

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

BUDGET STATEMENTS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
FRIDAY, 4 DECEMBER 2009**

SESSION ONE

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich**

Hearing commenced at 9.07 am

DUNCAN, HON WENDY MAXINE

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

SHANAHAN, MR TIMOTHY

**Chairman, Pilbara Development Commission,
sworn and examined:**

WEBSTER, MR STEPHEN

**Chief Executive Officer, Pilbara Development Commission,
sworn and examined:**

DAVEY, MR MALCOLM

**Chief Finance Officer, Pilbara Development Commission,
sworn and examined:**

The CHAIR: On behalf of the committee, I welcome you to this morning's hearing. Before we begin, I am required to ask you to take either an oath or an affirmation; if you wish to take an oath, Renae, the committee clerk, has copies of the bible. If you would like a copy, please avail yourself of one; if not, that is fine.

[Witnesses took the oath or affirmation.]

The CHAIR: Could you state your full name and the capacity in which you appear before the committee.

Hon WENDY DUNCAN: Wendy Maxine Duncan, Parliament House, Perth, Parliamentary Secretary to the Minister for Regional Development; Lands.

Mr Shanahan: Timothy Michael Shanahan, Chairman, Pilbara Development Commission and I reside at 1 Male Court, Winthrop.

Mr Webster: Stephen Vaughan Webster, Chief Executive Officer, Pilbara Development Commission and I reside at 12 Counihan Crescent, Port Hedland.

Mr Davey: Mal Davey, Chief Finance Officer, Pilbara Development Commission and I reside at 26 Champlin Way, Ferndale.

The CHAIR: Thank you very much.

You will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

The Witnesses: Yes.

The CHAIR: Thank you.

Proceedings this morning are being recorded by Hansard and a transcript of your evidence will be provided to you. Please quote the full title of any document you may refer to during the course of these proceedings and please be aware of the microphones and try to speak 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 this morning's proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any media and public

in attendance will be excluded from the meeting. Please note that the uncorrected transcript should not be published or disclosed. This prohibition however does not prevent you from discussing in general terms the evidence that you have given to this hearing. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers and annual reports on behalf of the people of Western Australia, and the committee values your assistance in these matters. Members, it would assist Hansard if, when referring to the budget statement volumes, the consolidated fund estimates or the commission's annual report, if we have one, you could please give the page number, item, program and amount in preface to your questions.

I might start by asking Mr Shanahan whether we have a copy of the commission's annual report or could you give us an update on that?

Mr Shanahan: The annual report has not been submitted to Parliament. A copy of the annual report was inadvertently put on to our website yesterday. It is there, and we have left it there. As I understand the process, it should have been tabled in Parliament. That is where it is.

The CHAIR: Apparently the annual report is on the website. We will get some copies of it.

Hon LIZ BEHJAT: Did it get put on to the website yesterday?

Mr Shanahan: Yes.

Hon LIZ BEHJAT: It must have been late yesterday, because my staff were looking for it.

Hon KEN TRAVERS: Is it getting tabled with the Clerks today?

Mr Shanahan: Yes.

The CHAIR: While we are waiting for copies of the annual report, do members have any questions?

Hon LJILJANNA RAVLICH: On a point of clarification, Madam Chair, can we make reference to last year's annual report. I imagine there would be similar issues.

The CHAIR: That is a reasonable point at which to start, in a general sense. Perhaps Mr Shanahan would indicate if a question is not relevant to this year's annual report.

Mr Shanahan: I am happy to.

Hon LJILJANNA RAVLICH: I am referring to last year's report. When the new report is available, I will have a look at it. It relates to significant issues and trends, specifically in relation to the level of economic growth that is delivered throughout the region and the concern of the commission's in relation to the expansion of the resource sector, which has led to severe shortages in residential land and substantial increases in housing and rental costs. I do not think that much would have changed in the past 12 months in respect to those two issues. Can you give us an overview of what is going on in the Pilbara in respect of the shortage of residential land, the increases in demand for housing, any shortfalls in housing and the impact on rental costs?

Mr Shanahan: Maybe I could make some general comments and then Mr Webster might like to make some other comments, if he feels that is necessary, or follow up any questions you might have. We are going back essentially 18 months to the previous annual report. There was somewhat of a lull perhaps, or a plateauing, in terms of resource activity associated with the global financial crisis. That is a very general statement. In the specific, I think you would have to say, particularly off the back of the investment by BHP Billiton in east Pilbara and in Port Hedland with their Rapid Growth Project 5, that was something in the order of a \$5 billion capex. That project has continued throughout the period of the global financial crisis. The sorts of pressures that we had seen, if you like, from what was called the boom, but which we are not calling the boom where we are now, has basically continued in east Pilbara and in Port Hedland.

I am concentrating, I suppose, on coastal towns at the moment. In Karratha, there was more of a plateauing. I believe in the past 12 months the very significant efforts in terms of land release and housing had caught up and got to a position where you could actually walk into a real estate agent's office in Karratha and look at houses to rent or to buy. Sadly, I would have to report in the past six months that position has changed again. We had sort of got—when I say “we”, the community—to the point where we were at the demand curve or maybe a little bit in front of it. That has now declined, particularly with the advent and the announcement of the final investment decision on Gorgon. But of course south of Karratha you have the Cape Preston project, the CITIC Pacific mine, now with Devil Creek, with Apache bringing the gas onshore there. You also have Pluto under construction and the finalisation of LNG train 5 during that period as well, on the onshore plant. You would have to say that there is still going to be significant pressures in Karratha. I am generalising pretty much here—Newman and Tom Price in particular have also shared those pressures. Newman has been part of BHP's Rapid Growth Project 5 and has had a sustained demand for housing, and, I suppose, all the community services that go with that underlying demand. Rio Tinto of course has had issues associated with its acquisition of Alcan and now the negotiations around the operational joint venture with BHP Billiton. Rio Tinto went to a plateau, if you like, on their “operations”—I use that word again. There have been recent media announcements that Rio Tinto is looking to recommit to its next 100 million tonnes. That is tied up a bit, I would think, with the operational joint venture with BHP Billiton. If you are looking forward, then you would think—and we would think—that there will be significant demand continuing for housing and for land in the Pilbara areas, basically across all of the towns that I have mentioned. That is what we think. Steve, do you want to say something?

Mr Webster: I believe that Mr Shanahan has covered that well, as a broad picture.

Hon LJILJANNA RAVLICH: Can I just ask whether you could take a question on notice; that is, an identification of the main projects. You have already mentioned them anyway, but the construction time frames for them, the workforce during that construction phase and the full production time frame, if it is possible. In other words, at what point do these projects reach full production? Can we also have the royalty expectations, if they are available, in terms of revenue? Is it possible to take that on notice and provide that to the extent that you can?

Mr Shanahan: I am happy to take it on notice. I think most of that information would be with the Department of State Development. They keep a running list of all of the projects that are advanced or in prospect. I suspect that the data that we would not have would be the royalty data. We may not be able to provide that. The projects, their projected workforce and their progress or completion dates we should be able to get, particularly from DSD.

[Supplementary Information No A1.]

Hon PHILIP GARDINER: Can I just take it a bit further. I know our colleague and parliamentary secretary representing the Minister for Regional Development has been pursuing this very actively. Where is the state now in relation to the number of dwellings that you might have across the commission's area at the current time?

Mr Shanahan: That is something that we have embarked a study on at the moment to try to come up with some specific data. A number of the industry groups have made projections about the growth in the workforce, as has the government. It has been looking at those projections. Associated with the answer to the previous question, you would expect that the population would grow in the Pilbara because of the economic activity that I have outlined. I would probably say at the moment that the housing market and the land availability in the Pilbara—basically, there is not a normal market in evidence. Anything that would come in is on top of that. To get in front of that, that is the piece of work that we are engaged in at the moment. Maybe I could ask Mr Webster to expand on that piece of work that we are doing.

[9.20 am]

Mr Webster: The Department of Housing and the Pilbara Development Commission are jointly funding a study through SGS, and the study is to look at the current housing shortfall in an attempt to quantify it and to look at unmet demand, projecting out to 2015. Through that study, we intend to provide a more quantitative assessment of current requirements and predicted requirements based on the planned expansions.

Hon PHILIP GARDINER: You would have done some of these studies in the past as well. The question I am getting to is: how far do the rentals need to come down, in your view, to allow for the small businesses that are necessary to build a sustainable community? How far do the rentals have to fall from their current levels?

Mr Webster: The numbers that we are currently working with in order to normalise the market and therefore be able to attract into the Pilbara people who will be working in what are referred to as key worker areas or service worker areas are normally around 25 per cent to 30 per cent of income. We are trying to make those available in the \$300 to \$500 per week range. They are the numbers that are being used when we talk about trying to put affordable housing in place.

Hon PHILIP GARDINER: The range of \$300 to \$500 per week is distinct from what it is now, which is about \$2 000—is that correct? What, roughly, is the average rental now?

Mr Webster: The average is quite difficult to say. The range is probably closer to \$1 400 to \$2 000 per week, but many rents are more than \$2 000 per week now. I certainly know of one at \$2 800 per week.

Hon LIZ BEHJAT: Which town is that?

Mr Webster: Port Hedland.

Hon PHILIP GARDINER: It is going to be interesting to read the report that you are currently doing, because one of the implications is that the people who own the houses now and earning those high rentals will be affected—a lot of people will be affected. Is that part of what you are working through in the current report—how one deals with that effect as well?

Mr Webster: Certainly the commission—and, as the member says, any observer—would be aware that that is another side of the picture. People who are currently earning those high rents will be conscious of efforts to normalise the market. However, the primary goal is still to achieve rents that are more affordable.

Hon PHILIP GARDINER: Are there other places around the world that have been through a similar experience, from which we can learn some lessons of how to deal with this?

Mr Shanahan: That is a good question. Obviously there are other resource provinces that are remote from major population centres and that share some of the attributes of the Pilbara. There is nothing that I have seen that is directly comparable; I suppose Alberta in Canada has similar arrangements, particularly where they have oil and gas fields that are remote from cities such as Edmonton and Calgary. From what I have seen, there is no one model that we could pick from somewhere around the world and say, “Let’s just apply that in the Pilbara”; each one is different. In the Pilbara, we are talking about remote populations in what is essentially a developed nation, so I do not think the things that might apply in Africa or other developing nations might be models that we would be looking to follow. Obviously we look at what is going on around the world, as do other government agencies, in terms of what might apply. Of course, the resource companies that operate in the Pilbara also operate in lots of those other areas. I do not believe that there is one model that we could transplant into the Pilbara; I think it is something we will need to work through, informed by other initiatives.

Hon PHILIP GARDINER: I know that this report is being done with external consultants. What is the manpower? How many people do you have employed in the commission now?

Mr Webster: At the moment we have 12 people employed in the commission.

Hon JON FORD: How many of those are entitled to housing?

Mr Webster: Entitled to housing? At the moment four of our staff are in subsidised rental housing.

Hon JON FORD: What do you pay for that per week?

Mr Webster: Between \$1 400 and \$1 800 per week.

Hon JON FORD: Subsidised housing means that you do not have housing stock for yourself? The Pilbara Development Commission does not have actual housing for its own staff?

Mr Webster: That is correct. We work through the GROH system.

Hon JON FORD: I have a question similar to the housing issue, but it goes on from that, or is interdependent. What do you think the current utility capacity is for most of the north west towns in regard to expansion? Are we at the top of our ability to expand in regard to sewerage and water supply?

Mr Webster: The information that I have seen indicates that certainly in our towns, we need to consider the utilities as well. If we are talking about significant population increase, we certainly need to look at the provision of water, sewerage and power. Currently there is a supplementary power station being considered for Karratha. We would need to look at those services as we look at population increase.

Hon JON FORD: My understanding is that Karratha, at the current levels of population expansion, will be at maximum draw for water within two years, so there is an urgent need to invest in water supply. I would like you to comment on whether you are aware of that, and whether that information is true. What sort of work is being done to deal with that plateau of supply?

Mr Webster: Yes, the commission is aware of that; it came out of a recent west Pilbara water meeting. It is certainly one of the priorities that we will be looking at working on with the relevant agencies in the near future.

Hon JON FORD: Have you got any idea of the sort of investment that is required to meet demand in the Pilbara towns with regard to service provision?

Mr Webster: I do not have a dollar figure.

Hon KEN TRAVERS: I am interested in the construction costs for replacement housing. What is your estimated cost for constructing new developments in the Pilbara?

Mr Webster: One of the good things that is happening in the west Pilbara and Karratha at the moment is that for the first time in some time—I could not give an exact time—there are display homes available. I was visiting display homes last weekend, and they were talking an approximate value of \$500 000 to deliver a very attractive and reasonable home; on top of that, we need to add the land value. Those homes were in the region of \$650 000 to \$750 000.

Hon KEN TRAVERS: If the shipping service to the north west were to be discontinued, would it have an impact on the construction costs of housing generally across the north west? As I understand it, the shipping service carries a large amount of the materials used in the construction of housing.

Mr Webster: I am not really able to put a dollar figure on that, but I imagine that if that service were to cease, it would have an impact. Perhaps I can come back with some more specific information.

[Supplementary Information No A2.]

[9.30 am]

Hon LJILJANNA RAVLICH: I am interested in these four houses that you rent up there. I am assuming that you are renting these houses in the open market. Are they private dwellings?

Mr Webster: It is a combination. We do rent through GROH; however, GROH has government housing and also housing in the private market.

Hon LJILJANNA RAVLICH: Okay. Is your rent subsidised?

Mr Webster: No.

Hon LJILJANNA RAVLICH: So the individuals who rent those houses pay the \$1 400?

Mr Webster: I am sorry; I misunderstood. The individuals who rent the houses pay the standard GROH rates and the Pilbara Development Commission as the agency that they work for picks up the full rate.

Hon LJILJANNA RAVLICH: Because when we have a look at the, I suppose, true cost, it is quite a lot. It works out, for those four houses, to be about \$288 000 a year for the rental of that accommodation, be they houses or units or whatever. It is a quite considerable amount of money. I wonder whether you could provide us with a bit of an overview of the percentage of government housing, mining housing and private housing.

Mr Webster: Again, that is a good question. It is one that we identified for the housing study to give a view of as well. Perhaps Mr Shanahan, particularly given his background with the chamber, may be able to assist.

Mr Shanahan: Not in any specifics.

The CHAIR: Would it be easier to take that question on notice?

Mr Shanahan: Yes. I think so.

[Supplementary Information No A3.]

Hon LJILJANNA RAVLICH: I do not have anymore questions on housing, but Hon Jon Ford has a question.

Hon JON FORD: I would just like to touch on fly in, fly out. I have been looking at the 2007 ABS figures. I am about to lose my voice, so do not take it personally if I start squeaking! One of the issues with the ABS figures is that they do not give a true picture of the impact of fly in, fly out because they document where people are at the moment they take the survey. One of the interesting things is that when it talks about where you live and the potential, there is a huge amount of people in Port Hedland and Karratha who put down their place of residence for the time being as a caravan village or that sort of accommodation and it has always been a complaint of local governments up there that they are not properly accounted for. I was wondering whether you have actually started negotiations with the ABS to ask questions that specifically identify people who are fly in, fly out—which would be helpful when they do those studies—or whether you have done some work to try to pull out those people from the stats?

Mr Shanahan: If I could maybe field that, and once again Stephen, Mr Webster, could add to it. We have been in quite close conversations with the ABS, and there has been a project that has been ongoing within the development commission called Spotlight on the Pilbara which is a partnership with the ABS designed to get a richer level of data around what is going on in the Pilbara. Specifically, it is to look at whether you can get other data sets that actually, if you like, gateway into the Pilbara—that inform and add to a greater understanding of what is going on. Certainly, the issue of fly in, fly out and where the primary residence is and how those people should be treated is one of the key elements that we have discussed with the ABS. I think the issue, as you have rightly pointed out, is always a contentious one with local government in particular, because many of the funding schemes are based on what your population is. If your population is reduced because of people wrongly filling out a form or not being counted as residents in that particular town, you lose out on the funding down the track. That is something that the ABS is, I know, being, and has been, critiqued on—or even criticised on!—over the years. It is something that we have raised with the ABS. It has expressed the view to us that in terms of preparing for the next census, that that is

achieving some higher level of understanding and preparation with the local authorities into how that census is conducted to ensure that we get a truer picture of, if you like, the actual situation. My understanding of the Spotlight on the Pilbara, is that, as I have said previously, it enables other data sources to be brought to bear and that for planners and other people who are interested in these things to be able to get a better picture. So now that that portal, if you like, and that gateway has been established, we would look to try to improve and add richness to that data. Ultimately, if you are looking at, you know, the funding rules that apply, it will be the ABS census data, and that comes at that point in time, so preparing for that is important. I think the ABS is correct in that it is better to put time into preparing for that to get that right rather than complaining about it necessarily afterwards. So that is one of the things that we are looking at, and the ABS is actively talking to the local councils in the Pilbara about how that might be done.

Mr Webster: I would like to reinforce what Mr Shanahan has just said. We are working and intend to continue working closely with the ABS. They have sent senior representatives to the Pilbara recently to discuss and to highlight that they are looking for partnerships to enable more accurate collection of data. In those discussions with them, we have indicated the importance of getting an understanding of the fly in, fly out numbers.

Hon JON FORD: Do the other data sets that you mention, Tim, include identifying clients going to health delivery services and whether they are locals or fly in, fly out workers; the impact on health surveying from local government in regards to contracts; and the effects of those villages on local services?

Mr Shanahan: I think the ones that I was most familiar with were the ones that the ABS were negotiating with the companies on to try to get data from the companies. In my previous roles, I have been involved in doing surveys of the companies' FIFO workforce, which I think would be if not a more accurate way then another way of looking at it, because you are getting the data from the companies about—in the ones that I have previously been involved with—the sort of macro numbers in terms of statewide fly in, fly out population. The health data that you are alluding to would, I imagine, have significant privacy issues surrounding it. I think each of these other data sets that you might add in is going to be a negotiation. You will need to be satisfied that the data has integrity and that it is credible, and that it is not offending against any privacy arrangements. It has to have integrity and be credible, so you need to look at the source.

Hon JON FORD: That notwithstanding, it is important information for governments to try to get so that they can supply services. We have recently had the Premier and the Minister for Regional Development announce—what is it, Future Cities or Northern Cities?—up in the Pilbara. In the conversation that we have had today, you have confirmed that we are running low on services such as water and that you need substantial money invested in infrastructure. We are flying blind at the moment in regards to statistical information on the grounds of the fly in, fly out workforce and the impacts of businesses on services and town services. What involvement did you have in developing that policy, if anything, before the announcement? Did you have any input into that?

Mr Shanahan: I think the commission has an ongoing discussion with the minister about a range of different things, and that was certainly one of the things that, as chairman, I talked about with the minister.

Hon JON FORD: Good-o.

Hon KEN TRAVERS: If I can, I will follow-up on that. In terms of the statistics and growth and the planning for growth, have you any predictions on what you expect the major towns in the Pilbara to grow by over the next, say, 10 years or whatever projection period you have it over—five, 10 years; 2031 is often the date used in Perth for projections?

[9.40 am]

Mr Shanahan: There are a range of different projections. The ones I am most familiar with have been done by some of the industry groups in relation to the workforces that they would expect to be associated with and the population growth associated with those projects, which goes back to the first question that was asked. In those models there is a low, medium and high scenario. As I recall, the high scenario would see something like a doubling of the population in the Pilbara from around 40 000 at the moment to obviously double that, 80 000. The medium scenario is in the low 60s and the low growth scenario, which we do not seem to be in, is somewhere between that.

Hon KEN TRAVERS: Somewhere between 40 000 and 60 000?

Mr Shanahan: I believe so. I do not have them at my fingertips. That is work that we would be doing to try to get a high level of confidence in which one of those scenarios we would most likely be rolling out. Going back to my first answer to the question, I fall into the camp of opinion that we are looking at significant growth over the medium projection and ranging towards the high projection, which will activate, as has been pointed out, all the types of infrastructure and service provision that will be required and which, in terms of the government's recent announcements, would have to underpin those sorts of land releases, housing developments and amenity issues that are being proposed for Pilbara communities.

Hon KEN TRAVERS: What time frame are you talking about with those growth figures?

Mr Shanahan: I would have to take that on notice in terms of the specific projections. Ten years comes to mind.

The CHAIR: It seems that there is a little uncertainty about those figures. It might be an idea to take that on notice. You might be able to firm up the figures and the time line.

[Supplementary Information No A4.]

Hon KEN TRAVERS: Did the Pilbara Cities plan include a growth figure or is it just a concept design rather than an actual figure of what was expected to grow in those two cities?

Mr Shanahan: There are two parts to it. Firstly, the current level of amenity for the population in the Pilbara is inadequate. The government's announcements are designed to address the current level of inadequacy of amenity and standard of services in the Pilbara. That is certainly part of the baseline investment that the commission would like to see going into the Pilbara so that there is a high level amenity, more affordability and the levels of utilities that would be needed to sustain that. The second part of that is that if you accept that if you are in a growth scenario in the Pilbara, you would need to invest additionally to get in front of the demand curve, hopefully, or at least keep pace with the demand curve. I cannot recall whether there is a specific number in the Pilbara Cities material but my own personal opinion is as I have expressed it in relation to the sort of growth scenarios that we were seeing in the Pilbara.

Hon LJILJANNA RAVLICH: When we look at the Pilbara project update, which is from your own website, and the construction phase and the number of workers that would be required for both the construction and the operation phase for a range of projects such as the Dampier port expansion, the number needed in construction is 800, operation, 200; Hope Downs—construction, 1 000, operation 300; Carnarvon Basin, the Pluto LNG operation—construction, 3 000, operation, 200; Cape Preston, 2 500, this is the Sino steel line project—operation, 500; construction, 1 000, operation, 130 for the ammonia plant, Burrup Peninsula; Pilbara LNG—construction, 2 400, operation, 125; Gorgon LNG—construction, 3 000, operation, 600. These are big numbers. I am hearing from you that you are starting to look at all of this now. Is it not a question of the horse already having bolted to some extent? Why has the planning been left quite late? It may well be that the demand will very rapidly become a big problem for the whole region. Can I have some comments from you about that?

Mr Shanahan: If you look at the situation that the Pilbara has been in for the past decade, it has been the subject of significant growth and the additional influx of capital and people are driving

these projects. This is nothing new in terms of what the Pilbara is facing. As I mentioned in my last answer, I do not think that the level of amenity in the Pilbara is at the standard that you would want. It is certainly one of the drivers in getting permanent populations and growing permanent populations in those cities, both in the inland towns and in the coastal communities, and the level of amenity, housing affordability, land availability, medical services and education are all issues that go with that. Over the past decade they have not kept pace with the level of growth. We are now facing a further surge in the level of activity in the Pilbara. We need to catch up to where we perhaps should have been over the past 10 years and then we need to go forward from that in planning and providing for the additional growth. Some of the projects that you read out are reality and some are not. Some of them already have people on the ground or on an island. The construction workforces are generally temporary and fly in, fly out, by and large. The permanent workforces tend to be more of a mixture.

My opinion is that over time the planning for the Pilbara and the level of investment in the amenity in the Pilbara could have been considerably advanced. That is something that we are now looking at. In the past couple of years in particular a lot of planning has gone into the Pilbara. Each of the municipalities in the Pilbara now has a strategic plan. It is all called something slightly different. The development commission, the Pilbara Regional Council and the federal government's area consultative committee were involved in developing the Pilbara plan about 12 to 18 months ago, which has essentially listed a range of projects that each of the communities in the Pilbara generally would see. There has been some planning. My view is that there is room for further planning and further rigour in the planning and further testing of the data that we are seeing and reconciling what we see in front of our eyes in the Pilbara when you go up there with what we need to do.

Hon WENDY DUNCAN: Can I add a further comment. When we are talking about horses having bolted, the horse well and truly bolted before this government came to power. The previous government, in wanting to deal with those issues, committed something like \$40 million in its election promises. This government has committed \$300 million to revitalise the Pilbara and to deal with the issues that, as Mr Shanahan has pointed out, are longstanding. They did not happen overnight. Considerable effort is being put in by this government at ministerial level to ensure that this is dealt with.

Hon KEN TRAVERS: Can you provide a breakdown of that \$300 million, including how much of it is commonwealth and how much of it is state?

Hon WENDY DUNCAN: Yes, I can take it on notice. I do not have it with me at the moment.

Hon KEN TRAVERS: Is any of it commonwealth money?

Hon WENDY DUNCAN: It is all state money.

Hon KEN TRAVERS: Can you provide a breakdown of where that goes?

Hon WENDY DUNCAN: Yes.

[Supplementary Information No A5.]

[9.50 am]

Hon LJILJANNA RAVLICH: I have only two follow-up questions in relation to the comments that you made. First of all: do you think that the inadequacy of the hard and soft infrastructure could be a risk to some of the projects in the Pilbara?

Mr Shanahan: Yes.

Hon LJILJANNA RAVLICH: Will you expand on that, if you could, please?

Mr Shanahan: I am happy to. I think that—well, yes is the answer, because if you do not, people will leave the Pilbara when their kids reach high school age and if they are unhappy with the level of medical services. If the medical services available do not meet the occupational health and safety

standards of the companies, then other alternative arrangements need to be made, and they can be very expensive. In my view, we are heading back into a situation whereby we will be facing a battle for skills and workforce. The level of amenity is going to drive the preparedness of people to live or stay in those areas; essentially, that then feeds into the cost structure of the projects, if either the companies cannot get the workforce or they need to pay more for the workforce or they need to pay for some of the social infrastructure.

I think that for the hard infrastructure—taking on board the issue about electricity and water—there should be the potential for exploring complementarity in terms of the utility provision that might come from the underlying investment that is being made to meet industrial purposes. All of those things feed into that risk.

Hon LJILJANNA RAVLICH: Finally from me in relation to this line of questioning: could you provide, or could you take on notice, the hard and soft infrastructure priorities for the Pilbara, and the anticipated time frame that the development commission would like to see these in place, and perhaps a ballpark figure associated with that? Because I would imagine that the development commission keeps tabs on where the shortfalls are in respect to hard and soft infrastructure, and it would have some idea of what the associated costs of those might be. I wonder whether you could do your best in respect of providing that information, because I recognise that you have a coordination role, but I also recognise that you have a strategic planning role, and that is pretty critical to achieving some of the economic social objectives.

Mr Shanahan: I am happy to use our best endeavours to answer that question. I think I mentioned the Pilbara Plan in my answer. That identified a range of those things, and I also note that the government has approached the federal government for support from Infrastructure Australia. My understanding of that is that \$470 million has been requested, and that that would primarily go towards infrastructure provision in the Pilbara. In terms of the detail, I cannot guarantee it, but we will use our best endeavours to answer that question.

[Supplementary Information No A6.]

Hon LIZ BEHJAT: I was going to go down one line of questioning, but now that we have the annual report, we can perhaps look at that. Page 18 of the Auditor's General annual report states —

Basis for Qualified Audit Opinion

During the 2008-09 financial year, Pilbara Development Commission drew on restricted funds to meet operational needs. Controls over these restricted, which include specific purpose grants money, were inadequate for ensuring that they were spent only for their approved purpose.

Furthermore, because of inadequate controls and records I am unable to determine the amount of the restricted funds that were used to meet operational needs. Consequently, I am unable to form an opinion on whether the amounts disclosed in Note 13 ... are fairly presented.

Are you able to talk to us about why it was necessary for you to use restricted funds; how much of the restricted funds you used; and, do you now have controls in place to ensure that you do not use restricted funds in the future?

Mr Shanahan: Answering the last question first: the answer to that is yes—as, hopefully, everyone would expect—that is what we have done. In terms of the reasons for this occurring, as members would be aware—it is on the public record—the chief financial officer of the Pilbara Development Commission has been charged with a range of stealing offences by the CCC. I only became aware that she was being investigated after I became the chairman, and there was a period when she was under investigation but not working in the commission; she was on directed leave. After she was charged, we were able to secure an acting chief financial officer—Mr Davey—who has been working in the commission since the middle of June, after she was charged. There has been, I think

it would be true to say, a deficit of—deficit is going to come up again, I am sure; there has not been an adequate level of financial control. Obviously, now, the Auditor General has found that in his statement. That has been the primary contribution to this. The actual amount that she is alleged to have stolen, or to have misappropriated, is not directly connected to the deficit that is revealed in the annual reports. The point I am making is more the lack of financial controls that were able to be conducted.

The underlying issue in terms of the operations of the Pilbara with a staff establishment of 12 FTEs and with a consolidated revenue allocation of, I think, \$1.6 -something in this year's budget—it was \$1.8, I believe, in the previous financial year—is clearly inadequate to cover the costs of the 12 FTEs and the associated housing costs, which have already been illustrated in the questions that we have had to date. Yes, it is obviously an unacceptable situation, and one which suppose I am explaining the mitigating—“mitigating” is the wrong word—reasons for how we got to this point. The mitigating arrangements that we are now putting in place have included having an acting chief financial officer. It has not been possible to advertise for a replacement permanent chief financial officer given that whilst the CFO was under investigation, we were not able to take any action because that may have tainted the CCC's investigation. After she was charged, that enabled us to activate a Public Sector Management Act inquiry, which is what we were obliged to do. Whilst she has pleaded guilty to some but not all of the charges, the court proceedings have not got to the point, as I understand it, where the court has technically been able to accept her guilty plea. We are uncertain as to when that might occur, and until that occurs, or until the Public Sector Management Act inquiry outcome—we will either find that there will be reasons for termination or not, depending on what the outcome is, or there may be a resignation—we cannot fill the position of permanent chief financial officer. Understanding that, we have applied to the government to create an additional position within the development commission, which would have, as part of its job description, financial skills.

We have advertised for that position in the last two weeks. That has been a problem as well because given that there is a deficit within the operations of the development commission, we have needed to ask for special permission to create that additional position.

[10.00 am]

Hon LIZ BEHJAT: Will that be a permanent position or only until such time as you can sort out the other one and then you will revert to a 12-FTE structure?

Mr Shanahan: It is a permanent position but I would anticipate that we will be looking at the structure of the development commission more fulsomely over the course of the next few months, and, obviously, we will be addressing a submission to the government in relation to what our underlying cost of operation is at a 12-FTE operation. Indeed, with the advent of government—both federal, potentially, and state—attention on the Pilbara with significant funds that are being invested in the Pilbara, in my view, there is an argument to look at bolstering the level of capacity that we have. We have taken some remedial action in terms of not filling some of the positions as they became vacant in the last six months or so, we have also looked to reduce some of the levels of vehicles that we have and we have looked at the current level of staff allowances associated with the government policy. We are now in the process of bringing staff allowances back into line with what government policy is, whereas in the past there has been an anomaly in that area. We are also negotiating with the Department of Regional Development and Lands to secure additional revenue support for some of the officers within the commission. So a combination of tightening our belts, if you like, and looking at having other revenue streams coming in to the commission we believe should bring us to the point where we will have a balanced budget for this financial year. As I have indicated, looking into the 2010-11 financial year we are looking for some more fundamental —

Hon LIZ BEHJAT: Given the lack of financial controls that the Auditor General points out in this report, is there not a standard way of conducting finances for development commissions? My

concern would be that if this was able to happen in the Pilbara Development Commission, should the Auditor General now perhaps be looking more closely at other development commissions to find out whether that same lack of financial controls is happening across the board?

Mr Shanahan: I can only speak for the development commission that I am directly involved with, and much as it is appealing to get the dead cat and twirl it around my head and put it into other development commissions' back gardens, I would imagine that the normal course of it would be that the Auditor General having gone through this process with us is now going to look at the other development commissions, but that is just a personal opinion.

The CHAIR: And perhaps the parliamentary secretary might like to convey that to the minister just as feedback.

Hon WENDY DUNCAN: I think the minister is well and truly aware.

The CHAIR: Just confirming that.

Hon LJILJANNA RAVLICH: Mr Shanahan, I am just interested to know the detail of the staff allowances anomalies. What sort of anomalies are we talking about?

Mr Shanahan: I might refer to the chief executive to answer that question.

Mr Webster: One of the factors that have been raised consistently is to do with the attraction and retention of staff. The benefits that we are talking about are the home ownership subsidy scheme benefit, which was increased to \$500 per week; and the air conditioning subsidy, which currently exists at I think 1 400 units over summer, was increased to cover the total cost for air conditioning over that period. There was also the increase from one flight per year for the staff member and dependants to two flights per year. Clearly, these benefits are linked in to similar types of benefits that are available in the Pilbara so that when we look at areas such as the resource companies, it is in a comparable range to that.

Hon LJILJANNA RAVLICH: Are you saying that these additional benefits were perceived by the employees of the organisation as being things that they should have been entitled to because they looked across at the private sector mining companies and saw that some of their middle management or senior management had access to these types of allowances and therefore took it upon themselves to actually provide these allowances to their employees?

Mr Webster: No.

Mr Shanahan: The decision to make these higher payments goes back at least a couple of years, so this has been one of the issues that has come out from the higher level of scrutiny that is now prevailing in relation to the financial arrangements within the development commission. In fact, the anomaly that I referred to is that those payments, which are comparable with resource company and other retention arrangements, particularly in the Pilbara, are outside the policy that prevails within the state government, so we are now in the process of bringing them back to being within policy. It is a conundrum, obviously, because we will want to retain our staff and, as I have mentioned in my previous answers, the labour market is heating back up if it is not already hot, so we have this conundrum of bringing the finances back under control, which is an imperative that I am very clearly focused on, and at the same time looking to retain the staff that we have and to attract and retain staff into the Pilbara. So this is the issue that we are facing at the moment.

Hon PHILIP GARDINER: Does this suggest that the policy is not actually correct or sufficiently relevant for someone in the remote area in which you operate to obtain the skills that you need for the huge challenges that are being faced in the Pilbara?

Mr Shanahan: I think it would be true—the commission has previously put this argument, not just in my time but going back over a range of chairs and boards—to say to the state government that one size does not fit all and that the labour market that prevails in the Pilbara is such, once again we have touched on the cost of housing as just one example of that, that you cannot pay the same

consolidated revenue allocation to the Pilbara and expect it to run at the same level as, say, Peel, which essentially has a normalised housing market and none of these extra costs apply. So we will be returning to the government with another submission, which will again illustrate that in the Pilbara at least—presumably in the Kimberley would have a similar circumstance—these underlying costs, the intrinsic cost of doing business in the Pilbara, would mean that to sustain a reasonable parallel level of service with other development commissions, you require a higher level of consolidated fund allocation. That is not to excuse what has occurred; I do not for one moment condone taking those restricted grants across. I have explained to you how that has occurred. It is not something that I would tolerate occurring again.

[10.10 am]

Hon PHILIP GARDINER: It is a little bit confusing to me to understand how the expenditure was applied across the previous years, because the total cost of services for 2007-08 was \$11 million and then it was budgeted at \$3.7 million in 2008-09, although it went up. I suspect that is because there were royalties for regions grants in there, but there would not have been royalties for regions grants in the 2007-08 number. I know that is going into the history a little bit, but I am trying to get a connection between where that was and where we are now.

Mr Shanahan: Which page are you on?

Hon PHILIP GARDINER: This is actually not in the annual report; it was in the estimates.

Mr Shanahan: Which page, sorry?

Hon PHILIP GARDINER: The front page.

Hon KEN TRAVERS: Page 296—is that the one?

Hon PHILIP GARDINER: Yes; thanks, Ken. The 2007-08 actual, the total cost of services was \$11.6 million—the third line up from the bottom of that chart—and then the budget for the next year was only \$3.7 million and then became \$11.2 million in 2008-09, which I presume had a component of royalties for regions in there, but please help me if I am wrong.

Hon JON FORD: It might have been the regional investment fund.

Mr Shanahan: Maybe Mr Davey could —

Hon PHILIP GARDINER: Sorry; the real question, Mr Davey, really is: why was the budget reduced from \$11.6 million in 2007-08 down to \$3.7 million as a budget?

Mr Davey: On page 301 there is the income statement, which details those figures a little bit further, and there is an item called grants and subsidies, which is the second one down under expenses. That bulks the whole cost up by \$8.6 million for 2007-08, and then the budget for 2008-09 assumed that the funding that was provided in the previous year ceased, but we would have some run-down of projects to pay out in the 2008-09 year. That is why there is a drop down from \$8.6 million to \$2 million.

Hon PHILIP GARDINER: Okay. On that same front page, on page 296, just looking at the first line of \$2.24 million, which is the net amount appropriated to deliver services, again, that was because of the additional work involved that you had higher FTEs at that time.

Mr Davey: I cannot account for 2007-08 in that detail.

Hon PHILIP GARDINER: Because now we are down to \$1.7 million as being the estimate for the 2009-10 period, and that is quite a substantial drop. I was just wondering why that occurred.

Mr Davey: The main area where that has dropped is the supplies and services area and, to some extent, the salaries area. I am not sure what was happening at that time to cease those costs. I think they might have assumed that because the grant funding was so high, extra costs were needed to run that, but I cannot account for that.

Hon PHILIP GARDINER: Okay. I guess it just brings me to the same point to reinforce is that the \$1.7 million, I do not think, is too different, as the chairman has said, from other development commissions, yet I can see where the costs are so much higher for operating in the Pilbara region. I suspect that there has got to be, as you say, a serious review of that number.

Hon KEN TRAVERS: My first question was: how much do you actually believe you need to be able to operate at a parallel service to other development commissions—how much additional revenue or income?

Mr Shanahan: The deficit in the financial statements is \$584 000. I would believe it is around \$700 000 that we would need to operate at a 12-FTE Pilbara-based workforce essentially—in that order. That may require some, as I have signalled before, restructuring of who sits where and what the capability of our staff is as the level of activity and change in activity in our region changes, but it is around that level.

Hon KEN TRAVERS: Can I keep going about the restricted funds?

The CHAIR: Hon Ken Travers.

Hon KEN TRAVERS: Can you tell us how much restricted funding was used? Can you tell us whether you have repaid that funding back to the restricted accounts? Can you tell us what the restrictions on the accounts were, including whether any of it was commonwealth money? Can you also tell us who authorised the use? I understand the comments you made earlier, and I am a little bit confused whether it was the chief financial officer who just did it as a rogue act or whether the use of the restricted funds was authorised by anyone; and, if so, who?

Mr Shanahan: I believe there was a lack of financial controls that enabled those funds to be transferred, so I will let maybe the CEO and the acting chief financial officer have a go at answering it.

Mr Webster: The sum of money is the \$584 000 that Mr Shanahan mentioned a moment ago. No, it was not authorised and it appears as if it occurred as a result of the lack of controls. On the nature of the restrictions on that cash, I will pass across to Mr Davey.

Mr Davey: Those restricted cash amounts relate primarily to grant agreements that we have signed with grantees for previous funding programs. As you see in the accounts, at the end of June 2009, we had \$7.5 million worth of funds that we had basically either committed to pay out to grantees through signed off agreements or we had set aside for special purposes; for instance, we got some money at the end of the year for the housing study that we mentioned earlier. So they are the types of things that that money was set aside for.

Hon KEN TRAVERS: Any commonwealth money?

Mr Davey: No. Our commonwealth funding really relates to funding of an individual position, so that is more of our recurrent money that would be part of our operational funding.

Hon KEN TRAVERS: But do you actually operate separate accounts for all of your funds, or do you operate just the one fund which is your restricted fund and one fund which is your operating fund. For instance, the health department has one fund—or bank account, I should say—that has all of their restricted cash in regardless of the purpose.

Mr Davey: We operate with one bank account as well, but our general ledger is split up between those projects and those grants, so we should be able to keep track of the revenue coming in for each project that we want to run and then the expense that we put against that revenue.

Hon KEN TRAVERS: In that case, if all of those projects that you have committed to come and seek funding off you, how do you actually manage that situation? If you do not have the funds, if you exhaust that full \$7 million, you have obviously got \$7.5 million worth of projects and you have got \$7 million in your account and you have got \$5 million that has been used for other

purposes, what is the proposal in terms of how you will manage that when people seek to draw down the full amount of those —

Hon WENDY DUNCAN: Madam Chair, can I just correct that it was \$500 000 not \$5 million used for other purposes.

Hon KEN TRAVERS: Sorry; \$500 000, yes.

Hon WENDY DUNCAN: I know it was a slip of the tongue, but for Hansard, I prefer that the number was correct.

Hon KEN TRAVERS: My apologies.

The CHAIR: Save the member having to correct it when he gets the transcript.

Mr Davey: We maintain a spreadsheet process to keep track of each grant that we have got that we originally approved. Then we have signed off agreements for, and then that tracks any instalment payments that we might do on that grant, and it now provides for whether the grant instalment has been paid. So we can keep track of each individual grant agreement and find out whether we have paid it out or not—whether it has been acquitted or not.

Hon KEN TRAVERS: I understand that, but you have got, say, \$7.5 million worth of grants that you have committed to that were held in the restricted funds. You are now telling us that you have spent \$500 000 of that not for the purposes for which they were restricted. When you fully draw down to \$7.5 million again, what is the proposal for how you deal with the shortfall of \$500 000 at that point?

[10.20 am]

Mr Davey: On a cash basis, we have \$7.5 million in the bank. Our review of the grants that we have to pay out still comes to just under that amount. Through the years we have cancelled agreements with people because, for various reasons, projects have fallen through and it is that money that was basically used for the operations. As far as resolving that issue is concerned, we would have to get the money from the consolidated account to pay it back into the consolidated account. I am in the process of talking with Treasury people at the moment as to how quickly it will take to clear up that matter through the minister. Treasury's instructions are that it is not so much a debt to be written off; it is a matter of working out how we will get the money. The only way we can get it is from the consolidated account to pay it back. It is a bit of a round robin.

Hon KEN TRAVERS: My final question. When did anyone in the commission, other than the former chief financial officer, first become aware of the problem?

Mr Shanahan: I became the chairman in March and soon after that I was aware that the chief financial officer was under investigation. Soon after that—I could not put a date on it—I was aware that there were issues with the finances of the development commission. Maybe Mr Webster might like to expand on that from the staff's perspective.

Mr Webster: As a result of the investigation and looking at the budgeting, we became aware of that issue and we began to look at the financial controls. In approximately June, we started to look closely at that—sorry, earlier than that; that was when we were trying to get a chief financial officer on board to replace the one who was on directed leave.

Hon KEN TRAVERS: When were the restricted funds used for purposes other than for which they were provided? What dates were they? Over what period of time and on what dates did that occur?

Mr Webster: Throughout 2008-09.

Hon KEN TRAVERS: Yes, but what specific dates? Was it after you became aware of it prior to becoming aware that there was a problem with the finances?

Mr Shanahan: If I can, that is a pretty hard question to answer specifically. To answer it specifically, we would have to consider doing a forensic audit of the commission, which is something that we have considered doing and are still contemplating doing. We have sought some advice from the Office of the Auditor General as to whether that is appropriate to do and what is the cost benefit of doing that. When I arrived at the commission, the chief financial officer was about to go on directed leave, so there were three months, essentially between March and June, when we did not have a chief financial officer at all. I have explained in my answer previously the frustrations—I hope that came through in the tone of my voice—that we have battled through the system to try to get adequate financial skills to address these issues. On the one hand, entirely appropriately, the CCC has been pursuing this issue around the chief financial officer, but in a very small organisation it has had knock-on impacts. To answer the specific question, I do not know and I do not think we will know until we can do that forensic audit. The reason that we do not know is that we did not have a chief financial officer during that three-month period. I believe that the information that we might have got from the chief financial officer—am I allowed to say this?—may have been tainted, given what has occurred, but it will be for the courts to determine whether that is a reasonable supposition on my part. That is specifically answering your question in terms of what we might do to satisfy ourselves that the remedial actions that we have taken are going to be effective. Looking to the future, we will be contemplating having an interim audit conducted in February or March—and we have discussed this with the Office of the Auditor General—so that having just completed the audit from the previous year, we will be able to go through the first six months of operation of this year to see that those remedial actions that I have described previously are in fact effective.

Hon KEN TRAVERS: Maybe one final question on this point —

The CHAIR: Sorry —

Hon KEN TRAVERS: Just on this point. Can you give us a guarantee that to the best knowledge of the officers who are here today, nobody else in the commission authorised the use of restricted funds at any time or have authorised the use of restricted funds for purposes other than for which they were intended? Can you give us that guarantee today?

Mr Webster: Other than who, sorry?

Hon KEN TRAVERS: That anybody in the commission, other than the former chief financial officer, has at any time authorised the use of restricted funds for purposes other than for which they were originally intended.

Mr Webster: Not to the best of my knowledge.

Hon JON FORD: I would like to zip back to the statement by the parliamentary secretary in regards to a \$400 million investment in the Pilbara over four years.

Hon WENDY DUNCAN: It is \$300 million.

Hon JON FORD: My last reading of the Port Hedland plan for amenity is that it was costed between \$500 million and \$600 million. Is that about right?

Hon WENDY DUNCAN: Yes.

Hon JON FORD: That is purely an amendment for one town. That puts it in a conceptual perspective after we have all said how great it is that these communities have done their individual plans for the future. What work has been done, if any, to deal with the recurrent costs with any existing infrastructure, planned infrastructure in the future and the funding of future plans, given that one of the main problems that local governments talk about is their inability to maintain revenues to finance the continuing maintenance of these issues? In actual fact, most major infrastructure up there has been repaired at the taxpayers' expense by either the commonwealth or the state or both.

Mr Shanahan: I will have a go at answering that. You have the \$300 million for the Pilbara revitalisation plan. All the local authorities in the Pilbara have also benefited from the local government fund under the royalties for regions program. I am not sure what the amounts are but it is in the vicinity of hundreds of thousands of dollars each, if not millions. I am not quite sure. There is the bid that the state government has made to Infrastructure Australia for something like \$470 million, which essentially is for addressing infrastructure deficits in the Pilbara and, as I would describe it, trying to get in front of it. The sorts of numbers in those plans are significant. There is no doubt that if we are to address those identified needs over a period of time, we are talking about not just hundreds of millions of dollars but billions of dollars. That will require a joint effort by the state, the federal government and the industries in the Pilbara. The Pilbara Development Commission is looking to work with all those players to secure that level of investment. It is satisfying that the state has put the Pilbara as its number two priority in the second round of Infrastructure Australia after Perth Airport. There is a federal government commitment to allocate a portion of the royalties stream from Gorgon and Pluto to the state through the infrastructure fund. Clearly, it would be very suitable to dedicate that funding into the Pilbara as well. There are a couple of arguments about timing and about where the money might go to but from my and the commission's perspective, that is something that we will be looking to see invested either all or part in the Pilbara.

Obviously with the recent announcements in relation to Pilbara Cities, there was a significant number of property and housing developers that attended those launches in the Pilbara. There needs to be considerable private sector investment to go hand in glove with those other government investments which I have outlined and which we are hoping to secure. So, yes, we are actively working with all governments and with the private sector to get the sort of money in the sort of scale that we are talking about.

[10.30 am]

The CHAIR: I might just indicate that we were due to finish this session at 10.30 am. I propose that we continue for another 15 minutes, if everyone is happy with that, and then we will see how we go.

Hon WENDY DUNCAN: I just want to add to Mr Shanahan's comments by saying that members will be aware that, last week, the legislation was passed for the royalties for regions fund. That legislation legislates for 25 per cent of royalties to go into a fund for the future. So I suppose that is one way, Hon Jon Ford, that we will ensure that continuing funding is available for the regions in Western Australia. The royalties for regions funding and the Pilbara revitalisation plan are not a one off. The intention of the royalties for regions fund is that funding will be available for regional projects in regional towns well into the future.

Hon JON FORD: I did not want to be drawn into a straight-out political battle, and we have talked about this in the Parliament, but the Royalties for Regions Bill does not guarantee that those funds will be spent on the regions. We tried to move amendments to make sure that would happen, but we were not successful. The money from that scheme will just go into consolidated revenue, and we can only hope that the government of the day will invest that money in that regions.

Hon KEN TRAVERS: And it does not guarantee a net increase in funding, either, over and above what is currently occurring in regional Western Australia.

Hon JON FORD: No. It seems to me that what you are saying, Mr Shanahan, is that what we are committing to here is an ongoing liability for the Western Australian and Australian taxpayer to fund the recurrent expenditure associated with any new or existing infrastructure. We are not looking at local governments being given the revenues that they need to maintain infrastructure that they see as important. Is that what you are saying? Are you saying that you are hopeful that the recurrent expenditure that will be required to maintain this infrastructure will be met by the Australian and Western Australian taxpayer? You talked about royalties, and you talked about

ongoing investment from state and commonwealth governments. You even talked about the private sector, which I assume is the resource sector.

Mr Shanahan: The private sector, yes—all of the above. Obviously in the Pilbara the resource sector is the most prominent. I am not quite sure exactly how that answers what you are saying. There is state investment. That is considerable at the moment. There is also federal government investment, which is considerable in prospect—we have reason to be optimistic that that might occur. A number of the state and federal moneys go to local government, through both federal grants to local government and state government grants to local government, both of which have increased considerably in recent years. The local government revenue base itself is a broader issue than just in the Pilbara. Local governments generally have control of their own revenue stream. That varies from council to council as to how much is own-source revenue and how much is grant revenue.

Hon JON FORD: If you build a swimming pool in the Pilbara, it is going to cost between \$180 000 and \$250 000 a year recurrent to run it. How is that cost going to be met? If you have a recreational centre that has air-conditioning and all the services that are associated with such a centre, it will cost between \$50 000 and \$70 000 a year—perhaps more, depending on the amount of time it is used—to maintain it. The expectation is that local government, and, therefore, the ratepayers, will bear the cost of maintaining that facility. Currently, local government does not have the revenue stream to even maintain its existing infrastructure. Yes, when you build new stuff, the costs initially go down, but they gradually increase over time as the infrastructure ages, as we know. The next stage of development at Port Hedland is the waterfront, with a nice boardwalk and shops and all the rest of it. As every local government in Perth that has to maintain seawalls on the Swan River will tell you, it cost a heck of a lot of money to maintain the waterfront. So, what I am looking at is: what work has been done to see where that revenue stream will come from to maintain that infrastructure from a recurrent perspective?

Mr Shanahan: That is an appropriate question. I can only, I suppose, reiterate the answer that I gave before. I think local government will get its revenue either by raising it from its own ratepayers, or from the federal or state government. Part of the local government revenue stream can provide for specific area ratings and differential ratings. It is quite flexible. There is a range of examples in local government where only a part of the municipality gets a benefit, and the particular local government can now raise revenues associated with that particular part. But, of course, at the end of the day there is a range of local political issues that prevail in relation to the general revenue and the rates that prevail between sectors—residential, industrial and commercial—and these specific rating areas. There is an underlying issue in terms of the level of infrastructure need that you have correctly identified. I think that is exacerbated by the fact that much of the Pilbara's infrastructure was built about 40 years ago when the mine life—I am referring particularly now to the iron ore industry—was projected as being about 40 years, and it is wearing out. So I suppose I would just echo my previous answer that there is an infrastructure requirement that is embedded in the Pilbara already, which we are facing now, and which I would argue we have been facing for probably the last decade or so, and there is also going to be this other investment. If we want to give the Pilbara an amenity which is similar to what we might get in the Peel or in the metropolitan area—which I do not think is a misplaced aspiration; it is something which we should be looking to—then, yes, there will be some higher levels of maintenance and ongoing and recurrent costs that will come with that. It is clearly not just an issue about the capital cost. It would be a misnomer or a misunderstanding just to focus in on that. On the upside, you would hope that if you get more amenity and you get more permanent residents and you get more private sector investment, you will generate a revenue stream from that as well. So there will be some offsetting features in terms of revenue for local government that will come from that.

Hon JON FORD: But you have done no real work to see what those recurrent expenditures that you are talking about might be? It seems to me that you have done a lot of work on the infrastructure investment, but not much has been done with regard to future planning.

Mr Shanahan: Well, I have already indicated that I think more needs to be done in that area.

Hon JON FORD: Thank you.

Hon PHILIP GARDINER: The bigger companies in the Pilbara have taken a much stronger role, as I understand it, and as I saw, in making the community up there sustainable. The royalties for regions aspect has, I believe, tended to buy in that interest as well with those companies. Is that momentum continuing?

[10.40 am]

Mr Shanahan: I certainly hope so; it is something we are working to sustain.

Hon PHILIP GARDINER: Is that under your jurisdiction or is that more delegated out to the local governments?

Mr Shanahan: I think everyone has a part to play in that. The industry footprint in the Pilbara is very pervasive. It touches on virtually every aspect of housing through to the social impacts, through to education and a whole range of programs that the companies run with Aboriginal people. There are lots of different touch points in the Pilbara. I think all the agencies and the community up there have a role in working with those companies. My view, and perhaps given my history this is not an unexpected view, is that the companies are making real efforts and have increased their understanding and issues and what they are doing in the community up there. Is there more to be done? Clearly there is more to be done. Keeping that understanding of and momentum and involvement with the companies as part of the community in the Pilbara is, I think, a fundamental by-word of what the development commission wants to achieve.

Hon PHILIP GARDINER: Can you identify a couple of projects that are reflective of that momentum continuing?

Mr Shanahan: There are a number of childcare centres in which both BHP Billiton and Rio Tinto have been very significant investors.

Hon PHILIP GARDINER: I am aware of those.

Mr Shanahan: They are examples of what I am talking about but there are many others.

Mr Webster: Another is the Newman co-location centre into which BHP put significant funding. We are certainly expecting it to be an ongoing factor. The coordination of that work will be very important across the Pilbara. As the joint venture progresses that possibly will also allow for consideration of a whole-of-Pilbara approach.

Mr Shanahan: Individual companies make considerable dollars available to particular municipalities, which I did not mention previously, that are ex gratia over and above what they pay in rates and other payments to the councils that go to various programs. The companies recently put in about \$5 million for the royalties to regions Pilbara health plan, so that is another example. Virtually all the companies of any particular size run Aboriginal employment programs at the moment. But as I said, I do not consider those to be static. I think all these things are moving. The question was about momentum so, hopefully, we can keep that momentum going.

Hon PHILIP GARDINER: Thank you.

Hon LIZ BEHJAT: Under "Infrastructure and Service Identification and Coordination" on page 13 of the annual report, the third paragraph refers to the first round of royalties for regions funding. Other development commissions that have come before us over the past few days have provided in their annual reports quite good schedules of the projects they have funded. I note you do not do that in your annual report. Is it possible for you to take this on notice and provide to us funding of

\$2.9 million approved for 43 projects ranging from biofuel production to early childhood programs? Can you give us the list of those 43 projects that have been funded and the amounts for each of those programs without too much difficulty?

Mr Shanahan: Yes.

[Supplementary Information No A7.]

Hon LIZ BEHJAT: I notice in the paragraph above that reference is made to the commission hosting in October 2008 the Pilbara Women's Conference and Expo, a three-day event in Port Hedland. Presumably that was funded, not out of royalties for regions, out of something else prior to that. If you can provide us with how much money the PDC put into that particular event that took place over that three-day period, that would be terrific.

Mr Shanahan: Yes.

The CHAIR: Also on notice.

Hon LIZ BEHJAT: On notice is fine.

[Supplementary Information A8.]

Hon LIZ BEHJAT: Over what period was the previous financial officer employed with the PDC?

Mr Webster: Since 2003.

Mr Shanahan: She is still employed.

Hon LIZ BEHJAT: Are you now looking at other years in which she was employed previous to 2008-09 regarding some anomalies that might occur in accounting?

Mr Shanahan: The investigation that has been conducted by the CCC has gone back over the period of her employment. As I mentioned, the allegations against her do not relate to any one particular year. Some of the allegations cover multiple years.

Hon LIZ BEHJAT: Was it going on for a number of years and no-one was picking up on it?

Mr Shanahan: It is alleged.

Hon LJILJANNA RAVLICH: Can you take some questions on notice in relation to the staff allowance anomalies and the use of the restricted fund. Who were the officers involved? Were they new employees or existing employees of the agency? What was their position and level and which day did they commence employment?

[Supplementary Information No A9.]

Hon LJILJANNA RAVLICH: Can we also get a copy of the grant agreements that were signed that were referred to earlier in discussions we have had?

Mr Shanahan: Are you talking about the royalties for regions grant?

Hon LJILJANNA RAVLICH: No. We spoke about the authorisation of documents for the use of restricted funds.

Mr Shanahan: Okay.

The CHAIR: Is it clear what is requested there?

Hon LJILJANNA RAVLICH: No; okay we will leave that one out.

The CHAIR: I was checking whether people —

Hon LJILJANNA RAVLICH: I think I am a bit confused between two. Can we have a copy of the authorisation documents for the use of restricted funds?

Mr Shanahan: Obviously, we would like to be helpful. I suspect that might be linked to my answer to the question about doing a forensic audit, because we do not know the specific transactions

without going back and doing that. We will look at it, but I suspect that the answer will be that we do not know unless we do that forensic audit.

The CHAIR: I make that a separate supplementary information item for what you are able to provide.

Mr Shanahan: We will be happy to make available, if we have it, whatever information we have relating to the transactions that resulted in the accessing of the restricted funds.

[Supplementary Information No A10.]

Hon LJILJANNA RAVLICH: Excellent. I would assume that every time an authorisation was given there would have been a record. Are you telling me there were so many authorisations that it is hard to extrapolate them or there is some other reason that information could not be found?

Mr Davey: The day-to-day operations—planning of payroll, for instance—where we were just making a payment to pay day-to-day costs would have been a mix of what we were funded for and what we were taking out of restricted cash to a certain extent on a day-to-day basis. To provide that would involve us taking out all our payment vouchers and all our payroll that amounted to about \$580 000.

Mr Shanahan: We have drawn down the restricted funds as part of our operations on a day-to-day basis. As I understand it, it is not a matter of specifically showing that that money came in and we took the wrong money for a specific purpose; it was over a period of time. We are happy to look and give you an answer but I am signalling it may not be —

Hon LJILJANNA RAVLICH: To the extent that you can.

Hon JON FORD: You indicated it was one bucket of money did you not—one account? Could it be that the officer we are talking about gave herself a payment that she was not entitled to, without anyone really understanding at the time that is what she was doing as part of her pay?

Mr Shanahan: Yes, but that is speculation.

Hon JON FORD: It is speculation, but I was using that as an example.

Mr Shanahan: I think the general deficiency that we are talking about here is that, patently, from the Auditor General's report, the general controls and financial operations that should have been in place within the commission were not. That was exacerbated by the fact that we have a chief financial officer who has a cloud hanging over her, at least for part of the time in the previous financial year, and, in fact, was not in the business, if I can use that term, for the last three to four months of the financial year.

Then, we have had an acting CFO who has been trying to pick up the pieces. It is an unacceptable and inadequate situation.

[10.50 am]

Hon LJILJANNA RAVLICH: I am trying to get a perspective of what really happened. With all due respect, Mr Shanahan, you advised the committee that you may or may not be undertaking a forensic analysis of it. If that much money has gone, it would be in the public interest for that forensic analysis to occur. Having said that, I am trying to get a handle on how many authorisation documents for the use of the restricted funds were approved.

Mr Shanahan: We are happy to answer that question to the extent that we can. To respond to the comment the member made, if the forensic audit were to cost a couple of hundred thousand dollars, then that is the sort of cost-benefit judgement that we would need to make. These things can be expensive .

Hon LJILJANNA RAVLICH: Has there been any quote on doing that?

Mr Shanahan: We are in the process of doing that.

Hon PHILIP GARDINER: Who funds that? Your account has to fund it, but you do not have the money there.

Mr Shanahan: Obviously, currently we do not.

The CHAIR: I want to point out the time again. We are at liberty to keep going if you want to, but I suggest we should finish shortly as we have other witnesses waiting.

Hon KEN TRAVERS: We talked earlier about the need for services across the region and the expected growth. Yesterday, the government released its clinical services framework for the provision of hospital beds across Western Australia, including regional WA. Were you consulted in any way, prior to the release of that document, about the needs of the Pilbara?

Mr Webster: We are involved in talking to the regional health manager. We have regular input with respect to general planning at the regional managers and directors meeting. With respect to that specific document, no, but in general terms we provide feedback through that kind of thing.

Hon KEN TRAVERS: As part of that, have you identified what the health needs of the Pilbara are in terms of additional hospital beds over the next five years and 10 years?

Mr Shanahan: As the CEO mentioned, we talk to the health department on a regular basis about what we see happening, but essentially that is their role, not our role.

Hon KEN TRAVERS: Is the commission aware of what the needs are for hospital beds over the next five or 10 years for the Pilbara region?

Mr Webster: We are not aware of the specific numbers that might be involved. It comes back to one of the very important points that has been discussed about our forward planning, particularly with respect to projects and population impacts.

Hon KEN TRAVERS: This is a policy question, so the parliamentary secretary might want to take it. Yesterday's clinical services review said the government will not provide any additional beds at Nickol Bay or Newman health centres over the next five years. It also indicated that only five additional beds will be provided at the Hedland resource centre over the next five years—that is, about a 4.5 per cent increase in beds in the Pilbara—and there will be a 13 per cent increase in beds in the metropolitan area. Is that sufficient? Are you concerned that the maintenance of Royal Perth Hospital will lead to a diminished ability to deliver the beds necessary in regional Western Australia? I can go out to the 10-year figures, if you want—that is, 14 beds in the Pilbara, and 1 296 in the metropolitan area. Is that sufficient? Is the government's policy to keep Royal Perth Hospital open preventing the government from providing the beds necessary in regional Western Australia?

Hon LIZ BEHJAT: How does that relate to the PDC?

Hon KEN TRAVERS: We have just talked about the population growth and the need to provide services in the region to attract people. I thought it was a key question for the parliamentary secretary to answer.

Hon WENDY DUNCAN: I do not have sufficient information on hand to respond in detail to your question. Obviously the provision of hospital beds in regional areas is of great interest to me and the Minister for Regional Development, and we are continually in negotiation and communication with other government agencies. As to the question of Royal Perth Hospital, there is a government policy in relation to that hospital. We certainly would not want to see one part of Western Australia—the metropolitan area—have its services reduced to ensure that the regional areas have their services increased. We need to ensure that all areas of our state have sufficient hospital beds.

Hon KEN TRAVERS: Would it not worry you that yesterday's clinical services framework for the 10-year period is predicting a 30 per cent growth in hospital beds in the metropolitan area and only a 12.7 per cent—or 14 beds—growth in the Pilbara, with no increase at Nickol Bay or Newman hospitals? We heard evidence earlier about the dramatic growth that is expected to occur over that period. You were happy to tell us a minute ago how the Royalties for Regions Bill, which was

passed last week, will do magical things. Will it address the hospital needs in regional Western Australia?

Hon WENDY DUNCAN: One of the things that royalties for regions has done is that it has contributed, along with Rio Tinto, to the Royal Flying Doctor Service jet. Services in the metropolitan area will always be at a higher level and technical difficulty, if I can put it that way, and that will mean regional people will come to Perth for their health services. As for the number of additional hospital beds that have been allocated to Nickol Bay, Port Hedland and so forth, I do not have the information with me at the moment on whether that is sufficient. I would imagine that the health department has done its research, and it is something that the minister and I will keep a very close eye on.

The CHAIR: I suggest that we draw this hearing to a close now. The committee will forward any additional questions that members might have to you, via the minister, in writing in the next couple of days, together with a transcript of the evidence, which will include the questions that have been taken on notice. If members have unasked questions, I ask them to submit them to the committee clerk by the close of the hearing today. Responses to these questions will be requested within 10 working days of receipt of the questions. Should the agency be unable to meet this due date, please advise the committee in writing as soon as possible before that due date. The advice is to include specific reasons for why the due date cannot be met.

On behalf of the committee, I would like to thank you very much for your attendance and assistance this morning. I now formally close this hearing.

Hearing concluded at 10.57 am