CME

2018-19 Pre-Budget Submission

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Chamber of Minerals and Energy of Western Australia

2018-2019 Pre-Budget Submission

The West Australian Government has a significant challenge on its hands to reduce costs given the current finances of the state while making targeted investments in areas which will stimulate economic growth.

The government's commitment to engaging the Australian Government for reforms to the horizontal fiscal equalisation (HFE) system in order for Western Australia to receive a greater share of redistribution of the Goods and Services Tax (GST) is strongly supported. Reforming the GST distribution method, implemented by the Commonwealth Grants Commission, could improve incentives for productivity and economic growth across the country while ensuring Western Australia is not disadvantaged to the degree it currently is.

It is recognised reform of the HFE system is a lengthy process, and in the meantime **a continued focus by government on internal savings measures should be the priority for the 2018-19 budget rather than targeting households or the private sector, most notably the resources sector, for additional revenue.**

Other key recommendations for the 2018-19 state budget include:

- No increase in any commodity royalty rate in the 2018-19 budget, nor over the forward estimates.
- Reinstate the Payroll Tax Exemption for apprentices and trainees as it was previously applied.
- A minimum of $10 million per annum from government funds should be committed to the Exploration Incentive Scheme over the forward estimates, to ensure continuation of the program to stimulate economic growth.
- Improve the timeliness of the Office of State Revenue in assessing and processing stamp duty transactions related to mining tenements.
- Continuation of the current exemption in the Building and Construction Industry Training Fund and Levy Collection Regulations applying to engineering construction projects in the resources industry.

This submission is to be read in conjunction with the CME 2017-18 Pre-Budget submission[1].

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[1] https://www.cmewa.com/policy-and-publications/policy-areas/economic-competitiveness/preview?path=CME%2B2017-18%2BPre-Budget%2BSubmission%2Bv1.0.pdf

Royalties

Royalties provide a major contribution to earnings for the government with revenue from the state's mineral and petroleum producers totalling $5.7 billion in 2016-17, an increase of 24 per cent on 2015-16 figures[2]. The 2017-18 budget confirmed royalties paid by the resources sector will continue to account for approximately 18 per cent of the state's own revenue despite a projected a decline in royalty payments largely due to lower iron ore royalty returns.

Since the handing down of the 2017-18 budget, there has been much said on the return to the state from the mining sector via royalties, particularly in respect to gold. A return to the state relative to the benchmark of 10 per cent of the mine-head value is not and was never intended to be an exact science, but an approximation.

The 1981 Cabinet submission from the Minister for Mines to the Premier provides clarity that the 10 per cent benchmark was intended to be a broad principle rather than a fixed benchmark policy. The Cabinet submission stated actual levels of royalty set for a particular mineral has and will need to continue to take into account factors such as profitability, remoteness of the mine, contributions to infrastructure, nature of the mining operations, difficulty of separating the mineral from the ore and so forth[3].

It is now several years after the release of the Minerals Royalty Review Analysis (MRRA) in 2015 which included recommendations to change a number of royalty rates. At the time the MRRA report was released the industry pointed to serious flaws in the review's analysis. Two key points argued by industry included the Review did not apply the 10 per cent benchmark consistently across commodities in forming royalty rate recommendations and that the 10 per cent mine-head value should not be adopted as a strict benchmark, but retained as a broad approximation of total revenue across all commodities.

During and after the review industry expressed concern over the methodology to calculate the benchmark return, demonstrating the current approach used by DMIRS does not take into account the full range of costs which should be included and as a consequence underestimates the return delivered to government from industry in payment of royalties. This is an issue for all commodities.

As part of the review process, industry proposed an alternative benchmark calculation methodology which is consistent with the methodology that was adopted by the Commonwealth Government for the purposes of calculating Mining Resources Rent Tax liability.

The MRRA acknowledged in part there was an issue with the benchmark calculation and recommended "*...when such [royalty] reviews are undertake in the future, the benchmark calculation should include an estimated return on capital.*" This was one of the elements of CME's alternative benchmark calculation methodology.

Using either the industry proposed methodology, or that recommended by the MRRA, it is possible to demonstrate the Western Australian resources sector, across all commodities, is delivering a return above 10 per cent.

Given the acknowledgement of issues with the current benchmark calculation methodology and the manner in which it underestimates the return to government **CME does not consider there is any justification for an increase in any commodity royalty rate in the 2018-19 budget, nor over the forward estimates.**

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[2] Department of Mines, Industry Regulation and Safety, *Mineral and Petroleum Statistics Digest 2016-17*, pg 15.

[3] Minister for Mines, 1981 Cabinet Submission, Mineral Royalties, 19 September 1981.

Payroll Tax Exemption

The Payroll Tax Exemption is the only incentive still available to employers to assist with training existing workers via traineeships. In 2017, the government announced changes to the Payroll Tax Exemption for apprentices and trainees, removing the ability for employers to claim an exemption for any existing worker trainees and trainees on salaries of $100,000 or more.

Existing worker traineeship payroll tax exemptions have allowed employers to fund extensive training programs in their businesses which has resulted in a raising of the skills base along with improved workforce productivity. In some cases, this has resulted in upskilling of existing workers and the creation of entry level "backfill" positions. These backfill positions are new employment opportunities and have created new jobs.

The proposal to place a $100,000 salary cap on payroll tax eligibility for all apprenticeships and traineeships will further disadvantage resources sector employers who are committed to creating local employment opportunities for regional Western Australians. This comes at a time when Western Australia's economy is showing signs of recovery along with preliminary anecdotal evidence of skills pressures in the labour market.

CME recommends the government reinstate the Payroll Tax Exemption for apprentices and trainees as it was previously applied.

Exploration Incentives Scheme

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.

Assuming 'business-as-usual' scenarios, the Centre for Exploration Targeting landmark report by MinEx Consulting, Professor Richard Schodde estimates Australian gold production is forecast to fall by half over the next forty years from 9.7 Moz/annum in 2017 to 4.7 Moz/annum by 2057[4].

The current rates of exploration and discoveries is the key factor that will have the most significant influence on arresting this forecast decline. Avoiding these reductions in the longer term, either requires the gold industry to double the amount spent on exploration or double its discovery performance.

Given the delay between mineral discovery and development of new mines is on average 13 years, it has never been more important for government to be incentivising exploration to shore up supply. Government can play a critical role in achieving improvements in exploration performance by supporting policies that advance exploration through incentives or credits.

The government's Exploration Incentive Scheme (EIS) encourages active exploration in Western Australia through investment in co-funded drilling – particularly in greenfields areas. This important initiative is funded for a further two years, however, beyond 2018-19 the future of this initiative is uncertain.

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[5].

A minimum of $10 million per annum from government funds should be committed to the EIS over the forward estimates, to ensure continuation of the program to stimulate economic growth.

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[4] Schodde, RC, *Long term trends in global exploration – are we finding enough metal?*, October 2017.
[5] ACIL Allen Consulting, *Economic Impact Assessment Exploration Incentive Scheme*, January 2015.

Mining Tenement Stamp Duty

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, which can be quite substantial, to the state government.

Construction Training Fund

The resources sector supports the need for ongoing investment in employee training and development through apprenticeships and traineeships; structured, on the job and in house training; and graduate and vacation experience programs.

CME has completed an analysis of the training activities of the WA resources sector in the 2016-17 financial year. The analysis found:

- CME members spent around 4.2 per cent of their total payroll on training activities.
- 98 per cent of training completed was industry funded, with only approximately 2 per cent coming from government funded training.
- Apprentices and trainees constitute around 3.7 per cent of the workforce of CME member companies.
- Approximately 95 per cent of all companies surveyed (including contractors) reported employing apprentices and trainees.

Given the investment by resources sector companies in their apprentices and trainees, effort is directed to supporting them to ensure they complete their courses. Advice from industry indicates the completion rates for apprentices and trainees in the sector is above 75 per cent, significantly higher than the general industry rate for all occupations of 55 per cent[6].

CME acknowledges the Construction Training Fund provides assistance to the building and construction sector outside of the resources sector and in particular the large number of small operators who do not have the scale and resources to negotiate the complex training system without assistance. Requiring the resources sector to pay into a centrally controlled training fund, managed by the construction sector, would not enable the resources sector to meet its current and future workforce development needs.

The resources sector does not support any proposal to amend the Building and Construction Industry Training Fund and Levy Collection Regulations to withdraw the current exemption applying to engineering construction projects in the industry, based on the already significant investment by the sector for training and workforce development.

Context

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia (WA). CME is funded by its member companies who are responsible for most of the State's mineral and energy production and are major employers 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. It is only with ongoing investment in the resources sector will Western Australia be

[6] NCVER completions data.

able to capitalise on its natural advantages and continue to spread long-term economic benefits to the state.

As well as the matters outlined in this submission, CME refers readers to its 2017-18 Pre-Budget submission, located on the CME website site here, for a range of other budget issues to be considered by government.

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Authorised by	**Position**	**Date**	**Signed**
Reg Howard-Smith	Chief Executive	22/02/2018	
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