

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

INQUIRY INTO THE ROYALTIES FOR REGIONS POLICY

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 9 MARCH 2009**

SESSION ONE

Members

**Hon Giz Watson (Chairperson)
Hon Ken Travers (Deputy Chairman)
Hon Brian Ellis
Hon Sheila Mills
Hon Helen Morton**

Hearing commenced at 1.40 pm

DUNCAN, HON WENDY

**Parliamentary secretary to the Minister for Regional Development,
sworn and examined:**

CAREW-HOPKINS, MR DEREK

**Consultant to Minister Grylls,
Office of Minister Grylls,
sworn and examined:**

CUNNINGHAM, MR DOUG

**Chief of Staff, Minister for Regional Development; Lands,
sworn and examined:**

BERRY, DR CHRIS

**Manager, Regional Policy Unit, Department of Local Government and Regional
Development,
sworn and examined:**

MATHEWS, MS JENNIFER

**Director General, Department of Local Government and Regional Development,
sworn and examined:**

ROSAIR, MR PAUL

**Director of Major Regional Projects, Department of Local Government and Regional
Development,
sworn and examined:**

The CHAIRPERSON: Firstly, on behalf of the committee I welcome you to the meeting. Before we begin, I must ask you to either take the oath or the affirmation.

[Witnesses took the oath.]

The CHAIRPERSON: Thanks very much. You will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

The Witnesses: Yes.

The CHAIRPERSON: Thank you very much.

These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, could you please quote the full title of any document that you might refer to during the course of this hearing. Please be aware of the microphones and try to talk directly into them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of

Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

I will start by asking whether you, Wendy, as the parliamentary secretary, have an opening statement that you would like to make.

Hon WENDY DUNCAN: Yes, thank you. Honourable members, I welcome the opportunity to assist you in reaching a clear understanding of the royalties for regions policy.

The royalties for regions policy came from the people of regional Western Australia. The Nationals' team travelled the length and breadth of regional Western Australia and constantly heard of the wilful neglect and consistent underfunding of regional communities. We heard of Indigenous children suffering in squalor and neglect in the north. We heard of people living in containers and caravans in the Pilbara and paying thousands of dollars in weekly rent. We heard of and saw sewage running in the streets of Wiluna. We heard of the Kalgoorlie hospital begging for a long promised upgrade. The Royal Flying Doctor Service was underfunded and branded as an "interest group" whilst it was undertaking 80 per cent of its work transferring government patients between hospitals. We heard the WA Country Health Service being described as "blatantly bloody unsafe" by its own recently retired chief executive officer and she said it was suffering from chronic underfunding. We heard of a \$1.5 billion backlog in local government infrastructure funding.

This was all taking place against a backdrop of unprecedented wealth being generated by the state's resource industries. The regions of Western Australia generate 82 per cent of the value of Western Australian exports and 22 per cent of the nation's export revenue. At this time the state generated over a \$2 billion surplus, most of which was spent on the Mandurah railway, city projects and the retirement of debt. The Nationals' team travelled extensively in regional Western Australia throughout 2005 to 2008 and all we heard about was the inequity and neglect in the treatment by government of their needs. All we heard about was the generation of royalties and the lack of any local community benefit for that contribution. Regional Western Australians had had a gutful of working so hard contributing to the state's wealth and yet being ignored when it came to distributing the spoils. That is how royalties for regions was born—a promise to return the equivalent of 25 per cent of royalties to regional projects, infrastructure and community services. The state election result clearly shows the mandate for this policy and subsequent polling in the media indicates that around 80 per cent of Western Australians, including city dwellers, support this policy. I am immensely proud to have been part of the team that delivered this policy to Western Australia and would recommend that it be implemented Australia-wide. Thank you.

The CHAIRPERSON: Thank you. I will start with some questions and then no doubt other members will have additional questions. Could I take you to your submission that we received, thank you very much. Page 4 of that submission noted —

The amount allocated to Royalties for Regions is also subject to retaining the State's AAA credit rating.

Firstly, can you please clarify whether this is a condition of the policy? I am not quite sure who to direct that question to.

Mr Cunningham: I would be happy to take that. It is not a condition of the royalties for regions policy at all. It is a setting that during the negotiations with both sides of politics after the election it was raised certainly as an issue. But going forward into the negotiations with ultimately the Liberal Party with whom we formed a government, it was part of the philosophy going forward where the effort would be made to preserve the state's AAA credit rating but it was certainly not a condition.

The CHAIRPERSON: How is this intended to be managed? For example, would the amount of funding decrease below 25 per cent should the AAA credit rating be at risk?

Mr Cunningham: I think Brendon Grylls is on record as saying that if there have to be measures to push towards the preservation of the AAA credit rating, the royalties for regions program would be,

I suppose, brought in to a position where we would take the pain—the Nationals would take the pain along with each other government department or government agency. It is about equity across the board, so cuts to spending would have to be across the board. It certainly would not be a caveat that the AAA credit rating would force an end or decimation of the royalties for regions plan. It would be on an equitable basis going forward.

[1.50 pm]

The CHAIRPERSON: I want to draw your attention—you might not have it in front of you—to a media statement dated 10 September last year. It is from the Department of Treasury and Finance, and it is titled “Impact of *Royalties for Regions* Policy on State Finances”. It states in part that the Under Treasurer has advised that —

On the basis of the above estimates, the *Royalties for Regions* policy would—in the absence of offsetting changes—take the net debt to revenue ratio to around 53% by 2011-12. This compares to the current limit of 47% that is the financial target adopted to maintain the State’s triple-A credit rating.

Are contingencies already in place to deal with that prediction?

Mr Cunningham: That is something that the Treasurer would be more qualified to answer than I am. I mean, whatever the net debt to revenue ratio is to be, it has to be a determination by Treasury and the agencies that prescribe the state’s AAA credit rating status. I do not think that is something that I can answer at all.

Hon KEN TRAVERS: I do not understand how you can take a set of policies that fully utilise the available resources of government and spend all that money, and add \$675 million a year to that without making cuts in some of the other election commitments that have been made. I do not see any sign that those cuts have been made. Therefore, that has got to place pressure on the state’s finances. The Liberal Party went into the election with a full suite of policies that fully utilised the state’s finances. The National Party has a set of policies that will cost \$675 million. When you put the two of those together, that has got to place pressure on the state’s finances, surely—unless you go through the Liberal Party’s policies and say you are going to cut out \$675 million worth of those to make the National Party’s policies financially viable. That is basic mathematics I would have thought.

Mr Cunningham: Who is that question directed to?

Hon KEN TRAVERS: Anyone can answer that.

Hon WENDY DUNCAN: The way the budget will be framed will be made apparent in the May budgetary process, but there is no doubt that adjustments will be needed, and some projects may well have to be deferred. The arrangement, and the commitment on the formation of government, was that the royalties for regions program—which, by the way, is less than four per cent of the state’s budget—will go forward.

Hon KEN TRAVERS: I am not questioning that part of it. I am questioning how you can add that on to a full suite of policies and not have an impact on the state’s financial position, even regardless of the global financial crisis, which adds even greater pressure, and the fact that in order to meet those requirements there is already a need for a three per cent cut in existing programs. I am at a loss to understand how that can be done. I have not seen anyone come out and articulate the fact that there will need to be a reduction in the commitments that were given at the last election by the Liberal Party to the tune of \$675 million a year to fund the formation of government.

Mr Rosair: If I might respond, that is in the mid-year review publication, which identifies that \$675 million, and I suggest that Treasury will be able to answer that question of how that has been incorporated into the state budget.

The CHAIRPERSON: I take you now to page 5 of your submission, which states that the royalties for regions policy “serves to increase local capacity and accountability skills”. It states also that the policy “ensures that transparency, proper governance and accountability are in place.” It is not clear from your submission exactly what measures are being relied upon to ensure this. How will this policy increase accountability skills?

Ms Mathews: If I can respond to that question, this relates particularly to some of the schemes that have been rolled out as part of royalties for regions. One example is the country local government fund, which was the first major fund initiative rolled out as part of royalties for regions. That fund allocates \$100 million a year directly to local governments on the basis of a particular formula. Included in that particular allocation to local governments, an amount has also been set aside for the Department of Local Government and Regional Development to develop a range of programs aimed at enhancing the capacity building of local government, particularly in the areas of corporate strategic planning and financial planning and asset management. Basically, a small component of that fund has been quarantined to help local governments develop capacity building in those areas. The local government funds itself is largely directed at alleviating the significant infrastructure backlog in local government across the state. A formula was developed with that in mind, and with an acknowledgment across the board that in the regions there are some real issues for local government in being able to maintain and develop community infrastructure. The overall objective of the fund is around that, and as part of that we have taken a particular amount that will be used to develop programs to enhance local government capacity building, particularly in the area of asset management.

The CHAIRPERSON: You said it is small proportion. What proportion of the fund is allocated to that component?

Ms Mathews: It is \$2.5 million

The CHAIRPERSON: Out of a total of what?

Ms Mathews: Out of a total of \$100 million a year.

The CHAIRPERSON: So about 2.5 per cent. It just interests me that if there is a recognition that there is a need to increase capacity for accountability, would it not be more prudent to do that ahead of actually allocating the funds, or is that being done in parallel? Is that what you are saying?

Ms Mathews: The fund will work in this way. Funds will be allocated in accordance with a particular formula in year one to each individual local government, and then over years two, three and four a proportion of that funding will go out to regional organisations of councils to encourage collaboration at a regional level.

Mr Rosair: Just on that, we can provide you with a table of how the money has been allocated to individual councils, plus the transparent guidelines for the scheme. We are happy to give you a copy of those documents.

The CHAIRPERSON: Are those documents on the public record?

Ms Mathews: They are.

The CHAIRPERSON: Those documents are tabled.

Ms Mathews: Before payments are made, the relevant guidelines have been put up on the website and distributed to local governments. As part of that, local governments are required to submit an acceptance form indicating how they intend to spend their allocation. The allocation is tied to infrastructure funding, so basically the guidelines require local governments to come back to the department with an acceptance form that indicates which particular types of assets they intend to spend the allocation on. In addition to that acceptance, they also have to report back on how they have actually spent the funding. So there is a very detailed process by which local governments will be asked to account for how they have actually spent the money.

The CHAIRPERSON: What is the structure for reporting back?

Dr Berry: If I may answer that, there is an acceptance form, and the acceptance denotes that they are accepting the terms and conditions under which the funding is provided. Part of the terms and conditions is that they basically have to report back to the department biannually before each payment will be realised. They have to satisfy the department that they are meeting the conditions before the next payment is released. Part of the reporting back is that they need to have the funding that they have received independently audited to show that it has been spent on the defined purposes. That audit report also needs to appear in their annual report. So they report to the department, and they also report to the community through their annual report.

[2.00 pm]

I think that covers some of the main elements in there. I guess failure to report or failure to comply with the conditions means that they risk not receiving funds in a later or the next allocation. In a worst-case scenario, non-compliance with legislative requirements under the Local Government Act could be investigated by the department. A whole range of requirements is imposed. The department worked through these early in the piece with the Department of Treasury and Finance to make sure that the money was not being given out without sufficient accountability, and what was proposed was to the satisfaction of the Department of Treasury and Finance.

Hon HELEN MORTON: Can you just explain how slippage or under expenditure will be handled in that situation?

Dr Berry: My understanding would be that in terms of under expenditure, if they have not allocated or spent the full funds they have received in a period, they would not receive the next payment until they have spent and acquitted, or reported back on, the previous payments—that is my understanding. I think there is certainly some discussion around that local governments want to hold over to a later year and that is being considered. They want to hold funds over for two or three years to bulk up the funds for a major project and that is being considered in terms of how we can facilitate that within the guidelines.

Hon SHEILA MILLS: Yes; I have just got a few questions about the country local government fund. You have got here “support capacity building”. What exactly do you mean by that?

Ms Mathews: As I mentioned earlier, \$2.5 million per annum has been set aside for that. We are in the process now of actually developing the components of that. What we propose to do is have a component for providing some additional resources within the department and that was approved by cabinet—that is four FTE to actually help build up resources in that particular area. Those people will be tasked with developing tools and resources to assist local governments in this area. That is a portion of the money. The other \$2 million, we are looking at actually having it —

Hon SHEILA MILLS: So, one FTE is 500—

Ms Mathews: Four FTEs.

Hon SHEILA MILLS: Four FTEs is 500.

Ms Mathews: Four FTEs at appropriate levels.

Hon SHEILA MILLS: Which are?

Ms Mathews: Their main role will be—and we are in the process of recruiting them at the moment —

Hon SHEILA MILLS: So, half a million for four FTEs?

Ms Mathews: Yes; at appropriate levels. We are looking at recruiting at appropriately senior levels. We believe that this is an area where there is a real demand out there at the moment and a real gap out there in local government. We believe that we need appropriately skilled and resourced people to assist in this—particularly in the area of financial planning and asset management. We need to

bring on good people who understand and have the relevant expertise. The other two million—we will be looking at having \$1 million devoted to a program around contestable funding for which local governments can apply, to develop capacity in the areas of asset management and financial planning.

Hon SHEILA MILLS: Explain that further, please.

Ms Mathews: It is really —

Hon SHEILA MILLS: What are you saying—getting extra staff on the councils or increasing their budgets to employ asset managers on councils? Is that what you are saying?

Ms Mathews: We are in the process of developing that. What we are looking at doing is giving them assistance to put in place appropriate financial planning and asset management. That can require funding in terms of putting in place the right plans and putting in place the right systems. Some of them do already use WAAMI, which is the WA asset management system, but some of them do not. So, it is really about providing them with the support that they need to get the right systems and resources on board to roll out appropriate asset management planning and processes. And at the moment, that is an area that really does require some support—particularly in light of the funding that is going out to local governments in this area. Funding is going out through the country local government fund and tied to infrastructure renewal and maintenance, so it is appropriate that there be a proportion of that that actually helps local government to manage those assets and infrastructure. In the same way, at the commonwealth level, there are quite significant amounts of funding that are going out to local governments as part of the community and regional infrastructure fund that the commonwealth government is rolling out. From where we sit, that is certainly an area in which we believe councils do need support. We are, I emphasise, in the process of developing these tools and working out exactly how the two million will be apportioned.

Hon SHEILA MILLS: Well, that is 1.5 million; what is the other million for? You said half a million for the four FTEs, one million for the development of asset management skills—so what is the other million for?

Ms Mathews: Again, we are looking at local governments being able to apply for grants in the area of financial planning and potentially also helping them work towards becoming regional structures and regional collaborative models. I cannot say much more than that because it really is in the development stage and we are in the process of putting up various submissions to ministers on that. That is what we are working on.

Hon SHEILA MILLS: Okay. The other question that I have is about local government funds. You have got classes of infrastructure that can be funded: roads, fine; bridges, fine; drainage; airports and sewage—fine. Parks, gardens, reserves, footpaths and cycleways—is not that normally the avenue of local government and rates rather than special infrastructure funding?

Ms Mathews: Chris, do you want to take that?

Dr Berry: Well, they all fit into the different infrastructure classes that are included in the local government accounting manual; so they are all forms of infrastructure.

Hon SHEILA MILLS: Yes, I see that.

Dr Berry: Rates, for most councils, are their largest source of income and, I guess, that is what councils traditionally use against maintaining those forms of infrastructure. But they use other sources of income as well, including untied grants—say commonwealth grants through the grants commission—and, certainly potentially, this money as well. I do not think there is any particular nexus there between parks and gardens and being rates money; it is all funded out of the mix of local government revenue.

Hon SHEILA MILLS: I would just assume that something like this would be used for what I would call productive infrastructure whereby there is a positive outcome in terms of employment or

increasing productivity of the region rather than parks and gardens, reserves, footpaths and cycle ways. Further, at the bottom of the page, it says “other”—what is other?

Dr Berry: I forget the full definition but it includes airports, for example —

Hon SHEILA MILLS: No, you have already got airports up here.

Dr Berry: I do not have the local government accounting manual to hand, but there are a number defined in there and I can undertake to provide that information to the committee.

Hon SHEILA MILLS: I would appreciate that, thank you.

Hon KEN TRAVERS: But that is separate to the funding that has already been provided for regional airports?

Dr Berry: Yes; that is right. I mean, airports are one type of local government infrastructure that could possibly be funded. And as I said, while it is separate funding, they could also use it for airports.

Hon KEN TRAVERS: But there is already a fund and it has just been increased, as I understand it, through royalties for regions.

Dr Berry: Yes.

Mr Rosair: Yes, there is a regional airport development fund.

Hon KEN TRAVERS: So you are saying that they can also use this fund as well as that fund for airports?

Mr Rosair: Yes.

Hon KEN TRAVERS: Can they then double-up the two?

Mr Rosair: To get leverage.

Hon KEN TRAVERS: Can this fund be used as matching funding for the other airports so they do not put in any money?

Mr Rosair: Absolutely, it is all about leveraging possibilities between local governments, state government and industry. Part of the royalties for regions is trying to leverage off all sorts of players to get the best outcome locally. We have a regional airport development scheme that is run through DPI at the moment and there is a special initiative under one of the other funds to expand that over the next three and a half years.

Hon KEN TRAVERS: Following on from that, I was wondering if you can you give us a bit of a clearer idea of what you mean by senior staff in terms of what sort of salary bands you are talking about. You were very vague; is that because you have not decided?

Ms Mathews: It is because we are in the process of actually working with recruitment agencies to work out what would be the appropriate level. We have drawn up some JDFs. We would be looking at, and it is not finalised yet, but we are looking at a couple of level sevens and perhaps a couple of level sixes. If you go much below those levels, you are really looking at admin or support staff and that is not what we need. Looking at it operationally, we have to look at where the gaps are and what we need to make sure that the outcomes are achieved in terms of providing the sort of support that the local government sector needs—particularly, as I mentioned, in the areas that we are talking about. We need to attract the sort of people that can do this work. We probably need to recruit an accountant; that is a person with accounting and financial skills and expertise to assist local governments in the area of financial planning.

And also we need to recruit people with appropriate local government expertise, if it is possible. Whilst the economic environment might have got a bit more easier for people to recruit, it is still nonetheless important that we are able to attract people at the right level with the right expertise.

[2.10 pm]

Hon KEN TRAVERS: Also, the parliamentary secretary mentioned at the beginning that part of the reason for this was that there was a \$1.5 billion backlog. Are you able to provide any breakdown of what areas that backlog is in?

Hon WENDY DUNCAN: Not here; I do not have the detail with me, but it is based on the sustainability study that was done by the WA Local Government Association. Chris might be able to add some details.

Hon KEN TRAVERS: In terms of these categories, is there a rough breakdown for each of these categories here as to where the backlog is? Is it roads; is it bridges; is it parks and gardens; is it airports; is it sewerage?

Dr Berry: I would not like to comment, honourable member, in the sense that my experience would suggest that it would be significantly in roads, but the councils have a lot of other buildings as well. But I do not know how they have arrived at that figure, without referring to the source again.

Hon KEN TRAVERS: Surely that would be a fairly fundamental issue, though, if it is about resolving the backlog, to know what the backlog is and where it is.

Ms Mathews: It is detailed in the SSS report. The statement is about really being across infrastructure, and that is really around all the infrastructure that local governments own, particularly throughout the regions. It is community halls; it is sports and rec; so we would probably need to then —

Hon KEN TRAVERS: I understand the range but —

Ms Mathews: — look for you just to drill down.

Hon KEN TRAVERS: But I still would have thought that if part of your fundamental principles, as I understand it, was to address the \$1.5 billion backlog, we would actually have some idea of where that backlog is. Is it right to assume that it is predominantly roads? I think you said you felt it was that, Mr Berry.

Dr Berry: It is certainly a major component.

Hon KEN TRAVERS: A major component. How will this money be able to assist in addressing that backlog with respect to roads?

Ms Mathews: The allocations are tied to those certain classes of infrastructure. Roads is an area which is a little bit more, I guess, ambiguous, because what we have done is allocate the money in accordance with a formula that is based on both population and also need, as determined by the grants commission. We have quite deliberately used a combination of population and need to determine how much individual local governments get. With the road component, we need to be a little bit careful. The advice we have received from the grants commission is that that may potentially have an impact on their roads funding. So, in our guidelines, we have advised local governments to focus on other areas of infrastructure.

Hon KEN TRAVERS: So, even though the largest area is roads, you are saying that you will not use this to clear the backlog in roads, even though that is one of the large areas where there is a backlog.

Dr Berry: If I can clarify a little, there is a significant backlog in terms of local governments' asset preservation—what they need to maintain the current road network. Added to that—and this is where we are seeing already some of where the local governments are spending the money, too—is a backlog in the sense of where new roads are required, or not just maintaining the status quo of roads but needing to seal roads, improve roads, widen roads, and some of the local governments will be doing that. That certainly would not impact on their allocation through the grants commission. The potential impact if they are doing work that falls into the definition of asset

preservation in terms of re-gravelling existing roads, which is required but it falls into the definition of asset preservation, is likely to affect their allocation from the grants commission because there is a principle under the commonwealth legislation which it operates that requires other grants to be taken into account. Having said that, it will only impact on the grants that they receive from the grants commission if only one council does it. If virtually all the councils in receipt of this money do spend money on roads—and a lot of them are spending on roads—it tends to balance out and nullify. Having worked for the grants commission for many years, I would not expect there to be a major impact down the track.

Hon KEN TRAVERS: Could it not in the long term affect how much federal grants come to WA?

Dr Berry: Maybe in other sectors, but certainly in terms of the financial assistance grants, that is determined by a formula by the commonwealth that is not influenced by, say, what the state allocates to local government.

Hon BRIAN ELLIS: I think you may have answered it. I had the same concern about the local government funding. Do you envisage most of the money being spent on new capital, because of the reasons that it may be a negative effect if it is spent on roads and ancillaries and that it could possibly affect the allocation of the grants commission?

Dr Berry: From the information I have seen so far from some acceptance forms coming back from local government, it is across a whole range of areas, and roads are only one area where they are spending the money. It might be in sport and recreation or other areas. Again, I am seeing a bit on road maintenance, as well as road improvements. Can you please repeat the question?

Hon BRIAN ELLIS: You just said “road maintenance”, but road maintenance may affect the grants commission, will it not?

Dr Berry: It may do.

Hon BRIAN ELLIS: That is not under new capital.

Dr Berry: Yes, that is right. Their expenditure on road maintenance may affect the grants commission allocations, but in the advisory information presented to councils, they have been made aware of that fact so that, when they factor in where this funding is being spent, they can factor that into the decision.

Hon BRIAN ELLIS: That is what I was getting to. Because local governments may be concerned about the negative effect from the grants commission, they will channel the money towards the new projects, like new buildings and infrastructure assets, where it will not affect the grants commission. I am just thinking that most of the money is going to go that way instead of fixing the roads.

Dr Berry: Potentially right. While roads are a big part of their infrastructure task, obviously local governments own a lot of buildings in the community and other facilities, so there are lots of other outlets for that infrastructure funding.

Mr Rosair: Just on that point, adding a bit further, we also have to be careful that in building those new assets they do not make themselves unsustainable in maintaining those assets. We have to get the balance right between maintaining the existing assets and building new assets. It may not be sustainably managed into the future. It is a balancing act in that regard, and that is part of the SSS sustainability strategy model.

Hon KEN TRAVERS: Where in the guidelines for these projects are there protections to ensure that does not occur?

Mr Rosair: I suppose it is part of the sustainability strategy. A lot of the royalties for regions program is about embedding it into local government and regional development commissions' strategic planning. It is about getting money out into those areas, so that the local government, in adhering to the sustainability strategy outcomes, will be doing that as part of their strategic planning

and relying on them to undertake that and reporting back through the normal departmental reporting mechanisms that are set up in the department. Did you want to add to how you are monitoring that?

Dr Berry: The comment I was thinking of was: in terms of the sustainability, from year 2, year 3 and year 4, a portion of the country local government fund will be allocated through regional groups of local government, and that was to be for new infrastructure. The rationale there was that, for local governments building any new infrastructure, it would have to have regional credibility and be recognised as being a need across their region, rather than just something that the local government would want. All new infrastructure potentially creates a burden, but the regional credibility meant that there could be some regional ownership of the support for it.

Hon KEN TRAVERS: Where in this scheme and the guidelines to this scheme does that ensure the sustainability? For instance, you could send the money to a collection of regional local governments, and if they just say, "All right; we've got two million. We'll all take 500 000 each and you go away and work out what your project is and we'll work out what our project is and we'll agree on that", is there anything to stop that occurring in the guidelines?

Dr Berry: I do not believe there is in the guidelines. The intent is that they would use it for new projects and operate similar to the regional road groups, in the sense that regional road groups used by Main Roads were allocating regional road money within the regions. Any one council would not get money in every year of the allocation, but there would be some process by which they would agree that council A might get funds in year 2 and council B would get it in year 1 and so on.

[2.20 pm]

Hon KEN TRAVERS: That is my point. Even with regional roads, there are sometimes arguments that it is a case of your turn, so there is no attempt to look at the sustainability of the whole region, but it is your turn to get the \$2 million or the \$1 million, and there is not that. What I am asking is where are the guidelines that will ensure that the money is going to the long-term sustainability of the region, as opposed to continuing to support the current unsustainability?

Dr Berry: I use the analogy of the regional road groups because I guess that is how, to some extent, I have personally presented it to local governments in terms of how we see it working. We have put out guidelines for the country local government funds for year one, and we are working further on guidelines for year two, which will cover the regional aspect. The points the member is making will be covered in the future guidelines.

Mr Rosair: I think it is also important to reiterate that the model for royalties for regions is about local decision-making and having the local experts embedded in their plans, not only in the local government fund but also in the regional grants fund through the regional development commissions. It is about local decision-making, part of their local priorities and part of their local strategic plans. There is an element and onus on the local communities and local governments to be sustainable under that model.

Hon KEN TRAVERS: I would have thought you would still need to have some mechanism to ensure that when they make their local decisions, it is still with the goal in mind of long-term sustainability, and having a mechanism to ensure that. That is what I am trying to ascertain.

Mr Rosair: I suppose that later on, during Jennifer's presentation, we will talk about the governance and reporting of the entire royalties for regions program, and about measuring the impact of these decisions, the sustainability of these decisions, and the social impact and benefits that are achieved, and that is part of our reporting and governance across the whole of royalties for regions.

Hon HELEN MORTON: I am assuming that local government authorities can establish trust accounts for each of these projects.

Dr Berry: Reserve funds.

Hon HELEN MORTON: Yes. Are those trust accounts transparent to whoever will be doing the audit?

Dr Berry: It would certainly be the intent of how we are rolling this out to local government that they be transparent and be audited. In terms of any trust funds or reserve funds, at present it is not the intent that they hold them in reserve funds indefinitely, in any event.

Hon HELEN MORTON: So there will be a mechanism for being able to monitor the levels of funds that are being held in trust accounts?

Dr Berry: Local governments will be required to report to the department twice annually before they get the next payment, so it will be included in that step. Then, in the final report, which each local government has audited, this would cover that as well.

Hon HELEN MORTON: Okay.

Hon SHEILA MILLS: Further to what Hon Ken Travers said earlier on, is there an absolute requirement within the guidelines of the local government fund for each of the projects to be subject to a cost-benefit analysis or an opportunity cost evaluation?

Dr Berry: That is not being included in the current guidelines; as my colleague Paul Rosair has indicated, there is an emphasis on local decision-making, so it is left up to the councils to decide how they will arrive at where they will spend the funds. Having said that—excuse me, I have lost my train of thought; I apologise.

Mr Rosair: I think it is that principle about local communities knowing what the local benefits are, and the costed justification of those initiatives. I think the whole principle is minimising the central bureaucratic process and getting the local decision makers to make the most appropriate decisions within that context, and that is what this is about. Each local government will still have a responsibility for meeting their auditing and financial reporting and their accounting manuals, so all the funds will be embedded in that process. In addition to that, the whole royalties for regions program will be reporting at a governance level across the whole program, so we will have two levels of reporting.

Ms Mathews: I can add that there is also the requirement, of course, for local governments to publish their expenditure in their annual reports, which are available to the community, so that is certainly a way that the community can monitor and see what particular programs are being utilised. One would also expect that across all council meetings and council decision making; that is a transparent process. Those minutes are publicly available. Again, one would hope and envisaged that, as part of the process of local government decision making, that communities will be engaged and involved in that decision making process as well. It is very much a bottom-up process, with appropriate accountability.

Hon SHEILA MILLS: Is the reality is, though, of course, that very few people actually vote for local governments, do they? So it is unlikely that they will read through the minutes to find out what their local government is up to.

Hon KEN TRAVERS: I still think you have to give people a clear idea of what the goal is and require them to achieve that; then, how they do that individually and locally is their business, but it still has to be aimed at achieving a goal.

Ms Mathews: That is the purpose of the acceptance; when they come back to us and accept the terms and conditions of the guidelines, they need to indicate what they propose spending.

Hon KEN TRAVERS: How will you know or monitor whether they are achieving long-term sustainability? From what I can see, you have already provided allocations of funds for the next four years to local governments, including the regional councils. Is that likely to change, or are they pretty much fixed in concrete?

Ms Mathews: The allocations are annual, so the particular expenditure may adapt and change from year to year, depending on what the local governments wish to do with that particular expenditure, as indicated to us when they come back with their priorities for each year and as they report how they have actually spent the money. We will certainly be monitoring that. If you look at the actual asset classes that we have picked because they are part of the accounting manual, they are all assets for which local governments will require expenditure, particularly in terms of community and other infrastructure. It is all critical, I suppose, in terms of building those viable local communities.

Hon KEN TRAVERS: There are another set of councils that actually have growth pressures because they are experiencing substantial growth; how is that factored in to the funding allocations?

Ms Mathews: As I mentioned before, the allocations to individual local governments will be done on the basis of population and on the basis of need. The need, which is determined by the grants commission, has what is called a horizontal equalisation component and an asset component based on roads. It is designed to reflect, to some extent, some of those councils that are under pressure in terms of future growth.

Hon KEN TRAVERS: Do you think the current funding structure through the local government grants process accurately reflects the pressures for the growth councils?

Dr Berry: That is a judgement for the local government grants commission; it makes some recognition —

Hon KEN TRAVERS: No, it is a judgement for you, if you are using their figures —

Dr Berry: It makes some determinations in there based on population growth, so it is taken into account, but it takes 20 or 30 different factors into account, including growth, and I think, on the whole, its assessment is a balanced and comprehensive assessment of the diversity and needs across local government in the state, including situations of growth.

Hon KEN TRAVERS: I think the parliamentary secretary made some comment in her opening statements about local communities seeing the regions generating the royalties, and a lack of local benefit from that. Is that a reasonably fair summary of your words?

Hon WENDY DUNCAN: Something like that, yes.

Hon KEN TRAVERS: How do you then justify the Pilbara, which is one of the greatest generators of royalties in Western Australia, receiving less than six per cent and basically being considered as one regional grouping, while the wheatbelt, which is of a similar area, receives something like 25 per cent of those funds that are allocated? Is it about recognising the royalties that have been generated in these regions? Those councils are all under immense pressure with the growth they are facing.

[2.30 pm]

Hon WENDY DUNCAN: The royalties for regions funding will be delivered into regional Western Australia through different mechanisms. Now, the country government local government fund is only part of royalties for regions, and, yes, a large part of that went into where there are more towns obviously—more local governments. However, if you balance that against, say, Ord stage 2, which has \$200 million going into that fund, there are plans for a Pilbara infrastructure development fund, which will considerably balance the ledger. With something like the pensioner fuel card, probably most of that will come into the south west and great southern. So, if you look at the country local government fund in isolation, you may well say that the distribution is not balanced; but if you look at the overall royalties for regions fund and the various ways it has been delivered to regional Western Australia, you will find, actually, it is fairly evenly distributed.

Hon KEN TRAVERS: The Pilbara local governments have immense pressures on them.

Hon WENDY DUNCAN: The Pilbara local governments will benefit from funding coming into their regions through other funds. For instance, we were in Port Hedland only on Thursday, where

\$23 million was allocated to the town centre upgrade, and that is part of royalties for regions, but it was not through the country local government fund.

The CHAIRPERSON: I will just follow up on a couple of things, and I will backtrack a little bit to the report you referred to that has the details of the backlog and that information. I wonder if you will take that on notice and if you can point us to the relevant parts that you are relying on. That will be useful, so I will give you that on notice.

And also, going back to the question of, basically, the \$2.5 million out of the \$100 million, how was that particular portion arrived at? Why was it \$2.5 million rather than \$5 million or \$1 million? Is there a formula for that?

Dr Berry: I can only add that, from my understanding, when this country local government fund was first mooted, there was a proposal developed by the WA Local Government Association, and the final country local government fund, as it has been developed, somewhat mirrors the WALGA proposal in that it sets aside money direct to local governments and money for regional groups. The original proposal recommended that there be two and a half million dollars for capacity building in the local government sector. So there is no specific formula, other than it came from WALGA, and I guess there was an acceptance that that was a reasonable proposition.

The CHAIRPERSON: Thank you. I cannot remember who, but in response to one question someone talked about funding for sport and rec facilities. I am wondering, is that an example of what comes in under “other”?

Mr Rosair: No. Well, it can in the local government fund, yes. But possibly the sport and rec facilities will be directed more through the regional grant schemes under the other fund going through development commissions. We have asked sport and rec to work closely with the regional development commissions to look at that, and again to partner with local government and the community and the state agencies in looking at sport and rec ventures.

The CHAIRPERSON: My final question in this section is: if there is an allocation of money—let’s use sport facility as an example—can the money be allocated without any reference to, say, the department of sport and rec? Do the departments that are also engaged or have an interest in those infrastructures get to have a tick-off in some way? For example, certainly under the previous government there was a push to ensure that all buildings met sustainability criteria—much as they could have done it better—or it was heading in that direction. So, let us say a department has particular criteria like that: do these funding applications have to meet those criteria? I guess what I am asking is: how does it intersect with existing departmental requirements or objectives or policies?

Mr Rosair: Well, primarily, the funding for the contestable part of the royalties for regions, which you are probably talking about, is the regional grants scheme; it is being administered through the nine regional development commissions. We have also got some guidelines and application forms in the packs that we are going to hand out today. Agencies such as Sport and Recreation, Culture and the Arts, and other agencies—and part of the other thing is about local decision-making, and state agencies should be looking at also entering into local decision-making with those regional development commissions. So the basic principle in that local decision-making is that if the regional development commission, if the local government, the local community, the local industry and the local regional state agency all agree, then it meets the objectives of local decision-making and consensus. So we have been briefing all state agencies and going to them and asking them to participate in that process. They are putting in their own submissions, but they are also partnering with the local communities to come up with propositions. And, as part of the assessment process for those submissions, it is going to be referred to our department and other agencies, who can make comment on those assessments, to make sure that that sustainable sport and rec across the state is met, because that has been a concern raised by sport and rec directly with us. And we have made sure that they engage directly with the development commissions so that community groups do not

create sport and rec facilities that are non-sustainable. That is particularly addressing your point. Culture and the arts and others are also in that process.

The CHAIRPERSON: So does that mean your department is kind of the facilitator in the process and has the overall say if there is a dispute, for example? If an agreement cannot be reached, who makes the decision?

Mr Rosair: The ultimate decision will be left with the local decision-making body, which will be the regional development commission on the ground.

The CHAIRPERSON: So even if department of sport and rec was not happy, the decision will ultimately rest with the local regional development commission?

Mr Rosair: Yes. And decisions of less than \$250 000 will be made by the board of the regional development commissions; decisions between \$250 000 and \$500 000 will be referred to the minister for approval; and decisions above \$500 000 will be referred to cabinet for noting. But that is the role of the regional development commission to make sure all of those issues are taken into account when making their assessment.

The CHAIRPERSON: So, perhaps to use a more controversial department—or maybe sport and rec is the controversial one—say, for example, in community development and child welfare, where there are obviously structural requirements, if the regional development commission said this was their ask but the department said it did not think it was the priority and it should be somewhere else, it still rests with the development commission to have that final say?

Mr Rosair: You would be hoping they would work together and come up with a local consensus and the decision is made by the board of the development commissions. On one part of the fund, which is the regional grants scheme—which we have not talked about yet—which is \$40 million this financial year, that is the contestable area, there are also other avenues for state agencies to go through a normal ERC and a cabinet process—as they would have before royalties for regions—to access some of the funds. But, yes, the consensus is trying to resolve all those issues at the regional development commission end. One hopes that it will fit within the strategic statewide parameters and also will meet the local consensus. That is the intent of the scheme.

Hon WENDY DUNCAN: Madam Chair, there has been considerable research and debate about the dysfunctional government of regional Australia, and most of that debate concludes that the best way to redress the situation is to make sure that the decision-making happens as close as possible to where the funds are expended. That is the philosophy, I guess, that this whole strategy is based upon. So, you know, there is research that says if you want to redress the situation of dysfunctional regional government, then you need to make sure that the decision-making and the distribution of funds is happening as close as possible to the ground, as it were.

The CHAIRPERSON: Yes, and you would probably be aware that we are sympathetic with that as a policy objective. The interesting thing that seems to come up for me, though, is that you have local government, which is elected, but the regional development commissions, who are playing some sort of a needed role to look at, I guess, a regional view rather than each local council having its open view, is being in this context elevated to quite a powerful position.

[2.40 pm]

Hon WENDY DUNCAN: That is quite deliberate because they are the representatives of government on the ground. They are the local decision-making arm.

The CHAIRPERSON: They are not elected, are they?

Hon WENDY DUNCAN: They have boards that come from the community.

The CHAIRPERSON: But not in the formal sense like a local government or state government.

Hon BRIAN ELLIS: How are the development commissions' decisions accountable? Are they checked through an auditing process?

Ms Mathews: Perhaps I should table the "Royalties for Regions: Regional Grants Scheme — Guidelines for Applicants". It includes quite a bit of information around the role of development commissions when considering an application as part of their contestable funding. It is under the regional grants scheme and it is one component of royalties for regions, but it is the key component that allows for contestable funding. The guidelines are quite detailed by way of setting out who is eligible to apply, the criteria, the support available and how to actually fill out an application. It also sets out a number of key principles and the rationale behind the regional grants scheme, particularly in tying it into regional strategic plans with priorities and objectives. The actual decision-making process is also set out in the guidelines. Essentially, a development commission's board will meet to consider relevant applications in accordance with the criteria and guidelines. It is set out in quite a bit of detail in this document. It also includes some processes around what the development commission boards can approve and what needs to be referred to the minister for approval. Some threshold amounts have been set out on page 7 of that document.

Mr Rosair: Another mechanism is that all applications for funding will be referred to the department for comment to ensure that they are not accessing other funds and double dipping in the process. That is another check and balance that is in place.

Hon HELEN MORTON: Are all these funds going to non-recurrent expenditure? Are they going to capital asset items, but not to recurrent expenditure?

Mr Rosair: There is a mixture of both.

Hon HELEN MORTON: Therefore it could, for example, go to increasing the number of schoolteachers at a school, prison officers at a prison or staff at other government agencies.

Mr Rosair: That is not the overall intention of the scheme because the fundamental principle behind royalties for regions is not to supplant existing state government responsibility and core service delivery; it is about enhancing regional WA. The state government has an obligation to provide basic service delivery; that is, the general teachers, police officers and nurses. However, this is to enhance it by perhaps providing affordable housing in remote WA for those people, and reducing rent and subsidies, which is part of the recurrent process, but it is not generally intended to be used for salaried staff. It includes the capital works around it, such as the housing and the like. It is a recurrent thing to provide incentive and services, such as patient assisted travel, Royal Flying Doctor doctors, boarding away from home allowance, fuel card and bush change housing. They involve the recurrent side of the equation. I understand that the local government fund clearly states that it should not be used to pay for staff other than project staff to get a project up, and on a short-term basis.

Hon HELEN MORTON: In other words it could be used for more doctors and nurses, if that was the most needed requirement in a town?

Mr Rosair: That is a good example because currently we are working with the health department, which has put up a proposal, through the standard budgeting process, for a certain amount of money for the Pilbara to bring that service up to an adequate level. Above and beyond that there is a component about enhancing that service. Royalties for regions is looking at the enhancement of service, rather than replacing what is the core base responsibility of the health department under the state budget.

Hon HELEN MORTON: Is there an expectation that a state government department—for example, the Department of Health and the Minister for Health—would respond to your enhancement by adding the extra recurrent funds that are necessary for the department to make the thing come to life?

Mr Rosair: That is the partnering arrangement.

Hon HELEN MORTON: Will the extra staffing be included in the total amount for royalties for regions? It is an extra expectation on a government agency that at the moment is being asked to reduce expenditure across the board, but none of the royalties for regions money can actually go to building the recurrent cost around that service delivery. Is that right?

Mr Rosair: The principle behind royalties for region is included in the submission. It is not to supplant core existing base service delivery and it is not to replace the three percent efficiency dividend and it is not to replace core community service obligations. We are ensuring that the \$675 million is above and beyond that base service responsibility.

Hon KEN TRAVERS: Has a baseline study across government been carried out to allow you to ensure that that occurs?

Mr Rosair: That is one of the issues on which we are working with the Western Australian Treasury Corporation and the Department of Treasury and Finance. We know that the capital works baseline is clearly enunciated in the budget papers. We are endeavouring to understand the recurrent service delivery in regions, and that is something we are working through with each government agency. In the past the Department of Local Government and Regional Development did some work and we are using it to establish that baseline so that we can demonstrate that it is above and beyond that baseline.

Hon HELEN MORTON: I will follow that through further. What arrangements have now been put in place with the appropriate government agencies to ensure the additional recurrent funds will be made available to that enhanced service that you are building the infrastructure around? What is the arrangement between royalties for regions and the associated departments or agencies for the recurrent level of funding?

Mr Rosair: An example of this is GROH—Government Regional Officers Housing. The royalties for regions has announced a \$200 million stimulus package as part of being able to achieve that. Doug will be able to elaborate on that package. It is \$200 million of GROH housing across the state. With that comes an issue for state government agencies that want to access GROH, because to access it they will have to pay a lease cost for housing and works from within their current budget. That is why we have a recurrent component for housing whereby we can offer incentives, such as reduced rent and district allowance increases, to compensate for that cost to government. That is one example.

Hon HELEN MORTON: The leasing will come under —

Mr Rosair: That will come through the departments. GROH will either purchase houses or provide for new housing or kit-style housing across the state. Government departments that access it will need to pay a lease for those houses. Now the challenge is how government agencies will access that through their existing budget. We are looking at the recurrent expenditure of government agencies to make reduced rental happen. Doug might want to add to that.

Mr Cunningham: Yes. If we go to the mid-term review, the recurrent expenditure includes a line item “housing our workforce” with an amount of \$59 million. Under a heading in “capital expenditure” there is a line item “housing our workforce” with a capital component of \$538 million over three and a half or four years.

Hon WENDY DUNCAN: Madam Chair, that is in the Treasury submission.

The CHAIRPERSON: Thank you.

[2.50 pm]

Mr Cunningham: It is in the mid-term review. The Housing Our Workforce program, which is in the recurrent component at this stage, because it is still being scoped up, is going to be purely a housing rental subsidy in places like Karratha and across the state. As part of the package that was announced three weeks ago, I think in all there is \$316 million for a stimulus package, and

\$200 million of that for GROH housing was from royalties for regions. There is no recurrent component part of that, because it is not required. This is purely a capital injection into a housing stimulus package, which really is bringing forward money from 2009-10 into 2008-09 to get that quantum that allows something going forward.

Hon HELEN MORTON: It is different doing that project to, say, building a school and then requiring the education department to fund the teachers and the recurrent costs that are associated with providing the ongoing service delivery to that school.

Mr Cunningham: Yes. As examples, there are many proposals coming through to us from various government agencies, including Health. There is a renal dialysis project in the Kimberley at Kununurra, Derby and Broome. There is a capital component of that that we would be interested in perhaps, but the recurrent part of that is out of central revenue.

Hon HELEN MORTON: That is really a good example. You would only go ahead with that if the health department said that if you went ahead with that it would make sure that recurrent funds were available.

Mr Cunningham: Royalties for regions is predicated really on getting capital works out there. Housing is probably one of the underpinning sectors. Recurrent funding is something we believe, generally speaking, should be through the government agency process, through the EERC process and through the cabinet.

Mr Rosair: I think the Royal Flying Doctor Service is another good example.

Hon WENDY DUNCAN: I think I might be able to help Hon Helen Morton by saying that these projects are by negotiation with the other government agencies. We are working very closely and well with them. For instance, the enhancement to the Kalgoorlie Regional Hospital project was agreed upon in negotiation with the Department of Health. They have their commitment to fund the recurrent funding for that if we provide the extra capital funding. There will be examples of that department by department. It is all by negotiation.

Mr Cunningham: There is another recurrent-funding line there, which is the patient assisted travel scheme, which is all recurrent.

Hon KEN TRAVERS: If I may just go back, I just want to be clear. In your submission, the Housing Our Workforce stimulus package that you were talking about, are you suggesting that the figures that are included in the submission have now got to be changed as a result of that stimulus package?

Mr Cunningham: Which figures?

Hon KEN TRAVERS: Have you got a copy of the submission? I am looking at page 14. You will see there is a breakdown. I am assuming you are talking about the "housing our workforce" at the top of the page, which is the recurrent —

Mr Cunningham: Yes, \$64 million in 2008-09 and \$143.1 million in 2009-10. What has happened there is that there is brought forward the 2009-10 into a package that allowed us to put together into a pure stimulus package of \$200 million. The 2009-10 year has now been brought forward into the 2008-09, so that is how you get your \$200 million. You add them together.

Mr Rosair: We are working with Treasury on the May budget papers at the moment, which will reflect those changes as part of that process. These figures were prior to that stimulus announcement.

Hon KEN TRAVERS: You are saying that by the end of this financial year 2009 you will have spent the \$400 million?

Mr Cunningham: No, it is the 2009-10 allocation. The allocation in 2009-10 is \$143 million, and you add that together with 2008-09, so you have got the remainder of 2008-09 and 2009-10. In those two years there will be a total of \$200 million.

Hon KEN TRAVERS: How is that any different from what is already here?

Mr Cunningham: We are just bringing it forward to be able to spend and allocate it in a stimulus package this year.

Hon KEN TRAVERS: You are saying you will spend more than \$64 million this year?

Mr Cunningham: No, you will not spend it but it is allocated into a package that will allow us to go to tender for something like \$400 million.

Hon KEN TRAVERS: When you allocate your budget, you might make the decision to go ahead with it this year but you allocate it in your budget for the following year, because that is the year in which you intend to spend it. How is this stimulus package going to do anything different from what is already allocated in those figures?

Mr Cunningham: With the restriction of \$64 million in 2008-09 it would not have been possible to make a very significant contribution, so we have gone to the out years, brought forward that \$143 million and put it into the 2008-09 package.

Hon KEN TRAVERS: Are you going to spend more than \$64.7 million on housing?

Mr Cunningham: The \$200 million is to be allocated into that program this year.

Hon KEN TRAVERS: To be spent this year? If it is allocated for this year, that means it is spent this year. If you go and look at the budget, it is always the case that budgets are put forward. When you build a Mandurah railway line, you make a commitment to spend \$1.6 billion on it, but that is then allocated over a four, five or even six-year period. If you are saying you are bringing it forward, then that suggests you are spending more than \$64.7 million.

Mr Carew-Hopkins: I think the difference, member, is that we are talking about allocating it out of the royalties for regions fund. It goes into a package worth \$316 million and that is then spent by another agency. I guess we are getting confused about what is allocated and what is spent. We are talking about allocating \$200 million out of our funds, but it does not get spent this year.

Hon KEN TRAVERS: In terms of the amount of housing that is built, what difference will it make to the number of houses on the ground that will be put in place over the next two years—the rest of this financial year and the next financial year?

Mr Cunningham: It gives you the capacity in this year to go for a tender beyond 400 houses. Without that capacity, without reaching forward into the years in that program, you could not do it. It was brought forward to give us the capacity to link with other money in housing and works to put together a program.

Hon KEN TRAVERS: Are you saying that you will be providing that full \$200 million to housing and works this year and that they will then spend it next year? Is that what you are trying to say?

Mr Rosair: I think we need some clarity about the housing capital program. There are a number of subcomponents to that. There is the GROH housing program, which is the \$200 million program that is going to Housing and Works. There is also the one that was mentioned earlier by Wendy in relation to the South Hedland town development fund, which is \$23 million which is also embedded in there. We are working with the education department —

Hon KEN TRAVERS: That is out of this?

Mr Rosair: That is out of Housing Our Workforce. We are also working with the education department and health department, that are not part of the GROH program. Also, going back to the definition of the original intent of Housing Our Workers, it is about housing our essential workers,

so there are other housing initiatives contained within that one line. There are a number and range of initiatives that have been developed under Housing Our Workforce, not just the \$200 million. The \$200 million was announced to be spent by Housing and Works, which will be profiled in the cabinet process over the next two years in accordance with their work timetable for delivering those 400 houses. That is basically the process we are going through now. In the May budget papers we will have the cash-flow profile of this particular initiative over the next three and a half years.

[3.00 pm]

Hon KEN TRAVERS: How much in that cash flow profile will be allocated for next year? I suspect it will be \$143.1 million.

Mr Rosair: It will probably be more than that because we have to incorporate the \$23 million for the South Hedland town development fund.

Hon KEN TRAVERS: Where is that coming from?

Mr Rosair: That will come out of Housing Our Workforce.

Hon KEN TRAVERS: Will that be brought forward from somewhere else or will the total of \$538 million be increased?

Mr Rosair: That cash flow for the whole housing workforce is currently being reconsidered as part of a cabinet process and will be in the May budget papers. That is what we are working through at the moment to accommodate the \$200 million that GROH housing is going to spend through Housing and Works over the next two years, to accommodate the South Hedland town site and to provide cash flow for the remainder of that on the priorities of education and health and other housing initiatives. These were submitted two weeks ago and that is an initiative that is being currently worked on.

Hon KEN TRAVERS: I cannot see how you can be bringing forward money when you have it allocated over the next two years to be spent over the next two years. That is nonsense. With every other budget allocation I have seen, you might start the processes, but if the money is to be spent next year, that is where it will be.

Mr Rosair: I think that the intention of this exercise is to profile the expenditure of this money over the correct years. The exercise we are going through now is to put the expenditure in the right years.

Hon KEN TRAVERS: This is not the right year for the \$200 million because you will be spending it next year.

The CHAIRPERSON: I think we have exhausted that line of questioning.

Mr Rosair: Maybe we can provide some more clarity on that.

Hon KEN TRAVERS: I would love to see that; it will be interesting.

The CHAIRPERSON: Thank you very much. I am aware of the time. We will try to cover the questions we have. I refer to page 9 of your submission, which refers to the establishment of the major regional projects division. Can you tell the committee how many people are employed in this division?

Ms Mathews: The major regional projects division is a new division within the Department of Local Government and Regional Development. It was set up specifically to respond to government demand to implement royalties for regions policy. The existing department did not have sufficient resources to implement this new and very significant regional development policy direction so we established a major regional projects division and then went through the process, essentially through secondments, of building up that division. It currently has an FTE of 14. In addition to that, six FTE are working on the Ord project. If you take those two together, we have an FTE of 20.

The CHAIRPERSON: Can you provide the committee with a structure chart of the division?

Ms Mathews: Yes, we can.

The CHAIRPERSON: Will you take that question on notice?

Ms Mathews: Certainly.

The CHAIRPERSON: I refer to page 10 of the submission where it states that the major regional projects division is liaising with RiskCover to establish, implement and monitor a structured systematic approach to manage risks associated with royalties for regions. What risks have been identified with royalties for regions?

Mr Rosair: We have had an initial workshop with the divisional staff to identify risk at the policy level, the program level and the delivery level. We are looking at identifying risks in all those areas and then identifying control and mitigation measures and determining the adequacies of those measures and starting to develop a risk management plan. Only a draft is coming from our first workshop. We are working with RiskCover at the moment. We are hoping to finalise the risk assessment over the next number of weeks. The minister's office is also undertaking a risk management workshop as part of that risk management assessment. We are also going to the delivery agents such as the health department, DPI and other major agencies such as LandCorp and asking them to undertake a risk assessment. We are only part way through that process. We do not have a final list of risks, but once that list has been finalised and the appropriate control measures and actions have been put in place we can possibly make that available. I do not know whether it will be in the time frame for your reporting.

The CHAIRPERSON: That was my next question. What is the anticipated completion date of that?

Mr Rosair: The minister's office is going through a risk management planning exercise in March. The delivery agents are probably going to go through a process in the same period. It will depend on RiskCover's capacity—it is doing it for us. I do not know what ability it has to meet those deadlines. We definitely want a risk management action plan in place at the start of 2009-10.

The CHAIRPERSON: I refer to page 11 where it notes that funds from the country local government fund are being distributed through an allocation model based on WA Local Grants Commission horizontal equalisation assessments and population caps. We have already discussed this in some detail but my question is: why was that particular model chosen?

Dr Berry: As I indicated earlier, an initial proposal came from the Western Australian Local Government Association. It had a grants commission component in there and that was the original base, and it was developed from that.

The CHAIRPERSON: I think we have fairly broadly covered a substantial part of the questions that are outstanding. However, we will provide you with a few more on notice if that is okay and we can get those to you in the next day or so. Thank you very much for your attendance this afternoon. It has been very useful.

I refer to the document entitled "Royalties for Regions, Regional Grants Scheme Guidelines for Applicants" that you kindly provided. I note that it has "Draft" at the bottom of the page. Is that a public document or would you prefer we keep that confidential at this stage?

Mr Rosair: We have copies in the pack that do not have "Draft" on them.

The CHAIRPERSON: I wanted to be sure that we were not publishing something that you were not happy to have published.

Mr Rosair: This is publicly available now. It is in the pack of which we are leaving eight copies with pamphlets and the other material.

The CHAIRPERSON: Thank you for your time this afternoon.

Hearing concluded at 3.08 pm