2011

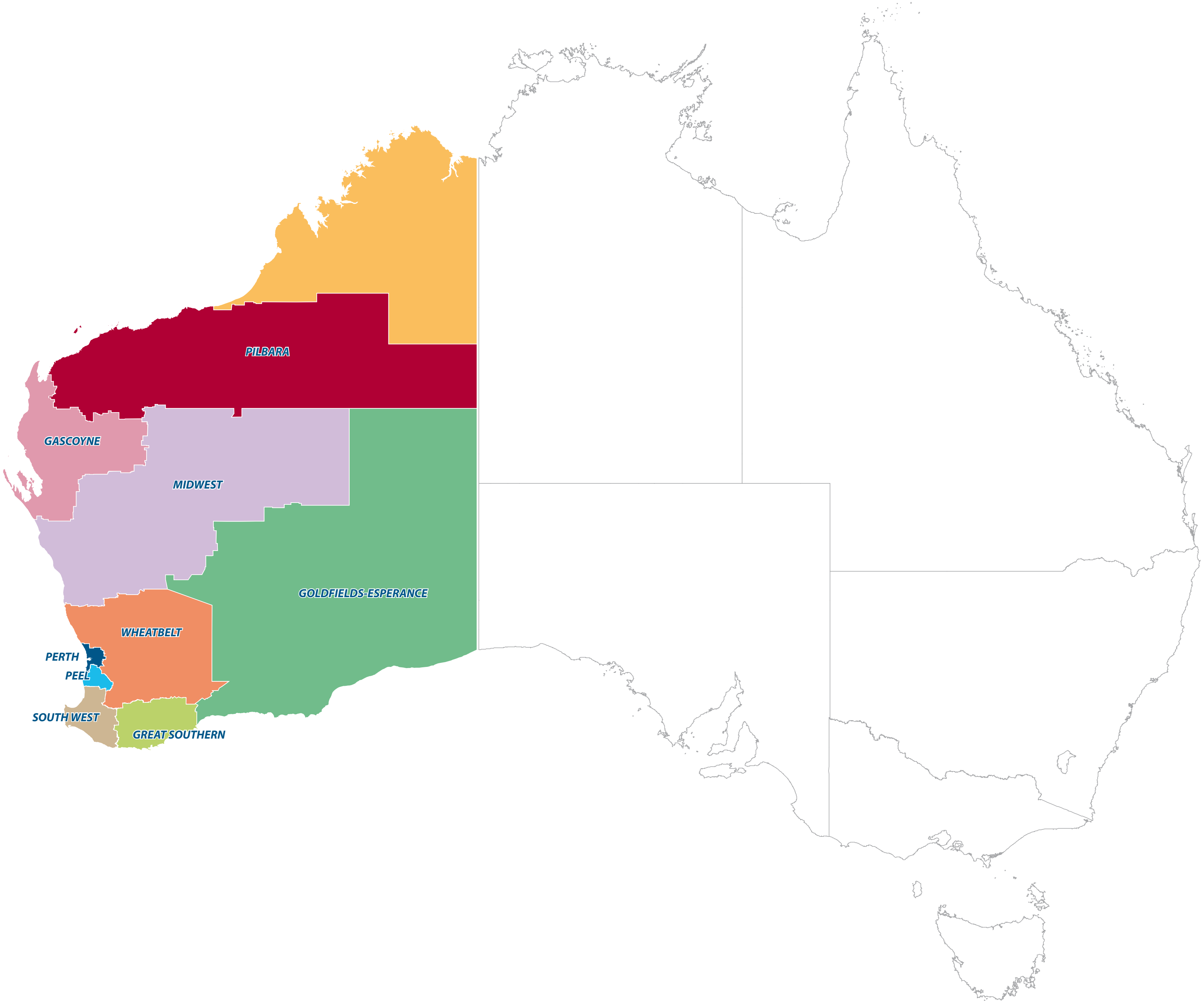
Western Australian Regional Development Trust Annual Report 2010-2011

Department of Primary Industries and Regional Development

THE GOVERNMENT OF WESTERN AUSTRALIA

Western Australian Regional Development Trust

ANNUAL REPORT 2010-2011


PILBARA
GASCOYNE
MIDWEST
GOLDFIELDS-ESPERANCE
WHEATBELT
PERTH
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GREAT SOUTHERN

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Statement of Compliance

Hon Brendon Grylls MLA Minister for Regional Development

Dear Minister

In accordance with section 28 of the *Royalties for Regions Act 2009*, I hereby submit for your information and submission to Parliament the first annual report for the Western Australian Regional Development Trust, for the financial year 2010-2011.

Section 28(1)(b) of the Act requires the report to contain any other information required by the Minister.   On 28 June 2011 the Minister advised the Trust that there was no further information required by the Minister in addition to that required by section 28(1)(a).

Andrew Murray
Chair

15 September 2011

Chair's Introduction

Section 28(1)(a) of the *Royalties for Regions Act 2009* (Act) requires the Western Australian Regional Development Trust (Trust) to submit a report to the Minister for Regional Development (Minister) that contains information about the activities of the Trust during the financial year.

In summary the Trust spent its first year of existence in establishing its method of operation, and getting to grips with Western Australia's regions, regional development, the Act, Royalties for Regions, and the Department of Regional Development and Lands' (RDL) role and function.

The Act is specific as to the work the Trust must do.   The measure of the Trust's work will be outcomes; namely, the range, nature and content of advice it has provided the Minister, the response to that advice, and the consequence of that advice being accepted.

The Trust is established by statute as an independent advisory body to the Minister.   The Trust has been tasked to perform a broad oversight role on the Royalties for Regions program and to provide high level independent and impartial advice and recommendations on the policy, allocation and management of expenditure from the Royalties for Regions Fund (Fund).

The Trust does not involve itself in the selection of specific projects and programs for funding, or advise in that regard, because it considers that would conflict with its duties under the Act.   Neither does it attempt to regulate or audit the Fund, as this is outside its remit.

Early on, the Trust determined that it would avoid a desk-top approach to its duties and ensure that it visited the regions and consulted widely with individuals agencies and entities concerned with regional development and Royalties for Regions projects.   The Trust is grateful to the many individuals and organisations that have shared their wisdom and views with it.

The work of the Trust affects the way in which RDL and the Minister develop and administer Royalties for Regions policy and projects.   The Trust has been impressed by the positive and cooperative attitude of both the Minister and RDL to its views and findings, and by a professional desire for continuous improvement.

The Trust is dependent on the quality experience, background and independence of its members, and its staff member.   In that respect the Trust is well served, and it has therefore been a pleasure to Chair the Trust in 2010-11.

The Trust looks forward to the challenges and opportunities of 2011-12.

Andrew Murray
Chair

The Western Australian Regional Development Trust

Responsible Minister

Hon Brendon Grylls MLA Minister for Regional Development.

Enabling Legislation

Royalties for Regions Act 2009.

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

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

Object of the Royalties for Regions Act 2009

The object of the Act is to promote and facilitate economic, business and social development in regional Western Australia through the operation of the Royalties for Regions 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 –

(c) to provide infrastructure and services in regional Western Australia;

(d) to develop and broaden the economic base of regional Western Australia;

(e) to maximise job creation and improve career opportunities in regional Western Australia.

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

(a) expenditure authorised under subsection (1); and

(b) expenditure incurred in the administration of the Fund; and

(c) expenditure incurred in the administration of the Trust, including any remuneration or allowances payable to its members; and

any other expenditure incurred in the administration of this Act.

Role

The Trust is an independent statutory advisory body to the Minister on the Fund. The Trust performs an oversight role and provides independent and impartial advice and recommendations on the allocation of funds from the Fund.

The Fund

Section 5(1) of the Act states that the Royalties for Regions 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.

In 2010-11, the budget of the fund was $760.4 million, allocated as follows:

the Country Local Government Fund	$68.204million
the Regional Community Services Fund	$210.410million
the Regional Infrastructure and Headworks Fund	$468.997million
any other account determined by Treasurer/ Minister	$2.374million
administration of the Fund and Trust – RDL	$10.458 million

Royalties for Regions Fund 2010-11 Allocated Budget in Millions

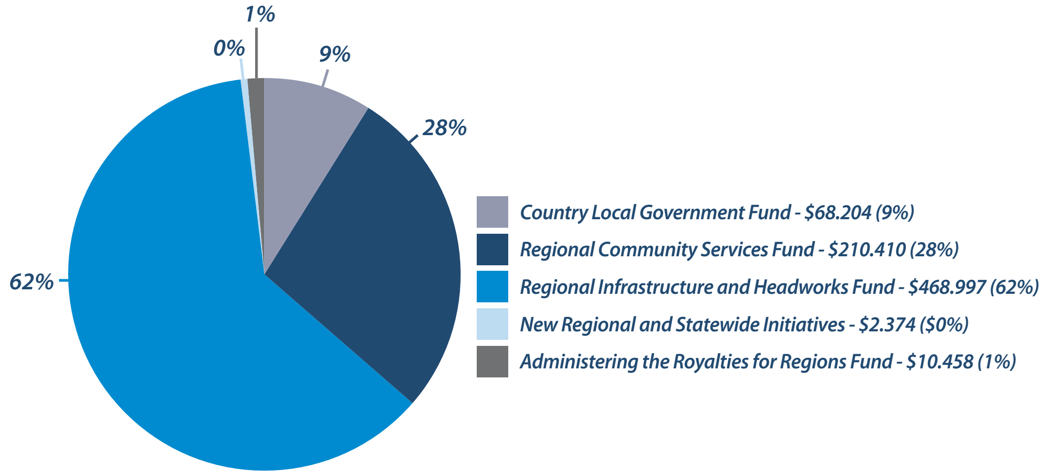

Table 1 Royalties for Regions Fund 2010-11 Allocated Budget

Provision of services and facilities to the Trust

Pursuant to section 27 of the Act RDL provides the Trust with services and facilities necessary for the Trust to perform its function.

In the 2010-11 financial year RDL provided the Trust with the services of a full-time Executive Officer and policy and advice services as required.

As per sections 9(2)(c) and section 27 of the Act, RDL 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 RDL's Annual Report. However, further detail regarding Trust Members' remuneration and some administrative costs for the Trust is provided in the section on Trust Internal Governance in this report.

Membership

Trust members were appointed by the Minister in June 2010 and an initial induction meeting was held on 16 June 2010. The inaugural formal meeting of the Trust was on 16 July 2010. The Trust held five formal meetings and one special meeting in 2010-2011.

In February 2011 subsequent to Mr Tim Shanahan's resignation as Chairperson of the Pilbara Development Commission, Mr Peter Rundle – Chairperson of the Great Southern Development Commission, was appointed as the representative on the Trust from a regional development commission as per section 13(1)(a). Mr Shanahan was re-appointed to the Trust as a member under section 13(1)(b) of the Act.

As at 30 June 2011 the membership of the Trust is as follows:

Andrew Murray

Chair – 3 year appointment, expires 7 June 2013 (appointed as per section 13(1)(b) of the *Royalties for Regions Act 2009*)

Andrew Murray is a Rhodes Scholar and former businessman who was a Senator for Western Australia from 1996 to 2008.

Andrew's senate career focussed on finance, banking, accounting, audit, economic, business, industrial relations and tax issues; on accountability, governance and electoral reform; and on institutionalised children. Andrew is an experienced legislator and policy maker with a strong focus on accountability.

Andrew has a strong and varied business background as an executive and director in public and private corporations as well as owning and managing his own businesses. He has also chaired and been a member of community business and political boards, committees and associations, including parliamentary committees with statutory obligations.

Sue Middleton

Deputy Chair – 3 year appointment, expires 7 June 2013 (appointed as per section 13(1)(b) of the *Royalties for Regions Act 2009*)

Sue Middleton was the Rural Industries Research and Development Corporation (RIRDC) Rural Woman of the Year 2010. In 2003 Sue was awarded the Centenary Medal for services to regional and rural Australia. Sue and her husband's family manage a diverse range of farming operations including a citrus orchard, grain and pork enterprise in the Central Wheatbelt.

Sue also contributes significantly to community projects and has been involved in key leadership groups including the National Regional Women's Advisory Council, the National Rural Advisory Council and the Regional Solutions Board. Sue specialises in community development, strategic planning, project development and is a professional facilitator.

Paul Rosair

Trust Member (appointed as per section 13(1)(b) and 13(3) of the *Royalties for Regions Act 2009*)

Paul Rosair is the Director General of the Department of Regional Development and Lands and a member of the Trust. Paul previously held the position of Director of Major Regional Projects within the Department of Local Government and Regional Development, where he established and rolled out the Royalties for Regions program. Prior to that, Paul held the position of Director of Regional Operations within the Department of Water and previously the Department of Environment.

Paul has worked for more than 35 years in numerous senior government roles across the regional development, environment, water, land management, indigenous capacity building, infrastructure, planning and natural resources management portfolios. He also has extensive experience working across the state and a broad perspective on issues of particular importance to regional Western Australia.

Peter Rundle

Trust Member – 1 year appointment, expires 27 February 2012 (as per section 13(1)(a) of the *Royalties for Regions Act 2009*)

Peter owns and runs a mixed enterprise farm in Katanning (sheep, canola, barley and cross bred lambs). Peter is Chairman of the Board of the Great Southern Development Commission, and it is by virtue of this position that he has been appointed to the Trust for the statutory period of 1 year.

Peter has previously been a Board Member of AQ2 Smartaflow, a Katanning company which has pioneered low-flow water chlorination equipment and distributes Australia-wide. He has also been a member of the Water Corporation's Customer Advisory Council.

Previously Peter worked in the share market, and managed Wesfarmers Share Department while working for Ernst & Young Share Registry and later Computershare.

Tim Shanahan

Trust Member – 3 year appointment expires 7 June 2013 (originally appointed under section 13(1)(a), re-appointed as per section 13(1)(b) of the *Royalties for Regions Act 2009*)

Tim Shanahan has a strong professional and managerial background. Tim was initially appointed for one year to the Trust by virtue of his position as the Chair of the Pilbara Development Commission. Since his resignation from that position he has been reappointed as a member to the Trust. Tim has a wealth of experience from his work in regional and local government policy and advocacy as well as with industry including as the former Chief Executive of the Chamber of Minerals and Energy of Western Australia and his current position as the inaugural Director of the Energy and Minerals Initiative with the University of Western Australia.

Tim was awarded the Public Service Medal in 2001 and the Centenary medal in 2003 both for service to Local Government. Tim is a Director of the Local Government Superannuation Plan and the President, Royal Automobile Club of WA.

The Trust formally meets approximately every two months and on other occasions as required. In the 2010-2011 period the Trust formally met on the following occasions:

Trust Meetings

Ordinary Meetings

	Date	Location
Meeting One	16 July 2010	West Perth
Meeting Two	9 September 2010	West Perth
Meeting Three	12 November 2010	West Perth
Meeting Four	9 February 2011	West Perth
Meeting Five	7 April 2011	Geraldton

Special Meeting

Budget Discussion with Minister – 21 March 2011, West Perth

Attendance

Following is the record of attendance of Trust Members for the formal Trust Meetings in 2010-11. Trust Members are required to attend formal Trust meetings and are required to have any leave of absence approved by the Chair.

Andrew Murray

Attendance at all six Trust meetings.

Sue Middleton

Attendance at all six Trust meetings.

Paul Rosair

Attendance at all six Trust meetings.

Peter Rundle

Attendance at the two formal Trust meetings held since his appointment on 28 February 2011.

Tim Shanahan

Attendance at five Trust meetings.

Regional Observations

The Trust considers it important that Trust members personally appraise themselves of conditions and prospects and Royalties for Regions projects in regional Western Australia. Between the Trust members, all nine regions of Western Australia were visited during the year, some more than once.

Trust Work Program 2010-2011

For the 2010-11 year, the Trust organised its work under the broad headings of:

- Governance
- Royalties for Regions project/program selection
- Royalties for Regions project/program execution
- Regional development
- Finance

Advice and Recommendations

Section 12(a) of the Act requires the Trust to provide advice and make recommendations to the Minister for the purposes of sections 5(2) and 9(1). In summary, those sections refer to the allocation of Fund monies to the various subsidiary accounts; and, to where Fund expenditure should be directed.

Section 12(b) requires the Trust to provide advice and make recommendations to the Minister on any matter relating to the operation of the Fund that is referred to it by the Minister.

In the financial year 2010-2011, on its own motion under Section 12(a), the Trust provided advice and made recommendations to the Minister on the following matters:

- 1 October 2010: to amend the Act
- 25 October 2010: to create a strategic regional development fund
- 16 February 2011: to develop a human capacity program
- 20 March 2011: on Royalties for Regions budget proposals
- 21 March 2011: on a water program
- 27 April 2011: to review the Country Local Government Fund

The Trust also advised RDL on:

- 9 February 2011: governance

In the financial year 2010-2011, under Section 12(b) the Trust had the following matters referred to it:

- 28 June 2011: on the Fund being used to retire State debt
- 28 June 2011: to review the Country Local Government Fund

Advice to amend the Act

As a result of its role in oversighting the Royalties for Regions policy and the Act the Trust identified a number of issues that it sought to clarify relating to the finance arrangements for the Fund.

The 25% issue

The Trust understands that the Royalties for Regions policy formally agreed to at the formation of the current Government was that 25 percent of the actual mining and onshore petroleum royalties due to the State Government in a financial year (FY) was to be credited to the Fund each FY.

RDL had advised the Trust that the intent of that inter-party agreement was reflected in the RDL Cabinet submission of the 29 September 2008 and the Cabinet decision dated 13 October 2008.

Any Royalties for Regions budget established at FY commencement based on a percentage of royalties whose actual quantum can only be known after the FY ends is of necessity based on a forward estimate.

For the Royalties for Regions policy intent then to be realised, a year-end reconciliation between estimated and actual royalties would be necessary.

The effect of the omission of 'actual royalty income' in the Act is to change the policy intent. The Trust has recommended that the Act be amended to include 'actual royalty income'.

As Table 2 below shows, the effect of not taking actual royalties into consideration can be considerable. Based on budgetary experience, over the term of a government Fund income derived from royalty forecasts or estimates will differ materially from Fund income derived from actual royalty revenue, to sums of considerable magnitude.

Total Royalty Income - Operating Statement

Year	Budget	Actual	Variance	
	$m	$m	$m	%
2000-01	535.4	700.6	165.2	30.9
2001-02	643.9	651.1	7.2	1.1
2002-03	669.7	706.8	37.1	5.5
2003-04	669.5	675.8	6.3	0.9
2004-05	750.8	863.9	113.1	15.1
2005-06	1,153.2	1204.5	51.4	4.5
2006-07	1,527.5	1,484.2	-43.3	-2.8
2007-08	1,829.8	1,679.6	-150.2	-8.2
2008-09	2,645.9	2,348.2	-297.7	-11.3
2009-10	2,576.9	2,323.6	-253.3	-9.8
	13,002.6	**12,638.4**	**-364.2**	**-2.8**

Note: All years and rounds of estimates are on an AASB 1049 basis.

Please note that completed figures for the 2010-11 period were not available when this report went to print.

Table 2 Total Royalty Income - Operating Statement

In FY09-10 the royalty estimate at year-start exceeded the actual royalties received by the State at year-end.

The original Royalties for Regions policy intent would have meant this excess should have been 'paid back' to the State's Consolidated Account. The Act's omission of 'actual royalty income' means that the amount by which the forecast royalty income exceeds the actual royalty income in any FY cannot be 'paid back' to the State's Consolidated Account from the Fund.

Neither the Act nor any other Act authorises any excess amount assessed because 'forecast royalty income' exceed actual royalties to be charged to the Fund and returned as a credit to the Consolidated Account. Conversely, there is also no provision to automatically authorise any shortfall amount assessed because 'forecast royalty income' was less than actual royalty income, to be credited to the Fund.

The Trust considers both these over and under-estimate outcomes to be contrary to the policy intent.

The $1 Billion Cap

Section 8 of the Act imposes a $1 billion cap on the Fund.[1] The Trust considers the cap unnecessary, and has recommended that it be removed.

The purpose of the $1 billion cap was outlined by the Hon Wendy Duncan MLC in the Parliamentary debate on the Bill.[2] This quote indicates that the $1 billion cap was designed to hasten expenditure of all the royalties due to the Fund, not to act to prevent the Fund receiving the royalties at all.

The Trust is aware that various options have been mooted to add subsidiary accounts to the Fund, or to consider potential sources of additional funding to the Fund. Section 7(1)(b) of the Act only requires that money be 'lawfully made available to the Fund', which means the Fund can be enlarged. So whether, for instance, Commonwealth grants can be made available to the Fund will depend on the terms and conditions of the Grant.

The effect of the cap is to restrain the potential development of the Fund, as any contemplation of a breach will have a chilling effect as the Fund should not expand if the effect is likely to cause a breach of the cap.

1 Section 8 Limit on amount in Fund *The Treasurer is to ensure that the amount of money standing to the credit of the Fund at any time does not exceed $1 billion.*

2 The Hon Wendy Duncan MLC in the Parliamentary debate on the Bill: *"The $1 billion cap guarantees that the funds allocated are spent according to set timelines, and negates delaying tactics for projects or stockpiling for elections."*

The experience of the Fund to date is that:

- Firstly, funds accumulate faster than expenditure, principally because royalties are regularly credited to the fund, but application, selection commencement and completion of projects naturally lags; and
- Secondly, royalties are now a much larger source of state revenue and so the 25 percent share is much greater than when the $1 billion cap was introduced.

If, at the end of a FY, less than 25 percent of the forecast royalty income has been credited to the Fund but cannot be credited to the Fund because the cap has been reached, then there is no statutory requirement for the difference to be credited to the Fund.

Parliament could appropriate the shortfall amount for the purpose of the Fund in a future year or years, if the balance of the Fund fell sufficiently below the cap. However, there is no obligation on Parliament to do so.

The Trust considers this situation to be contrary to the policy intent and the Act should therefore be amended.

The $1 billion cap includes allocated but unspent money in the Fund. It is only when authorised expenditure is charged to the Fund that it ceases to be included in the calculation of the cap.

While the Act allows the Minister, with the Treasurer's concurrence, to authorise the expenditure of money out of the Fund even if the money will not be expended until future financial years, subject to further advice, the Trust is of the opinion that RDL might be obligated not to contemplate expenditure on projects against anticipated Fund income if the cap is likely to be breached before the full amount of committed funding is required.

If the Trust is right in this opinion then expenditure that is recurrent or directed to large projects that extended over a number of years, might be at risk.

The Trust does not accept that the cap should potentially operate to impose a barrier to the full royalties due to the Fund being effectively budgeted in the out-years. Avoiding this risk requires the Act to be amended.

Technical amendment

Members of the Trust are appointed under section 13 of the Act. Section 13(1)(a) requires the Trust to include the chairperson of a regional development commission (RDC), whose term is 12 months, under section 15(2). That appointment by the Minister is subject to Cabinet ratification.

Section 15(1) states that all other members term of office is to "be not longer than 3 years". Why the RDC Chair has to have a specified shorter term is unclear, as section 15(1) would allow the Minister to appoint any member for a shorter term than three years.

More importantly, section 15(4), read with section 16(1), means that if an RDC Chair resigns or is removed from office before his/her replacement is appointed by the Minister and ratified by Cabinet, then the Trust would not be properly constituted under section 13.

The Act needs to be amended to resolve this issue.

Advice to create a strategic regional development fund

The Trust examined the potential establishment of a non-metropolitan regional 'future fund' under the Act. The Trust did a desk-top review of the various types of international and domestic funds of this type and of the policies that drive them.

In common parlance, any Western Australian Government fund could be termed a future fund if its intention is to target expenditure outside of the budget four-year cycle, but in policy terms a future fund usually has a specific meaning.

Future funds, and their 'policy cousins' sovereign wealth funds, are generally national government policy instruments. A desk-top review of the literature indicates that future funds typically:

- are very long term (30 years plus);
- comprise tens of billions in capital;
- have independent governance oversight and management;
- have government mandated investment policies[3];
- are accumulation funds that are savings rather than spending mechanisms; and
- expenditure is generally drawn from net investment returns; if capital is expended, it is generally delayed until the funds reach a certain size, and even then, is spread over the longer term.

On present information the Trust is of the view that additional or surplus income to the existing Royalties for Regions funds, even if supplemented by other public or private sources, is unlikely to be of traditional future fund size.

3 - The Australian Future Fund has a long-term benchmark for real (after inflation) returns of 4.5-5.5%.

The remit of RDL and the Act is for development. The Western Australian Government has determined that the state needs to catch-up on a backlog of needed regional social and economic infrastructure and services expenditure. This means an emphasis on capital expenditure, again not a feature of future funds.

The Trust concluded that there was no case for the establishment of a future fund under the Act.

The Trust did recommend that a strategic regional development fund (SRDF) be established under the Act.

A strategic regional development fund

Section 5(1) of the Act states that the Fund[4] is to consist of the following subsidiary accounts:

- The Country Local Government Fund (CLGF);
- The Regional Community Services Fund (RCSF);
- The Regional Infrastructure and Headworks Fund (RIHF); and
- Any other account determined by the Minister and the Treasurer.

The CLGF is modest in size (presently around $100 million pa) and is to assist non-metro local government to build and renew local community infrastructure.

The RCSF is also modest in size (presently less than $100 million pa) and is to improve access to services in the regions.

The RIHF is to support large-scale regional infrastructure projects that are of strategic importance to Western Australia (presently around $470 million pa).

The key difference between the RIHF and the proposed new SRDF is that the RIHF is a non-cumulative fund for large-scale construction-ready projects that need funds within the budget cycle, and the proposed new fund will be a cumulative fund for very large as yet unidentified future regional projects that will need funds beyond the budget out-years.

While the Trust considers a new fund under the Act is desirable, this recommendation is complicated by present Royalties for Regions policy.

4 - The Fund is a special purpose account established under s10(a) of the *Financial Management Act 2006* and constitutes subsidiary accounts as itemised in s5 of the *Royalties for Regions Act 2009*.

Present policy is that all the funds established under section 5(1) of the Act are funds required to be spent by set deadlines in the short to medium term, within the budget four-year cycle. If a new accumulating fund for future projects is required for expenditure in the medium to longer term, extending beyond the budget out-years, Royalties for Regions policy will need to change to accommodate the new fund.

Accelerating Western Australian royalties and the possibility that significant non-royalty income could be partnered into the Royalties for Regions funds both raise the prospect of substantial additional monies being available for Royalties for Regions. While in theory such additional monies should be capable of being accommodated in the existing three Royalties for Regions funds rather than a new fund, the design of these funds and the section 8 $1 billion limit to Fund size makes this difficult.

As outlined above, the new fund is intended for a different purpose. The existing funds are non-cumulative and their specific programs and projects are to be spent to set timelines over the short to medium term.

The Trust is of the opinion that neither the CLGF nor the RCSF is suitable in design, intention or prospects for the addition of large increases in income. While the RIHF is notionally suitable, it is designed for construction-ready projects that must[5] be spent in the short to medium term.

The Trust has recommended that the proposed SRDF be initially funded by the allocation of monies from the existing subsidiary accounts and from new royalties income, as determined by the Minister on the advice of RDL and with the concurrence of the Treasurer. Such funds could be supplemented by additional central budget allocations, Royalties for Regions partnership contributions from other private sources; and Royalties for Regions partnership contributions from the Commonwealth.

This proposed new fund is similar in concept to the funds established under the Nation-building Funds Act 2008 to provide financing resources to meet the Commonwealth's commitment to Australia's future by investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health.

The shortfall or deficit in infrastructure is often the subject of policy analysis and public comment. There is a need for large and costly long-term strategic regional development projects to be able to be considered by the Fund. Such projects may include primary infrastructure or supportive infrastructure.

Of particular relevance to the object of the Act is the potential for a future development fund to support the delivery of social infrastructure that deliver enhanced benefits to targeted local communities associated with priority state-significant projects.

Concept-ready but not construction-ready larger regional development projects are characterised by long lead times and construction over several years, making such projects medium to longer term in character, and possibly extending beyond the four years of a budgetary cycle.

From a responsible budget perspective such longer-term state-significant projects are often best facilitated if they are significantly or fully paid from reserves. This prudent costing approach requires the accumulation of considerable funds prior to project consideration and commencement.

5 - See footnote 2.

A potential surplus

Royalties for Regions income being received ahead of expenditure creates an unallocated 'surplus' which on present royalty revenue indications is likely to increase at a faster rate.   Any Fund balance of this nature is reported at FY end.

By nature of the Act any unallocated Royalties for Regions monies must be spent in a timely and responsible manner.   Prudence dictates that any temptation should be avoided to hasten the expenditure of a 'surplus' in ways that may be considered election-oriented or not to be a priority or not to fulfil a strategic need.

International and Australian experience has indicated that it is better budget practice to secure 'surplus' funds for measured and strategic consideration. The potential Royalties for Regions 'surplus' does represent an opportunity to accumulate funds.   With respect to the need for longer-term large regional development projects to be considered under Royalties for Regions that are not presently contemplated by the Fund, any 'surplus' in the Fund provides an opportunity to consider large future projects that would not normally be possible, and to satisfy an unmet need.

Advice to develop a human capacity building program

The Trust has recommended that Royalties for Regions engage more in the development of human capacity in the regions.

Section 4 of the Act states that the Royalties for Regions Fund is to be used to promote and facilitate economic, business and social development in regional Western Australia.   Section 9(1) of the Act is specific as to the direction of expenditure required:

(a) to provide infrastructure and 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.

The Act requires regional development to be delivered through Royalties for Regions expenditure in building physical capacity and in building human capacity in the nine regions of Western Australia.   To build a canal, to bury power lines, to build a swimming pool, takes months or a few years and is visible. Building human capacity is less visible; in some cases it may take a few years but from pre-school to an experienced engineer can take two and a half decades.

It has not been surprising that Fund expenditure to date has been stronger on building physical capacity than on building human capacity.   Given the pressures for infrastructure 'catch-up', this has been the right priority.

OECD[6] insights into the importance of building human capacity

The Trust does yet have sufficient evidence or experience in regional development in Western Australia to draw firm conclusions as to what particular combination of expenditure policy and programs will be of greatest long-term benefit in regional development, but some indicators from the OECD are useful.

In a 2009 policy brief on how regions grow, the OECD outlined some broad principles for successful regional development policies. These are as follows (italics added to emphasise the importance of developing human capacity):

- **Provide infrastructure as part of an integrated regional approach.** The analysis suggests that infrastructure alone has no impact on regional growth unless regions are endowed with adequate levels of human capital and innovation. In other words, infrastructure is a necessary, but insufficient, condition for growth. The analysis also reveals that it takes about three years for infrastructure to positively influence growth.

- **Invest in human capital. Regions with well-educated populations will grow.** Investments in tertiary education take about three years to have a positive impact on regional growth.

- **Emphasise innovation and research and development.** Investments in R&D [research and development] have a positive effect on patent activity in all categories, as do R&D expenditures by businesses, the public sector, higher-education institutions and the private non-profit sector. However, innovation is a longer-term process and appears to have a positive influence on regional growth only after five years. The analysis suggests that as capital and talent agglomerate, they tend to positively influence growth in neighbouring regions. However, innovation remains a highly localised element.

- **Focus on integrated regional policies.** Agglomeration economies are partly responsible for regional growth. Sources of growth from within regions, such as human capital and innovation, are more important than a region's physical distance from markets. Although a region with good accessibility to markets has an added advantage, its growth depends on the presence of human capital, innovation, infrastructure and economies of agglomeration. Regions perform well when local actors in a regional innovation system can communicate easily with each other. Indeed, one region's performance strongly influences neighbouring regions, suggesting that inter-regional trade and inter-regional linkages play an important role in regional growth.[7]

International evidence indicates that to be effective, regional development is a long-term endeavour, sometimes stretching over decades for full realisation. This is particularly the case with building human capacity.

6 - 34 leading countries constitute the Organisation for Economic Co-operation and Development.

7 - Organisation for Economic Co-operation and Development March 2009 Policy Brief How Regions Grow p6.

Building human capacity

It would be helpful for additional analysis to be undertaken before a more comprehensive policy on building human capacity is adopted. The Trust asked that the Minister or RDL establish a process of formal review to determine principles projects proposals and priorities to advance human capacity building in regional development. The Trust is aware that a number of other federal and state Ministries and entities have done work in these areas, which should allow for easier analysis.

At this preliminary stage the Trust has identified five subject heads under which regional and rural human capacity building could be considered:

- Leadership development
- Skills development and retention
- Entrepreneurial/innovation development
- Addressing unemployment- and under-employment and excess capacity
- The needs of new regional populations resulting from regional development

The Trust considered that Royalties for Regions human capacity building should start with leadership development. The Trust considered there was merit in community leadership and capacity building programs becoming regional development projects. Building social and human capital in the regions is vital for regional development.[8] It is also a priority for the Regional Development Council.[9]

Existing organisations in and servicing the regions exhibit or express a need for quality leadership. This will not occur optimally without assistance. There is a corresponding need for high quality leadership development processes.

The principle of subsidiarity[10] is supported by Western Australia's Government, and is discussed in recent reports such as those of the Economic Audit and the Review of the Regional Development Commissions. For subsidiarity to be an effective policy, it requires competence, ability and skill in those who are to make local or regional decisions.

The Minister responded positively to the Trust's advice. The 2011-12 Royalties for Regions budget included key initiatives to improve social infrastructure, which included key theme areas of investment in education, skills training, Aboriginal initiatives and the Regional Centres Development Plan (Super Towns).

8 - In addition to reports such as the Economic Audit Committee's Final Report *Putting the Public First: Partnering with the Community and Business to Deliver Outcomes December 2009*, Department of Training and Workforce Development's *Skilling WA: A Workforce Development Plan for Western Australia December 2010*; *Structuring Regional Development for the Future – A Review of the Functions and Responsibilities of Regional Development Commissions November 2010* has a section Realising Human Capital (Section 8.6)

9 - Priority 6: Leadership and Decision making. *Regional Development Council : Regional Development Policy Framework : An Action Agenda for Regional Development* January 2011.

10 - Subsidiarity is the principle that decisions should be taken as close as possible to the citizen. In Western Australia that means that a central authority should only perform those tasks to which it can add value or which cannot be performed effectively at the regional or local level.

Advice on a water program

Getting Western Australia's water policy integrated into a state-wide regional development strategy remains a challenge. The Trust has recommended that water policy and projects be given greater emphasis in Royalties for Regions.

Section 4 of the Act states that the Fund is to be used to *promote and facilitate economic, business and social development in regional Western Australia through the operation of the Fund*, and section 9 of the Act is specific as to the direction of expenditure required. Self-evidently, regional development, broadening the economic base, and creating jobs cannot occur sustainably unless the basic development underpinnings are available of water, power, transportation, communications, and housing and social resources.

Of these, water is often the biggest challenge to regional development.

In Western Australia, two regional strategies are presently apparent with respect to water. The first is a defensive or reactive strategy to deal with the effects of drought and drying regions, or conversely, the effects of floods and extreme weather events, on established regional populations and industries. The second is an offensive or proactive strategy to cater for growing and or new regional populations, such as in resources development, in the Ord, and in Pilbara Cities. Both are necessary strategic approaches.

New technology and innovation in more efficient and sustainable use of ground and surface water, desalination, recycling and waste water have also been very useful in regional development. RDL has been actively engaged in such issues, and the Royalties for Regions Fund has made some significant investments in water projects.

With the experience gained by RDL and Royalties for Regions to date, the Trust is of the view that RDL should move to a more focussed planned and strategic approach for water in the regional development context.

The Trust recognises that the Department of Water (DoW) and Water Corporation (WC) are the prime agencies in Western Australia for water, and that RDL already works closely with them. Nevertheless, those agencies necessarily have resource limitations and their own priorities. These can affect the timing and outcomes of RDL's and Royalties for Region's regional development programs and possibilities.

From the material it has reviewed, the Trust has concluded that over many years the Government has underinvested in procuring and consolidating comprehensive detailed water resource data. Given the size of Western Australia it is not surprising that water mapping is not complete for much of Western Australia, but a lack of adequate data can and does affect significant development proposals.

Further, new policy and programs initiated under the Act and by RDL may not always be adequately covered off in present planning and investment by DoW and WC.

Royalties for Regions has to invest on current water information, but for better outcomes must elicit better water resource data and explore water opportunities where it can, on a select and strategic basis, so that Royalties for Regions Fund expenditure can be focussed on those areas where Western Australia can get the most productive regional development.

RDL needs to determine the areas where an adequate sustainable water source does or might exist, to be utilised for significant regional development opportunities. In RDL's search for significant regional development opportunities, the Trust appreciates that deciding on appropriate and sustainable water allocation and use will be affected by values other than those of regional development.

There is also the question of what development strategies to adopt to help facilitate better outcomes for already-developed water-stressed regional areas in Western Australia.

The Trust recommended that the Minister consider giving RDL a direction to develop an appropriate water strategy for Royalties for Regions, with two primary goals. The first is to supplement existing or planned water investment by DoW, WC and other agencies, or the private sector, in order to maximise productive outcomes in Royalties for Regions projects. The second is to identify priority geographic areas where better water data and water investment could provide for or accelerate major regional development.

The Minister responded positively, with the 2011-12 Royalties for Regions budget including expenditure on water and Natural Resource Management initiatives. The four key themes of the budget funding allocation are:

- Regional water availability planning and investigation;
- Regional economic development – water opportunities;
- Gascoyne food bowl, including flood mitigation measures; and
- Regional natural resource management.

Advice on Royalties for Regions budget proposals

Advice required

S12(a) of the Act requires the Trust to provide advice and make recommendations to the Minister for the purposes of sections 5(2) and 9(1). In summary, those sections refer to the allocation of Fund monies to the various subsidiary accounts; and, to where Fund expenditure should be directed.

These provisions require the Trust to consult with the Minister concerning his Royalties for Regions budget proposals. The Trust did that.

The Trust was constituted in July 2010. Since then and prior to the formulation of the Minister's Royalties for Regions 2011-12 budget proposals, the Trust has expressed views, and formally provided advice and recommendations to the Minister, on a range of issues, that affect or may affect Royalties for Regions budget processes and decisions.

The Trust recognises that the Minister and RDL have only had a short period in which to react to or implement the Trust's advice, some of which is quite recent.

Such views and advice have included;

- The need for RDL to develop a more advanced evidence and experience-based regional development, philosophy, policy and destination to assist in its decision-making.
- The need for RDL to develop regional development priorities against specific criteria.
- The need for coordinated and holistic regional planning to inform Royalties for Regions project and program selection.
- The need for Royalties for Regions programs and projects to be outcomes-based, and to include timelines and deadlines, wherever feasible.
- The need for Royalties for Regions programs and projects to have business cases, and cost/benefit analyses where sensible.
- Royalties for Regions budgets should include 'themes' designed to address specific areas of need, transformation, or policy.
- The need for greater attention to building human capacity in the regions.

The Trust conducted a high-level review of the 2011-12 Royalties for Regions budget proposals and concluded that those budget proposals met the requirements of the Act and Royalties for Regions policy.

The Trust did not take a view with respect to individual line-items. The Trust did not conduct a detailed review of the material and process surrounding budget line items. The Trust budget views need to be placed in that context.

Improvements

The Trust considers that improvements to Royalties for Regions budget decision-making and process can be made. The Trust indicated a number of areas it will review and areas that it would like to see addressed in the preparation of the 2012-13 budget. These include:

Planning: The Trust views regional strategic plans and a whole-of-government Western Australia regional development policy as essential aids to sound regional development, and would recommend they be concluded for use in the 2012-13 budget process. The Trust is concerned by the absence of locally developed, holistic, co-ordinated regional strategic and investment plans and frameworks for every region, that have been adopted by Government. Such plans would have the benefit of affecting informed and strategic RDL Royalties for Regions decision-making. The Trust urged the Minister and RDL to continue its efforts to rectify this planning deficiency. The Trust notes that this direction is strongly advocated by the Review of the Functions and Responsibilities of Regional Development Commissions.

Process: With respect to inviting submissions from state agencies, while the Trust considers RDL's budget approach a useful one, the timeline for this process for the 2011-12 budget was too short. The Trust suggests that the budget process could be initiated earlier. The Trust is of the view that the inter agency process for consideration of budget bids should be reviewed and more time provided for review of the various proposals against Royalties for Regions policy. This should also assist in ensuring less variance in the quality of business cases.

Productivity: The Trust notes that the Economic Audit report commissioned by the Government put productivity as a high priority. The Trust considers that productivity should be formally included in the criteria for consideration for Royalties for Regions budget proposals for 2012-13.

As a still relatively new agency, RDL has made great strides in understanding regional development and in developing and executing Royalties for Regions regional development projects. The Trust considers that the 2011-12 Royalties for Regions budget has benefited from experience and process improvements, and better systems of governance.

Ministerial judgement and Royalties for Regions budget decision-making is assisted by extensive community input, by sound RDL processes, by Cabinet approvals for all proposals and by parliamentary and public scrutiny. Nevertheless, the onus on the Minister remains high.

His decision-making is not assisted when there are deficiencies in information,[11] a lack of strategic regional plans and the absence of a whole-of-government regional development policy.

Experience does allow for continuous improvement in regional development policy. Prior to the next budget round, RDL needs to develop an improved revised regional development policy to assist in strategic decision-making.

The Trust advised the Minister of three issues it wishes to review further.

First is a matter of accounting. The Parliament and the Government determine the financial framework under which Royalties for Regions sits. Royalties for Regions income and expenditure will affect the Government's financial statements, and affect debt and surplus levels. The Trust recognises that the Treasurer and the Department of Treasury (DoT) are entitled to oversight Royalties for Regions effects on state finances.

The Trust is concerned that mechanisms for Royalties for Regions project budgeting and accounting may be dictated by the Government's overall finance policy rather than by the merits and nature of Royalties for Regions projects. The Trust considers that the 70/30 recurrent/capital split determined by the Government appears to be artificial in construct, and wishes to determine its effect.

Second is a matter of financial prudence. While in theory all Royalties for Regions projects and programs are only committed to and funded into the budget out-years, there is a high probability that ongoing programs such as the Pensioner Fuel Card, Patient Assistance Travel Scheme and the Regional Workers Incentive will continue for years beyond the out-years.

Royalty revenue is variable, but smoothed long term trend lines are available from DoT. The Trust is of the view that, as a discipline, RDL should ensure that projects likely to continue beyond the budget out-years remain, in aggregate, considerably within the long-term [25 percent of] royalty trend line. This prudent measure will enable government to continue to fund such projects within long-term anticipated royalty revenue.

Thirdly, there is the issue of contractual commitments. It was not clear to the Trust what quantum of the budget proposals was already contractually committed. Contractual commitments usually mean that budget proposals are not capable of rejection or adjustment. The Trust considers that in any future budget process the split between contractually committed and non-contractually committed parts of the program should be identified.

11 - Water resource data is a case in point.

Advice on governance

Governance review

The Trust considered that the operational experience gained by RDL of Royalties for Regions from 2008 onwards made it practical to review their governance mechanisms. The Trust advised RDL of its governance conclusions, which RDL discussed with the Minister, who advised his acceptance of those conclusions on the 27 June 2011.

RDL's response to the key governance conclusions

The Trust's governance conclusions were:

- RDL must be clear in expression and understanding of what it means by its governance arrangements.
- The governance arrangements must be relevant to and supportive of section 4 of the Act to promote and facilitate economic, business and social development in regional Western Australia, as expanded upon by section 9.
- RDL must be clear in expression and understanding of what it means by development, and enunciate its regional development philosophy, policy and destination.
- Strategic holistic region-based planning is essential to effective regional development.
- All regional development projects and programs must be outcomes based.

RDL's response to each is outlined below
(in blue text)

RDL must be clear in expression and understanding of what it means by its governance arrangements.

RDL has the necessary governance systems in place but will continue to improve its arrangements to meet the following intent:

RDL Royalties for Regions governance will provide oversight and accountability of Royalties for Regions policies programs and projects. It will provide systems to monitor record and audit Royalties for Regions activity, to identify complaints and shortcomings, take steps to ensure compliance with agreed policies and processes, provide for corrective action, evaluate outcomes, and manage risk. Projects will be assessed as to whether they build capacity within a regional development context, accord with Royalties for Regions policy and budgets, are outcomes-based and, whenever feasible, include timelines and deadlines, and productivity measures. Business cases will be required for all projects and cost/benefit analyses will be required where relevant and feasible. Governance will be tailored to ensure that compliance cost and time is not excessive and is relevant to cost, risk, and the project and entity concerned.

The governance arrangements must be relevant to and supportive of section 4 of the Act: to promote and facilitate economic, business and social development in regional Western Australia, as expanded upon by section 9.

RDL agrees.

RDL must be clear in expression and understanding of what it means by development, and enunciate its regional development philosophy, policy and destination.

RDL recognises that a clearer Western Australian-relevant regional development philosophy policy and destination is needed. At present policy priorities and strategies are determined by six Government requirements: Building capacity in regional communities; Retaining benefits in regional communities; Improving services to regional communities; Attaining sustainability; Expanding opportunity; and, Growing prosperity.

RDL notes OECD evidence that effective regional policies should: provide infrastructure as part of an integrated regional approach; invest in human capital; emphasise innovation, research and development; and, focus on integrated regional policies.

Strategic holistic region-based planning is essential to effective regional development.

RDL agrees, and is working within RDL and within state and federal government to progress this aim.

All regional development projects and programmes must be outcomes based.

RDL agrees, and will implement this approach as new Royalties for Regions projects appear.

Changing the six governing objectives:

At present Royalties for Regions policy priorities and strategies are determined by six governing objectives:

- Building capacity in regional communities
- Retaining benefits in regional communities
- Improving services to regional communities
- Attaining sustainability
- Expanding opportunity
- Growing prosperity

These Royalties for Regions objectives are simple broad and clear. They have not acted as a restraint on Royalties for Regions, but neither have they indicated which objective/s might be a priority at this time, or which deserve greater emphasis. The Trust has not found that individual Royalties for Regions programs or projects are assessed against which objective they meet and how. RDL will need to consider whether this is necessary when it introduces outcomes-based processes.

Of greater import and status is the Act. There is an obligation on RDL to ensure Royalties for Regions outcomes conform with sections 4[12] and 9[13].

The Trust has indicated that in planning, RDL will need to determine within these six objectives, and within sections 4 and 9 of the Act, what the balance emphasis or priority should be in future. Certainly these objectives could be reviewed and refreshed no later than the next election.

RDL proposals for making further progress

As a result of the discussion above, RDL formally advised the Trust of its proposals for making further progress.

12 - Section 4 – Object

The object of this Act is to promote and facilitate economic, business and social development in regional Western Australia through the operation of the Fund.

13 - Section 9 – Application of Fund

The Minister, with the Treasurer's concurrence, may authorise the expenditure of money standing to the credit of the Fund for the following purposes-

to provide infrastructure and services in regional Western Australia;

to develop and broaden the economic base of regional Western Australia;

to maximise job creation and improve career opportunities in regional Western Australia.

Redefining principles, policy objectives and outcomes

The Royalties for Regions program has a significant leverage opportunity, often partnering with federal and state agencies, to work collaboratively with regional and remote communities to grow and develop. The broad vision is to create growth opportunities, address market failure, build regional capacity, and remove barriers to growth in ways that reflect the needs and goals of the regions and regional communities themselves.

Key to successful sustainable and effective regional development is regional capacity building and regional decision making which finds expression in an integrated comprehensive strategic plan for each region. In the absence of such regionally-derived plans, RDL has to rely on its own departmental planning processes with respect to regional development, informed by external plans and reports.

Taking into account the above, a revised set of outcomes and principles for Royalties for Regions in regional Western Australia is proposed;

Proposed Outcomes

To be conducted within 2011-12, integrated regional planning against priority setting will direct Royalties for Regions and other investment to large and small transformational social and economic development projects with the following outcomes:

- New and revitalised regional infrastructure supports increased growth, reduced costs and increased productivity
- Productivity and effectiveness of regional economies are increased.
- Communities grow and prosper through employment and business development.
- Housing, land and essential services are accessible and affordable.
- Human services are delivered at a standard equivalent to or better than those in metropolitan areas.
- Communities enjoy good quality amenity and lifestyles.
- Capacity building (particularly for leadership) is enhanced.

Proposed Principles

- Strategic and transformational projects in regional Western Australia are a priority.
- Local planning and decision-making in regional areas is fundamental
- State Government agencies should support integrated regional planning, priority setting and investment decision-making for regional areas
- Royalties for Regions funds may be directed to bringing forward State Government initiatives that are planned for but where no budget allocation currently exists
- Royalties for Regions funds supplement but do not supplant existing State Government funds.

Issues for further consideration

Assessing business cases and managing risk

The Trust notes that in assessing funding applications, RDL needs to define their position on risk management. A preferred approach is one which avoids being risk averse while sensibly and responsibly managing and minimising the effect of identified risk.

Submissions should indicate whether business cases are available to assist with strategic funding decisions. It is important to note however that some projects are difficult to articulate in cost/benefit terms because they are a response to a genuine but perceived need, or are value based. The economic effect on regional communities in this situation is nearly impossible to assess and other decision-making tools need to be considered.

The operational experience of Royalties for Regions for the past two years has shown that many business cases received have been statements of intent rather than funding rationales in response to unmet need.

Business cases that lend support to funding are those that:

- Make a clear case for the project within the context of the Royalties for Regions policy objectives including the outcomes the project is to achieve.
- Identify the funding requirements for the project including the extent of Royalties for Regions funding.
- Identify the risks involved in relation to the project and what risk management strategies will be employed ie. public/private leverage
- Identify the measures that will be used to assess the extent to which the project outcomes are achieved.

Consistent with the principle of fostering local decision-making and community empowerment, RDL, through the passing on of knowledge, has a role to assist applicants develop sound business cases.

In cases where strategic project funds are being provided either through government agencies or directly to not for profit community based organisations, risks associated with potential cost shifting and a lack of congruency between core business, government agency priorities and regional priorities can occur. In addition, questions in relation to project sustainability can arise if funds have been allocated to a service for which another department has core funding responsibility.

Development of a community owned integrated regional planning framework

The principles underlying the Royalties for Regions program provide an opportunity to take a place based, local level approach to foster public/private partnerships and integrate new stakeholders and resources into the development process.

The OECD[14] suggests that this locally driven approach assists in developing a culture of cross-sectoral co-operation within central and local governments and thus more coherent policy initiatives. They also suggest that there is a recognition that a place-based approach requires more bottom-up as opposed to top-down initiatives. This produces new ways of co-ordinating vertically across levels of government and a better use of local knowledge.

An emerging challenge for RDL is to work with its key stakeholders to formulate an integrated local, regional and state regional development-planning framework, which will strategically inform funding decisions into the future.

14 - OECD Policy Brief October 2006, Reinventing Rural Policy

Advice on the Fund being used to retire State debt

The Minister referred the matter of the effect of the increase in iron ore royalties to the Trust.

Western Australia's Government has determined that there will be a phased end to the royalty concession on 'fines' produced from iron ore, so that it equates to the royalty rate for 'lump' iron ore. It has estimated that this royalty adjustment will produce an estimated additional $1.923 billion in State revenue from 2012-13 to 2014-15.

Government policy is to quarantine the additional royalty revenue to be received for this four-year period, for State debt reduction purposes. As a member of State Cabinet the Trust recognises that the Minister is obliged to support Government policy, but the Act prevents certain outcomes in this regard.

Under section 6 of the Act, each financial year the Royalties for Regions Fund is to be credited 25 percent of the forecast royalty income for that year. The income of the Fund is derived from revenue, and no part of it constitutes debt. 25 percent of the estimated royalty increase of $1.9 billion is $475 million.

The income due to the Fund is calculated each financial year, and legally cannot be less than 25 percent of the forecast royalty income. That means a portion of that 25 percent cannot be withheld from the Fund for any other purpose, including debt reduction.

The Act is clear. The Fund is due its share of royalties as specified by the Act, and for the purposes determined by the Act. The portion of the royalties due to the Fund cannot be quarantined for debt reduction; it must be paid to the Fund.

Expenditure under the Act must meet the requirements of sections 4, 5(1) and 9(1). Although the Act does not specifically refer to use of the Fund for debt reduction purposes, neither does it prohibit it. The question is therefore: could this $475 million due to the Fund for expenditure that meets the requirements of sections 4, 5(1) and 9(1) be lawfully expensed by the Fund for State debt retirement?

In the opinion of the Trust, the answer is yes, if the State debt was incurred for purposes that mirror the provisions of sections 4, 5(1) and 9(1).

An important feature of Royalties for Regions is that it has been established to supplement, not supplant, normal state expenditure. The Trust is strongly of the view that any application to debt retirement of this Royalties for Regions Fund income that has been enhanced by these royalty increases should pass the test of being a contribution to and additional to normal debt retirement, and not represent a cost-shift to the Fund.

It is important that debt for a valid Royalties for Regions regional development project in these circumstances is genuinely incurred, and that its payment by the Fund does not have the perception of being manufactured to satisfy the debt reduction policy.

Advice to review the Country Local Government Fund

On 15 December 2008, the Minister launched the CLGF with $400 million over four years to assist country local governments to build and maintain their community infrastructure.

The Fund's stated aims are to:

- address infrastructure backlogs and support capacity building
- improve the financial sustainability of country local governments in Western Australia through improved asset management
- provide financial assistance to country local governments which choose to amalgamate voluntarily
- assist groups of country local governments to fund larger scale infrastructure projects.

The Trust understands the provenance of the CLGF was in part a response to a sustainability and infrastructure study sponsored by the Western Australian Local Government Association, and that the CLGF originally envisaged a four-year budget program to address deficiencies and a backlog in local and regional infrastructure.

Section 5(1)(a) of the Act went beyond this timeframe, as it gave the CLGF permanence by entrenching the CLGF as a subsidiary account of the Fund.

Public debate and commentary on CLGF policy and performance to date has included matters of quantum design process governance allocation timelines and execution.

The Trust's own consultation to date has led it to believe that overall the CLGF expenditure has been welcomed and valued by regional local government and regional communities, and that there has been a need for an individual local government component to the Fund, for small community grants, and for sub regional pooled grants.

On the 28 June 2011 the Minister referred a review of the CLGF to the Trust to be concluded by the end of January 2012.

Other Matters

The Trust has made its own observations and has had a number of matters raised with it in its consultation. The Trust considers that two of those matters below are important and need to be raised in this report. Aspects of these matters have been included in formal advice provided to the Minister, and reported above, but the Trust considers it relevant to report further.

Planning

Since its formation in July 2010 the Trust has expressed considerable interest in the contribution better strategic regional planning can make to optimal Royalties for Regions outcomes. The Trust considers that strategic holistic region-based planning is essential to effective regional development.

The Trust accepts the now long-standing government determination of nine country regions in Western Australia as sensible in number and demarcation, incorporating as they do an aggregation of shires within regional boundaries. The Trust supports the allocation and reporting of Royalties for Regions investment partly on that nine-region basis.

The nine country regions are not however a standard organisational matrix, and state agencies often organise themselves into different regional configurations (the Department of Education for instance has seven regions).

Within the nine regions are sub-regions, which may constitute one or more shires, industries, and cities, towns, and settlements, including mining settlements. There are also geographic linkages and development corridors across regions.

Strategic and operational plans are needed at each level, informed by a state planning framework, aggregating to a state-wide regional development plan policy and strategy guiding investment.

From the Royalties for Regions perspective, if the Department of Planning (DoP) and the Western Australian Planning Commission (WAPC) were to plan on a different geographic basis for non-metro Western Australia than the nine country regions, and other state agencies structure their regional plans and analysis differently as well, it can make strategic decision-making and co-ordinating regional development more difficult.

The Trust has made the point to the Minister in advice concerning his 2011-12 budget proposals, that Ministerial budget decision-making on Royalties for Regions is made more difficult in determination selection and prioritisation by an absence of co-ordinated integrated holistic and concluded strategic plans by region and sub-region.

The matter of regional planning is of vital importance to regional development decision-making, but it is outside RDL's direct control.

The recent Government Regional Development Commission Review raised this fundamental question: 'How should Government be organised to improve services and support for regional development?' As a guideline to addressing this question, the RDC review committee said that 'it is important that regional development is approached in a way that best promotes coordination and integration, as well as achieving a triple bottom line of economic, social and environmental sustainability.'[15]

It is hard to see how this can be effectively achieved without the development of required regional outcomes and regional future-based plans. Decision-making of a high order is made more difficult and less efficient without good planning systems.

15 - The June 2010 Review Committee's Issues Paper page 3.

There is no question that regional development has successfully occurred without an overall plan, but that does not invalidate the need for planning. Good planning saves time and money, integrates collaboration and coordination, and crystallises desired social and economic outcomes.

In the Royalties for Regions regional development context the Trust has suggested that good planning should be continuous not static, client-based not supplier-based, regionally-based not centrally imposed, future-based not past-embedded.

The Trust's regional consultation has indicated that there are stakeholders who consider that:

- Regional planning to date has generally not been integrated coordinated or holistic
- There are plans of different types but no regional plans yet, apart from the draft Pilbara Planning and Infrastructure Framework
- Planning is by 'silo' - business, community, sector, local government, agency, department and authority but is not well coordinated
- Local government planning quality is patchy, and strategic planning is essential
- Planning is need and past based and not prospects and future based
- ABS census and other data is not always sound enough

The Trust has not sighted the variety of plans available from the variety of organisations operating in the regions. No doubt there are plans that are comprehensive very useable and of a high standard; but only some (like port authorities and local government) would be public sector and/or publicly available.

Strategic and operational planning should be central to every significant organisation's functioning, but realistically, organisations like local government often require expert assistance in planning matters, so requiring outside inputs and a client-supplier relationship.

Starting with two regional development principles, that planning should be regionally-driven and planning should be future-based - what could this mean?

Experience makes for caution, and past-based planning exhibits that caution in trying to be realistic and prudent. On the other hand, underestimating development prospects demand or need can result in underinvestment in social and economic infrastructure, less than optimal outcomes, and more costly 'catch-up' being required later on.

Future-based planning is easiest when it reflects Government policy. For example, there is a determination to create large, settled sustainable populations in the Pilbara Cities policy, and to make the Pilbara a more diversified economy by adding services, tourism, agriculture and so on to the mining and export sectors.

The Trust accepts that sound policy development means that planning guidelines and principles need to be agreed and determined by Government, and budgetary consequences require Government approval or support for any sub-regional or regional plan.

The Cabinet has established an agreed approach to regional planning through the appointment of regional statutory planning committees under the WAPC.

The Trust notes that the WAPC is reporting good progress under its State Planning Strategy and regional planning processes to address deficiencies highlighted here.

Targeted investment

Work

The emphasis of the Act is on regional development. The Act recognises that economic and business development is insufficient unless accompanied by social development. While there are Royalties for Regions programs that are directed at individuals, and are therefore welfare in nature, such as the Pensioner Fuel Card, Patient Assistance Travel Scheme and the Regional Workers Incentive, extensive Royalties for Regions social investment in health, education, housing and urban amenities has been made.[16]

While most Royalties for Regions expenditure is not directed to a particular demographic,[17] there is a case for targeted investment aimed at specific areas of disadvantage or opportunity in Western Australia's regional indigenous community. In particular, further investment targeted at Aboriginal workforce participation is warranted.

The remit of the Act is wide. Section 4 of the Act states that the Royalties for Regions Fund is to be used to promote and facilitate economic, business and social development in regional Western Australia. However, section 9(1)(c) specifically targets jobs, and requires Royalties for Regions to maximise job creation and improve career opportunities in regional Western Australia.[18]

16 - The distinction between social and welfare needs is broadly that there are Royalties for Regions programs and projects that contribute to social development in the regions, and there are Royalties for Regions programs and projects that provide aid to individuals or groups in a welfare context.

17 - There are notable exceptions, such as for older Western Australians with the Country Age Pension Fuel Card Scheme.

18 - Section 9(1) of the Act is specific as to the direction of expenditure required:

(a) to provide infrastructure and 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.

To date, Royalties for Regions efforts in the Ord[19] and in the cultural arts space seem to be an economic and employment success.

There are many indigenous Western Australians living in the regions that are doing well, hold down good jobs, and have stable families, but there are many who are not doing well, who are on welfare, and whose family and social life is sub-optimal.

There has been no shortage of jobs in much of regional Western Australia in 2010-11, yet there is unemployment and under-employment, particularly in Aboriginal communities. In part that is because many live in remote areas where there are few jobs, but in many country towns there are people on welfare while foreign backpackers are gainfully employed in retail, tourist, agricultural and other pursuits. The mining sector is flying in workers, even for unskilled and semi-skilled jobs.

Job availability is not enough. Experience has shown that it is not easy to end an entrenched welfare culture in some sectors, or to overcome issues of geography, culture, community and relative disadvantage.

There is concern at economic and employment issues in regional indigenous society, but in contrast to those targeting social outcomes, there are not that many agencies organisations and individuals addressing economic and employment issues.

The experience of Argyle Mines and the Ord Expansion project is that to make solid gains in Aboriginal employment, an active program of recruitment and support, involving a considerable overhead, is required to address social and economic issues.

19 - The Ord Final Agreement provides for the Aboriginal Development Package which enables the Miriuwung-Gajerrong people to participate in the project as employees and in businesses.

Many indigenous Western Australians in the regions face particular social and economic challenges. These are well documented and are the focus of multiple state, federal and private sector programs. RDL sits on the Western Australian Aboriginal Affairs Coordinating Committee, which is leading the development of a rationalised and focussed Aboriginal policy framework.

The Trust takes the view that while RDL can be a valuable partner in that committee's work, it should use the opportunities provided by the Act and its departmental responsibilities to target specific action.

Most federal and state expenditure on Aboriginal people has been in health, education, housing, public order and safety, welfare and so on. Expenditure on economic participation has been comparatively low. Job creation is a core requirement of the Act. That should mean the creation of permanent and sustainable work. The Trust is well aware of how difficult a task that has proved to be, but has been encouraged by the commitment and results of Aboriginal work participation in the Ord project.

The regional Aboriginal population has high numbers of under 35's, with 40% of the Aboriginal population under the age of 15. The Trust is of the view that a targeted and sustained long-term effort to assist this large cohort of younger Aboriginal people to move from school to work and from welfare into economic participation, offers the greatest development potential.

Land

Lands is a division of RDL, and that division has a part to play in regional development. State-wide there are issues of sub-optimal land management, missed development opportunities, skills deficiencies, and social disadvantage. These issues are cross-cultural, but they are pronounced in the Aboriginal communities of the north and east. There are opportunities not only to develop programs aimed at all Western Australians in pastoral/rangeland/crown land country areas, but also ones that are specifically indigenous because it is an area of high need.

Further, home and business ownership are important components of regional development. Work needs to be done to ensure that larger country towns have the same range of tenure available to them whether those towns have a predominantly indigenous population or not.

Some land issues need special attention. In Hedland and Kununurra (to take two examples), in the midst of very significant Royalties for Regions and other expenditure that is transforming those towns, are Aboriginal Lands Trust (ALT)[20] owned settlements. In theory these two ALT communities are just suburbs of these country towns under different tenure, but in practice these are degraded areas without access to municipal services, and in a bad state with respect to housing, roads, footpaths, lighting, rubbish-collection, postal services and amenities maintenance. There is excessive litter, and poor community standards reflect the poor urban environment.

Such conditions are apparently long-standing, and their continuation is unacceptable. Political will is needed to address the policy, funding and regulatory issues involved. A deadline should be set for change to be effected. Those suburbs should be normalised and be provided with the same municipal services and funding as any other suburb.

20 - The Aboriginal Lands Trust was established by the Aboriginal Affairs Planning Authority Act 1972, which is the responsibility of the (Western Australian) Department of Indigenous Affairs.

Trust Internal Governance

Trust Operating Budget

Pursuant to section 9(2)(c) and section 27 of the Act, RDL provides the Trust with an operating budget to cover the expenditure incurred in the administration of the Trust. These funds are managed by RDL and are reported on in the Financial Statements section of RDL's 2010-11 Annual Report.

The operating budget for the Trust for the 2010-11 period was $380,000.00. A summary of some of the expenditure is provided below.

Trust Members' Remuneration

As per section 20 of the Act and the Public Sector Commissioner's determination Trust members are entitled to remuneration and travel allowances, excepting the member of the Trust who is the Chief Executive Officer of RDL. The remuneration for Trust members is as follows:

Chair	$111,377 per annum
Deputy Chair	$ 40,160 per annum
Members	$660 per day for meetings of 4 hours or more
	$430 per day for meetings less than 4 hours

The total remuneration paid to Trust Members for the 2010/11 period was $158,674 (exclusive of superannuation).

Travel Expenditure

The Trust held one meeting in Geraldton, country members of the Trust incurred travel costs to attend to Trust business, and the Chair of the Trust travelled extensively to the regions of Western Australia.

The total travel expenditure for 2010-11 period was $14,108.

Trust Governance Framework

The Trust's internal Governance Framework was developed using public sector best practice and comprises a Charter, Code of Conduct and Conflict of Interest Policy. The Code of Conduct and Conflict of Interest Policy were reviewed by the then Office of the Public Sector Standards Commissioner and their feedback was incorporated into the policies.

The governance policies were endorsed at the 16 July 2010 meeting subject to a review for suitability in one year's time, which is currently under way.

Charter

The Charter was developed using recommendations on best practice for boards and committees from the Public Sector Commission'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 then Office of the Public Sector Standards Commissioner (OPSSC) *Conduct Guide for Boards and Committees*.
In its review of the Code of Conduct OPSSC feedback was that the Code was consistent with the *Public Sector Code of Ethics*, relevant legislation and the six key elements in the *Conduct Guide for Boards and Committees*.

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 agreed that a more expansive declaration is appropriate and that the Act is the minimum required.

The OPSSC noted in its review of the Conflict of Interest Policy that the code reflected the unique business of the Trust and the standards expected of its Members.

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

Trust Members completed all of the appropriate forms at the beginning of their terms and further disclosures are made as they occur. The agenda for formal Trust meetings includes a section at the beginning for disclosures of interest relevant to agenda items.

Trust Administrative Functions

Pursuant to section 27 of the Act RDL provides the Trust with the services and facilities necessary for the Trust to perform its function. This includes the provision of a full-time Executive Officer who provides support to the Trust. The Executive Officer is responsible for administrative and procedural arrangements for the Trust.

Part of the services and facilities provided to the Trust by RDL includes the following and is reported on in RDL's 2010-11 Annual Report:

- Record Keeping Plan
- Disability Access and Inclusion Plan Outcomes
- Substantive Equality
- Occupational safety, health and injury management

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