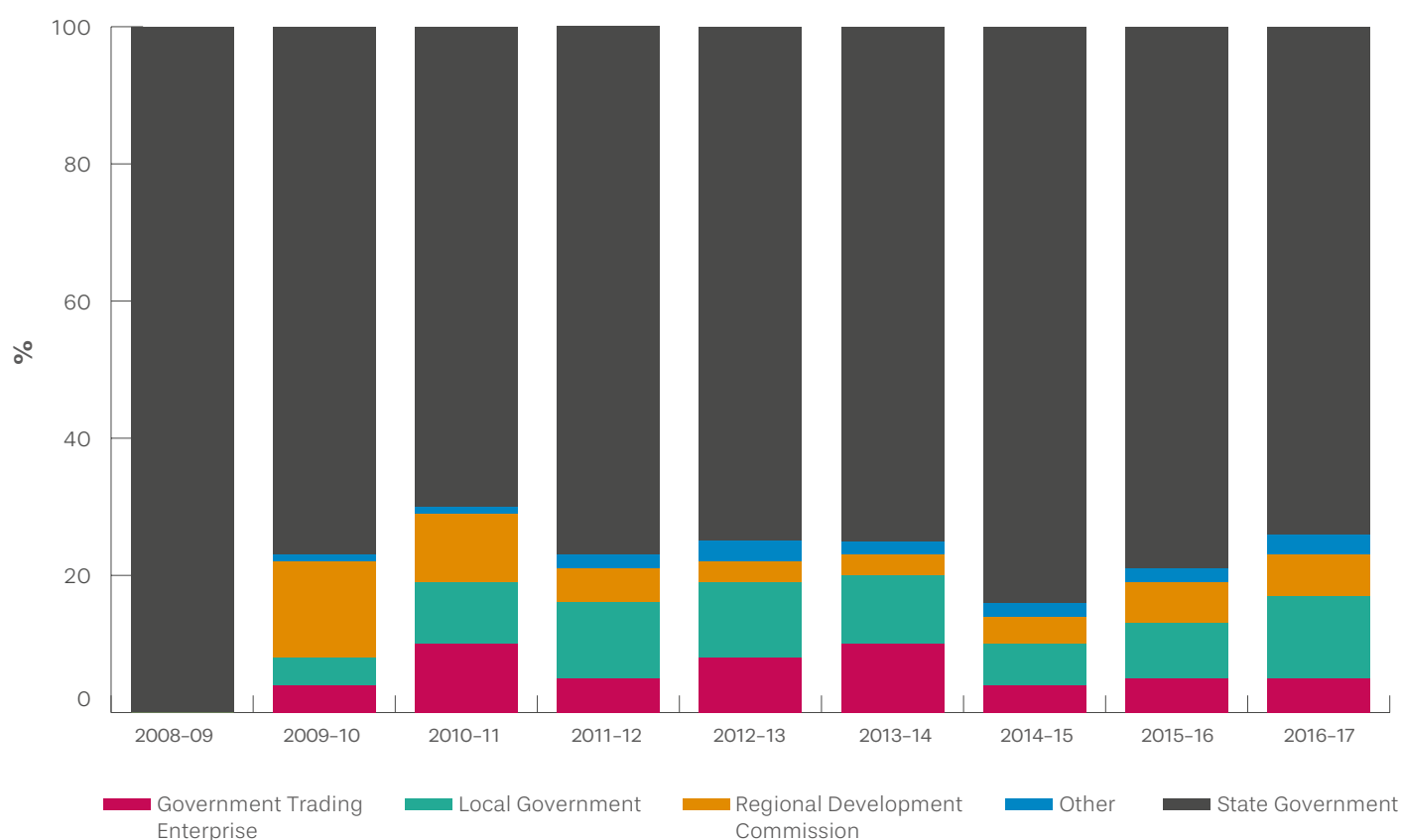


Expenditure by Proponent Type

The following diagram shows the allocation of Royalties for Regions expenditure across proponent and the continued strong alignment between the Fund and State Government agencies.

The Trust has also been inquiring into the origination of funded projects. Investigation of this aspect of the Fund is continuing. A desktop analysis of projects and programs current at the 2016–17 Mid-Year Review suggested that approximately half were attributable to Government election commitments arising from the 2013 State election with the remaining being initiated by State government processes.

Diagram 6: Percentage of total reported expenditure by proponent type: 2008–09 to 2016–17



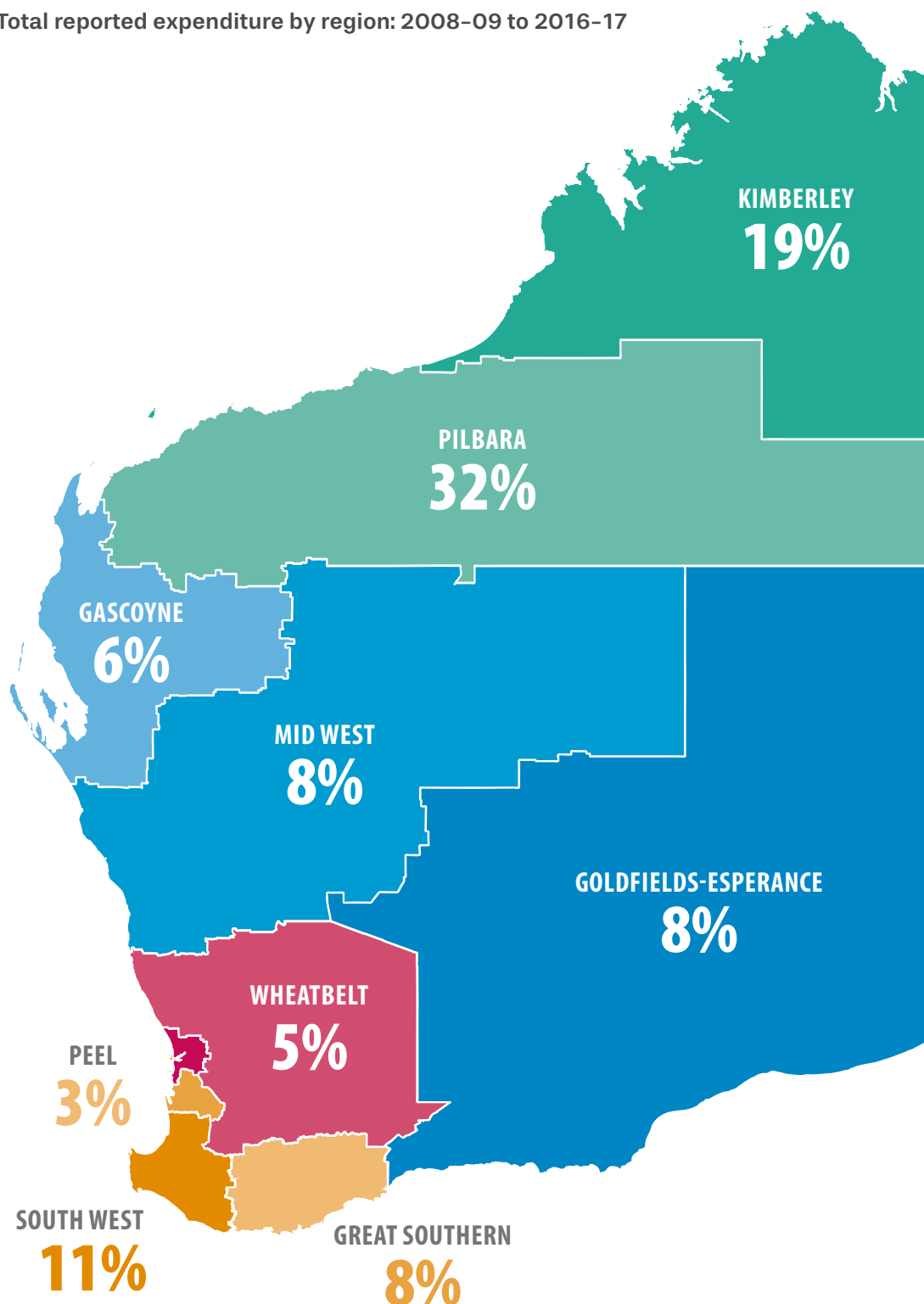
Note: The data provides an overview. Some programs such as the Regional Grant Scheme, Exploration Incentive Scheme for example, comprise multiple proponent types that are not captured in this data.

Expenditure by Region

The following chart shows regional location of Royalties for Regions expenditure as at 28 July 2017 for the period 2008–09 to 2016–17 and shows the significant investment in the north of the State.

It is expected that over the next four years the pattern of expenditure between the regions will be reallocated to the more populous regions.

Diagram 7: Total reported expenditure by region: 2008–09 to 2016–17



REGIONAL DEVELOPMENT PORTFOLIO

During the year the Trust continued to provide feedback to the Portfolio on its reform strategies, aimed at strengthening the Portfolio's collaboration, operating model and strategic impact.

Following the election of the McGowan government in March 2017, the Portfolio's administration of regional development, the Fund and the role of the Trust are all in the midst of significant change.

Clarity will be required on the role of the various parts of the Portfolio, chiefly the role of the Commissions.

The Trust's view of the MoG changes announced to date is they provide a good opportunity for the Portfolio to improve its performance in the delivery of the Fund and to enhance the outcomes to regional Western Australians.

The amalgamation of the Department with the Departments of Agriculture and Fisheries to form the new Department of Primary Industries and Regional Development (DPIRD) provides significant opportunity. Clarity will be required on the role of the various parts of the Portfolio, chiefly the role of the Commissions. Strengthening the priority setting and coordination role of the new Department to guide the Portfolio will be important, particularly in relation to the allocation of funds and in assessing the value of projects within the Fund.

In reforming the portfolio, it is imperative that clarity of roles is achieved and that the input of regional people to the program is not lessened.

It is important that the MoG changes are undertaken as expeditiously as possible to reduce disruption and uncertainty and provide an improved structure and defined roles to reduce the risk to the Fund.

The Trust has an ongoing interest in the structure by which the Fund is made to oversee alignment with the objectives of the Act and the efficiency and effectiveness of expenditure. The Trust's interest in the structure is enhanced since it is now fully funded by Royalties for Regions itself.

In reforming the portfolio, it is imperative that clarity of roles is achieved and that the input of regional people to the program is not lessened.

Upgrades to the Goldfields Highway and Wubin-Mullewa Road

THE FUTURE

The Trust is of the view that an increased focus on jobs and economic development outcomes should be at the heart of the Fund going forward.

During the year, the Trust partnered with the Department to commission a report on Jobs for WA. McKinsey & Company were engaged to deliver the report, which focussed on providing a fact base for the job creation challenge and delivered advice on:

- Job Demand – A quantitative view on the job challenge
- Job Supply – A historical view on where jobs have come from and who was employed and how. Also an overview of "job engines" and a qualitative assessment of their likely future contribution.

"If we want WA in 2026 to have a healthy and diverse group of regions that work with the Perth metro area to create the best outcomes for the State, WA must overcome significant challenges in the near future."

Jobs for WA, March 2017

Through the report the State's regional outlook for the next ten years was examined and identified what was required to achieve the following aspirations for WA:

- Continued prosperity in a resources sector that leads the world in productivity and innovation
- A population of 3.3 million (from 2.7 million today) with 70 per cent workforce participation and 5 per cent unemployment
- A healthy and diverse group of regions that work with the Perth metro area to create the best outcomes for the State
- A strong core of domestic sectors that provide affordable and high quality healthcare and education for all Western Australians
- Targeted infrastructure and regulation that supports the growth of new and existing enterprises

The report identified a number of challenges in achieving these aspirations. The main ones were that labour supply is projected to grow, leading to a job shortfall of 220,000 jobs, increasing exposure to automation and a decline in our tradeable economy.



"To achieve the aspiration the State government must start a deep collaboration with industry... to form an enabling regulatory, infrastructure and business environment".

Jobs for WA, March 2017

Addressing this situation, the report pointed out, will require accurate identification of globally competitive sectors of the regional economy and development of a detailed approach to their growth. McKinsey also emphasizes targeted assistance to local firms in areas such as take-up of enabling technologies and business skills.



Ord East Kimberley Expansion

The report identified 4 key strategies to achieve our aspirations, which are:

1. Nurture our globally competitive growth segments

- Coordinated effort to capitalise on the technology disruptions in the resources sector
- Sector-specific strategies to maximise the advantages of each region
- Focus on growing tradeable sectors to ensure job quality

2. Help local WA firms scale

- Targeted support for firms backed by long term strategies for growth and stability
- Focused interventions to promote small business growth and innovation (e.g. R&D, commercialisation, entrepreneurship, scale-up and funding)

3. Skill up for the knowledge economy

- Clear view on the 'From-To' skills transition required in each sector and region
- Alignment on roles across the education sector and immigration to shape labour supply as part of a coordinated strategy
- Targeted programs to address barriers to workforce participation

4. Draw on all of our people

- Aspire to lower unemployment to 5 per cent
- Remove barriers for people 65 and over, women with children, and regional youth

Adoption of such a course, together with the Government's Plan for Jobs, points to a more multi-focussed approach by government rather than the previous single emphasis on the attraction of large scale investment projects. This attention to detail across the regional economy in every phase of the business cycle clearly suggests there is a need for the regional development portfolio to become more closely aligned with the industries and companies of the region.

This report has now been presented to government and is being considered as part of the overall plan in developing jobs and economic diversification across WA.

ADVICE AND RECOMMENDATIONS 2016-17

This section summarises the advice given to the Minister in meetings or in written advice throughout the year.

The Trust has advocated strongly for a continuation of the Fund. It has reiterated that the changing focus on jobs and economic development is warranted, alongside a more rigorous project evaluation and risk assessment; whole life-cycle project costing; and improved impact measurement. The Trust has advised on the sub-optimal interaction between the expenditure cap and the statutory limit. These matters remain current.

The Trust has addressed emerging issues as follows:

Acknowledgment of fiscal demands

The Trust appreciates the fiscal demands on the broader Government sector and supports the contribution the Fund might make to those demands within the context of fulfilling the objectives of the Act.

The Trust recommends the following considerations be taken into account when deciding how the Fund will contribute to budget repair:

Incremental not substitution

- The Fund was established to enhance the regions. It would be consistent with this to primarily use the Fund to support initiatives that would not occur without this funding, rather than as substituted funding for core services.

Capital not recurrent

- The Trust observes that the commitment of the Fund to recurrent expenditure items will over time materially impede the flexibility in the Fund to make incremental investments. It is an area that should be monitored. It is acknowledged that the Fund cannot solely fund capital projects as the activities that support that capital are fundamental.
- The opportunity to leverage ongoing support for the Fund capital investment should be a priority.

Focus on job creation

- Consistent with an increased focus on jobs and economic development (rather than improved liveability), the Trust is of the view that it would be appropriate to reallocate funds to support programs that support a specific outcome of jobs and economic growth in the regions.

Rigorous Assessment

- The Trust continues to support a rigorous assessment of potential Fund Projects and Programs through the project development and evaluation processes and the implementation of a stage gate process commonly applied in industry.

Structural change

The Trust acknowledges there is an opportunity for greater efficiencies and streamlined structures within the Portfolio. The Portfolio has grappled with a relatively large number of 'moving parts' with a significant array of statutory authorities and overlapping roles. The Trust is aware of the 'single employer model' that has been announced that will impact on the Commissions and the now amalgamated (as of 1 July 2017) DPIRD.

The Trust appreciates the efficiency drivers of this restructure and recognises the coordination advantages of the proposed arrangements.

Providing detailed advice on these structures is beyond the Trust's current remit but the Trust recommends the following considerations be taken into account in that restructure.

Regional input

One of the successes of the Fund has been the level of regional ownership. Any structural changes should ensure that there is a voice for regional Western Australians within the Portfolio.



Risk

The management of risk within the Portfolio is a key element that the Trust views as deserving of more attention.

Providing a more rigorous 'stage gate' process for Fund allocations is something that can be strengthened in this restructuring.

Capacity

The level of capacity in the Portfolio for project management, "origination" and implementation is variable. The restructuring envisaged has an opportunity to address this issue.

Project origination – Idea generation

Historically, project ideas have come from Government election commitments, Ministerial priorities, other government departments, the Commissions and from within the Portfolio.

To increase the focus on job creation and economic development, it is the Trust's view that project ideas will need to come from a broader range of sources, including the private sector.

The Trust notes the establishment of a business development division within the Portfolio specifically tasked with originating projects and proposals that deliver significant employment and economic outcomes. The Trust believes it is important that the MoG changes maintain a focus on enhancing effectiveness in this area which has in the past been lacking. The Trust can play a role in supporting the effectiveness of the new Department DPIRD by identifying opportunities for public and private sector engagement, with focus on strategic sectors and programs.




Some general themes the Trust has previously discussed are:

- Strengthening and supporting both competitive and comparative advantage in the regions (contained in the Trusts' review of Blueprints).
- Supporting the focus of the Fund geographically to support areas with growth potential (work largely carried by the Regional Centres and Economic Cluster work).
- Supporting a more active engagement with various Federal programs and agencies to leverage Royalties for Regions funds, including but not limited to the Northern Australia Infrastructure Facility (NAIF), Clean Energy Finance Corporation (CEFC) and Infrastructure Australia.
- Supporting the concept of an innovation and or industry attraction fund, which could be "evergreen" designed to recoup the capital outlaid.
- Examining where the Funds may create a revenue stream for the Fund in the future through supporting regional economic development activities e.g. various renewable energy and telecommunications projects have this potential.

ADVICE FROM PREVIOUS YEARS



Policy







Advice on Policy

Topic	Advice Given	Description	Indicator	Status
Advice on Changes in State Government Policy	2014–2015	As of 1 July 2013, the Department was fully aligned with the <i>Royalties for Regions Act 2009</i> and no longer funded from the consolidated account. The Trust considered the administration cost to the Royalties for Regions Fund represented valid expenditure but should be monitored annually.		Monitor
Advice on Aboriginal Affairs Policy	2014–2015	The Trust noted that normalisation of land tenure to facilitate Aboriginal home and business ownership should be a regional development initiative. The Trust notes the first focus area for the new Regional Reform Fund Special Purpose Account will be centred on regional Aboriginal reform initiatives.		Monitor
Proposal to form a regional policy think tank	2010–2011	The Trust proposed the need for an independent entity to conduct research and provide a "thought leadership" role in the Regional Development Portfolio. The Trust has previously noted progress in this area. However, this has not been a priority for the last year.		Monitor

Royalties for Regions

Advice on Royalties for Regions

Topic	Advice Given	Description	Indicator	Status
Advice on Royalties for Regions Budget Proposals 2016–17	2015–2016	The Trust considered the Fund budget for 2016–17 and provided advice to the Minister on the need for refocussing of the Fund; maintaining the intention for additionality, flexibility to fund new initiatives, improving evaluation; structural issues such as the statutory cap and the expenditure limit; administration of the Fund, Fund structure with macro investment areas and the need for prudence in any expenditure.		Monitor
Advice on Royalties for Regions and Regional Education	2014–2015	The Trust considers the Royalties for Regions Fund has significantly invested in a broad range of training and education initiatives in regional areas. However, the Trust believes these initiatives to be project based and broadly spread. The Trust recommended a stronger coordinated strategic emphasis from a regional development perspective is warranted.		Monitor

Review of the WA Community Resource Centre Network	2012–2013	The Trust undertook a comprehensive review of the WA Community Resource Centre Network. The main recommendation was to modify the network from a grant program to a service level agreement arrangement. This work has been successfully completed by the Department.		Complete
Proposed Review of Regional Housing	2012–2013	The previous Minister had requested the Trust to consider reviewing the regional housing program funded under Royalties for Regions. At that time, the Trust formed a view the program was not sufficiently advanced to be constructively reviewed. Since that time, the Department has undertaken an evaluation of the housing investment which is now complete.		Complete
Planning for new large Royalties for Regions projects	2012–2013	The Trust identified a number of key large strategic projects within the regions that aligned with key investment themes the Trust had proposed and had been adopted by Royalties for Regions. This recommendation has been overtaken by the Regional Development Strategy process and is now complete.		Complete
Water (in the context of regional development)	2011–2012	The Trust recommended that water policy and projects be given greater emphasis in Royalties for Regions. A number of key water initiatives have since been developed. The Trust will monitor outcomes in this area.		Complete
Country Local Government Fund Review	2011–2012	The Trust recommended the CLGF be retained and made a further 26 recommendations to improve the efficiency and effectiveness of the fund. The CLGF review was accepted by Government, but funding was subsequently not continued. The Trust considers that funding to the CLGF could be continued in out years to support implementation aligned under the Blueprints.		Complete
Building human capacity in WA regions	2010–2014	Since 2010, the Trust has identified leadership development and human capacity building as a key and necessary investment for promoting regional development in WA. Research indicates the existence of high levels of social capital will have a direct and positive impact on levels of economic development. As such, the Trust continues to advocate for investment in this area.		Monitor

GOVERNANCE



Desert Mounted Corps Memorial, on Mt Clarence, Albany

FREEDOM OF INFORMATION

The Trust received no new Freedom of Information applications in 2016–17 under the *Freedom of Information Act 1992*.

TRUST INTERNAL GOVERNANCE

Trust Finances

Operating budget

Pursuant to section 9(2) (c) and section 27 of the Act, the Department provides the Trust with an operating budget to cover the expenditure incurred in the administration of the Trust. These funds are managed by the Department and are reported on in the Financial Statements section of the Department's 2016–17 Annual Report.

Travel expenditure

The Trust held regional meetings in the Peel (February 2017) and the South West (June 2017) which incurred travel costs for all Trust members.

The Chair also travelled to the regions (Kimberley – August 2016; Great Southern – September 2016; Wheatbelt – December 2016; Gascoyne – April 2017; Peel – May 2017, South West – May 2017, Pilbara – May 2017) a number of visits incurring travel expenses.

The Deputy Chair and member, Kate Chaney, travelled to the Great Southern in May 2017. Paul Farrell, member, accompanied the Chair to the Pilbara in May 2017.

The total travel expenditure for 2016–17 was \$8,783.

TRUST MEMBER REMUNERATION

As per section 20 of the Act and the Public Sector Commissioner's (PSC) determination, Trust Members are entitled to remuneration and travel allowances. The remuneration for Trust members is as follows:

Chair: \$117,170 per annum

Deputy Chair: \$42,260 per annum

Members: \$12,500 per annum

Western Australian Regional Development Trust

Position	Name	Type of remuneration	Period of payment	Gross remuneration
Chair	Tim Shanahan	Board member fee	1 July 2016 to 30 June 2017	\$119,263
Deputy Chair	Karlie Mucjanko	Board member fee	1 July 2016 to 30 June 2017	\$42,011
Board Member	Paul Farrell	Board member fee	4 July 2016 to 30 June 2017	\$12,412
Board Member	Stuart Hicks	Board member fee	1 July 2016 to 30 June 2017	\$12,460
Board Member	Kate Chaney	Board member fee	12 Dec 2016 to 30 June 2017	\$6,422
Total:				\$192,567

The total remuneration paid to Trust Members for the year 2016–17 was \$192,567 (exclusive of superannuation).

PROVISION OF SERVICES AND FACILITIES TO THE TRUST

Pursuant to section 27 of the Act, the Department provided the Trust with services and facilities necessary for the Trust to perform its function.

In the 2016–17 financial year the Department provided the Trust with the services of a full-time Executive Officer and part-time Executive Support Officer. Following the Department's internal restructure in October 2016, an executive support team was established with three positions, to provide support to the three portfolio partnering agents – the Trust, Regional Development Council and the Portfolio Executive Group. Policy and advice services are also provided to the Trust as required.

As per sections 9(2)(c) and section 27 of the Act, the Department provides the Trust with the funds for the expenditure incurred in the administration of the Trust, including remuneration and allowances to Trust Members. Pursuant to section 10 of the Act, information about the operation of the Fund is included in the Department's Annual Report.

Further detail regarding Trust Member remuneration and some administrative costs for the Trust is provided in the section on Trust Internal Governance in this report.

Trust meetings

As per section 21 (2) of the Act, meetings are to be held at times and places determined by the Trust. The Trust formally meets approximately every two months and on other occasions as required. The Trust held six ordinary meetings in 2016–17 on the following occasions:

Ordinary meetings

Meeting 36, 11 August 2016 (Perth)

Meeting 37, 20 October 2016 (Perth)

Meeting 38, 9 December 2016 (Perth)

Meeting 39, 9 February 2017 (Peel region)

Meeting 40, 4 April 2017 (Perth)

Meeting 41, 8 June 2017 (South West region)

Special meetings

The Trust met with the new Minister MacTiernan, on 4 April 2017 to convey advice of the Trust and introduce members.

Attendance

Following is the record of attendance of Trust Members for the Trust Meetings in 2016–17. Trust Members are required to attend formal Trust meetings and are required to have any leave of absence approved by the Chair. This protocol has been observed.

Tim Shanahan

Attendance at all six Trust meetings.

Attendance at the Special meeting.

Karlie Mucjanko

Attendance at five Trust meetings.

Did not attend the Special meeting.

Paul Farrell

Attendance at all six Trust meetings.

Attendance at the Special meeting.

Stuart Hicks

Attendance at five Trust meetings.

Did not attend the Special meeting.

Kate Chaney

Attendance at four meetings (one as observer)

Attendance at special meeting

Statement of Intent

In collaboration with the PSC, the Trust finalised a Statement of Intent last financial year which demonstrated the Trust's understanding of, and commitment to, the then Minister for Regional Development's expectations and ensuring that the Government of the day's key strategic priorities for the Trust were realised.

It is a recommendation of the Trust that the new government establish a new letter of expectation to all Portfolio organisations to align priorities and support the focus on jobs to be pursued in 2017–18.

TRUST GOVERNANCE FRAMEWORK

The Trust's internal governance policies were endorsed on 16 July 2010. The Framework was developed using public sector best practice and comprises a Charter, Code of Conduct and Conflict of Interest Policy. These documents were reviewed and updated in 2016–17.

Charter

The Charter was developed using recommendations on best practice for boards and committees from the PSC's Good Governance for Western Australian Public Sector Boards and Committees guide.

The Charter outlines the roles and relationships, key activities, Trust operation and administration.

Code of Conduct

The Code of Conduct was developed using the best practice for boards and committees from the PSC's Good Governance for Western Australian Public Sector Boards and Committees guide.

The Code of Conduct sets out the minimum standards of conduct and integrity to be complied with by all Trust members in accordance with Commissioner's Instruction No. 7 – Code of Ethics.

Conflict of Interest Policy

The Conflict of Interest Policy was developed to assist Trust Members to identify, declare and manage conflicts of interest. The policy goes further than the requirements under section 24 of the Act to disclose "direct or indirect pecuniary interests". Trust Members have agreed that a more expansive declaration is appropriate and that the Act is the minimum required.

The Conflict of Interest Policy contains the following forms:

- Registration of Private Interests
- Advice of Private Associations
- Disclosing Conflicts of Interest
- Notification of Alteration to Statement of Interests
- Resolution and Management of Interests

A review of interests was conducted in 2016–17. Trust Members have completed all of the appropriate forms and further disclosures are made as they occur.

Trust contact details:

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Wheatbelt Men's Health Initiative

GLOSSARY

Act	<i>Royalties for Regions Act 2009</i>
Commissions	Regional Development Commissions
Department	Department of Regional Development
DPIRD	Department of Primary Industries and Regional Development
Fund	Royalties for Regions Fund
Minister	Minister for Regional Development
MoG	Machinery of Government
Portfolio	Regional Development Portfolio The Portfolio includes the Department of Regional Development, nine Regional Development Commissions, Regional Development Council and Trust
PSC	Public Sector Commission
Trust	Western Australian Regional Development Trust
WA	Western Australia

Western Australian Regional Development Trust

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