



State Budget Submission

Nicole Roocke
Deputy Chief Executive
n.roocke@cmewa.com

Contents

About CME	1
Recommendations	1
Context	4
CME and the Western Australian resources sector.....	4
Economic Competitiveness	5
Royalties	5
Taxes, fees and charges.....	7
State infrastructure assets	7
Ports	7
People and Communities.....	8
The Mines Safety Levy.....	8
Safety Performance Data Analysis.....	9
Mental health and suicide prevention	10
Regional Communities	10
Natural Resources.....	12
Exploration incentives	12
Cost recovery in environmental regulation	13
Resourcing Aboriginal Heritage Approvals in Machinery of Government reform	14
Mining Rehabilitation Fund.....	14
Part V Environmental Licensing IT and online systems	14
Conclusion	15

About CME

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia (WA) funded by its member companies, which generate 95 per cent of the value of all mineral and energy production and employ 80 per cent of the resources sector workforce in the state.

The WA resources sector is diverse and complex, covering exploration, processing, downstream value adding and refining of over 50 different types of mineral and energy resources.

In 2015-16, the value of WA's mineral and petroleum production was \$87.9 billion. Iron ore accounted for approximately \$48 billion of production value to be the states most valuable commodity. Petroleum production (including LNG, crude oil, condensate, natural gas and LPG (butane and propane)) followed at \$18.4 billion with gold third at \$10 billion¹.

Notwithstanding the decline in the price of several export commodities, the estimated value of royalty receipts the state will receive from the resources sector will comprise an estimated total state revenue in 2016-17, of around \$4.4 billion.²

As at September 2016, there was approximately \$97 billion in resources sector projects under construction or in the committed stage in WA and a further \$46 billion in the planned or possible projects.³

Recommendations

Economic Competitiveness

- A 25 per cent discount should be applied to the mining revenue assessment in the current GST calculations.
- Internal government savings measures should be prioritised in the 2017-18 budget.
- There is no case to increase the royalty rates for any commodities.
- The 2017-18 budget forward estimates should not include any additional revenue forecasting possible future increases in royalty rates.
- The 2017-18 budget should not contain provisions for any new fees and charges imposed on the resources sector, and where fees and charges and cost recovery already exist, full transparency of the expenditure should be introduced.
- Improve the timeliness of the Office of State Revenue in assessing and processing stamp duty transactions related to mining tenements.
- Consideration of long term leasing or sale of assets should be accompanied by suitable regulatory arrangements that ensure timely access for users at reasonable commercial rates to prevent any abuse of any monopolistic position.
- CME supports the establishment of an independent body, the funding of which should be from existing government consolidated revenue, resulting in a more efficient use of government capital.
- Given ports authorities' financial position, the government should improve the ability of the port authorities to undertake minor capital works by providing greater flexibility over small capital expenditure, especially for key regional ports.

¹ Department of Mines and Petroleum (DMP), 2016 2015-16 Statistics Digest, http://www.dmp.wa.gov.au/Documents/About-Us-Careers/Stats_Digest_2015-16.pdf pg. 6

² Government of Western Australia, 2016-17 Budget, Budget Paper No. 2 Volume 2, <http://static.ourstatebudget.wa.gov.au/16-17/2016-17-wa-state-budget-bp2-vol2.pdf>?, p 893.

³ DMP, 2015-16, *loc. cit.*

- Proceeds from the divestment of electricity assets, amongst other government owned assets divested, could be reinvested into productive infrastructure.

People and Communities

- CME is supportive of the commitment from the Minister for Mines and Petroleum to establish a sound governance framework, in consultation with industry, to provide transparency and accountability and ensure the Mine Safety Levy (the levy) funds are expended efficiently and effectively. Establishment of the framework should include oversight by the Mining Industry Advisory Committee (MIAC) of the Mines Safety Branch (MSB) educational and proactive activities and support the delivery of risk based regulatory strategy.
- It is critical the Department of Mines Industry Regulation and Safety (DMIRS) continues to address Deloitte's review recommendations to ensure existing levy funds are expended as efficiently and effectively as possible and that the methodology for the collection of the levy minimises unnecessary administrative burden.
- MSB must address the deficit in the levy by improving efficiency of operations, not by simply increasing the levy rate. MSB should ensure that industry is consulted prior to any increase in the rate and any increases are clearly justified in terms of the value to industry.
- CME recommends DMIRS allocate funding to undertake robust safety performance data analysis to ensure critical information regarding trends is identified. This will assist DMIRS and industry to proactively address safety performance. Outcomes of the analysis will support the regulator to direct efforts to areas of greatest need in their risk based regulatory approach.
- Funding should be provided to ensure the ongoing implementation of mental health and suicide prevention strategies across the entire community and in workplaces across all industry sectors. In particular funding for the Mental Health Commission fly-in, fly-out (FIFO) mental health research project must continue.
- Funding for the Office of the State Coroner should continue to ensure its important data management function be developed and maintained.
- CME considers an increase in oversight by the Department of Treasury is necessary to enable increased scrutiny of business cases developed for a project to be funded by Royalties for Regions. In addition, these business cases should be required to undertake a cost-benefit analysis and demonstrate consideration of ongoing expenses of these projects, and for this information to be made transparently available to ensure effective utilisation of funds.
- The 2017-18 budget should include ongoing funding support for Industry Training Advisory Arrangements.
- The 2017-18 budget should include ongoing funding support for the teaching and learning of science, technology, engineering, maths (STEM) subjects across Western Australia educational institutions.

Natural Resources

- A minimum of \$10 million per annum should be committed, as originally budgeted, to the Exploration Incentive Scheme (EIS) to ensure the continuation of the program, safeguard flexibility, and increase its overall effectiveness.
- The 2017-18 budget should not include any new provision for cost recovery for environmental regulation, but rather ensure sufficient funding is provided to the agencies delivering on environmental regulatory requirements.

- Funding should be sought from the Australian Government to execute the Department of Water and Environmental Regulation's (DWER's) regulatory roles under the bilateral agreements, rather than be reliant on introducing cost recovery mechanisms for matters of national environmental significance.
- CME considers the transfer of responsibility for Aboriginal heritage management must be appropriately funded and resourced under the Department of Planning, Lands and Heritage (DPLH) to ensure no further delays to costly and protracted section 18 approvals.
- CME supports the continued implementation of the Mining Rehabilitation Fund (the Fund) and does not support any increase to the existing scope, unit rates and contribution rate of 1 per cent.
- CME recommends DWER receive funding for the development and implementation of online systems to support their Part V *Environmental Protection Act 1986* (EP Act) regulatory functions and to improve productivity.

Context

CME and the Western Australian resources sector

Throughout 2016-17 the Western Australian resources sector continued the transition from construction-led growth through to operational growth. This change, while leading to a smaller overall workforce will create opportunities for the services sector and greater overall exports.

Commodity prices reached a low in 2016, with iron ore prices reaching a low of \$US47.9/tonne in June 2016, however prices recovered to a high of \$US80.2/tonne in November 2016. The generally higher iron ore prices rose in November 2016 primarily due to a stronger and longer lasting increase in demand from China for steel.⁴ The iron ore price decreased to an average of around \$US77/tonne from December 2016 to the early months of 2017, with the price averaging at around \$US64/tonne from May to July 2017.⁵

The contribution of Western Australia to the national economy remains strong. Western Australia's real gross state product (GSP) rose 1.9 per cent in 2015-16, following a 5.5 per cent growth in 2013-14, and was below annual average growth of 5.0 per cent over the last 10 years.⁶ Western Australian Treasury forecasted the GSP to continue to rise in 2016-17, albeit at a much smaller level of 0.5 per cent.⁷

The total value of Western Australia's merchandise exports was \$105.9 billion up 3 per cent.⁸ Western Australia also dominates Australia's exports to major trading partners, accounting for 64 per cent of exports to China, 39 per cent of exports to Japan and 35 per cent of exports to Korea. These trade arrangements reflect the state's significance for both Australia and in the Asian region.⁹

The 2015-16 value of Western Australia's resources sector of \$87.9 billion represents a fall of 12 per cent from 2014-15's value of \$99.5 billion. In 2016-17, the Australian dollar was at its lowest annual average (72.8 cents) since 2003-04, however given the scale of global commodity price falls; this was insufficient to protect Australian producers from decreased prices.¹⁰

While the total value of the sector has declined in 2016-17, in line with commodity prices, the volume of sales increased across a number of commodities, which included; iron ore, gold, alumina, mineral sands, diamonds and coal.¹¹

Further, Western Australia's iron ore sales is forecast to rise to 830 million tonnes by 2019-20. LNG production is expected to grow from 27 million tonnes a year in 2015-16 to 49.9 million tonnes a year, when Gorgon, Wheatstone and Prelude projects are operating at full capacity and the North West Shelf maintains current levels of production.¹²

The value of investment in major projects is expected to reduce over the forward estimates as projects under construction are being completed; this includes two major LNG projects, Ichthys and Wheatstone. Considering the comparatively short list of proposed projects and declining exploration figures, it foreshadows a potentially worrisome outlook for continued growth and development of the resources sector in the short to medium term.

The government's commitment to engaging and pressuring the Australian Government for reforms to the horizontal fiscal equalisation (HFE) system in order for Western Australia to

⁴ Department of Treasury, 2016-17 *Government Mid-Year Financial Projections Statement*, December 2016, p.64

⁵ Australian Market Index <http://www.marketindex.com.au/iron-ore>

⁶ Department of State Development (DSD), *Economic Profile*, June 2017, p.1

⁷ *Ibid*, p. 1

⁸ *Ibid*, p.5

⁹ *Ibid*.

¹⁰ DMP, 2016, p.4

¹¹ *Ibid*.

¹² DSD, 2015, *op. cit.*, p10.

receive a greater share of redistribution of the Goods and Services Tax (GST) is much welcomed. Reforming the GST distribution method, implemented by the Commonwealth Grants Commission, could improve incentives for productivity and economic growth across the country, and ensure State and Territories can manage their budgets more effectively. CME agrees with the government that **a 25 per cent discount should be applied to the mining revenue assessment in the current GST calculations** and supported this position with a submission to the Productivity Commission's Inquiry into HFE.

CME considers that the government should maintain its focus on internal cost savings, more effective service delivery and economic efficiencies as part of the 2017-18 budget. Some of these cost saving measures could be achieved through the Service Priority Review and consolidation of departments that are happening through Machinery of Government changes.

Internal government savings measures should be prioritised in the 2017-18 budget.

These and other savings measures are critical in 2017-18 if we are to see improvements to the overall condition of the Western Australian economy in the short term.

CME understands there is a government priority to ensure local businesses have equal opportunity to provide content for major projects (not just resource sector projects). For the 2015-16 financial year, 46 resources companies spent \$19.8 billion in the purchase of goods and services from just under 7,000 local businesses. It should be noted that in 2017, a number of resource companies announced programmes specifically designed to help boost local content on projects by assisting local businesses in competing for contracts.

Another area of concern for the government has been the rate of employment. The resources sector has been transitioning from a construction to operation phase. In 2016 the resources sector employed 104,803 people, although employment numbers have trended downwards since its peak in 2013 with 111,293 direct employment remains high relative to just ten years ago when the average number of people employed was 59,125 (this is an increase of over 77 per cent).¹³ The sector continues to be one of the largest employers in the state and seeks to provide opportunities through company specific as well as broader industry training and apprenticeship programs.

It is only with ongoing investment in the Western Australian resources sector will Australia be able to capitalise on its natural advantages and continue to spread long-term economic benefits to the nation.

Economic Competitiveness

Royalties

Revenue from royalties continues to dominate earnings for the government, despite the fall in commodity prices witnessed across several commodities over the past 18 months. The 2016-17 mid-year budget review confirmed royalties paid by the resources sector will account for approximately 18.5 per cent of the state's own revenue, which is up \$1.4 billion from the 2016-17 Budget Estimate. This was largely due to the impact of a higher iron ore price, but also a slightly lower than anticipated \$US/\$A exchange rate and a modest upward revision to projected sales volumes.

As per Table 1 below, royalties are a significant contributor to the state's budget with royalty revenue from iron ore alone contributing over \$30 billion since 1983. Given the shifting commodity price cycles, particularly for iron ore, it is expected revenue from resources may decline and this should be reflected in the forward budget estimates.

As a comprehensive review of royalty rates concluded as recently as 2015, CME considers **there is no case to increase the royalty rates for any commodities.**

¹³ DMP, 2016 *Economic indicators resources data*,
http://www.dmp.wa.gov.au/Documents/Investors/2016_EconomicIndicators_ResourcesData.xlsx

To increase any royalties, loosely based on a 10 per cent mine head value, which varies significantly given the dramatic changes the sector has witnessed in both costs and prices over the past decade, would be irresponsible when the sector is already facing considerable external cost pressures.

The government should dismiss the Mineral Royalty Rate Analysis final report recommendations proposing increases for commodities, particularly for those referenced as 'when economic circumstances permit'. The government in recent time has created uncertainty with its ongoing discussions around potential changes to the royalty rates, in particular for iron ore. Given the current GST redistribution system, any revenue received from a change to the royalty rates would consequently be redistributed to other jurisdictions. CME considers the government's uncertainty on this matter may cause detriment to the respective commodities in particular causing impacts on investments. **The 2017-18 budget forward estimates should not include any additional revenue forecasting possible future increases in royalty rates.**

Table 1: Department of Mines and Petroleum top royalty revenue earners (AU\$million)¹⁴

	2000-01	2003-04	2005-06	2007-08	2009-10	2011-12	2013-14	2015-16 ¹⁵	Cumulative 1983-2016
Iron ore	270.12	293.68	679.63	964.43	1,495.44	3,831.27	5,307.52	3,472.77	33,919.74
Gold	65.64	79.50	81.62	99.48	152.53	224.73	215.83	239.55	2,320.10
Nickel	60.57	72.78	82.68	158.41	83.36	89.83	78.29	54.09	1,662.35
Alumina	55.51	50.00	64.09	80.54	61.86	68.32	70.42	84.32	1,509.70
Diamonds	88.06	45.02	48.23	43.44	19.19	15.18	20.48	18.32	1,042.35
Mineral sands	N/A	N/A	N/A	21.11	22.01	19.22	16.39	16.82	181.65
Petroleum	526.72	416.33	678.83	811.03	21.93	18.75	11.49	7.24	7,393.35
Other	69.64	76.27	101.52	118.23	107.69	116.57	73.01	69.69	2,079.64
North West Shelf grants	473.5	363	610	870	875.10	935.60	1,106.89	615.48	6,430.44
Total royalties	1,136.26	1,033.58	1,736.60	2,296.67	1,964.01	4,383.87	5,793.43	3,962.80	50,108.88
Total royalty revenue¹⁶	1,609.76	1,396.58	2,346.60	3,166.67	2,839.11	5,319.47	6900.32	4,578.28	56,539.32
Total State revenue¹⁷	10,596.5	12,753	16,207	19,345	22,039	25,220	27,956	26,492	N/A
Total royalty revenue as percentage of Total State revenue	15.2%	11.0%	14.5%	16.4%	12.9%	21.1%	24.7%	16.7%	N/A

A stable, transparent and internationally competitive royalty regime is critical if Australia is to continue to attract the necessary foreign investment to the resources sector.

¹⁴ Department of Mines and Petroleum Resource data files, Royalty Receipts 2015-16,

http://www.dmp.wa.gov.au/Documents/Investors/2016_EconomicIndicators_ResourcesData.xlsx

¹⁵ 2015-16 information, apart from the percentage, is based on Estimated Actuals data from the 2016-17 State Budget.

¹⁶ Total revenue is royalties and North West Shelf Grant combined.

¹⁷ Information obtained from the State Budgets.

Taxes, fees and charges

Expansion of other fees and charges, including moves to recover costs for undertaking mandated regulatory responsibilities, particularly for environmental regulation, continue to challenge the state's economic competitiveness and attractiveness for resources sector operations.

The 2017-18 budget should not contain provisions for any new fees and charges imposed on the resources sector, and where fees and charges and cost recovery already exist, full transparency of the expenditure should be introduced.

To assist in repairing the state budget the government should seek to **improve the timeliness of the Office of State Revenue in assessing and processing stamp duty transactions related to mining tenements**. These delays result in preventing the transferee from being able to register their legal interests in the tenements on the Official Mineral Title Register as well as delaying the transfer of funds to the government.

State infrastructure assets

The strategic asset review of state owned infrastructure should continue to be undertaken in consultation with industry stakeholders. As part of the review, **consideration of long term leasing or sale of assets should be accompanied by suitable regulatory arrangements that ensure timely access for users at reasonable commercial rates to prevent any abuse of any monopolistic position.**

While there are competing budget priorities and the extent of reinvestment will need to be considered in the context of broader fiscal policy, the potential benefits of capital recycling are substantial. Reinvestment in new enabling infrastructure is likely to stimulate additional job creation and royalty revenue through any project developments or expansions. There should be a strong focus on coordinating investment in energy, water and transport infrastructure to stimulate economic growth in areas such as the Great Southern and South West of Western Australia.

CME supports the government's election commitment to establish an independent infrastructure body, Infrastructure WA. The purpose of the body would be to leverage off industry experience to assist the government in developing long term, coordinated plans for Western Australia's infrastructure requirements and to advise on the prioritisation of these requirements. The independent body would be better positioned to capitalise on Australian Government funding and private sector finance; and potentially helping to reduce the budgetary pressures on the state.

CME supports the establishment of an independent body, the funding of which should be from existing government consolidated revenue resulting in a more efficient use of government capital.

Ports

Ports are critical enablers of the state's export industries and therefore of the state and national economies. The port authorities are in a strong financial position, with some recording substantial returns and thus dividends paid to the government. Increased exports by the resources sector have notably contributed to this position.

However, the port authorities must undertake their legislated requirement to obtain a return on assets deployed only to the extent the return does not compromise their remit to facilitate trade. Substantial increases in fees and charges were announced by the government in June 2017, particularly in relation to Port Hedland and Dampier through the Pilbara Port Authority with an increase of 17 per cent.

CME understands port authorities have a duty to provide returns to the government, as their shareholder, but due to ports being monopolies, this results in limited to no opportunity for users to adjust their usage in response to changes in fees and charges.

Given broader state fiscal challenges, CME understands port authorities are unable to access cash reserves to fund capital improvement projects, particularly through minor capital works budgets. CME also understands the increase in port authorities' minor capital works budgets over the last five years has been limited.

Given ports authorities' financial position, the government should improve the ability of the port authorities to undertake minor capital works by providing greater flexibility over small capital expenditure, especially for key regional ports. Ongoing, appropriate expenditure on minor capital projects may defer the need for investment in new major projects. New major projects could be funded through the use of a port improvement rate in compliance with the government's approved policy for this charge.

The Australian Government has held \$399 million in funding for the Oakajee Port Project for more than 7 years, the state government needs to make a firm decision regarding its intention for this project. If it is the government's intention to dispense with the Oakajee Project, then an application should be made to the Australian Government for access to the \$399 million to assist with funding of other Western Australian infrastructure projects.

Energy

CME considers the reforms that were being progressed through the Electricity Market Review, were not adequately addressing the primary barrier to private sector investment, mainly Synergy's market share and Western Power's lack of investment in infrastructure.

There is a need to accelerate reforms in the electricity sector. The inability for some companies in the Kalgoorlie-Boulder region to access energy in a timely manner from the Western Power grid has resulted in them incurring additional costs by having to install standalone generation capacity. This has led to costly project delays and in some instances, decisions not to proceed with projects due to lack of access to energy from the grid are occurring.

Although the government is reluctant to divest energy assets, it should at least identify a path toward the separation of Synergy into several generators and retailers and the divestment of these assets, through sales or long-term leases, to improve competition in the generation and retail aspects of the supply chain.

The government should undertake a similar divestment path for Western Power, to improve infrastructure investment and service to customers; this could include exploring ways in which to create efficiencies in energy distribution, for example, coordinating investment across both the gas and electricity networks to minimise the costs to consumers.

Proceeds from the divestment of electricity assets, amongst other government owned assets divested, could be reinvested into productive infrastructure.

People and Communities

The Mines Safety Levy

The recently announced 30 per cent increase in the levy rate from \$0.15 to \$0.20 per hour worked for the 2016-17 financial year follows a 12 per cent increase in 2015-16. In both of those cases, insufficient justification was provided by MSB prior to the change in the rate being implemented.

The lack of transparency around the significant increase in fees and the existing framework for calculation and collection of the levy falls short of meeting the resources sector's expectations around cost recovery mechanisms.

Further, CME understands the safety levy fund is currently operating at a significant deficit (approximately \$10 million in the context of a \$30 million budget). The deficit is of particular concern given the ongoing lack of detail and transparency around the reporting of levy costs and lack of justification for increased expenditure by the MSB.

CME has advocated for the MSB Annual Performance and Achievement reports to include a detailed breakdown of expenditure with explanation of specific line items as well as clear and measurable performance indicators. The discrepancy of over \$4 million in the levy deficit reported in the most recent edition of this report¹⁸ and the 2015-16 DMP Annual Report¹⁹ further highlights the need for transparency.

While CME acknowledges the government has a responsibility to address the current operating deficit of the levy, CME considers it is imperative the levy funds are managed effectively and in line with cost recovery principals and the MSB is operating as efficiently as possible. **CME is supportive of the commitment from the Minister for Mines and Petroleum to establish a sound governance framework, in consultation with industry, to provide transparency and accountability and ensure the levy funds are expended efficiently and effectively. Establishment of the framework should include oversight by MIAC of MSB educational and proactive activities and support the delivery of risk based regulatory strategy.**

CME supports the key recommendations of Deloitte's *2016 MSB resourcing and funding independent assessment*²⁰ relating to cost recovery, which found the current model is not the best fit for the sector. The report made a number of recommendations around the levy's administrative processes, transparency and a need for DMIRS to investigate the feasibility of different levy models, in consultation with industry.

It is critical DMIRS continues to address Deloitte's review recommendations to ensure existing levy funds are expended as efficiently and effectively as possible and that the methodology for the collection of the levy minimises unnecessary administrative burden.

MSB must address the deficit in the levy by improving efficiency of operations, not by simply increasing the levy rate. MSB should ensure that industry is consulted prior to any increase in the rate and any increases are clearly justified in terms of the value to industry.

Safety Performance Data Analysis

At the request of the previous Minister for Mines and Petroleum the Hon. Sean L'Estrange, DMIRS Resources Safety Division developed a project proposal and requested CME assistance with the collection and analysis of data from member companies to further enhance the understanding of safety hazards and injury risk exposure over the respective mining commodity cycles. The initial discussions with the Resources Safety Division were held in the context they would provide funding for this work to occur.

The project aims to:

- Provide information to industry to help assess risk and trends against which they may be able to benchmark, and;
- Help prioritise the work of the DMP, by assisting to identify gaps in information and where additional knowledge is required and where proactive work activities should be focused.

CME members are supportive of the proposed project and objectives, however, are concerned a specific budget allocation has not been made to ensure the project will be able to proceed.

CME recommends DMIRS allocate funding to undertake robust safety performance data analysis to ensure critical information regarding trends is identified. This will assist

¹⁸ DMP, *Resources Safety achievements and performance 2015-16*,

http://dmp.wa.gov.au/Documents/Safety/RSD_R_AchievementsAndPerformance201516.pdf

¹⁹ DMP, *Annual Report 2015-16* http://dmp.wa.gov.au/Documents/About-Us-Careers/AnnualReport_2015-16.pdf

²⁰ DMP, *2016 Mines Safety Branch resourcing and funding independent assessment*

http://www.dmp.wa.gov.au/Documents/Safety/MSH_R_DeloitteReport_DMPResponse.pdf Part 1.

DMIRS and industry to proactively address safety performance. Outcomes of the analysis will support the regulator to direct efforts to areas of greatest need in their risk based regulatory approach.

Mental health and suicide prevention

The resources sector has recognised the importance of addressing health and wellbeing in a work context for decades and has continuously improved its practices, moving from reactive compliance based approaches to proactive wellness programs. These programs are directed to all employees in the resources sector, not just those undertaking FIFO work.

CME is the Chair of the MIAC's Mental Health Strategies Working Group (MHSWG) and is working to provide advice and identify good practice strategies in response to recommendations from the Education and Health Standing Committee's Parliamentary Inquiry into FIFO.

CME welcomed the position of MIAC members in establishing this group to focus on strategies to improve mental health outcomes in the workplace and these should be directed towards all employees and all type of workplaces. Within that context the unique aspects of working away from home can also be addressed without missing the opportunity for broader benefits in raising awareness and implementing best practice across all workforces.

CME does not support the government's limited focus on managing the mental health of FIFO employees. Rather, resources should be directed to support initiatives, which improve the wellbeing of all employees regardless of industry sector across the entire state.

Improved data is critical for developing evidence based solutions to promote mental health and suicide prevention across Western Australia. It is essential government services are coordinated and directed to areas of most needs particularly in communities where there may be limited access to mental health support services.

The establishment of a FIFO mental health research reference group under the Mental Health Commission is a welcome step. Further to the recent tender process, CME looks forward to providing input to the design of the research.

Funding should be provided to ensure the ongoing implementation of mental health and suicide prevention strategies across the entire community and in workplaces across all industry sectors. In particular funding for the Mental Health Commission FIFO mental health research project must continue.

Additional resourcing for the Office of the State Coroner needs to continue to ensure the maintenance of a comprehensive record of deaths by suicide and to enable the Coroner to analyse potentially contributing demographics and other factors to enhance our understanding of populations at risk and risk factors relating to suicides. CME understands resources were previously allocated through the Mental Health Commission to enable this important work to go forward. **Funding for the Office of the State Coroner should continue to ensure its data management function be developed and maintained.**

Regional Communities

CME supports the return of a proportion of mining revenue to the regional communities in which they operate given the importance of this revenue in providing necessary economic and social infrastructure requirements in the regions.

The government's Royalties for Regions program has been in place for eight years, funding \$5.8 billion worth of projects, programs and capital investments between 2008-09 and 2015-16 (the last year of available confirmed spending data). Some \$940 million of royalties earmarked for the fund have been directed to the Western Australian Future Fund as seed capital on the fund's establishment. An additional \$3.9 billion in expenditure is programmed into the State Budget as at the 2016-17 Mid Year Financial Projections Statement. Royalties for Regions is a significant program in the context of the State's finances.

The Royalties for Regions program is governed by the *Royalties for Regions Act 2009* (the Act), which designates the Minister for Regional Development as the accountable authority for the Fund and its administration.

The Act states that Royalties for Regions funds can be used for three purposes.

1. To provide infrastructure and services in regional Western Australia
2. To develop and broaden the economic base of regional Western Australia
3. To maximise job creation and improve career opportunities in regional Western Australia

In October 2016, CME engaged ACIL Allen Consulting to undertake a review into the Royalties for Regions program. While it is evident that Royalties for Regions is delivering infrastructure and services to the regions, it is not clear whether the governance arrangements that exist ensure funding objectives of the Act; whether the outcomes and benefits of funded projects are identified and delivered; and the long-term viability and sustainability of projects is considered.

The findings from this review indicate:

1. There are a number of consistent themes that emerge in the reviews into the Royalties for Regions Program since it commenced in 2008. These include:
 - a) Concerns about the lack of strategic direction guiding spending
 - b) Lack of mechanisms to monitor spending
 - c) Absence of monitoring of project and program outcomes
 - d) Concerns about governance across the full spectrum of the program
2. From a random sample of 100 projects funded through Royalties for Regions, ACIL Allen's MCA assessment found that 74 projects did not meet either the economic or social objectives.
3. Based on an assessment of available macroeconomic indicators, there appears to be no strong correlation between Royalties for Regions spending and macroeconomic outcomes at the regional level. The data suggests regional level economic and social outcomes are driven by the broader Western Australian business cycle, rather than region level dynamics.

This is particularly true of labour markets, with regional unemployment rates following the same trend as the Western Australia-wide unemployment rate.

Business count trends are wildly variable between regions, but are not correlated with spending.

Population growth trends tend to follow Western Australia's trend, albeit absolute growth rates which tend to be lower than the state-wide rate.
4. ACIL Allen's research based on public information has uncovered enough concerns about the appropriateness of the Royalties for Regions program that CME believes the program should be subject to a full, public inquiry by the government.
 - There are concerns that programs and investments funded by the program have not been directed at the economic and social purposes of the fund, and that spending has failed to achieve economic and social progress for regional Western Australia.
 - The agencies that make up the Regional Development Portfolio are subject to inadequate key performance indicators, which do not align appropriately with the purpose of the Act.

- There is a clear lack of strategic direction guiding spending, exacerbated by the closed nature of Royalties for Regions once funding leaves the Consolidated Account.
- There are concerns about the structure of the program, and potential weaknesses in governance which may contribute to poor outcomes.

In order to maximise the return on investment from these funds into regional communities, **CME considers an increase in oversight by the Department of Treasury is necessary to enable increased scrutiny of business cases developed for a project to be funded by Royalties for Regions. In addition, these business cases should be required to undertake a cost-benefit analysis and demonstrate consideration of ongoing expenses of these projects, and for this information to be made transparently available to ensure effective utilisation of funds.**

The introduction of the \$1 billion spending cap has had the desired effect on Royalties for Regions expenditure as a share of the State Budget. CME supports the continuation of this approach.

Support for Industry Training Advisory Arrangements

The education and skilling of the Western Australian workforce is a priority for the resources sector. As the sector has transitioned from construction to operations, it continues to adopt more autonomous and automated means of exploration and production and the sector's skills needs to reflect this. Ongoing government investment in the state training sector, through facilities and the Future Skills WA program is crucial to ensure this up-skilling of the state's workforce remains a priority.

The Resources Industry Training Council plays a crucial role in informing the government of the current and future skilling needs of industry and in leading industry collaboration on training initiatives.

The 2017-18 budget should include ongoing funding support for Industry Training Advisory Arrangements.

Science, Technology, Engineering and Maths Education and Training

A concerted focus on programs to encourage the uptake of STEM courses at school and university levels is critical to continuing to ensure the foundation for careers in the resources sector.

The resources sector currently provides a major contribution to STEM industry led initiatives, such as through the funding of Earth Science Western Australia and the Get into Resources Career Initiative. CME has also recently supported and helped fund the "Up-skill Out of Field Teachers" project. This is an important initiative of the STEM Education Consortium, which is a collaborative partnership tasked to improve the teaching and learning of STEM and the integration of these subjects across Western Australian schools.

The 2017-18 budget should include ongoing funding support for the teaching and learning of STEM subjects across Western Australia educational institutions.

Natural Resources

Exploration incentives

In order to secure the long-term future of the resource sector in Western Australia it is vital the next pipeline of resource projects are discovered through active exploration of the state. Critical to achieving this aim is ensuring policies advance exploration through incentives or credits.

Without ongoing investment in exploration activities many resources would remain undiscovered, stifling the growth and prosperity of the sector and the economy into the future, risking employment, investment and government revenue.

At a time when exploration expenditure in the state continues at near decade low levels, it is important the government continues to invest in incentives such as the EIS. Recent modelling on the EIS found, in aggregate, for every \$1 million invested in the EIS, the long run expected net benefit to the state in terms of higher gross state product is \$23.7 million.²¹

Increased funding is required for the EIS to ensure the co-funded drilling program can operate in conjunction with other important and related programs, such as geophysical and geochemical surveys and geological mapping, which underpin the whole EIS package.

A minimum of \$10 million per annum should be committed, as originally budgeted, to the EIS to ensure continuation of the program, safeguard flexibility, and increase its overall effectiveness.

Cost recovery in environmental regulation

DMIRS proposed cost recovery under its Reforming Environmental Regulation strategy through the release of the discussion paper *Cost Reflective Pricing Options* in 2014.

Following consultation on the proposal, the then Minister for Mines and Petroleum, the Hon. Sean L'Estrange, announced the introduction of fees for environmental assessments would be deferred until the *Mining Act Amendment Bill 2015* passed Parliament.

CME welcomed the Minister's deferral; however, does not support the introduction of cost recovery following passage of the Bill. CME does not consider it appropriate that DMIRS recover the costs incurred in performing its mandated regulatory functions while imposing a further burden on industry.

Its funding should be provided through the normal budgetary process. Additionally, CME notes that DMIRS announced another increase to the annual mining tenement rents above the consumer price index in addition to the increase for 2016, the justification for which was as an additional revenue source to replace cost-recovery fees. As such, further attempts to introduce cost recovery for DMIRS completing its mandated regulatory functions would be opposed by CME.

The resources sector already contributes to government revenue through substantial royalty payments, with general consolidated revenue being the most appropriate funding option for independent environmental assessments.

The 2017-18 budget should not include any provision for cost recovery for environmental regulation, but rather ensure sufficient funding is provided to the agencies delivering on environmental regulatory requirements.

The resources sector supports the Australian and State Government commitments to implementing a 'one stop shop' environmental assessment and approvals process.

The one-stop shop will include the same high level of environmental protection, while minimising process duplication and delays between levels of government regulation. In establishing environmental assessment and approval of bilateral agreements, the resources sector does not seek to remove or diminish environmental standards or safeguards. Instead the sector seeks to create a more streamlined process in meeting environmental outcomes and seeks to retain a high level of public confidence in the decision making process.

The implementation of the agreements will result in a significant increase in the workload of an already stretched DWER in Western Australia. **Funding should be sought from the Australian Government to execute DWER's regulatory roles under the bilateral**

²¹ ACIL Allen Consulting, *Economic Impact Assessment Exploration Incentive Scheme*, January 2015.

agreements, rather than be reliant on introducing cost recovery mechanisms for matters of national environmental significance.

Resourcing Aboriginal Heritage Approvals in Machinery of Government reform

The recent Machinery of Government reforms have resulted in the split of the Department of Aboriginal Affairs (DAA) between the Department of Premier and Cabinet and the newly formed Department of Planning, Lands and Heritage (DPLH).

Under the *Aboriginal Heritage Act 1972* (AH Act), DPLH will now be responsible for Aboriginal heritage management and the Register of Aboriginal Sites.

CME has previously been critical of the way the AH Act was being administered under DAA and in particular when impact to an Aboriginal heritage site cannot be avoided and a section 18 consent is required. This is in large part caused by an absence of defined regulated processes in the legislation (transparency) and a lack of clarity around the decision making authority (accountability).

CME considers the transfer of responsibility for Aboriginal heritage management must be appropriately funded and resourced under DPLH to ensure no further delays to costly and protracted section 18 approvals.

Mining Rehabilitation Fund

CME has strongly supported the Fund since its inception. This policy strikes the right balance between managing potential future liabilities and incentivising progressive rehabilitation for current industry without placing a prohibitive or disproportionate cost on current good performers.

Crucially, the ability of the government to mobilise funds and respond to the abandonment of Ellendale Diamond Mine (2015) clearly demonstrates the Fund's effectiveness with the State already in a better position to manage such events should they arise in future. The progress made by DMIRS on the three Abandoned Mine Program pilot projects (Black Diamond, Pro Force and Bulong Nickel) further demonstrate the value of the scheme as such remedial activity for historic abandoned mines would not have been possible in the absence of industry's financial contributions through the Fund.

A key design feature of the Fund to remain cognisant of is that it will require many multiple years (likely a decade) to amass sufficient capital. The government will need to devise a "soft-landing" for Fund contributions prior to this point being reached so as to ensure equity and minimise financial disadvantage to those that have made significant contributors to the Fund during its accumulation phase.

CME is strongly opposed to any attempts to expedite accumulation of funds through increases to the scope, unit rates and / or contribution rate. Any such increases would place an unwarranted additional cost burden on existing good industry operators, accelerate accumulation beyond DMIRS capacity to efficiently or effectively expend interest and further exacerbate inequity and financial disadvantage issues for the Fund when the capital accumulation phase ends.

CME supports the continued implementation of the Fund and does not support any increase to the existing scope, unit rates and contribution rate of 1 per cent.

Part V Environmental Licensing IT and online systems

The DWER does not currently have online systems to support its industry licensing functions such as new applications, amendments, compliance reporting or approval tracking. The information available on the Department's website for the public is also limited. This creates inefficiency (negatively impacts productivity) for Department personnel and industry.

Other government departments do have online approval, reporting and / or tracking systems. DWER should seek to leverage from these already established systems in creating its own.

CME recommends DWER receive funding for the development and implementation of online systems to support their Part V EP Act regulatory functions and to improve productivity.

Conclusion

CME looks forward to your response to this submission and ongoing engagement with the government on these important issues to ensure the success and viability of the resources sector and, in turn, both the Western Australian and Australian economies.

Should you have any queries regarding the matters raised, please contact Ms Nicole Roocke, Deputy Chief Executive, CME on 08 9220 8513 or n.roocke@cmewa.com.