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Productivity Commission

Submission lodged via link

<https://www.pc.gov.au/inquiries/current/resources/make-submission#lodge>

SUBMISSION – DRAFT PRODUCTIVITY COMMISSION REPORT – RESOURCES SECTOR REGULATION

The West Coast Council, as a local community with a long history of mining, welcomes the Productivity Commission's review into resource sector regulation. It is important that we continually seek out best practice to ensure that this industry is appropriately regulated and supported in order to ensure the maximum benefit to communities. However, we do have several concerns with the analysis and findings relating to community engagement and benefit sharing, which suggest that the Productivity Commission does not have a complete understanding of the role of local communities in mining or the importance of supporting them. The draft report ignores the importance and contributions of these communities to the success of our resource industry and as such places at risk the future of the industry and its relationship with local communities. It appears from this, that the Commission does not fully understand regional Australia, its importance, its potential, or the difficulties it faces. We would urge the Commission to spend more time working to understand how to support regional communities upon which so much of the Australian economy relies.

Our specific concerns are detailed below.

Analysis of Externalities – Box 9.3 (page 249)

We are particularly concerned that the analysis suggests that pecuniary externalities, such as price changes in housing do not reduce the welfare of a society or reduces it in a way addressed by markets. This is not the case in the West Coast Local Government Area. While not unique to resource development, when large scale projects come to less densely populated regions there can be dramatic changes in rental prices. In our experience this can mean rents moving from \$100 per week to up to \$1000 per week, in a relatively short space of time (months). This speed of fluctuation has a negative impact on society and on local government.

The change in rentals forces many, often those that have moved to take advantage of low house prices, to leave the community. This has several impacts. For the individuals it can lead to homelessness, increases in domestic violence and drug abuse, as those who are displaced from low cost housing often have nowhere else readily available to go to. For the community it leads to periods of over demand for housing, replaced by empty towns, where buildings are left to deteriorate as the project ends and people move on. Empty towns, with deteriorating private property have a negative impact on attracting new people to the community and on economic development. The significant and rapid changes to house prices are detrimental. Importantly the variation is primarily seen in rents, as the increase demand is short term and people realize it will end swiftly, purchase prices do not increase, and the market does not create more housing. There is simply short-term profit seeking with an exploitative approach taken to the property market. This means the demand increase does not provide additional income to local government as revenue is derived from property valuations.

Increases in the cost of living also impact remote communities in a negative way. New projects can create short-term shortages. On the West Coast this is most noticeable in trades. The price of trades can increase dramatically, meaning that other industries cannot start or develop here as they cannot compete with the



wages on offer in the resource sector. Additionally, it limits the ability of residents to access trade support for home maintenance or improvements, causing deterioration in local housing. In our experience neither of these factors can be addressed by the market as the profitability of other industries does not necessarily improve by proximity to resource extraction (e.g. tourism) and wages in these industries, or government benefits are not tied to local market wage conditions so do not adjust for the high cost of living in the localised area.

In our submission these examples show that pecuniary externalities can have a negative impact on society, particularly small regions and they therefore should be addressed. Neither market mechanisms nor local government resources, are enough to address them.

Draft Finding 9.1 (page 251)

We strongly disagree with the statement that “effects such as fluctuating house prices signal the need for market adjustments and should not be suppressed”. In our experience the market does not work to provide these adjustments. There are several plausible explanations for this:

- In our experience resources companies currently compete for existing housing stock and increase the price rather than creating new stock, this displaces previous residents.
- The cost of housing construction is significantly higher in remote communities and higher again in resource-based areas given the competition for trades.
- Displaced residents do not have the resources to respond and therefore are either left homeless or forced to relocate.
- The potential short-term nature of resource extraction is not conducive to long term investments in housing.

As discussed above, short-term significant variations in market prices have significant negative impacts on communities and these must be addressed.

It is not correct to say that planning can moderate price spikes. Planning as a tool has proved relatively ineffective on the West Coast. There is significant availability of residential land, but this does not lead to significant new construction when projects commence. Planning, at least in the Tasmanian context, does not create incentives for investment, only the possibility of that investment. Planning currently does not allow the Planning Authority to place broader requirements on projects (such as the construction of housing or training programs) that would ameliorate the abovementioned concerns.

In regard to the infrastructure, projects often drive up demand and impact a range of infrastructure across the region, even where this is not associated directly with their project. Local Governments in small areas are providers of a range of services not normally associated with government. We often provide gyms, healthcare, commercial buildings, community group support, childcare and aged care. Alongside roads, waste management, and storm water, projects can have significant impact on the deterioration of these assets and maintenance requirements. Given that local governments do not collect royalties, nor do you recommend that they do, there needs to be some mechanism for project proponents to provide for increased maintenance costs and infrastructure demand, rather than leave it to other rate payers.

Draft Findings 9.2 and 9.6 (pages 252 and 273)

This draft finding does not correctly characterise royalty payments in Australia. While resources are owned by the Crown, for many resources, it is Crown in right of the relevant State. Therefore, it is not true that they are owned on behalf of all Australians. The system in Australia recognises that for many resources individual States can and should derive special benefit from resources in their jurisdiction as a matter of right. If this applies to the States, then there appears to be no logical argument presented that it should not apply to some extent to local resource dependent communities.



We submit that there is a policy argument that local communities should derive special benefit (in addition to addressing externalities as derived above). Strong local communities in resource dependent areas, support the future development of our resource industry. Strong local communities with high quality infrastructure make it easier to attract people to live and work in the areas upon which our nation's mineral wealth is founded. While many larger resources companies have the resources to privately address a lack of community infrastructure in these areas, smaller companies do not and importantly it is work done by many of these small and medium size resource companies that the industry relies on for future growth.

An alternative Draft Finding that the Commission may consider is:

DRAFT FINDING 9.6 – It is reasonable that governments provide funding and support for regional areas, particularly through local governments. In the absence of funding mechanisms to provide full equality in funding between local government areas the hypothecating of royalty payments and other forms of taxation on resource extraction provides an important mechanism for ensuring that the regions that support resource extraction remain viable and are able to support projects and resource workforces into the future.

Employing Local Workers and finding 9.5 (pages 266-268)

This section should include consideration of Drive-in, Drive-out (DIDO) workers as these workforces have many of the same impacts on local communities. While we agree that DIDO workers have an important place in the construction phase of new projects, the use of this model in the operation of projects should be minimised.

The use of remote workers has negative impacts for the community, local economy, workers and local government. The analysis of these is incomplete and the Productivity Commission must do more work to understand the negative impacts before providing recommendations.

In our community we have noted several negative impacts:

Housing prices (and hence Local Government Revenue) is not reflective of per-capita income. That is, given the per-capita income of residents in an area the price of housing is astounding low, leading to low local government revenue to provide for services and infrastructure. This is plausibly a result of people viewing the location as a temporary one, therefore not worth investing in long-term assets like housing. These leads to long-term housing and infrastructure disadvantage for the region as a direct result of the DIDO workforce.

Social Capital and Cohesion. The use of DIDO workforces, particularly when they are high-paid relative to other local industry causes a loss of social cohesion. DIDO workers often do not participate in community life or view an area as their community. In some cases they will not participate in a community in a way that builds social capital, such as in; local charity committees, volunteer fire brigades, or ambulance services, play in local sport clubs, they will not get to know their older neighbors. While these may not appear important to many in cities or larger towns, volunteers, community groups and looking out for neighbors are vital parts of regional Australian life. Volunteers and community groups fill the gaps left by government services (such as professional firefighters or ambulances) and the private sector in our community. We urge the Productivity Commission to fully understand the importance of volunteers and community groups to regional communities and the impact that remote workforces have on them, prior to making incomplete findings.

An alternative finding that the Commission may consider is:

DRAFT FINDING 9.5 – While Fly-in, fly-out (or drive-in, drive-out workforces) provide flexibility for companies, the impact that they have on the welfare of individuals and communities is not well



understood. Further work to understand the full impact on local communities and the revenue of local governments is needed before recommendations on regulating this impact can be made.

Local Government Capacity and Sharing Financial Benefits (page 271)

We acknowledge and agree with the importance of local government capacity in supporting communities and providing infrastructure. However, the suggestion by the Productivity Commission that the solution is reviewing local governments and letting us know what best practice is, do nothing to address the constraints faced. In fact, if the findings in the Draft Report are adopted, the restraints on local government finance and personnel capacity will become worse.

The Productivity Commission should provide greater analysis of how to ameliorate the impact of their recommendations on local government capacity and how to improve the financial capacity of local governments to provide the services and infrastructure they suggest.

It is our submission that there needs to be more done to address the inequality of local government revenue raising ability across Australia, however, in the absence of this, providing a greater provision of resource derived income to local regions is an important component of improving local government capacity. Funding regional Australia appropriately would allow regional local governments to attract and retain the staff needed to ensure appropriate and efficient assessment of projects, and, ensure that local communities are able to support projects and their workforces with services and infrastructure.

Conclusion

Without support to local regions that support resource production there will be negative impacts on the resource industry. There will not be the infrastructure required for projects, the workforce to support projects, or the communities to support resource workers. Local governments will not have the capacity or skills to provide fast and accurate planning advice, or to work with companies to engage with the community. Strong local governments help the resource industry. The findings in this report will weaken local governments by reducing the access to resources for regional communities and we submit that the findings noted above should be modified or removed. Further additional work should be undertaken to understand the impact of resource projects on regional communities and the support local communities and governments need for the future of our resource industry.

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