Monday 5 July 2010
Karratha International Hotel

Address by Andrew Murray
Chair of the Western Australian Regional Development Trust
to executive members of the University of Western Australia and key members of the Pilbara community during an evening of discussion focused on future regional directions and opportunities for the Pilbara.

Vice Chancellor, distinguished members of the University of Western Australia and of the Pilbara community, and Trust Member Tim Shanahan – thank you for the opportunity to speak to you as Chair of the newly-established Western Australian Regional Development Trust.

Some context is useful.

The Royalties for Regions policy was developed by WA's National Party prior to the last state election in September 2008. The election result meant that the two largest parties (Labor and the Liberals) did not have the numbers to govern in their own right, so it gave the Nationals the opportunity to be in alliance with either, and to implement their policies, especially Royalties for Regions. The Liberals became their partner in government.

The new Royalties for Regions policy rested on a foundation National Party belief – that social and economic investment in the regions of WA is good of itself, is a sound state-building philosophy, and should be sustained and substantial.

This belief is not exclusive to Nationals. Development growth wealth-creation and improving standards of living in WA's regions have long been supported by many in the community.

What distinguished the Royalties for Regions policy from that long-held general aspiration was that not only should regional investment be targeted and substantially increased to secure economic and social growth, but it should be permanently secured. This meant the policy must survive a change of government or a government in which the Nationals are not present.

To achieve a substantial permanent regional investment commitment it is not sufficient to build support for this policy by new and welcome regional expenditure; nor is it sufficient to legislate the Royalties for Regions formula and policy (legislation means that Royalties for Regions cannot be as easily undone by a future government); nor is it sufficient to set up a new regional administrative emphasis.

What is required is that Royalties for Regions be accepted as good long-term public policy with non-partisan or cross-party political support, and wide community support.

Looking in from outside it does appear as if that process is under way.

First, there is no doubt that the popular language of nation-building translates into state-building, and in the state and national interest this translates into developing servicing growing and investing in non-metro WA. The Pilbara Cities project is of this kind.

Second, it means not just re-balancing investment towards the regions in this term of state government, but making that rebalancing permanent. In the long term that will result in a profound shift in WAs economic and social direction and growth.

Third Royalties for Regions needs wide popular and sustained support. This seems to already be evident in the country. I do hear contrary metro-centric views but politically on this front it seems (reading the Hansard entrails) that the Royalties for Regions concept is supported across WA's political parties.

Fourth, for Royalties for Regions to have a transforming and enabling effect the regions should play a greater part in determining their own destiny. This has a number of threads.

Two discrete regional needs seem apparent – the need for concentrated high-level fora for informed independent regional consultation and advice that is heeded reliable and effective; and for regionally based government decision-making and service delivery that is quicker efficient and more productive and results in the better service of regional business and society.

In the interests of focusing decision-making and action on the regions a new department was required that was genuinely regionally oriented in function and responsibility, so the Department of Regional Development and Lands was born.

The challenge for the government and parliament is to decide to what extent this department should be truly regional. The Ministry and Department are Perth based and Perth is still where most decisions are made, even run of the mill ones.

Past policy efforts to improve government's regional focus included the nine Regional Development Commissions, but these have limited authority and resources and have never delivered services or been decision-makers.

Central approval processes and budget mechanisms for Royalties for Regions must remain the province of state government, but their genesis and realisation will often be regional.

Many Royalties for Regions programmes are already regionally promoted and facilitated where better outcomes and greater efficiencies result, but big projects such as Ord Stage 2 rightly have central oversight, and central administration is practical for individual benefits like the regional fuel card. Otherwise it is intended that as far as possible regional projects should be regionally conceived owned and executed, either through local government, or through regional for-profit and not-for-profit organisations.

I believe it is to their credit that WA's government have accepted this devolution principle.

The Act says that the Royalties for Regions fund (which is derived from 25% of WA's annual royalties, and has a 2010-11 budget of $897 million) is to promote and facilitate economic business and social development in regional Western Australia through country local government; regional community services; regional infrastructure and headworks; and such other subsidiary funds as may be determined by the Treasurer and Minister together.

A significant portion of the Royalties for Regions programme is delivered through grants. Any grants system, federal or state, has its dangers. The two biggest dangers are always the same: any hint or perception of vested interest or poor process in choosing successful projects; and any misconduct mismanagement or poor outcome in the expenditure and realisation of the grant.

The minister government and parliament have acknowledged these dangers, so that apart from the normal safeguards provided by public sector standards and processes; parliamentary scrutiny; and the Auditor General, they have recently legislated for the Western Australian Regional Development Trust.

The Trust is a statutory advisory body to the Minister for Regional Development and Lands. The Trust does not represent the views of the Western Australian government.

The Trust is required to provide independent and impartial advice on the allocation and in the management of the Royalties for Regions Fund which is required to promote and facilitate economic business and social development in regional Western Australia.

The Trust must provide advice and make recommendations on any matter referred to it by the Minister relating to the operation of the Fund; and, to initiate its own advice and recommendations for the purposes of sections 5(2) and 9(1) of the Act.

Accordingly the Trust provides high level advice and recommendations to the Minister as to the apportionment of the monies into the subsidiary accounts of the Fund; as to the application of the funds within the subsidiary accounts of the Fund; and on any other matter relating to the operation of the Fund referred to it by the Minister.

The Trust is barely a month old, so it is too early to report progress, but everyone would guess that the Trust will take an early and active interest in governance and process; to do that we need to establish some principles.

Good governance requires sound processes, consistency, and integrity accountability and transparency. These are all ethically morally and managerially sound concepts that enable policy and services to be delivered efficiently effectively and affordably. Any governance system needs to ensure that sensible audit accounting and financial controls legal requirements and performance standards prevail.

Bad governance does not just mean the opposite to these virtues; it can mean over-governance with excessive checks on decision-making, or excessive legalistic and administrative processes that gum up the system and rather than being outcomes-focussed are designed to cover backsides.

Productivity will loom large in the Trust's consideration of Royalties for Regions matters. Productivity is often thought of as economic, as producing more for less – better roads and ports should speed up economic activity and reduce operating costs; but productivity is less often thought of in social terms.

Better regional health education training sporting and cultural services; better varied and available affordable housing; improved retail and urban regional environments; all these help towards a more settled more contented more fulfilled society. As a result employee turnover should fall, living costs should fall, leading to lower costs and greater efficiencies for the public and private sector alike.

I will applaud those Royalties for Regions proposals that can lead to such productive social outcomes.

I want to conclude on whether there is any danger to royalties under the proposed Mineral Resource Rent Tax that replaces the proposed Resources Super Profits Tax.

The Henry Tax Review had this to say:

> *Well-structured taxes on land and natural resources are a highly efficient means of raising revenue. Existing taxes on land and resources fall short of this ideal, and should be reformed so they are a more effective means of raising revenue.*

Henry suggested a new federal resources tax should replace the states resources royalties:

> *Where State royalties are replaced by the resource rent tax ... the allocation and risks from the tax be negotiated between the Australian government and the States.*

I am not convinced that the case for royalties being replaced has been made. More convincing is the view that royalty systems across the states need to be made fairer simpler and more efficient.

WA's royalty system looks complex: it has both a volume rate for low value construction materials, and a value rate for most minerals, but the actual rates also vary by mineral type, currency used, output and other measures.

Not two weeks ago the WA government made a useful start on reform by ending some concessional rates and introducing greater standardisation.

The Government's brief response to Henry's proposals were that from 1 July 2012

> *The RSPT will ... operate in tandem with State and Territory royalty regimes. The Australian Government will provide resource entities with a refundable credit for state royalties paid. ... Refunding royalties allows the states to continue to collect a stable stream of revenue from royalties while removing the effects they have on investment and production.*

Note the different language concerning royalties – Henry writes of replacing royalties, the government envisages royalties operating in tandem with their tax.

The Fund is royalty-based. Is Royalties for Regions at risk from the MRRT?

Last Friday the Premier indicated that the constitutional and legislative position of the MRRT proposal is not yet clear.

A royalty is not a tax at all, but represents a charge - the sale of the right to extract a resource owned by the state; the key point being that land and resources belong to the states, not the Commonwealth.

Since land and resources belong to the states, the WA government will be expected to defend these rights. You would not expect a state in a federation to give up or diminish their right to dispose of or charge for their own assets.

Experience tells us that if the Commonwealth assumes rights and powers they will exercise them and they can change them. Will the final MRRT legislation entail conceding or conferring to the Commonwealth authority over revenue earned from state owned resources?

Final Commonwealth policy is not clear, but it could be that the states are asked to give up some rights; that a tandem Commonwealth/State system then operate; and then finally that royalties are done away with.

Both the RSPT and the MRRT announcements were light on detail but both indicated royalties being rebated to the payee if the new tax applies to that company.

The Royalties for Regions fund is derived from 25% of WA's annual royalties. Maybe it is unlikely, maybe not, but clarification is needed - are state royalty receipts and powers affected by the MRRT, and will that affect the Royalties for Regions entitlement?

I would think that if royalties were at present or future risk and if that risk materialised, the moment when regional WA voters who have embraced Royalties for Regions discover that the Fund could be taken from them would be an explosive one.

Any possible present or future threat to WA's rights over its resources, any threat to its control over its revenues, any threat to Royalties for Regions will need to be spelt out and reacted to by the Premier, and he will be aware of that.