



## **PARLIAMENTARY NATIONAL PARTY OF AUSTRALIA (WA)**

### **Submission to the Economic Regulation Authority (ERA) of Western Australia's Inquiry into Microeconomic Reform**

#### **1. Overview**

The Parliamentary National Party of Australia (WA) ('PNP') acknowledges the release of the ERA's draft report – 'Inquiry into Microeconomic Reform in Western Australia' ('draft report') and the opportunity to provide feedback to help shape the final report.

The contents of the PNP's submission will focus solely on Royalties for Regions (RFR).

#### **2. Royalties for Regions - a Hypothecated Fund**

RFR is a hypothecated fund – in each financial year 25% of forecast royalty income is to be credited to the fund to promote and facilitate economic, business and social development in regional Western Australia. Prior to the introduction of the RFR fund there was very limited government expenditure in regional Western Australia. This resulted in a backlog of infrastructure projects and neglected service delivery.

Given the past failings of State Governments to provide funding for regional WA it is necessary to maintain a fund that quarantines money for the regions. Without RFR history tells us that regional areas will be neglected.

#### **3. RFR is "likely funding sub-optimal projects that do not achieve value-for-money"**

The PNP does not agree with comments in the draft report that the RFR fund is "likely funding sub-optimal projects that do not achieve value-for-money."

Local decision making is at the core of RFR and therefore local communities are best placed to determine the "value" of RFR projects.

For example, Karratha is the administrative centre of the economic engine room of the nation, yet has been deemed for years to be an unattractive place to live. Prior to RFR Karratha was characterised as having a lack of quality services and facilities coupled with very high housing and general living costs. Through RFR the Liberal-National Government has committed more than \$1 billion through the Pilbara Cities program. For Karratha this has meant an increase in supply of land, houses and apartments for sale, the construction of a new high school, upgrades to the existing hospital, the announcement of the development of a new hospital, the completion of a new state of the art recreation centre and the creation of a main street.



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The impact of RFR investment in Karratha has been significant and the benefits can be quantitatively measured. The latest Pilbara Housing and Land Snapshot<sup>1</sup> release shows the cost of average weekly rent has dropped below \$1,000 a week for the first time since 2007. Further, according to the latest Regional Price Index,<sup>2</sup> the cost of living has also dropped in Karratha. Importantly, public school enrolments in the Shire of Roebourne have increased by six per cent in the past year showing that more families are choosing to live in Karratha.

Karratha is one example of the positive effect that RFR is having in our regional communities throughout the State.

### 4. RFR is taking pressure off Perth's services and infrastructure

The best way to take pressure off Perth and its services and infrastructure is by decentralising the State's population. The PNP notes that the trial of a congestion charge for entering the Perth CBD during morning and afternoon peak periods has been recommended in the draft report. As argued by Hon Brendon Grylls MLA in an opinion piece published in *The West Australian* on 26 April 2014,<sup>3</sup> it is difficult to make a sound economic argument to spend billions of dollars on the metropolitan road network, particularly the road to the airport, when due to past policy failures, thousands of workers fly in and out of Perth to Pilbara resource jobs. RFR is responding to metropolitan congestion issues by improving infrastructure and services in Pilbara communities so that the Pilbara workforce lives in the region in which they work.

RFR is transforming regional WA, making rural communities more desirable to live and work in. Put simply, there would be no need for traffic congestion charges in Perth if more people lived in regional Western Australia.

### 5. Purpose of the \$1 billion RFR fund cap

The purpose of the \$1 billion RFR cap as described in the draft report has been misrepresented, particularly the comments attributed to Ms Wendy Duncan in her former position as a member of the Legislative Council. The draft report states "the purpose of the \$1 billion cap, as explained to Parliament during the second reading speech of the Act, was to hasten expenditure of the funds." Instead, Ms Duncan made the following comments during second reading debate in the Legislative Council:

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<sup>1</sup> Pilbara Development Commission, *Pilbara Residential Housing & Land Snapshot – Quarter Ending March 2014*, <http://www.pdc.wa.gov.au/publications/> viewed 8 May 2014.

<sup>2</sup> Department of Regional Development, *Regional Price Index 2013*, DRD, Perth.

<sup>3</sup> Grylls, B 2014, 'Regions fund redress for past political failures' *The West Australian*, 26 April, p. 20.



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The \$1 billion cap guarantees that the funds allocated are spent according to set time lines, and negates delaying tactics for projects or stockpiling for elections.<sup>4</sup>

The \$1 billion cap is a reasonable measure which ensures funds are spent in a timely manner on important projects. The cap ensures that sound fiscal management practices are applied to the fund ensuring that open ended funding schemes are discouraged.

Following the handing down of the 2014 budget, it has been announced that an expenditure cap of \$1 billion per year will be applied to RFR. This expenditure cap provides certainty and shows that RFR is being managed fiscally responsibly in light of the overall economic position of the State. The introduction of an expenditure cap will also be looked upon favourably by ratings agencies and is consistent with the National Party policy taken to the 2008 State election.

### 6. Scrutiny of RFR projects

Every RFR project is subjected to a rigorous approvals process, including the requirement for two cabinet approvals for every dollar of expenditure. RFR is the only government program to be subjected to this level of scrutiny. Claims and inferences in the draft report suggesting that RFR is not subjected to the same scrutiny required of other government projects are false.

RFR has been the subject of a Legislative Council, Estimates and Financial Operations Committee inquiry and also been reviewed by the Office of the Auditor-General in their 'Second Public Sector Performance Report 2010'. Further, RFR is currently the subject of an investigation by the Office of the Auditor-General titled, 'Royalties for Regions are benefits being realised?'

### 7. Strategic Planning

RFR projects are heavily scrutinised and required to be justified to ensure that funds are spent appropriately. For example the provision of adequate forward capital works plans, informed by strategic and asset management plans, was a prerequisite to access individual local government allocations from the Country Local Government Fund.

RFR is supporting the development of 'Regional Blueprint' initiatives with an investment of \$292 million over five years. This initiative provides funds for each of the nine regional development commissions to prepare an investment blueprint that outlines the region's growth and development aspirations and articulates a transformative development strategy. The blueprints will be completed in 2013-14 and will provide a framework for an integrated

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<sup>4</sup> Hon Wendy Duncan MLC, Hansard, 25 November 2009, *Royalties for Regions Bill 2009 Second Reading* (p9717b-9754a).



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and comprehensive approach to regional development across the government and non-government sectors. The blueprints will provide a compelling rationale for future investment.

The announcement of the Regional Blueprint initiatives ensures that RFR funds will be spent in a responsible manner on projects that have been determined to provide significant benefit following rigorous analysis of the needs of the relevant regional development commission area. Further, the Regional Blueprint initiatives are developed as part of the overall state planning strategy and thus are considered and scrutinised in light of the state planning framework. The relationship between the Regional Investment Blueprint Framework and the state planning policy framework is outlined in annexure 1.

### 8. Importance of investment in regional WA

The Western Australian economy is largely driven from the regions - particularly the mining, construction, agriculture and fishing industries. Investing in regional communities therefore is vital for the development and growth of the State economy as a whole. RFR provides the stimulus needed to grow the economy by investing in projects such as the Ord East Kimberley Expansion, the Gascoyne Revitalisation Plan and the Regional Mobile Communication Project.

RFR commenced funding according to a deficit model. Initially expenditure was provided to fund gaps and backlog to ensure that regional communities are provided with infrastructure and services equal to those enjoyed by metropolitan residents. Moving ahead RFR will become more strategic and “bigger picture” in its approach – this is highlighted by the announcement of the ‘Growing our South’ initiative and ‘Regional Blueprints’. The backfill to fix years of neglect in the country is well advanced and now the focus of RFR will be the creation of strong economic and social opportunities for the entirety of regional WA.

### 9. Conclusion

RFR was created because theories and politics had failed to deliver for regional development in the past. The last five years have finally seen the process of revitalising and rebuilding the regions begin.<sup>5</sup> The PNP submits that the revitalisation and rejuvenation of regional WA cannot be quantified by dollars and cents alone. The true value of RFR can be measured by the increase in quality of life that a growing number of people living and working in regional WA have enjoyed following the introduction of RFR.

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<sup>5</sup> Grylls, B 2014, ‘Regions fund redress for past political failures’ *The West Australian*, 26 April, p. 20.



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### Annexure 1: State Planning and Development Framework

