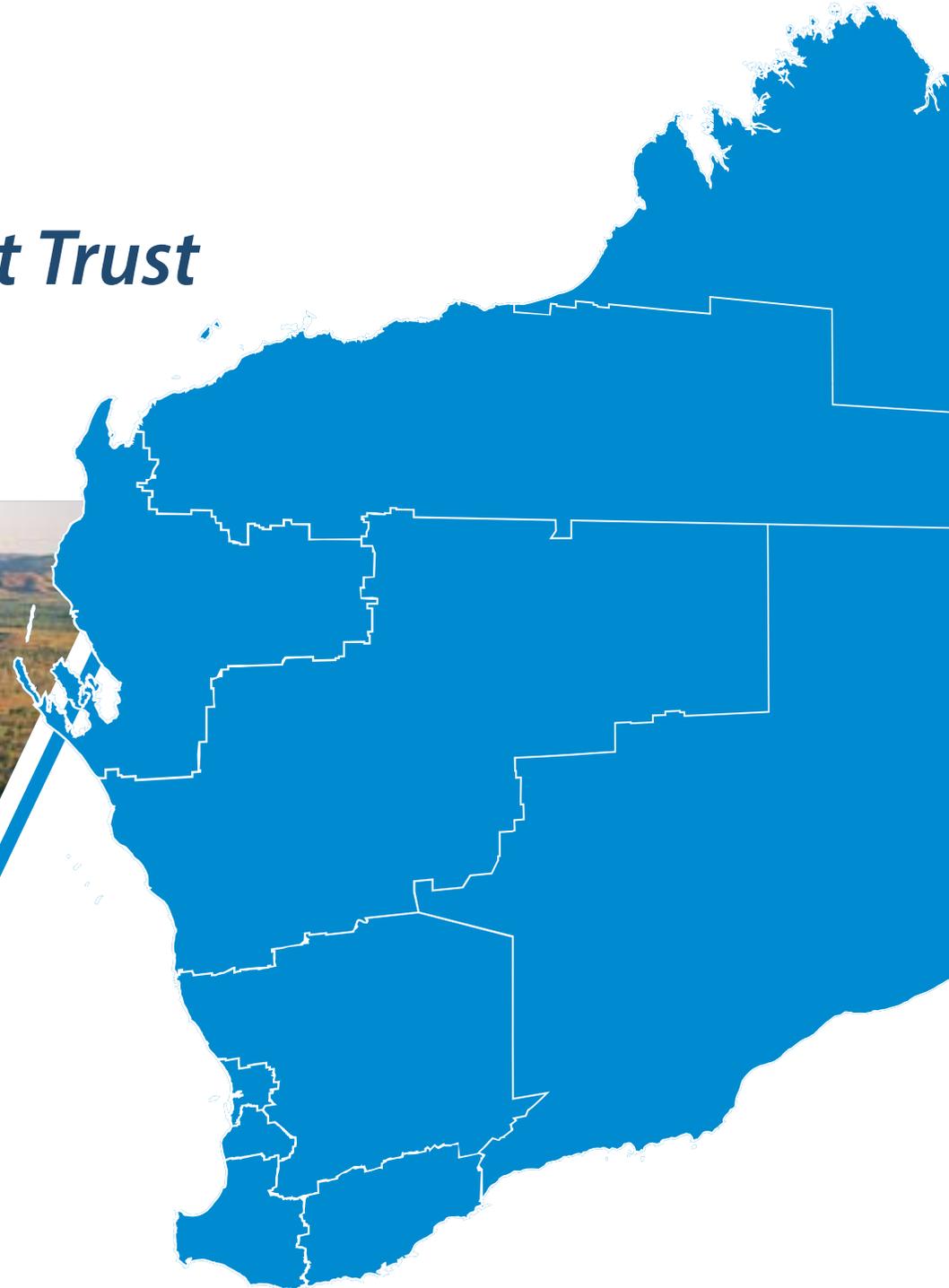


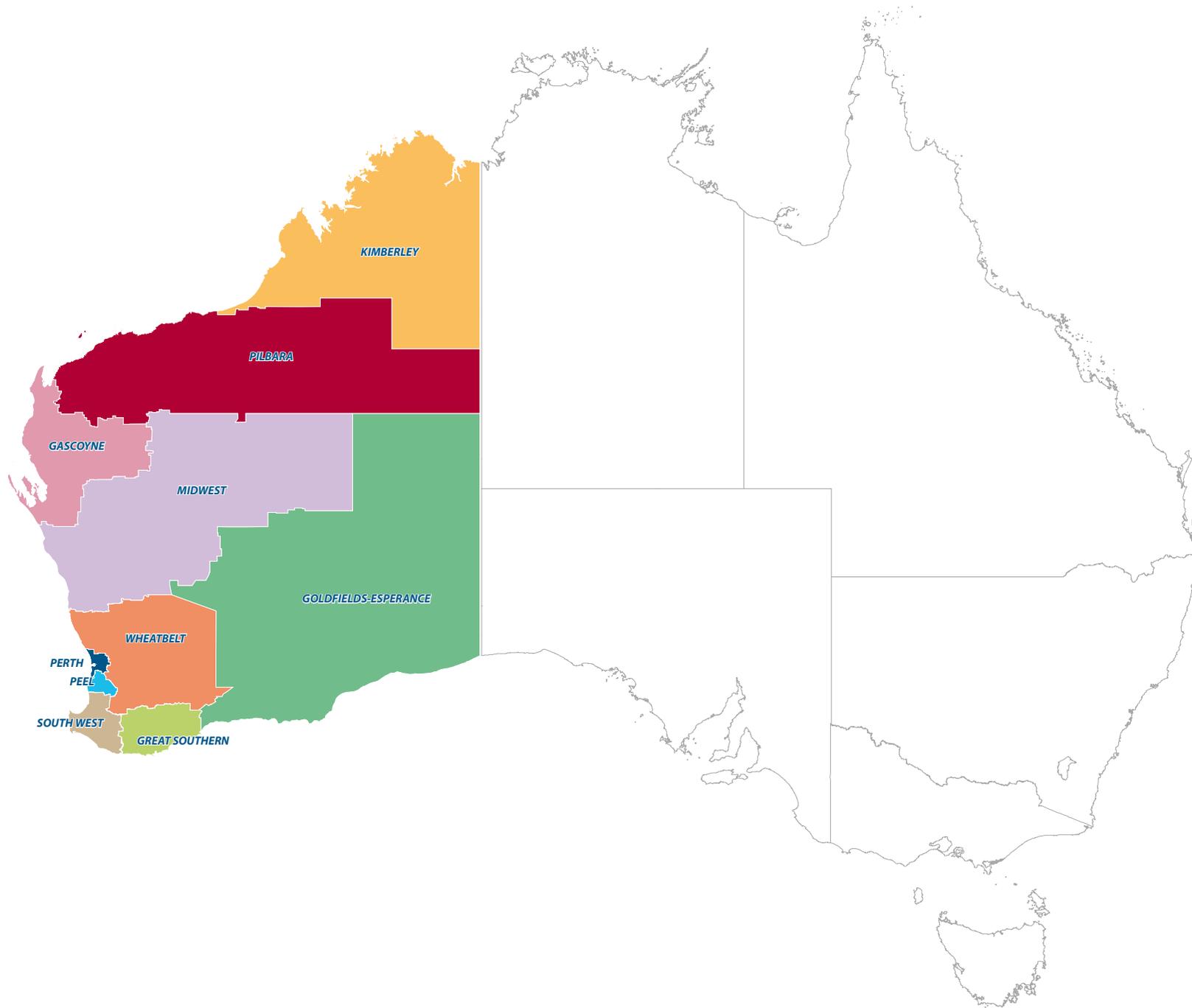


# *Western Australian Regional Development Trust*



*ANNUAL REPORT 2011-2012*





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# Acronyms and Abbreviations

## Acronyms

AACC	The State's Aboriginal Affairs Coordinating Committee
ALT	Aboriginal Lands Trust
CHOGM	Commonwealth Heads of Government
COAG	Council of Australian Governments
CLGF	Country Local Government Fund
DoH	Department of Housing
EOI	Expression/s of Interest
FF	Future Fund
FMA	<i>Financial Management Act 2006</i>
GFC	Global Financial Crisis
MWDC	Mid West Development Commission
MWU	Mid West Unit
NRM	Natural Resource Management
PCO	Pilbara Cities Office
PDC	Pilbara Development Commission
PSC	Public Sector Commission
RCSF	Regional Community Services Fund
RDCo	Regional Development Council
RDCs	Regional Development Commission/s
RDF	Regional Development Fund
RDL	Department of Regional Development and Lands
RIHF	Regional Infrastructure and Headworks Fund
SRDF	Strategic regional development fund

## Abbreviations

Act	<i>Royalties for Regions Act 2009</i>
Fund	Royalties for Regions Fund
Minister	Minister for Regional Development
SuperTowns	The Regional Centres Development Plan
Trust	Western Australian Regional Development Trust

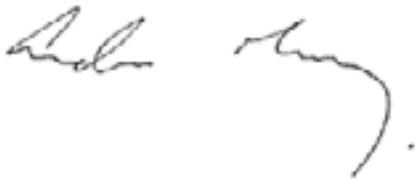
# Statement of Compliance

Hon Brendon Grylls MLA Minister for Regional Development

Dear Minister

In accordance with section 28 of the *Royalties for Regions Act 2009*, I submit for your information and submission to Parliament the annual report for the Western Australian Regional Development Trust, for the financial year 2011-12.

Section 28(1)(b) of the Act requires the report to contain any other information required by the Minister. On 29 June 2012 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).

A handwritten signature in black ink, appearing to read 'Andrew Murray', with a long, sweeping underline.

Andrew Murray  
Chair

10 September 2012

# 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. Section 28(2) of the Act requires the Minister to table that report in parliament within ninety days of the financial year end.

The Trust was established in July 2010. The Trust is an independent statutory authority that 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) constituted by the Act.

There are three principal players in the Act – the Minister that makes decisions after taking various advice, the Department of Regional Development and Lands (RDL) that executes those decisions, and the Trust that advises the Minister and oversees the Fund.

The Act is specific as to the work the Trust must do. Its principal task is to provide advice to the Minister, and that is why this report concentrates on a summary of that advice. The measure of the Trust's work will be outcomes; including, 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 ensures that it informs itself precisely and widely with respect to Royalties for Regions and its various stakeholders. This is used as a basis for a close and productive engagement with RDL and other stakeholders.

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 the Trust attempt to regulate or audit the Fund, as this is outside its remit.

The object of the Act is “to promote and facilitate economic, business and social development in regional Western Australia through the operation of the Fund”. To help it assess performance in that regard, the Trust visits the regions and consults 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.

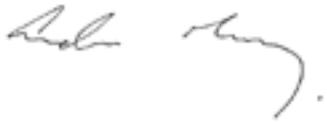
The work of the Trust affects the way in which RDL and the Minister develop and administer Royalties for Regions policy and projects. The Trust continues to be impressed by the positive and cooperative attitude of both the Minister and RDL to its views and findings, and by a professional desire for continuous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

The Trust continues too to be impressed by the Royalties for Regions concept, policy, and impact. The program is making an important social and economic contribution to the development of regional Western Australia.

The Trust is dependent on the commitment, quality, experience, background, and independence of its Trust members, and its staff member. The Trust is well served in that respect. In addition, RDL provides a valuable and valued support function for the Trust.

It has been a pleasure to chair the Trust in 2011-12.

The Trust looks forward to the challenges and opportunities of 2012-13.

A handwritten signature in black ink, appearing to read "Andrew Murray". The signature is written in a cursive style with a long, sweeping tail on the final letter.

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 (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 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 –

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

Section 9(2) of the Act – 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
- (d) 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

### Royalties

The income for Royalties for Regions is derived from 25 per cent of the mining and onshore petroleum royalties estimated in the annual State budget to be expected to accrue to the State Government in the following financial year. This is credited to the Fund periodically during the financial year.

As Table 1 below shows, these forward estimates are difficult to make and the variance to actual royalties can be considerable, due to constantly changing market conditions over the year.

**Table 1 - Total Royalty Income - as per Budget Paper No. 3 Economic & Fiscal Outlook**

<i>Year</i>	<i>Budget \$m</i>	<i>Actual \$m</i>	<i>Variance \$m</i>	<i>%</i>
2000-01	535	701	166	31
2001-02	644	651	7	1
2002-03	670	707	37	6
2003-04	670	676	6	1
2004-05	751	864	113	15
2005-06	1,153	1,205	52	4
2006-07	1,528	1,484	-44	-3
2007-08	1,830	1,680	-150	-8
2008-09	2,646	2,348	-298	-11
2009-10	2,577	2,324	-253	-10
2010-11	3,271	4,213	942	29
	<b>\$16,275m</b>	<b>\$16,853m</b>	<b>\$578m</b>	<b>4%</b>

Note: All years and rounds of estimates are on an AASB 1049 basis. Completed figures for 2011-12 were not available when this report went to print.

There is no reconciliation and consequent adjustment at the end of the financial year between the estimated royalty budget the Fund has received and the actual royalty income received by the State. Neither the Act nor any other Act authorises any excess amount assessed because 'forecast royalty income' exceeds 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 Fund

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

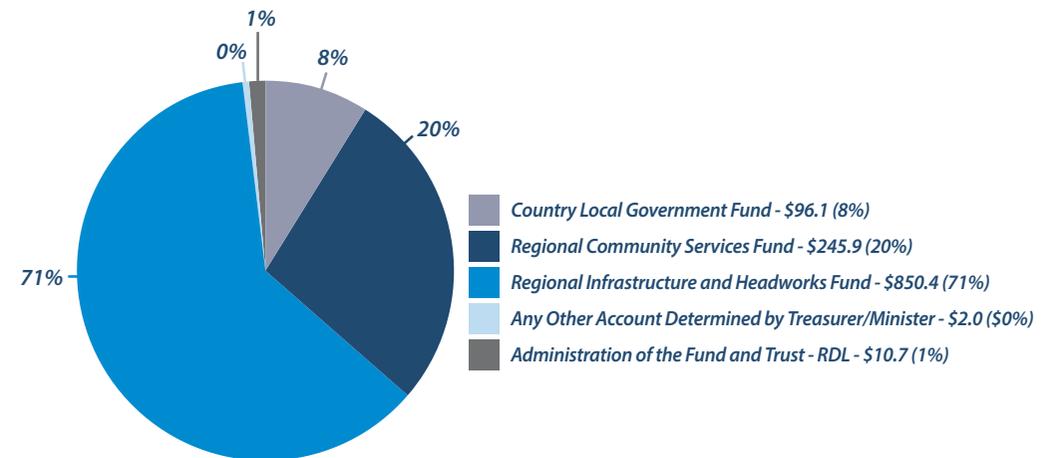
- (a) the Country Local Government Fund;
- (b) the Regional Community Services Fund;
- (c) the Regional Infrastructure and Headworks Fund;
- (d) any other account determined by the Treasurer, on the recommendation of the Minister, to be a subsidiary account.

In 2011-12, the budget of the Fund was \$1.205 billion, allocated as follows:

The Country Local Government Fund	\$96.1 million
The Regional Community Services Fund	\$245.9 million
The Regional Infrastructure and Headworks Fund	\$850.4 million
Any other account determined by Treasurer/Minister	\$2.0 million
Administration of the Fund and Trust by RDL	\$10.7 million

Note: The amount of \$2 million was earmarked for 'New Statewide Initiatives' projects and was unspent at years end.

Royalties for Regions Funds 2011-12 Allocated Budget in Millions



### 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 2011-12 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 are appointed by the Minister. With the exception of the member appointed under section 13(1)(a) for the prescribed one-year term, members are appointed for a term of three years.

In February 2011 Mr Peter Rundle – Chairman 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) for a one-year term. Mr Rundle was reappointed to the Trust for a further one-year term in February 2012 as per sections 15(2) and 15(3).



As at 30 June 2012 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. Andrew has a number of other interests, but of note in this role is his membership of the Commonwealth's Northern Australia Expert Advisory Panel, the Western Australian Transport Policy Advisory Group, and Western Australia's Ministerial Roundtable on Affordable Housing.



### **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 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 enormously 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 2013 (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 one-year term.

Peter has a strong interest in waste-water recycling and chaired the community project which resulted in the reticulation of the Katanning Golf Course. 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. He is a graduate of the Australian Institute of Company Directors.



### **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. Following his resignation from that position in 2011 he was reappointed as a member of 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 Institute 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 Western Australia.

# Trust Meetings

The Trust formally meets approximately every two months and on other occasions as required. The Trust held six ordinary meetings and four special meetings in 2011-12 on the following occasions:

## Ordinary Meetings

	<i>Date</i>	<i>Location</i>
Meeting Six	14 July 2011	Kununurra
Meeting Seven	28 September 2011	Perth
Meeting Eight	8 November 2011	Perth
Meeting Nine	8 February 2012	Perth
Meeting Ten	4 April 2012	Northam
Meeting Eleven	8 June 2012	Perth

## Special Meetings

Country Local Government Fund Review discussion  
8 December 2011, Perth

Country Local Government Fund Review discussion  
17 January 2012, Perth

Country Local Government Fund Review discussion  
25 January 2012, Perth

2012-13 Budget discussion with Minister  
20 March 2012, West Perth

## Attendance

Following is the record of attendance of Trust Members for the Trust Meetings in 2011-12. Trust Members are required to attend formal Trust meetings and are required to have any leave of absence approved by the Chair. This was done and apologies provided.

### **Andrew Murray**

Attendance at all six Trust meetings.  
Attendance at all four Special meetings.

### **Sue Middleton**

Attendance at five Trust meetings.  
Attendance at all four Special meetings.

### **Paul Rosair**

Attendance at five Trust meetings.  
Attendance at two Special meetings.

### **Peter Rundle**

Attendance at all six Trust meetings.  
Attendance at three Special meetings.

### **Tim Shanahan**

Attendance at five Trust meetings.  
Attendance at all four Special meetings (one via Teleconference).

## *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 country regions of Western Australia were visited during the year, some more than once.

## *Trust Work Program 2011-12*

For the 2011-12 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 from 2010-11

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). 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.

Advice and recommendations in 2010-11 arising from sections 12(a) and 12(b) of the Act were summarised in the Trust's Annual Report 2010-11. Much of that advice and those recommendations are still live and ongoing. The 2010-11 advice covered:

- 1 October 2010: to amend the Act
- 25 October 2010: to create a strategic regional development fund
- 9 February 2011: to RDL on governance
- 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
- 28 June 2011: on the Fund being used to retire State debt
- 28 June 2011: to review the Country Local Government Fund

Some of this 2010-11 advice warrants further comment in this annual report, and is discussed below.

## 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 Trust recommended the Act be amended to:

- Include 'actual royalty income' to allow for a year-end reconciliation between estimated and actual royalties;
- Remove section 8 that imposes a \$1 billion cap on the Fund; and
- Create a further subsidiary account for a strategic regional development fund;

The Trust further recommended the following technical amendments to:

- Make section 13(1)(a) appointments to mirror section 13(1)(b) appointments to also 'be not longer than three years' as per section 15(1); and
- Ensure the resignation of a section 13(1)(a) member allows the Trust to continue operating until a replacement appointment is made.

No progress has been made in amending the Act. However, in the May 2012 Budget papers the Government did agree to create a Regional Development Fund, to be legislated in 2012-13.

## ***Advice to create a strategic regional development fund***

The Trust recommended that a strategic regional development fund (SRDF) be added to the existing three Royalties for Regions funds: the Country Local Government Fund (CLGF); the Regional Community Services Fund (RCSF); and the Regional Infrastructure and Headworks Fund (RIHF).

The Trust stated that the key difference between the RIHF and the proposed new SRDF was 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 SRDF should be a cumulative fund for very large as yet unidentified future regional projects that will need funds beyond the budget out-years.

The Trust considered that accelerating Western Australian royalties and the possibility that significant non-royalty income could be partnered into the Royalties for Regions funds both raised the prospect of substantial additional monies being available for Royalties for Regions.

The Trust recommended that the proposed SRDF be initially funded by the allocation of monies from the existing subsidiary accounts and from new royalties income. The Trust proposed that 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.

In its 2012-13 budget the Government announced the creation of a Royalties for Regions Regional Development Fund (RDF) to fund major strategic initiatives and to implement significant infrastructure projects, including those currently in the planning stage.

The Government announced that from 2012-13 funds that are yet to be allocated to projects or initiatives will be held in the RDF. It announced that contributions to the RDF will amount to \$38 million in 2012-13, \$50 million in 2013-14, \$303 million in 2014-15 and \$640 million in 2015-16, totalling \$1,031 million over four years.



## ***Advice to develop a human capacity building program***

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

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.

At that preliminary stage the Trust 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 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, including leadership and governance; the Regional Centres Development Plan (SuperTowns); and the Public Sector Commission's (PSC) Leadership Program.

With respect to Leadership Development, a situational analysis of regional leadership programs in Western Australia was finalised by RDL in November 2011, which highlighted the ad hoc nature of current programs and the need for a coordinated approach to leadership development across the state.

A range of processes to best meet the identified leadership needs across regional Western Australia have been reviewed by RDL with input from the Regional Development Council (RDCo) and other agencies, and this work continues.

## **Advice on a water program**

The Trust had recommended that water policy and projects be given greater emphasis in Royalties for Regions on a focussed planned and strategic basis.

Regional development 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.

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 the Department of Water, the Water Corporation 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 (NRM) initiatives. The four key themes of the NRM budget funding allocation of \$78.205 million over four years were:

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

The following were among new water initiatives securing funding:

- Improving Water Quality in Remote Aboriginal Communities Initiative - \$12.2 million over three years.
- Combined Pilbara Water Projects - \$20.7 million over four years.

A potentially large water-related project that aligns to the Trust's advice and that is under investigation by RDCo is the Peel Waste Water Pipeline Project to deliver waste water from the Gordon Road Waste Water Treatment Plant to the Alcoa Refinery and other potential industrial and agricultural users.

In addition, the Pilbara Water Opportunity Pilot Projects have highlighted the potential for a significant investment in irrigated agriculture within the Pilbara.



## ***Advice on Royalties for Regions budget proposals***

During 2010-11 the Trust expressed views and formally provided advice and recommendations to the Minister on a range of issues that affect or may affect future Royalties for Regions budget processes and decisions.

Such views and advice 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 provided advice following its March 2011 consultation with the Minister on the 2011-12 budget proposals, with the intention of influencing the Royalties for Regions 2012-13 budget process.

The Trust considers that for 2012-13 its budget advice was followed in these matters:

- With respect to state agencies, the Trust had considered RDL's budget approach a useful one but had recommended the budget process be initiated earlier.
- A rigorous RDL assessment process was required; the inter agency process for consideration of budget bids should be reviewed; and more time be provided for review of the various proposals against Royalties for Regions policy; and to assist in ensuring less variance in the quality of business cases.
- Budget proposals are to be couched within timelines and (where relevant) deadlines.
- The Trust considered that productivity should be formally included in the criteria for consideration for Royalties for Regions budget proposals for 2012-13.

The Trust considers that progress has been made on its 2011 budget advice for 2012-13 as follows:

- The budget must select and prioritise projects that will contribute meaningfully or significantly to regional development.
- Individual proposals or budget themes (broadly speaking) should enhance regional physical capacity or enhance regional human capacity, and be identified as such.
- RDL should ensure that projects likely to continue beyond the budget out-years remain in aggregate considerably within the long-term Royalties for Regions royalty trend line to enable government to continue to fund such projects within long-term anticipated royalty revenue.

The Trust considers that limited progress (and in some cases no progress) has been made on its 2011 budget advice for 2012-13 as follows:

- Proposed budget expenditure should be expressed in terms of outcomes, and whether these outcomes were tangible or intangible, and capable of meaningful measurement. The Trust was to review the outcomes-based system prior to the commencement of the 2012-13 budget process, but did not do so, except for the CLGF.
- The Trust is of the view that it would be useful in future budgets consultation for the Trust to be able to identify the origin of the budget proposals.
- Budget proposals should enhance productivity, and be reported as such.
- The budget should align with State and Regional planning strategies and frameworks. The Trust was 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.
- The Trust recommended that regional strategic plans and a whole-of-government Western Australian regional development policy be concluded for use in the 2012-13 budget process.
- Prior to the next budget round [2012-13], RDL needs to develop an improved revised regional development policy to assist in strategic decision-making.

- The Act and government policy require Royalties for Regions to consider social investment. There is a backlog of regional social and welfare<sup>1</sup> needs that require attention. The Trust suggested RDL takes this distinction between development and welfare programs into consideration where relevant, prior to the 2012-13 budget process.
- The Trust was 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 considered the 70/30 recurrent/capital split artificial in construct.
- The Trust was concerned at cost shifting by other agencies to Royalties for Regions and any regional prioritisation over other regions without a strong rationale. RDL needs methodology to identify it, where it occurs, and its impact. Where cost shifting is accepted in a program or project it should have a rigorous justification.
- In any future budget process the split between contractually committed and non-contractually committed parts of the program should be identified.

Some of these matters could not be addressed in 2011-12 since new Royalties for Regions funding was limited. A number of matters have been progressed. For instance, with respect to co-ordinating budget proposals with planning and priorities, RDCo is leading work on the development of Regional Investment Blueprints, and is working jointly with RDL and the Trust on a regional development framework.

<sup>1</sup> - 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.

## **Other Matters**

The Trust had a number of matters raised with it in 2010-11 in its consultation, and two matters it considered important were outlined in the 2010-11 annual report.

### **Planning**

The matter of regional planning is of vital importance to regional development decision-making, but it is outside RDL's direct control. Since its formation in July 2010 the Trust has expressed considerable interest in the contribution better strategic and operational 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. Decision-making of a high order is made more difficult and less efficient without good planning systems. Good planning saves time and money, integrates collaboration and coordination, and crystallises desired social, economic, and environmental outcomes.

The Trust has noted an acceleration in the planning capacities and outputs of country local governments, Regional Development Commissions (RDCs), and regional plans coordinated through the Western Australian Planning Commission under its State Planning Strategy.<sup>2</sup> Each region will be completing a Regional Investment Blueprint which will also be linking in to the State Planning Strategy.

However planning is not yet comprehensive in either its nature scope or application.

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2 - The West Australian Planning Commission Pilbara Regional Planning Committee and the Department of Planning's Pilbara Planning and Infrastructure Framework is an example.

## **Targeted investment**

### **Work**

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.

While most Royalties for Regions expenditure is not directed to a particular demographic,<sup>3</sup> 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 Trust takes the view that RDL can be a valuable partner in the Western Australian Aboriginal Affairs Coordinating Committee's (AACC) work. RDL has reported that it is using the opportunities provided by the Act and its departmental responsibilities to target specific action.

The regional Aboriginal population has a high number of people aged 35 and under, with 40 per cent of the Aboriginal population under the age of 15. The Trust continues to be 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.

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

Progress has been slow, but given past failures, the State has resolved to get a co-ordinated and effective whole-of- government approach through the AACC. For Royalties for Regions' part, there are two examples of useful progress. The first is its support of the Clontarf Academy, whose work results in increased school attendance and retention, an essential step in moving into economic participation. The second example is the Ord Expansion project, where apart from substantially expanding the irrigation area, at June 2012 the Ord project was employing 60 Aboriginal people as well as using several Aboriginal owned businesses.

## Land

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. The normalisation of land tenure to facilitate indigenous home and business ownership should be a regional development objective.

In the Trust's 2010-11 annual report the Trust remarked that Hedland and Kununurra (to take two examples), are Aboriginal Lands Trust (ALT)<sup>4</sup> 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.

The Trust noted that such conditions are apparently long-standing, but considered their continuation unacceptable. Those suburbs should be normalised and be provided with the same municipal services and funding as any other suburb.

The Trust notes that such matters have been attended to elsewhere.<sup>5</sup>

There are bright spots of real and major transformation, such as in Roebourne under the Pilbara Cities program, but otherwise progress is slow in this area of concern.

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4 - 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.

5 - *"There are now not only new and rebuilt houses in the Alice Springs Town Camps. There are street lights, street names and sign posts, letterboxes going in. Every week there are regular rubbish pick ups organised by the town council."*

Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs; address on 9 August 2011 to the Sydney Institute titled *'Building the foundations for change.'*

# Advice and recommendations 2011-12

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

- 17 October 2011: on anti-development issues; and on further public policy development
- 27 March 2012: on Royalties for Regions 2012-13 budget proposals
- 11 April 2012: on affordable housing in the regions

In the financial year 2011-12, under section 12(b) the Trust had the following matters referred to it, and as a consequence the Trust provided advice on the dates shown:

- 20 July 2011: on using the Fund for State debt retirement
- 28 July 2011: on 2012-13 budget themes
- 30 September 2011: on amending the Act
- 27 January 2012: on amending the Act
- 31 January 2012: on the review of the Country Local Government Fund
- 11 April 2012: on the proposed State Future Fund
- 30 April 2012: on the transfer of RDL Royalties for Regions responsibilities to two RDCs



## **Advice on using the Fund for State debt retirement**

At the Minister's request, on the 20 July 2011 the Trust provided advice on using the Fund for State debt retirement. The matter arose because 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, was estimated to produce an additional \$1,923 million in State royalty revenue from 2012-13 to 2014-15.

Government policy was to quarantine the additional royalty revenue to be received for this four-year period for State debt reduction purposes.

Under section 6 of the Act, each financial year the Fund must be credited 25 per cent of the forecast royalty income for that year. That means a portion of that 25 per cent cannot be withheld from the Fund for any other purpose, including debt reduction.

25 per cent of the estimated royalty increase of \$1.9 billion is \$475 million.

The Trust recommended against an amendment to the Act to adjust or alter the key tenet of the Royalties for Regions policy – the '25 per cent principle', in order to allow for debt reduction. It would be an unwise precedent that could threaten the longer-term integrity and justification for the policy.

The Trust indicated that other courses of action could be considered.

Section 20 of the *Financial Management Act 2006* (FMA) allows the Treasurer, if s/he is satisfied that the money in the Fund is not reasonably required for the purposes of the Fund, to direct

all or part of it to be charged to the Fund and credited to the Consolidated Account. The Trust advised that under the present circumstances, including high demand on the Fund, the Treasurer could not be satisfied that the money in the Fund is not reasonably required. In the opinion of the Trust, it is not open to the Treasurer to use section 20 of the FMA for debt reduction purposes.

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).

The Trust considered there to be two ways in which this could be done. The first is to identify State debt that has already been incurred in a project or projects in regional Western Australia and, after ascertaining that these would have been valid Royalties for Regions projects under the Act, to retire that specific debt component.

The second way is to apply the enhanced Royalties for Regions funds against debt that the Government might have indicated that it will incur but is yet to formally draw down, as the regional project has not yet commenced or is still in the budget out-years.

The Trust cautioned against both these approaches on integrity grounds.

On the 25 October 2010, the Trust recommended to the Minister that a SRDF be established as a cumulative fund for very large as yet unidentified future regional infrastructure State-significant projects that will need funds beyond the budget out-years. Such large projects are likely to be funded in partnership with other agencies or entities.

The Trust advised that it would be appropriate for the \$475 million royalty increase portion received as Fund revenue to be quarantined within the SRDF, to be used either to avoid debt that otherwise might have been essential for a particular Royalties for Regions project, or to pay off part of the debt incurred as such a project is progressed. In the meantime, the \$475 million in the SRDF would stand as a positive cash balance on the State balance sheet.



### **Advice on 2012-13 budget themes**

On the 28 July 2011, at the request of the Minister, the Trust provided advice on 2012-13 budget themes.

In its advice following its review of the Minister's 2011-12 budget proposals, the Trust had suggested that Royalties for Regions budgets should include 'themes' designed to address specific areas of need, transformation, or policy. The Minister requested Trust advice on three counts:

- continuing with recommended budget themes from 2011-12;
- additional key budget focus areas for 2012-13; and
- extending the Expressions of Interest (EOI) from government agencies to a wider audience.

The Trust recommended the Royalties for Regions 2012-13 budget not only continue with water and human capacity (leadership and improving Aboriginal participation) investment from 2011-12,<sup>6</sup> but that the Minister consider increasing budget investment in both water and human capacity projects and programs.

With respect to water, the Trust considered that in addition to its advice to the Minister of 21 March 2011 which indicated areas of concern and need, that further investment could be considered in regional wastewater, reuse and urban water opportunities. The Trust considered that investment in this area should distinguish between that which represents an upgrade or the provision of a service, and that which is an economic driver and will result in new regional development.

<sup>6</sup> - The 2011-12 budget took up aspects from the Trust's advice to the Minister on water and on human capacity.

In its advice of 16 February 2011 offering advice on human capacity, the Trust said:

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 (with particular attention also to be paid the indigenous community)
- The needs of new regional populations resulting from regional development

In response to the Minister's request, in addition to continuing the work on leadership development programs, the Trust recommended further investment in job-creating activities, particularly investment targeted at Aboriginal workforce participation.

With respect to the Minister's request for advice on additional key budget focus areas, the Trust suggested additional themed priorities for his consideration for the Royalties for Regions 2012-13 budget. The Trust recognised that there are limits as to what is possible in each budget, and that it was unlikely all these priorities could be tackled in the 2012-13 budget.

The Trust considered that in terms of the Act and Royalties for Regions policy, five themes (drawn from its deliberations and consultation, including visits to all the regions), were priorities worthy of being considered as key focus areas for investment in the 2012-13 Royalties for Regions budget:

- Regional land and food strategy and planning<sup>7</sup>
- Investment in regional strategic corridors<sup>8</sup>
- Retaining aged populations in the country<sup>9</sup>
- Regional business and industry innovation and support<sup>10</sup>
- Energy supplementation<sup>11</sup>

Thirdly, with respect to the Minister's request for advice on extending the EOI from government agencies to a wider audience; the Trust considered this wise. Much of Royalties for Regions investment is already through third party non-government agencies, including local government. It is essential to engage the full range of individuals and entities that can contribute to the realisation of the Act's objectives and to Royalties for Regions outcomes.

The Minister accepted the Trust's advice. However he advised that budget restrictions for 2012-13 meant that no additional priority projects could be considered for funding in 2012-13.

7 - The growth of China India and others, and the consequent growth of a massive new middle class, should see a great and growing appetite for our land and sea food, and our beverages; as well as regional tourism.

8 - 'Corridors' are strategic easements down which road, rail, telecommunications, water, gas, and electricity do or might go, up and down which services are delivered, or where regional development is occurring or could occur.

9 - Retirement provision and subsequent aged care meets a community need and is a potentially profitable regional development opportunity, generating jobs via a labour-intensive service that involves a job-range from unskilled to very highly skilled.

10 - One approach is to concentrate on projects or programs that are new or supplement innovation, productivity, efficiency and viability. Another approach is selecting or supporting key industry development plans and incentives to stimulate sustainable regional industry such as food and food processing, marine services, or housing where potential has already been identified and a competitive advantage can be determined.

11 - It is worth considering supplementary, alternate or renewable energy wherever power is inadequate weak or unreliable in significant regional areas, and where extending conventional supply is not cost-effective.

### ***Advice on requests to amend the Act***

On the 30 September 2011 the Trust advised the Minister concerning the Treasurer's request to him to consider amending the Act so that the Government would have a degree of flexibility to allocate royalty revenue to reducing net debt, or in considering future investments in major projects that provide benefits to both regional and metropolitan citizens (i.e. in the form of a future fund).

The Trust advised the Minister that the Treasurer's suggestions would undercut three core principles of the Royalties for Regions policy:

- The Royalties for Regions income stream could be diverted by the Government for any purpose at all, particularly debt retirement, and Royalties for Regions would lose its exclusive dedication to regional expenditure determined by section 9(1) of the Act;
- Royalties for Regions would become a metropolitan development as well as a regional development scheme; and
- Royalties for Regions would no longer be a set 25 per cent of royalties, but could be varied as a per centage, and indeed, minimised.

The Trust advised the Minister not to support the Treasurer's proposal.

The Trust stated that it saw no grounds for altering previous Trust advice to the Minister on amendments to the Act, including that the \$1 billion cap should be abolished, and opposing a Royalties for Regions future fund but supporting a strategic regional development fund to accommodate future investments in major projects. With respect to debt, the Trust saw no grounds for altering the Trust's advice of 20 July 2011 on debt retirement.

On the 27 January 2012 at the Minister's request, the Trust advised him on whether the Act should be amended to enable the Minister to return some Royalties for Regions funds to the Consolidated Account in exceptional circumstances where the State's finances are at risk.

The Trust took the view that genuinely exceptional circumstances where the State's finances are at serious risk is legitimate cause for Government agencies, programs, and budgets to be reappraised while such a crisis lasts. The Trust supported the action previously taken by the Minister in response to the global financial crisis (GFC) when he suspended planned expenditure via the Royalties for Regions CLGF. This was done without needing to amend the Act.



The Trust advised that the hypothecation of a set portion of State royalty income guarantees a continued and certain income to the Fund. That income may not be diverted back to the Consolidated Account for any purpose, except that envisaged by section 8. From the perspective of Royalties for Regions policy and regional development investment, the great virtue of the Act is that the Fund is quarantined from any Government's alternative priorities.

The proposal undermines that central feature of both the policy and the Act. Without assessing all possibilities, the Trust can conceive of different ways to deal with 'exceptional circumstances', such as in a manner similar to that the Minister used in the GFC, or by Parliament passing an 'emergency circumstances appropriation bill' that with respect to the Fund applied to the financial year affected by the crisis but not to subsequent years, so restoring the Act to its pre-crisis status.

If an amendment were poorly drafted, and had no definition of 'exceptional circumstances' or of 'serious risk', and allowed too much discretion to the Minister and Government of the day, it would represent a great temptation for a future government with different priorities to divert monies from the Fund by deciding 'exceptional circumstances' and 'serious risk' exist when objectively they are nothing of the sort.

### ***Advice on anti-development issues and on further public policy development***

On the 17 October 2011 the Trust provided advice on anti-development issues and on further public policy development. The Trust had discussed anti-development issues, and resolved to offer advice in respect of some of its concerns.

#### ***Anti-development issues***

The Trust supports a balanced approach to assessing regional development proposals, including consideration of economic, native title, environmental, social, and cultural issues. The Trust supports assessing each regional development proposal on its merits.

What concerns the Trust are actions and attitudes that can result in sub-optimal outcomes for regional development, and which affect the realisation of the object and the purpose of the Act.

With respect to impediments to development, red and green tape is a concern, the introduction of extraneous matters can be concerning, and open-ended processes add to both risk and cost. The result is sub-optimal social and economic outcomes, lost productivity, and reduced competitiveness.

Green tape, excessive delay and poor process have affected the Ord project costs negatively and unnecessarily. RDL advises that some of the Commonwealth conditions are excessive, unreasonable and not proportionate to the risks, given their impact on the economics of the project.<sup>12</sup>

The Commonwealth declaration of one quarter of the Kimberley as heritage listed is alarming in some respects. This declaration will have a number of deleterious effects on regional development prospects. By the Commonwealth's own assessment, small and large scale mining, large scale infrastructure, and broad scale agriculture are all automatically assessed as having a medium to high risk of having a significant effect on natural heritage values and should be referred for further assessment (presumably with open-ended and therefore costly timelines).

Rangelands pastoral plans are also potentially affected by introducing additional regulatory processes to those projects that seek to introduce additional economic diversification into existing pastoral leases.

Job creation is required by section 9(1)(c) of the Act. Job creation is of particular importance for the large population of Aboriginal people in the Kimberley. How job creation can now be advanced under this restrictive regime is uncertain.

The Trust has been advised by RDL that it is analysing the Kimberley

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12 - For example, a requirement to monitor nutrient levels in high-flushing sea tidal environments at a distance of 25 kilometres from the Ord expansion area; and, a required contribution of \$1.5 million to an as yet unestablished research fund on the Freshwater Sawfish species. With respect to the Commonwealth process, the Trust is advised by RDL that the final conditions imposed by the Commonwealth Environment Minister on the Ord expansion impose an additional \$4 million overall cost, plus a \$900 000 annual cost to the State. They also result in an additional \$128 per hectare annual compliance cost for landholders, particularly around water testing requirements.

heritage listing effects in order to provide the Minister with advice to enable the Western Australian Government to attempt to change or ameliorate negative effects arising from this Commonwealth Government decision.

Following this advice, the Minister advised the Trust that the Western Australian Government is working to resolve a number of these issues with the Australian Government.

### ***Public policy development***<sup>13</sup>

The Trust considers that public policy development needs boosting in order to better support regional development with sound evidence-based information. As presently established, RDL cannot deliver the full range of regional development policy advice and analysis that is needed, but even if it could, additional credible independent sources are essential for informed input.

To support the work of RDL, the Trust, and the RDCo, as well as the Minister and the Government as a whole, the Trust recommended that the Minister consider funding a regional development unit in a university, group or consortium of universities, or some other institution/s.

The role of the proposed unit should be to provide credible independent research analysis, information, and advice to government and the non-government sector on regional development in Western Australia, and to contribute professionally to the development of public policy, public debate and community awareness on regional development.

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13 - Due to the nature of his interests and employment, Trust Member Tim Shanahan did not participate in the discussion of this advice; neither was Mr Shanahan a signatory to this advice, nor had he sighted this advice prior to its delivery to the Minister.

## **Advice on the review of the Country Local Government Fund**

On the 28 June 2011 the Minister referred a review of the Country Local Government Fund (CLGF) to the Trust pursuant to section 12(b) of the Act. The Trust presented its report to the Minister on the 31 January 2012. The report was made public by the Minister on 10 April 2012, and public consultation closed on 11 May 2012.

The Minister had advised the Trust that he considered it an appropriate time to conduct an independent, evidence-based review of the CLGF and provided the Trust with Terms of Reference. The purpose of the review was to determine whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose.

The Trust considered the review of the CLGF timely. If present trends continue, over and above other Royalties for Regions spending within local government boundaries, the CLGF will deliver well over \$1 billion of extra investment into regional Western Australia within this decade through country local government itself.

Most of that spending will be on the social and economic infrastructure used by the regional communities serviced by country local government. The Trust considers it essential that expenditure of that quantum and impact produce optimal outcomes for regional development and amenity, as envisaged by the Act.

The Trust's findings and its 26 recommendations are intended to help produce such outcomes. The Trust anticipates that the Trust's conclusions will materially influence the CLGF program from 2013-14, which will be the sixth financial year of the CLGF's operation.

Having conducted the Review, the Trust's opinion is that the CLGF does indeed have considerable merit and considerable achievements to date. The Trust's findings and recommendations should enable it to do even better.

A governing principle used in the Review was that the Trust was not likely to be able to foresee all eventualities and consequences and therefore the Trust couched its recommendations to allow where necessary a flexible and considered implementation process by the Minister and RDL.

Readers should refer to the CLGF Review report for fuller information.<sup>14</sup>

On the 31 August 2012 the State Government released its response<sup>15</sup> to the CLGF Review. The Government accepted 23 of the 26 recommendations, and partially accepted the remaining 3. The Trust was pleased with this response.

14 - <http://www.rdl.wa.gov.au/publications/Documents/CountryLocalGovernemntFundReviewReport.pdf>

15 - <http://www.rdl.wa.gov.au/grantandfunding/country/Pages/Review-of-the-Country-Local-Government-Fund.aspx>

## **Advice on Royalties for Regions 2012-13 budget proposals**

On the 20 March 2012 the Trust met with the Minister at a Special Trust Meeting convened to consider the 2012-13 Royalties for Regions budget proposals. On the 27 March 2012 the Trust provided advice to the Minister pursuant to their review of those proposals.

The Trust's advice provided the Minister firstly with its view as to whether the 2012-13 Royalties for Regions budget proposals it was presented with met the requirements of the Act and are consistent with Royalties for Regions policy (which it did); and secondly, provided the Minister with recommendations to assist in budget management.

Prior to the formulation of the Minister's Royalties for Regions 2012-13 budget proposals, the Trust had formally 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.

Such views and advice have included the:

- 2011 budget advice;
- 2011 advice on human capacity development, particularly leadership development and indigenous policy;
- 2011 advice on water;
- 2011 advice on anti-development issues; and on regional development policy input;

- 2011 advice on budget themes for 2012-13;
- 2011 advice on the Royalties for Regions role in State debt reduction; and
- 2012 review of the CLGF.

The Trust does not take a view with respect to individual line-items, except where line items are of a size or nature that warrant assessment against Royalties for Regions policy or the Act.<sup>16</sup>

The Trust's approach to its statutory responsibility to provide advice on the budget entails budget appraisal at a high level. It does not entail, and therefore the Trust did not conduct, a detailed review of the material and process surrounding proposed budget line items. Trust budget views need to be placed in that context.

### **Percentage breakdown by sub fund for the Royalties for Regions Budget (Source RDL)**

	<b>2011-12</b>	<b>2012-13</b>	<b>Total 2011-12 to 2015-16</b>
Country Local Government Fund	9%	8%	9%
Regional Community Services Fund	21%	21%	25%
Regional Headworks Infrastructure Fund	67%	70%	63%
New Regional and Statewide Initiatives	1%	1%	3%

<sup>16</sup> - As a general principle the Trust is wary of pre facto involvement in project or program selection, as there could be a conflict of interest and roles. This general approach will not preclude the Trust from giving advice pre facto if asked to, or in respect of specific budget proposals.

### ***The carry-over***

There is a considerable carry-over of committed but unspent or un-acquitted Royalties for Regions funds from 2011-12 to 2012-13. The predicted carry-overs from 2011-12 at budget time was estimated to be \$273.5 million (\$189.8 million recurrent and \$83.7 million capital).

Carry-overs indicate a failure to execute projects within the planned timeline. For some projects and programs carry-overs are explained by exogenous matters beyond the control of the Minister and RDL, including weather events or Commonwealth or third party processes.

Carry-overs can also be a direct result of process failure, such as the November 2011 release of CLGF Guidelines for 2011-12, so that a number of country local governments had a delayed start to their programs and effectively lost half the financial year.

In future budget consultations the Minister has agreed that RDL will provide the Trust with the reasons for significant carry-overs from one financial year to another, by major line item. To keep the Trust oversight current, the Trust has asked RDL to advise the Trust in writing at each of its bi-monthly meetings, of any significant delays on major projects and the reasons thereto.

### ***Special Purpose Accounts (SPAs)***

Special Purpose Accounts (SPAs)<sup>17</sup> are a Government accounting mechanism used to record amounts in a specific agency's books that are set aside for special purposes.

When the Fund pre-pays a State agency the funding it is due for a Royalties for Regions project (the special purpose) that payment acts as a debit on the Fund and represents a credit to the agency. The double-entry means that the State cash position is unaffected.

The Trust recommended that RDL maintain a register of Royalties for Regions' SPAs. The register should detail the relevant statutory or agreement provisions (including audit provisions), the date of establishment and expected duration, the purpose, and the amount expended by SPAs each quarter and after the close of each financial year. The Minister has confirmed that each SPA will have specific documented accountability and governance arrangements, and has agreed with a register being established.

The Trust considered that it would be appropriate for the Trust to sight the instruments creating the SPAs and the conditions upon which they have been created to ensure the integrity of the Royalties for Regions program has been safeguarded. The Trust recommended the Royalties for Regions SPAs be reported on by RDL as part of their 'financials' presentation at the Trust's bi-monthly meetings.

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17 - The Commonwealth has a published Special Accounts Register, but the Trust has not established if that is a State accountability requirement.

### ***Regional Development Council (RDCo)***

The Minister advised the Trust that he intends to request advice on a broader discretionary program of regional Royalties for Regions expenditure from the RDCo.

This is nothing new – in past years RDCo and the RDCs that constitute RDCo have had an advisory input and an administrative task with previous Royalties for Regions programs. There is no policy reason why the RDCo function vis-à-vis Royalties for Regions should not be enhanced.

The Trust recommended that the Minister determine guidelines under which RDCo will attend to these Royalties for Regions funds, and formalise an agreement between RDL and RDCo for their respective roles. The Minister advised that the present service level agreement between RDL and RDCo suffices.

### ***A strategic regional development fund***

The Trust had advised the Minister in October 2010 that a Royalties for Regions SRDF was needed. The Minister advised the Trust that in 2012-13 a Regional Development Fund (RDF) would be created.

The RDF was announced in the May 2012 budget papers. The RDF is still being designed. The Minister has requested further advice from the Trust on governance arrangements.

### ***Royalties for Regions, State debt, and the Future Fund***

The Government has announced the creation of a Future Fund (FF) largely funded by Royalties for Regions.

Because of the FF being largely funded by Royalties for Regions, the Trust has advised the Minister that the purpose, governance and distributive elements of the FF would need to be aligned to and be consistent with the Act. The Minister advised that he will continue to engage with the Trust on the arrangements for the Future Fund.

### ***The capital/recurrent issue***

Whether expenditure is classified as capital or recurrent has significant effects on the State's financial statements. Asset acquisition or replacement is determined in State accounting as either capital or recurrent, depending on whether ownership is by the State or not. Much Royalties for Regions expenditure is to or via non-State bodies, meaning that it automatically becomes recurrent spending.

The Minister has advised the Trust that in order to frame forward-year estimates of expenditure a 'rule of thumb' method was adopted to recognise Royalties for Regions expenditure and funding as 70 per cent recurrent and 30 per cent capital. The Department of Treasury has indicated that this split is required for framing out-year allocations, and as the year in question draws nearer to the budget year, the projects that fall out of the expenditure program in the budget year dictate whether they are recurrent or capital. The Minister advises that on this basis projects are funded according to their true status.

## ***Advice on affordable housing in the regions***

On the 11 April 2012 the Trust provided advice on affordable housing in the regions.

The Trust is advised that the Fund has allocated over \$903 million to date to Royalties for Regions housing and housing-related initiatives. Both the Trust and Royalties for Regions have placed great emphasis on underpinning effective regional development with housing for the public sector, as with the Government Regional Officer's Housing program, and providing affordable housing for essential lower income residents and workers, as in the Pilbara Cities program.

At the request of the Trust, the Department of Housing (DoH) gave the Trust a presentation on the large and growing lower income housing supply shortage. The DoH said that there was an acute housing problem for the young, single incomes, many families, the elderly, indigenous people, key workers and renters.

The Trust asked DoH to develop a proposal that was regional only, that indicated the proposed financing model, the number of housing units estimated to be needed over what time frame and at what cost, and with geographic and demographic targets and priorities identified.

The consequent DoH paper formed the basis of Trust advice to the Minister.

DoH estimates an existing gap of 13,700 houses is needed by regional households on incomes below the median (\$81,700 income pa), expected to rise to 19,200 by 2020. DoH believes that robust regional growth could see the regional housing shortage widen further to as many as 28,800 houses by 2020.

This is too large a regional housing shortfall for Government and Royalties for Regions to address alone. Such action as Government can contemplate should be determined by clear priorities.

The DoH has trialled a Perth housing financing scheme, and therefore now has actual field experience in this method of delivering affordable housing. With that as background, for regional Western Australia the DoH has proposed a financing mechanism that for an Royalties for Regions equity (i.e. refundable) contribution of \$100 million would result in leveraging around \$2.5 billion in housing projects over 10 years, representing a 25-fold multiplier on each dollar of refundable equity, and delivering an average of 500 dwellings annually.

The Trust considered that this DoH proposal had merit, and warranted serious consideration. The Trust recommended that the Minister support the DoH proposed 15-month (i.e. ending in August/September 2013) feasibility, modelling, and preparatory study.

The Trust recommended that RDL work with DoH on this proposal, to the timeline proposed, and contribute Royalties for Regions funds to complete the DoH feasibility study, after which a decision to proceed or not to proceed could be made.

The Trust advised that it would be prudent if the feasibility study were to include advice and appraisal from an appropriate entity that is independent of both DoH and RDL.

The Trust also recommended supporting the DoH proposal to assign \$25-30 million from the 'key worker housing initiative' for two early trial projects to supply housing in the Kimberley, the Pilbara, or the South West.

The Minister responded positively to the feasibility study proposal. He has also supported trials being established in Port Hedland, Karratha and Newman.

## **Advice relevant to the proposed Future Fund**

As requested by the Minister, on the 11 April 2012 the Trust provided advice to the Minister on the proposed State Future Fund (FF), to be largely funded by Royalties for Regions revenue. The Trust recommended that the Minister also be guided by advice from the State Solicitor.

The effect of the FF is to forgo expenditure of these funds for 20 years which could otherwise be used for the provision of state services and/or on meeting the State's very considerable infrastructure requirements.

In Trust advice on 25 October 2010 the Trust advised the Minister against a Royalties for Regions future fund and noted that future funds, and their 'policy cousins' sovereign wealth funds, are generally national government policy instruments. The Trust had advised that a desk-top review of the literature indicated 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;
- 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.

The remit of 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 SRDF be established under the Act.

The proposed FF is modest in size. The Trust noted that the proposed FF is very heavily dependent on diverted Royalties for Regions funds.<sup>18</sup> Given the diversion of Royalties for Regions funds to the proposed FF, the Trust considered that the main questions were:

1. Is the proposed diversion of Royalties for Regions funds to this FF within the power of the Act? If not amendment to the Act would be required.
2. The remit of the Act is for regional development and not for savings or to minimise debt. Is the proposed FF consistent with the Act? If not amendment to the Act would be required.
3. Can FF legislation override the Act and allow Royalties for Regions contributions to be paid from the Fund to the FF, and if so, how? If not amendment to the Act would be required.
4. Do Royalties for Regions funds that are diverted to the FF remain Royalties for Regions funds? No doubt this depends on the FF legislation and the extent of any 'override' but if the FF Royalties for Regions contribution remains Royalties for Regions, then the governance and policy of the FF has to reflect and protect the Royalties for Regions component. Under the Act, this will require advice from the Trust.

The Minister advised that in keeping with the Trust's advice that he had taken legal advice and would ensure the the future infrastructure requirements of regional Western Australia are supported through the Future Fund.

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<sup>18</sup> - The Western Australian 2012-13 Budget papers state that over the forward estimates more than \$1 billion will be transferred from the Royalties for Regions Fund to the Future Fund.

## ***Advice on the proposed transfer of RDL Royalties for Regions responsibilities to two Regional Development Commissions (RDCs)<sup>19</sup>***

On the 30 April 2012 the Trust provided the Minister with advice on the proposed transfer of RDL Royalties for Regions responsibilities to two RDCs. The Minister had requested Trust advice on the transfer of responsibilities relating to RDL's Mid West Unit (MWU) and Pilbara Cities Office (PCO) to the Mid West Development Commission (MWDC) and the Pilbara Development Commission (PDC) respectively.

The Trust advised the Minister that it is on the record as supporting:

- Enhancing the role and function of the RDCo and the RDCs;
- The principle of subsidiarity;
- Situating government agencies (or parts thereof) in the regions (the Trust accepts that this may [as in the Pilbara] result in a higher cost than a Perth-based office);
- More coordinated, efficient and effective regional service-delivery and decision-making, and delivering better value-for-money; and
- Using third parties where necessary to facilitate the execution and administration of Royalties for Regions programs.

<sup>19</sup> - The Director General of RDL is also a member of the Trust. There is a conflict of interest. Consequently, Mr Rosair did not participate in the development and construction of the Trust advice and did not sight the advice prior to the Minister's receipt.

In that light the Trust had no in-principle opposition to the proposed transfer of responsibilities from one government agency (RDL) to other government agencies (PDC and MWDC).

The overall question the Trust considered was whether the proposed transfer of responsibilities will assist in Royalties for Regions funds being used more effectively to promote and facilitate economic, business and social development in the regions affected, as required under the Act.

The Trust considered regional human capital and capacity to be key elements. The Minister needs to be satisfied that the PDC and MWDC will be able to satisfactorily take on these significantly enlarged responsibilities. The Trust advised that the Minister must satisfy himself that:

- The policy justification and desired and expected outcomes are clearly enunciated.
- There is a comprehensive plan for the transfer and subsequent operation.
- There will be an appropriate upgrade of the capability of the two RDCs and the Royalties for Regions program's administration and execution will improve as a result of the transfer.
- The program will deliver better value-for-money, greater productivity, and greater efficiency and effectiveness as a result of the transfer.
- Budgets into the out-years can be reconfigured for the greater responsibility.
- The necessary governance, auditing, accountability and operating systems will be in place.

The issue of the future roles of RDL and the two RDCs is fundamental. The Minister will need to have a precise and binding agreement and process between the agencies in order to productively manage the RDL/PDC and MWDC arrangement for Royalties for Regions delivery.

The Trust recommended that a risk assessment be done. A typical risk matrix will mean that risk is identified, its potential impact is shown, risk management strategies are outlined and the risk rating per item is shown.



## **Other matters**

### **Regional development – indigenous policy**

As reported above, in the Trust's 2010-11 Annual Report the Trust commented on the need for targeted investment in 'work' and 'land' affecting indigenous communities.

The Trust has had ongoing discussions with RDL about RDL supporting Aboriginal development – both through the department's core business and through Royalties for Regions. RDL advises it has made progress on Aboriginal matters in three discrete areas:

1. RDL Aboriginal specific, such as Aboriginal employment in RDL (described as work in progress).
2. Royalties for Regions programs that benefit Aboriginal communities as part of the general population, such as expenditure under the three Royalties for Regions funds (described as significant progress made).
3. Royalties for Regions Aboriginal specific programs, such as support for the Clontarf academies, governance and leadership (described as work in progress).

The Trust has suggested that RDL:

- keep in mind a contextual and strategic approach to indigenous policy and programs;
- show priorities and be clear and specific on emphasis;
- have a sharp focus on those policies and programs that can deliver significant and measureable outcomes;

- introduce a ‘traffic-light’ reporting system (green, orange, red) that will visually highlight areas of satisfaction, concern, or alarm;
- have more precision in indigenous reporting and provide specific outcome reporting and measurement wherever relevant and possible; and
- address land tenure issues.

In addressing these issues the following guiding principles have been determined by RDL and the Trust. From RDL, the department will:

- ensure its indigenous policy and programs accord with and support State policy;
- ensure its indigenous policy and programs are informed by, communicated to, and supported by the State’s Aboriginal Affairs Coordinating Committee (AACC); and
- not duplicate or replicate other agencies efforts and will concentrate on indigenous policies and programs that RDL can best deliver.

From the Trust, RDL must:

- ensure indigenous policy and programs directly relate to sections 4 and 9 of the Act (to the extent that these are funded by Royalties for Regions);
- attend to the broad intent of the Act and particularly focus on programs leading over time to much greater indigenous economic activity and workforce participation;

- ensure indigenous policy and programs must concentrate on the largest demographic likely to be responsive to its programs and likely to realise significant outcomes; and
- ensure its indigenous policy and programs are outcomes-based and measureable.

RDL has advised that it is strongly committed to working in partnership with other government agencies through the AACC, and Aboriginal people themselves, to support Aboriginal economic development and improved outcomes for Aboriginal people, through core RDL business (such as the delivery of State Land Services<sup>20</sup>) and through the Royalties for Regions program. Importantly, as part of a whole of government approach, RDL will assist in the delivery of the Aboriginal economic participation strategy that has been developed through the AACC.

The Trust has previously identified that the key to Aboriginal advancement is giving those without work or prospects meaningful work and enabling them to realise their self-worth. Economic participation helps development in other areas and increases the likelihood of social and civic participation.

<sup>20</sup> - State Lands Services undertakes the necessary land assembling and packaging processes to support land transactions with Aboriginal corporations and entities as it does for any other entity. RDL also has a Native Title Unit within RDL’s State Land Services that undertakes negotiation and consultation with native title holders, claimants and proponents to progress proposals through the future act regime of the Native Title Act (NTA). The Native Title Unit represents the State and does not act on behalf of native title parties or proponents. The Native Title Unit ensures that the provisions of the NTA are followed in accordance with the *Land Administration Act 1997* (WA). The Native Title Unit has a group of negotiators who are assigned to a Native Title Representative Body region to assist stakeholders with advice and assistance until the native title future act issues are resolved over the land.

Achieving full economic participation requires self-reliance and the confidence to pursue vocations and careers and create businesses. To this end, a focus on human capacity remains vital, recognising the importance of life-long learning from early childhood to tertiary education opportunities and community leadership.

RDL has advised the Trust that it proposes to explore the following outcomes:

- Increased participation of Aboriginal communities in regional economic development through leveraging the value of Aboriginal-owned assets, including land.
- Developed Aboriginal human capital through education, training, increased workforce participation and overcoming barriers to economic participation (such as access to housing and justice services).
- Increased number of Aboriginal owned businesses and expanded Aboriginal entrepreneurialism through improved access to capital such as opportunities through government procurement and access to business consultancy, advisory and support services.
- Development of effective partnerships that will ensure long-term, sustainable economic development.

### ***Barriers to development***

The Trust considers that one of its roles is to highlight matters that act as barriers to sustainable development. These can be the result of federal, state, or local government laws, policy, processes or resource limitations.

The Trust summarised advice to the Minister on anti-development issues earlier in this report. The Trust draws attention below to other examples of concern to it.

In 2011 the Federal Government and CHOGM<sup>21</sup> agreed to the Perth Declaration on Food Security Principles. These principles recognise food demand exceeding supply, the need to feed the world, and the need to make agriculture and fisheries more productive and sustainable.

Also in 2011 the Federal Government effectively locked up a massive one quarter of the Kimberley through heritage listing. The Kimberley is 423,517 square kilometres in size, twice the size of Victoria.

As outlined earlier, by the Commonwealth's own assessment, small and large scale mining, large scale infrastructure, and broad scale agriculture are all automatically assessed as having a medium to high risk of having a significant effect on natural heritage values and should be referred for further assessment (presumably with open-ended and therefore costly timelines).

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21 - Commonwealth Heads of Government.

Also outlined earlier, excessive black, red and green tape is a concern, the introduction of extraneous matters can be concerning, and open-ended processes add to both risk and cost.<sup>22</sup>

In responding to the Commonwealth's 2008 Independent Review of the *Environment Protection and Biodiversity Conservation (EPBC) Act 1999* (Hawke review)<sup>23</sup> the federal government said its priorities were to move to a single set of environmental approvals through the accreditation of State and Territory assessment and approval processes that meet national standards.

With respect to the Hawke review COAG<sup>24</sup> agreed to a reform agenda on 19 August 2011, and on 13 April 2012 COAG agreed to pursue:

- reforms to reduce duplication and double handling of environment assessment and approval processes;
- reforms to rationalise carbon reduction and energy efficiency policies and programs that are not complementary to a carbon price; or are ineffective, inefficient or impose duplicative reporting requirements on business;
- reforms to interconnected energy markets, to improve

22 - Western Australia's Minister for Regional Development is a member of the Northern Australian Ministerial Forum, which "has identified the need for a concerted effort by governments to streamline environmental regulation of major regional development proposals in regional areas" - page 203 Government of Western Australia 2012-13 Budget Statements Budget Paper No 2 Volume 1.

23 - Section 522A requires the EPBC Act to be reviewed every 10 years. On 31 October 2008 the federal Minister for the Environment, Heritage and the Arts commissioned the (first) independent review of the EPBC Act, which was undertaken by Dr Allan Hawke.

24 - Council of Australian Governments.

competition and the efficiency of electricity networks so that energy regulation places greater weight on the outcomes for consumers;

- reforms to improve the approval processes for major projects;
- reforms to improve development assessment processes for low-risk, low impact developments; and
- reforms to lift regulatory performance.

It is important that proponents of sustainable regional development seek to influence these reform outcomes.

Sometimes regional development outcomes are affected by a lack of resources in a key State agency. As an example, there has been a backlog of 12 months or more in Pilbara land valuation which results in delayed projects. High value and complex valuations are necessary relating to native title agreements, land swaps, town and industrial sites, developer proposals, mining related land, and so on. The Pilbara Cities project would have benefited from Pilbara-dedicated land valuation officers.

This example leads to the conclusion that project budgets need to cover off essential inputs to help ensure cost-effective and timely processes.

# Trust Internal Governance

## Trust Finances

### 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 2011-12 Annual Report.

The operating budget for the Trust for 2011-12 was \$430,000 and actual expenditure was \$338,000. The major variance was in travel, services and contracts. A provision was made to contract in professional services which was not utilised.

A summary of some of the Trust 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 Director General 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 meetings rate for non-salaried members applied until March 2012.

The Trust was able to assess its work load over the period since its establishment. As a result a review of the remuneration of the non-salaried members of the Trust was undertaken by the PSC in February 2012. The PSC recommended to the Minister an annualised rate of \$12,500 for each non-salaried member, which became effective following the Minister's determination on 12 March 2012.

The total remuneration paid to Trust Members for the 2011-12 was \$162,500 (exclusive of superannuation).

### Travel expenditure

The Trust held regional meetings in Kununurra and Northam, country members of the Trust incurred travel costs to attend to Trust business, and the Chair of the Trust travelled to and within the regions of Western Australia.

The total travel expenditure for 2011-12 was \$24,720.

### Country Local Government Fund Review budget

The operating budget for the CLGF Review for 2011-12 was \$250,000 and actual expenditure was \$121,430. The major variance was that a budget allocation for the engagement of external consultants was not utilised.

## **Trust Governance Framework**

The Trust's internal Governance policies were endorsed on the 16 July 2010. The Framework was developed using public sector best practice and comprises a Charter, Code of Conduct and Conflict of Interest Policy. These documents were reviewed and amended in 2011-12.

### **Charter**

The Charter was developed using recommendations on best practice for boards and committees from the PSC's Good Governance for Western Australian Public Sector Boards and Committees guide. The Charter outlines the roles and relationships, key activities, Trust operation and administration.

### **Code of Conduct**

The Code of Conduct was developed using the 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 have 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 have completed all of the appropriate forms 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 2011-12 Annual Report:

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

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