

# CENTRAL COUNTRY ZONE

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Mr Lyndon Rowe  
Chairman, Economic Regulation Authority  
Level 4, Albert Facey House  
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Perth WA 6000

By email: [publicsubmissions@erawa.com.au](mailto:publicsubmissions@erawa.com.au)

Dear Mr Rowe

## Submission: Inquiry into Microeconomic Reform in Western Australia

I write on behalf of the Central Country Zone of WA Local Government Association.

The Central Country Zone (the Zone) welcomes the opportunity to make a submission regarding the Economic Regulation Authority's (ERA) Inquiry into Microeconomic Reform in Western Australia: Draft Report (Draft Report).

The Zone is one of 12 non-metropolitan Zones within the 17 Zone structure of the State's peak local government body, the WA Local Government Association.

The Zone's membership includes the following local governments:

Beverley;  
Brookton;  
Corrigin;  
Cuballing;  
Dumbleyung;  
Kulin;  
Lake Grace;  
Narrogin Shire;  
Narrogin Town;  
Pingelly;  
Quairading;  
Wagin;  
Wandering;  
West Arthur;  
Wickepin; and  
Williams.

This submission is in response to the consideration by the ERA of the following measure included in the Draft Report:

### Shires of:

Beverley  
Brookton,  
Corrigin  
Cuballing  
Dumbleyung  
Kulin  
Lake Grace  
Narrogin  
Pingelly  
Quairading  
Wagin  
Wandering  
West Arthur  
Wickepin  
Williams

### Town of:

Narrogin

**Review Royalties for Regions.** *The hypothecation of substantial revenues for regional projects is reducing budget flexibility, precluding proper capital prioritisation.*<sup>1</sup>

The Draft Report expresses concern that the Royalties for Regions (RFR) is a hypothecated fund and as such:

*there is no de-facto relationship between the optimal level of expenditure on regional projects and the revenue raised from the program. The proximity of the fund's balance to its legislative limit, its overall size and the resulting ready availability of funding, have all combined to remove the traditional incentives that ensure only projects that provide the highest net benefit to the community are funded.*

*As a result, the program is likely funding sub-optimal projects that do not achieve value-for-money. The scale of the program and the volatility of its revenue base are having a material impact on Government's budget flexibility with negative consequences for overall State economic efficiency and productivity.*<sup>2</sup>

The Draft Report further expresses the view that the hypothecated nature of the RFR program:

*has removed an important incentive embedded in government expenditure decision making in order to direct infrastructure expenditure to its highest and best use – competition for scarce funding.*<sup>3</sup>

It is noted that the ERA in the Draft Report tends to focus on “infrastructure expenditure” when as will be shown the RFR now delivers on much more than this aspect.

The ERA recommends as a result of its concerns that the Royalties for Regions legislation be repealed or alternatively restrict regional funding to an amount determined in the budget process.

According to the Department of Regional Development website:<sup>4</sup>

*Since 2008 the State's long-term focus on regional development has been supported by state-wide investments using Royalties for Regions funding. With the reinvestment of 25% of mining and onshore petroleum royalties into regional WA each year, we are achieving our goal of building strong and vibrant regional communities that are desirable places to live.*

RFR is based around the following six principles:

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

Currently there are a range of funded projects across the regions covering the following broad areas:

- Hospitals and healthcare;
- Schools, education and training;
- Community assets;
- Infrastructure;
- Housing; and
- Water and agriculture initiatives.

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<sup>1</sup> Economic Regulation Authority 2014, *Inquiry into Microeconomic Reform in Western Australia Draft Report* p.46.

<sup>2</sup> Economic Regulation Authority 2014, *Inquiry into Microeconomic Reform in Western Australia Draft Report* p.61/62.

<sup>3</sup> Economic Regulation Authority 2014, *Inquiry into Microeconomic Reform in Western Australia Draft Report* p.67.

<sup>4</sup> Department of Regional Development website accessed 4 May 2014

Within each of the areas there are a number of capital projects as well as recurrent expenditure.

It is appropriate to comment that because of the RFR program many projects which the metropolitan community take for granted, and for which similar projects in regional Western Australia have “wallowed” due to lack of funding, are now being progressed in a timely way. This includes hospital infrastructure/upgrades, Royal Flying Doctor Service, improved mobile communications, regional airports and water and natural resources management initiatives to name a few. The number and type of projects, whilst diverse, are necessary to meet the needs of the communities that are served.

It is not intended to comment in any detail on the wide range of infrastructure projects that have been funded through the various programs within RFR, ranging from those provided through the Country Local Government Fund (CLGF) to projects such as medical facilities and communications infrastructure upgrades which have been sadly lacking in rural and regional areas for many decades. It is suffice to say that without the dedicated or hypothecated funds it is doubtful that given the political realities of annual State Government budgets, funds of the nature available through the RFR program would have been expended outside the metropolitan area.

The Shire of Lake Grace has advised that as a result of the funding under of RFR across the 4WDLVROC (Shires of Wagin, Wandering, West Arthur, Williams, Dumbleyung and Lake Grace) more than \$10m has been expended on over 55 housing. The RFR funds enabled in excess of \$5m to be leveraged from the Australian Government for the projects spread across the six local governments. This significant funding would not have been secured without RFR.

As a further example the Shire of Wandering<sup>5</sup> has developed, with the assistance of CLGF, a fuel facility in the town, as one did not exist and has also built/purchased two houses through the CLGF. The Shire is currently constructing another house, with funding through RFR, for leasing to the Education Department.

Hon Brendon Grylls, former Minister for Regional Development, in an opinion article in the West Australian Newspaper on Friday 25 April 2014, sums it up in this way, in referring to regional infrastructure:

*The question for the ERA, then, is why have regional infrastructure been neglected for 45 of the past 50 years when regionally based agriculture and resources sectors have been the main economic drivers of our State.*<sup>6</sup>

Mr Grylls suggests the answer is found in politics in that 42 of the 57 seats in the Legislative Assembly are based in the metropolitan area.

Further in questioning the rigor with which projects under RFR are assessed the ERA suggests that “a significant proportion of projects are too small to justify detailed cost benefit analysis.”<sup>7</sup>

The experience of local government in relation to the now defunct Country Local Government Fund is just the opposite. After the first year of funding, detailed business case and cost benefit analysis has been required for all regional projects – big and small. The process required a formal business case that is endorsed by the relevant Development Commission, evaluated by the Department of Regional Development, approved by a committee of Directors General and finally submitted to Cabinet for final sign. This is not a streamlined process and has been known to take more than 12 months and in many cases around 9 months

This is borne out by a further comment from the Hon Brendon Grylls:

*I would ask the ERA to justify its claim that Royalties for regions is not subjected to the same scrutiny as that required of other government projects. Again for the record, Royalties for Regions is the only government program that requires two Cabinet approvals for every single dollar of expenditure. Perhaps the ERA could*

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<sup>5</sup> Email from Shire of Wandering dated 6 May 2014

<sup>6</sup> The West Australian Newspaper published 25 April 2014 p.20.

<sup>7</sup> Economic Regulation Authority 2014, *Inquiry into Microeconomic Reform in Western Australia Draft Report p.68*

*investigate if this model is appropriate for the remaining 95 per cent of State Government expenditure?*<sup>8</sup>

Recognising the rigorous nature of the evaluation it is therefore not surprising that the 2012/2013 Country Local Government Fund allocation for many regional projects was only approved in December 2013 and January 2014 with the funds unavailable until the 1 July 2014 – a two year delay in the expenditure of funds.

This type of process defies much of the comments in the Draft Report about inadequate scrutiny of expenditure as it is clear this is a very rigorous and thorough process and to suggest otherwise is incorrect.

Additionally, clarifying projects which may seek RFR has been strengthened through Integrated Planning Framework legislation, with plans such as Asset Management Plans and Forward Capital Works Plans submitted to and signed off by the Department of Local Government.

A measure of the frustration of local government with process involved to obtain approval is best summed up by the following comment in the Western Australian Regional Development Trust Annual Report 2012-2013:

*CLGs and RDCs now have to find their way through the maze of RIBs, the draft State Planning Strategy, Director Generals Reference Group processes, Regional Planning and Infrastructure Frameworks, Local Planning Strategies, Growth Plans, the Infrastructure Coordinating Committee processes, individual Agency processes, Royalties for Regions and DRD processes to obtain funding and secure Cabinet approval.*

*The Trust recommended that the Minister task DRD to consider whether the process of business case construction, application and approval can be streamlined.*<sup>9</sup>

An issue of more significance is that over the past few years funding under the RFR program has shifted to funding many recurrent activities which were previously funded from State Consolidated Account have been shifted to the RFR program.

Whilst it is not intended to detail each program and project it is appropriate to highlight a number of projects that are either new initiatives or may have been previously funded by consolidated revenue that are now funded through the RFR program. The following programs are highlighted:

- The Patient Assisted Travel Scheme - provides a subsidy towards the cost of travel and accommodation for eligible permanent country residents, and their approved escorts, who are required to travel a long distance to access certain categories of specialist medical services (including Telehealth).
- The Boarding Away From Home Allowance - helps secondary students from isolated areas in Western Australia to attend public and private schools and gain access to quality secondary education. More than 2,000 students, who live 56km or more from their nearest school, benefit from the allowance each year. The allowance enables children to attend any residential college or boarding school in WA that offers the appropriate year of study.
- Western Australian Community Resource Network - provide regional communities and their visitors with access to technology and government information and services. These services include Medicare, Centrelink, tourism and postal services. The Shire of Wandering has advised<sup>10</sup> that it took over the Wandering Community Resource Centre (CRC) 18 months ago after the previous committee was wound up and has received significant funds through RFR for its establishment and ongoing operation. The role of the CRC in the community with the development of new services and enhancement of existing services assists in maintaining the availability of services at a local level.

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<sup>8</sup> The West Australian Newspaper published 25 April 2014 p.20.

<sup>9</sup> Western Australian Regional Development Trust Annual Report 2012-2013 p.37.

<sup>10</sup> Email from Shire of Wandering dated 6 May 2014

- Regional Child Care Development Fund - supports the long-term viability of licensed community child care providers in regional WA who often face challenges providing and improving services as a result of distance, isolation, reliance on volunteers or lack of funds. The Shire of West Arthur makes the following observation in regard to funding through the Regional Child Care Development Fund:

*RFR was very important in re-establishing childcare/children's centre which ensured families could still work. The funding support enabled more childcare staff to be employed and allowed more physical activity at the new sports centre because the childcare centre is collocated at the sports precinct. Teachers, bank staff, shire staff, shop owners, nursing staff, landcare employees etc all use the childcare centre.*<sup>11</sup>

- Regional Events Program – the program aims to help regional communities develop and host a wide range of sporting, arts and cultural events. Regional events increase the vibrancy of regional communities and help attract visitors and boost the local economy. Grants are available for large and small events. The importance of this program to rural and regional Western Australia is best illustrated by the recent announcement by the Minister for Tourism Hon Liza Harvey MLA and Minister for Regional Development Hon Terry Redman MLA that more than 50 regional events across Western Australia will receive funding through Tourism WA's 2014-15 Regional Events Scheme. The Regional Events Scheme which is jointly funded by RFR sponsors a wide variety of cultural, sporting, arts and culinary events throughout Western Australia. Mr Redman is quoted as saying:

*Tourism is critically important to the economy in regional WA and such events attract visitors and media attention that will help raise the profiles of regional communities. With continued support of Royalties for Regions funding, these events also involve and inspire the local community while enhancing the overall vitality and vibrancy of WA.*<sup>12</sup>

- Southern Inland Health Initiative – this initiative covers both capital and recurrent funding that will provide an increase in medical and clinical services across the Southern Inland ensuring that emergency and acute inpatient services are at an acceptable standard for rural Western Australia. Of critical importance within this program is the development of regional aged and dementia care services. An example of the importance that RFR funds has played in the delivery of health services to rural and regional communities is evidenced by the recent media release from the Minister for Health, Hon Kim Hames MLA and Minister for Regional Development Hon Terry Redman MLA that of the \$31.3m being expended at the Esperance Health Campus \$18.8m will be provided through RFR.<sup>13</sup>
- Wild Dogs Management Plan – funding is provided to increase the number of “doggers” from 12 to 20 engaged in implementing wild dog management controls in the southern rangelands and eastern agricultural regions.

All of the above examples of projects that have been delivered to the communities in rural and regional Western Australia demonstrate the considerable benefit that has been achieved by RFR. Whilst it could be argued that some if not all of the projects should be provided by the State Government as a matter of “core business”, history has shown that the level of State Government commitment to the regions has not always been what it is with RFR funding.

The shift of funding source was particularly highlighted when in the 2013/2014 Budget RFR funds were allocated to pay for the day to day operations of the Department of Regional Development and the nine Development Commissions. The spending of RFR funds on the recurrent expenditure of government departments can only be described as “cost shifting” from consolidated revenue.

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<sup>11</sup> Email from Shire of West Arthur dated 6 May 2014

<sup>12</sup> Government of Western Australia, Media Statements 7 May 2014

<sup>13</sup> Government of Western Australia, Media Statements 6 May 2014

In the 2012-2013 Annual Report the Western Australian Regional Development Trust commented on the change of use of funding from RFR as follows:

*RDL is presently funded from both the Consolidated Account and Royalties for Regions. This general administration contribution from Royalties for Regions is distinct from the fee third parties are paid as an administration cost component in Royalties for Regions project and program contracts.*

*RDCo and the RDCs are presently funded from the State's Consolidated Account.*

*The dropping of the State's Consolidated Account contribution to DRD, RDCo and the RDCs and its uptake by Royalties for Regions represents a direct cost shift to Royalties for Regions. It means Royalties for Regions will have less money to spend on regional development and will spend more on administration than it otherwise would.*

*There is the material risk that the administration fee charge could grow as a proportion of the Royalties for Regions Fund.*

*There is a grave risk that this precedent (if allowed to stand) could be used in future budgets and governments to justify further Royalties for Regions administration funding for core government activity in the regions by major agencies such as health, education or transport.*

*The Trust advised the Minister that it does not support this budgetary measure because it is a direct cost shift to Royalties for Regions.<sup>14</sup>*

Another example of cost shifting noted by the Western Australian Regional Development Trust related to bridge repairs to the Greenough River Bridge which it was felt was a Department of Transport core business.

In conclusion it is apparent that the ERA in developing its recommendation relating to the abolition of RFR has not considered the diversity of expenditure that is now undertaken with the use of these funds. Funds are now widely used to deliver programs that are State Government "core" business and as such should be funded from consolidated revenue. It can be seen that RFR is no longer just the funding mechanism for asset revitalisation and new capital expenditure and as such is not easily wound back or abolished without an impact to the rural and regional communities.

By tailoring of recurrent programs to the use of RFR funds has now placed the State Government in the position whereby this significant cost shift to RFR "props" up so many programs and initiatives. Such is the cost shift to RFR that its removal will impact detrimentally on consolidated revenue and there will be no savings to the budget "bottom line".

Hon Brendon Grylls sums up the need for RFR as follows:

*Royalties for Regions was created because theories and politics had failed to deliver regional development in the past. The past five years have finally seen the process of revitalising and rebuilding the regions begin.*

*When ERA factors some real world experience into its theoretical reports, it may begin to make recommendations that can be implemented for the benefit of the State.<sup>15</sup>*

Benefit from the RFR programme is not only a local community one, with social, economic and environmental outcomes derived from the range of programs and projects undertaken but is also of benefit to the State of Western Australia.

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<sup>14</sup> Western Australian Regional Development Trust Annual Report 2012-2013 p.37.

<sup>15</sup> The West Australian Newspaper published 25 April 2014 p.20.

The Central Country Zone of WALGA urges you to take account of the diverse range of programs and projects that are being delivered every day to improve the life of the communities outside the metropolitan area which would never have happened without the hypothecated Royalties for Region funds.

Yours faithfully

**Bruce Wittber**  
Executive Officer

9 May 2014