

Chamber of Minerals and Energy of WA

Submission to

Standing Committee on Estimates and Financial Operations
Inquiry into the Royalties for Regions Policy

6 February 2009



CME emphasises that this review of the *Royalties for Regions* policy is confined to the Country Local Government Fund (CLGF) under which allocations were made in December 2008; however, general points may be applied to any future funds through the program.

Introduction

The Chamber of Minerals and Energy of WA (CME) appreciates the opportunity to provide input into the Inquiry into the *Royalties for Regions* Policy. The policy is of interest to the CME as a large number of our members operate in regional and remote Western Australia where they play a major role in the development of regional infrastructure and as such CME welcomes this State Government initiative to increase funding to the regions.

CME members are the primary producers of value and employment in regional and remote Western Australia. In addition to taxation contributions and royalties which flow into State Government revenue, the resources industry plays a pivotal role in the development of infrastructure in regional Western Australia, underpinning the viability of towns, transport, services and major regional infrastructure projects.

In addition, resources companies continue to provide physical and social infrastructure throughout the State. This includes physical infrastructure such as water, electricity, ports, rail, roads and airports, and social infrastructure such as health care, education and training, housing and community development. Towns such as Newman, Wickham and Kambalda were established by the resources industry and continue to be heavily supported by resource companies.

The introduction of the *Royalties for Regions* policy provides a vehicle with the potential to assist regional communities to plan for longer term sustainable development. CME is of the view that this policy needs to adopt a rigorous allocation and expenditure process and considers that government should approach funding decisions on a case by case basis recognising the divergent needs of different regions.

This submission aims to highlight CME's views relating to the *Royalties for Regions* program, with a focus on the following issues:

1. Need for rigorous allocation and expenditure process
2. Removing the disparity relating to distribution of funds
3. Need for investment in sustainable economic development initiatives

Need for rigorous allocation and expenditure process

Western Australia uses a fiscal equalisation process to allocate funding to the 139 Local Government Areas. This general purpose funding is designed to achieve equitable levels of service by reasonable effort across the State.

Around 40% of State revenue comes from Commonwealth payments under the Grants Commission methodology and payments to Local Government Areas are determined using

similar methodology administered by the State Grants Commission. These Commissions are established under legislation, operate independently of day to day government direction and regularly review their allocation methodologies.

By endorsement of the fiscal equalisation approach, all State governments and the Commonwealth have recognised that day to day financial allocation decisions need a rigorous assessment process that is independent of the short term political cycle and processes.

In reference to *Royalties for Regions*, the funding guidelines were developed in a tight timeframe that did not allow comprehensive local government consultation or development within the State government. This contrasts with the processes for Grants Commission allocations where the methodology has been developed with State Government and Commonwealth debate and interaction.

The *Royalty for Regions*’ CLGF allocations have included consideration of the population of the Local Government Area. The net result of the allocation was per capita equivalent payments for the CLGF varying from \$23 per head in Mandurah to over \$5,000 per head in Murchison and Sandstone. This in turn may not necessarily relate to needs of these communities.

It is also important that funding allocations for projects should address “whole of life” issues to ensure their sustainability. If any projects include ongoing operating or maintenance costs, these need to be factored into the funding allocation.

Disparity relating to distribution of funds

The initial funding allocation under the CLGF of \$100 million in December 2008 included grants to 110 country Local Government Areas. Grants range from \$470,000 to \$2 million in rounded terms. The distribution of grants in terms of Regional Development Commission areas reflects the strong bias to the more populated rural areas (Table 1).

Table 1: Country Fund Grants, 2008-09 (\$ millions)

Regional Development Commission	\$ million	%
Wheatbelt	30.91	32%
South West	13.37	14%
Mid West	11.31	12%
Great Southern	9.01	9%
Goldfields-Esperance	8.52	9%
Kimberley	6.91	7%
Pilbara	6.70	7%
Peel	5.38	6%
Gascoyne	4.03	4%
Total (rounded)	96.14	100%

The Wheatbelt Regional Development Commission Area received nearly one third of funding and combined with the South West and Great Southern meant that areas around

and to the south of Perth received a total of 61% of the funding (Wheatbelt, Peel, South West and Great Southern).

The predominantly pastoral regions of the Gascoyne, Goldfields-Esperance and Kimberley received only 27% of the funding.

The allocations from this fund are in contrast to the Royalty revenue generated by projects in regional areas. In 2007-08, oil and gas and mining projects paid the State government nearly \$2,300 million in royalty payments.

Table 2: Royalty revenue (\$ millions)

Regional Development Commission	\$ million	%
Wheatbelt	29.3	1.3
South West	42.1	1.8
Mid West	69.3	3.0
Great Southern	0.2	0.0
Goldfields-Esperance	214.5	9.3
Kimberley	77.9	3.4
Pilbara	1802.9	78.5
Peel	58.0	2.5
Gascoyne	1.8	0.1
Total (rounded)	2296	100%

The Pilbara region dominated royalty payments providing about 78% of the total followed by the Goldfields-Esperance region with 9.3%. With the Kimberley region, the three most isolated regions from Perth provided 91% of the State royalty revenue.

The contrast between the Royalties for Regions Country Grants Fund allocations and the source of those royalties is dramatic (Table 3). The three regions that dominated royalty revenue generation received only 23% of the Grants while the three rural areas that received 58% of the Grants generated only 5% of the revenue (Figure 1).

Government needs to address this disparity by way of prioritising future *Royalties for Regions* funding allocations on a demonstrated needs basis. Regions that are relied upon to generate royalties should be adequately supported.

This is particularly the case for the Pilbara region, where there is a desperate need for immediate improvements to address the increased demand on essential services such as health, education, land and accommodation.

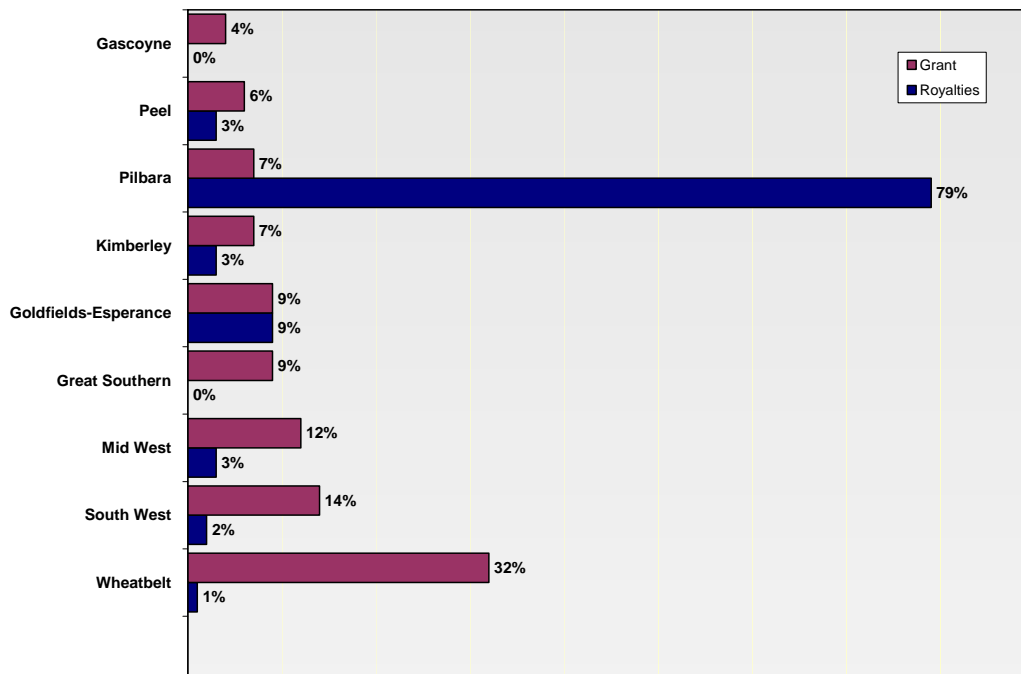
CME's member companies are committed to making a positive and lasting difference to the communities surrounding their operations and this is highlighted by the significant community contributions that companies invest across the regions.

As an example, as at January 2008, CME’s Pilbara Industry Community Council (PICC) members¹ had committed over \$25 million in direct community investment programs in the Pilbara. This investment included (though was not limited to) areas such as health, education, law and order, community infrastructure and amenity improvements, culture and recreation. Further in-kind investment included the provision of over 470 dwellings to governments, local businesses, contractors and community groups in the Pilbara. These contributions were in addition to the taxes and royalties paid by PICC Resource companies in the Pilbara and contributions of further millions relating to the regulatory requirements associated with Native Title and State Agreements; these are primarily spent on Aboriginal Land use payments and town utilities and facilities across the Pilbara.

Table 3: Royalty revenue and Country Fund Grants (%)

Regional	Royalties	Grant
Wheatbelt	1.3	32%
South West	1.8	14%
Mid West	3.0	12%
Great Southern	0.0	9%
Goldfields-Esperance	9.3	9%
Kimberley	3.4	7%
Pilbara	78.5	7%
Peel	2.5	6%
Gascoyne	0.1	4%
Total (rounded)	100%	100%

Figure 1: Royalty revenue and Country Fund Grants



¹ PICC Industry Members: BHP Billiton Iron Ore, Chevron Australia Ltd, Fortescue Metals Group, North West Shelf Venture, Rio Tinto Iron Ore and Woodside Energy Ltd

Need for investment in sustainable economic development initiatives

The advantage of managing the *Royalties for Regions* funding allocations on a needs basis ensures decision makers provide the essential infrastructure in those areas of the State that generate much of Western Australia's wealth. This includes the physical infrastructure and the soft infrastructure that supports regional communities.

Physical infrastructure and human services are essential to support the continuing growth of the industry and represent a significant proportion of total investment in the development of resources projects. The regional and remote locations of resources in Western Australia compound requirements for high levels of investment in new physical and social infrastructure for resource development.

The high cost of resource development in regional Western Australia necessitates agreement of priorities for regional infrastructure needs and coordination of infrastructure investment by industry and all levels of government.

In conclusion, CME welcomes further discussion on the proportion of *Royalties for Regions* spend in WA's regions and looks to government to apply a high degree of accountability, transparency and needs analysis to ensure the funding is allocated to projects that lead to long term sustainable development for regional Western Australia.

The Chamber of Minerals and Energy of Western Australia

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources industry representative body in the Western Australia. The role of Chamber is to lead the way in having the resources sector recognised as a highly valued and strongly supported member of the Western Australian community.

CME strives to:

- represent the views and needs of industry members;
- act as a powerful industry voice to government;
- provide an opportunity by which members can work together to advance and
- promote the interests of the membership; and
- assist the community in understanding the unique ability of the industry to contribute to their wellbeing.

CME has its origins in the 1890s in the Goldfields. CME has grown with the resources industry, particularly through the 1960s when key minerals such as iron ore, bauxite and nickel came on line, and has expanded to include an important oil, petroleum and natural gas membership in recent years.

CME member companies employ an estimated 85 per cent of all minerals and energy employees in Western Australia. CME Member companies undertake more than 90 per cent of the mineral exploration and production in Western Australia across a wide range of commodities.

CME provides a valuable connection between the industry, community and Government at all levels.

Member companies make a significant contribution towards CME's comprehensive program for promoting a social and political environment favourable to the commercial wellbeing and development of the Western Australian resources sector.