Transitioning Regional Economies

Submission

Initial

Productivity Commission Report April 2017

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Director

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Australian Government
Productivity Commission
Transitioning Regional Economies Initial Report
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Conway Highbury Submission

Dear Sir/Madam

CONWAY HIGHBURY PTY LTD TRANSITIONING REGIONAL ECONOMIES SUBMISSION

Conway Highbury has taken upon itself to complete this submission to the Initial report into the *Transitioning Regional Economies* released by the Productivity Commission in April 2017. It (Conway Highbury) very much approves of the purpose of the study and based upon some economic analysis work recently performed for a client impacted by the economic adjustment post-mining-boom it is necessary. Thus, the motivation for Conway Highbury in making this submission, notwithstanding, the merits of the study, are two-fold:

- Firstly the attempt to gain and garner any interest or feedback from Local Government in Perth, i.e. the City of Perth and the City Mandurah Councils in particular was dismal with direct and succinct approaches at the highest level seeking interest and involvement either ignored or disregarded and;
- Secondly, due to some work undertaken by Conway Highbury for the Town of Port Hedland who were seeking information on the impact and consequences of a worst-case economic scenario upon the Town's economy and hence people, including its revenues, operations, service provision obligations and services quality options-consequences as a council.

It is acknowledged that WALGA, the Western Australian Local Government Association has undertaken a submission to the Inquiry at the first stage of the review and I applaud them for advancing the views and collective voice of local government in WA. Speaking as the Economist resource at Conway Highbury, the Commonwealth Government deserves applause, the Treasurer in particular for calling for this inquiry, as the research conducted and analysis performed for the Town of Port Hedland indicates that Port Hedland need not fear a worst-case economic scenario because the economic reality is teetering towards it!

Parts of the economic analysis report submitted to Port Hedland have been incorporated into this submission in the absence of any explicit instruction re the work along with the view that what is provided is of a general nature. A series of economic indicators were identified and analysed as part of the consultancy work, some of which are presented with the emphasis on those elements that are limiting the capacity of this region to successfully transition its economy.

There are a number of unique characteristics about the Port Hedland economy that are the focus of this submission including the implications of so-called budget repair measures being pursued by the McGowan Government, unemployment is another, population drift is a primary concern as are residential and industrial property values and the impact of business exists. Iron ore prices are mentioned briefly but this brevity is in no way indicative of its importance, it is an all-encompassing defining product that underscores the reason for the Town's existence.

The significant reduction in residential property values in the town may offer a financial incentive for potential home buyers but approximately 70% of residential housing in Port Hedland is rented or owned by investors. It appears it is a place people invest in and work in but don't seem to favour living there. The extent of the residential housing slump and other non-residential property values regardless of limited benefit remains a double-edged sword, with the Banks ultimately holding sway over a catastrophic or slightly less catastrophic outcome for the Town. If investment property debt is recalled en masse it is likely to produce another economic body-blow as the number of property owners who have mortgages that exceed the value of the properties aka negative equity is likely to reflect the investment property mortgage norm i.e. high debt to equity ratio and interest only payments.

Much of this submission is descriptive in nature and where qualified to do so comment on a number of the Initial Findings is offered. It would be very satisfying to be able to prescribe solutions and in some instances it is felt the advice is more about what not to do, which revolves around perpetual planning. Economic development is about getting things done and making things happen. It's not about glossy brochures, 1 Executive Officer and cosy Board positions for those on the same side or is it?

Conway Highbury is very supportive of this Productivity Commission review, it has made this submission based upon its awareness that some communities are finding it difficult to make the economic transition and views itself a stakeholder in the debate and what may follow by way of policy response. As an organisation we are very much looking forward to viewing the final conclusions and recommendations.

Yours faithfully

JOHN McILHONE
Director

Introduction

This submission commences with providing the introductory comments and some of the background of an Economic Scenario Analysis task that generated a worst-case economic scenario for the Town of Port Hedland (as a community, a local authority and economic entity). What follows provides an insight into the purpose and process, which was essentially an understanding of the impacts and financial consequences of an economic crisis upon the town and the council. There were a number of assumptions made upon which the economic scenario is premised and these have been summarised as well but as the analysis progressed, the worst-case scenario gradually morphed into an emerging economic reality.

There is feedback on a number of the initial Findings in this submission and these are made at the conclusion. Having an insight into the current status of Town of Port Hedland economy and the consequences if it were to crash under-scores the comment offered on the Initial Findings.

As an economic development practitioner, it must be stressed there is never a one-size fits-all solution or policy remedy and in some instances it could be argued that no intervention will work and therefore the township needs to be left to expire naturally. The European Commission's intervention as part of a process designed to economically elevate lagging regions so called Objective 1 and 2 Regions using unemployment as the "economic standard" and using Germany's employment and wealth as the comparative measure-target. The European Regional Development Fund or ERDF operates still and a summary is copied from the Commission's website as Appendix 2. The purpose of the regional development policy pursued by the Commission in the years leading up to the Maastricht Treaty of Union was to achieve economic and social cohesion with the distribution of grant funding to qualifying regions seen as the answer. Thus, it was those agencies or entities that were good at completing applications for funding, acquitting that funding accordingly and fulfilling all the other conditions of the project funding requirements that were duly awarded with a Ministerial presence at the successful conclusion of projects.

Let us return to Australia and commence with understanding what it was Conway Highbury was asked to do and what it did for the Town of Port Hedland.

Undertaking an Economic Impact Analysis

The economic impact analysis commenced with obtaining from the Town of Port Hedland the economic base-line data and agreeing those indicators of most relevance and importance to the local economy. The importance of those indicators was demonstrated and affirmed by their significance in terms of volumes and dollar values i.e. their economic importance and impact. A vast amount of relevant industry data, research and commentary was sourced and used to demonstrate the impact and implications of declining or diminishing economic indicators upon the Town of Port Hedland as a Local Authority and the Town as an economic entity. In the case of unemployment this indicator was rising but insignificant as it was population drift that became the most acute economic indicator. Further comment is provided on this in the submission but essentially when people become unemployed in Port Hedland they simply leave.

The analysis identified and incorporated assumptions including the timeline and was based upon known economic trends and future projections, with the bulk of the assumptions being unfavourable (e.g. increased industry input costs, geo-political instability, falling population and rising business failures etc…). In undertaking the analysis there was a particular focus upon population, resources and commodity values, incomes and private wealth (including housing values), cost of living issues, migration movements, business investment or lack thereof, other tiers of Government expenditure(s) and the capacity of the local small business community to adjust or transition in a declining or shrinking economy.

The Key findings sought to conclude the capacity of the Town as an entity to function in its capacity as a service provider and the local economy to withstand the impact of a severe economic downturn, deemed a worst-case scenario. The following is from the final Report.

Undertaking the Economic Impact Analysis

Introduction

……There is a vast amount of industry data, research and commentary which has been sourced and reviewed to gain an appreciation and understanding of what drives the Port Hedland economy. Base-line economic data has been considered, the economic indicators identified and assumptions adopted to create a dire economic future, a worst-case scenario for the Town of Port Hedland as an economic entity and as a Local Authority. It is this scenario and its potential financial impact upon the Town that will become the basis for contemplating the consequences and appropriate responses.

The analysis identifies and incorporates economic, socio-political assumptions including a timeline and is based upon known economic trends and projections. In generating the worst-case economic scenario, the prediction of a future economic crisis uses these assumptions to shape the scenario and unsurprisingly all of the assumptions are unfavourable or challenging. In undertaking this analysis there is a particular focus upon resources and commodity values, namely iron ore , prices, incomes and private wealth (including housing values), population and migration movements, consumption, business investment or lack thereof, other tiers of Government expenditure(s) and the resultant economic impact upon the people, businesses, the community and the Town of Port Hedland Council.

Financial assumptions have been stated as a basis for further analysis so the revenue implications can be forecast. While the worst-case-scenario and its findings remain primary, a re-focus upon those indicators of most consequence to the Town's revenues is also presented and include: population loss, dwelling ownership and construction, business exits and commercial-industrial dwellings and wages and incomes. A hypothetical set of accounts has been generated using these findings to demonstrate and quantify the revenue and financial consequences for the Council from this scenario.

Background

The health or otherwise of Port Hedland economy revolves around the well-being of the resources sector, primarily the extraction, transportation and export of iron ore. The purpose of this Part 2 task *of the Financial Analysis Study is to provide an insight into the impact and consequences for the Town of Port Hedland of a worst-case economic scenario afflicting the minerals and resources sector.*

The scenario is premised upon declining and/or soft and/or volatile commodity values and the commensurate impact this will have upon the local economy as a result of declining economic activity. Realism is a key consideration in shaping the worst case scenario, with the underlying economic assumptions supporting the narrative of the adverse "economic situation", hence the introduction of a financial shock to the Chinese economy, a credit crunch.

Key Economic Uncertainties

The creation of the economic scenario is based upon actual figures, they are the base-line or a starting point with the trends used to forecast where the economic indicators will be in 12 – 24 months as we plunge toward the worst-case economic scenario. The economic indicators identified need to be considered in light of the assumptions made about certain events occurring and as always, the analysis seeks to exhibit a sense of reality.

In maintaining the realistic perspective there is a predominant focus on China. Due to its' over-whelming significance as a trading partner it is the downside risk of the Chinese financial system, its slowing economic growth and reduced commodity demand which become the economic reality for Port Hedland. If we consider recent Chinese stimulus, existing high levels of debt, significant excess capacity in some sectors and the potential for financial dislocation if shadow lenders fail, the prospect of economic disruption in China becomes elevated.

Add to this recent policy announcements by the new US administration, it appears the rise of protectionism is imminent which will inhibit international trade and damage trade relationships. Geo-political tensions in the South China Sea and Western Pacific with the deployment of the U.S. Navy to fulfil its pivot pledge to "contain Chinese influence" in the region and the expected tensions will exacerbate. The Korean Peninsula needs no further comment on its potential to generate a crisis and as always global financial markets do not like uncertainty and they will respond accordingly.

In summary, the worst-case scenario is built around the following assumptions which are expanded in the following section of this report.

- *The current strength of iron ore and other commodity prices will unwind*
- *Iron ore exports and trading volume will decline*

- *Oil shock, inflation risk and $A currency depreciation*
- *Upward pressure on interest rates will further reduce demand and consumption*
- *Mining investment, wages and household consumption to remain flat*
- *Equities markets react, corporate profits, company stock values decline*
- *Unemployment and underemployment will rise, labour market participation will fall*
- *Regional population drift with levels declining further*
- *Residential construction, rents and housing values continue falling*
- *Output declines and economic growth contracts i.e. stagnation*
- *Housing stress, record consumer debt, employment prospects and negative expectations have damaged consumer sentiment*
- *Homeowners confront negative equity, mortgage defaults rise*
- *Retail spending figures fall along with the household savings ratio*
- *Increasing small business failures and rising bankruptcies*
- *Corporate cost cutting measures*
- *projects on-hold and smaller mine closures*
- *Significant reduction in State Government royalties and taxation revenues*
- *Reduced Federal and State Government spending aka budget-repair*
- *Town of Port Hedland operational revenues decline*
- *State Government Programs to be reviewed*
- *Increased government fees and charges well above CPI reduce demand further and damage consumer sentiment*
- *Financial assumptions (TBC) nominated for discussion, amendment and/or additions*

These assumptions are incorporated as an Appendix and were the building blocks of the worst-case scenario; they shaped it and are of particular economic, socio-political and geo-political significance. Where it was felt further understanding of the assumptions was necessary, further comment was provided to the client and they are also included in this submission.

The information in the report was sourced from the abundance of documents and published commentary, from numerous and varied stakeholder agencies with the statistics actual figures. When the figures are reproduced directly the sources were cited but where data was subjected to review and interpretation the findings and conclusions are those of Conway Highbury. It would be remiss to not make mention of the state of the WA economy at this point and why it finds itself a basket case. If one considers the scale of revenue generated by the resources boom in Western Australia and the government's commensurate income it is difficult to logically accept that associated with this income bonanza is a record level of state debt, something in the vicinity of $42,000,000,000.

The capacity of the WA state government to contemplate let alone provide or contribute solutions to the regional economies transition debate appears to be limited and it may quite simply be the challenge of the debt burden that is the culprit.

……….The Western Australian Economy – A Context

Unfortunately, there is nothing in the national economic outlook that will enhance or improve the real-life fiscal outlook for Western Australia. The WA economy is in tatters and economic growth is expected to continue to be well below trend in 2016-17 (1.4%). The WA domestic economy has contracted for a fourth consecutive year, "despite a further expansion in exports due to increases in iron ore volumes (primarily as the Roy Hill project expands) and production from new LNG trains, notably Gorgon" (WA Treasury Annual Report 2015/16).

"On average, the iron ore price is expected to be slightly lower over 2016-17, with additional supply from Brazil and Australia occurring in the context of moderating demand from China. The contraction in the domestic economy is being accompanied by weak employment growth and continued modest wages growth. Population growth is also forecast to remain subdued by recent standards and it is these factors which are expected to lead to a decline in state taxation revenue in 2016-17" (WA Treasury Annual Report 2015/16).

This is commentary from the WA Treasury Corporation which now refers to Government Expenditure as *Expenses* which they declare "have increased, on average by 7.7% p.a. over the past 10 years. In contrast economic growth or state output over this same period has averaged only 3.4% p.a. It would appear Western Australian Treasury Officials don't get out much, have an aversion to telling politicians how it really is or they, and/or our elected officials don't know, don't listen, don't care and/or collectively can't read balance sheets!

The Relevant Findings

Iron Ore – Dependency and Price
Wages Growth and Incomes

In 2016, wage growth in Australia was the lowest in the history of the Wage Price Index series which measures the change in wages from a fixed 'basket' of representative jobs. Through-the-year annual growth in the index for June 2016 was 2.1 per cent, the lowest level since the late 1990s. Add to this data from the RBA and it is suggesting that both the frequency and the size of wage increases have been falling in the past 10 years. For example, the share of jobs in the past year that had a 10 per cent increase in salary was less than 10 per cent, compared to 40 per cent six years ago. The falling terms of trade and low business confidence explain the weak wages growth.

The wages and salaries paid by businesses and organisations in the Pilbara Region are estimated at $5.675 billion. Pilbara Region represents 23.94 % of the $23.704 billion in wages & salaries paid by businesses and organisations in Regional WA, 5.57 % of the $101.876 billion in wages & salaries paid by businesses and organisations in Western Australia and 0.71 % of the $800.956 billion in wages & salaries paid by businesses and organisations in Australia. Of the total $5.675 billion paid in wages & salaries in Pilbara Region:

- *$1.374 billion wages & salaries is paid in Ashburton (S) (24.21 %)*
- *$1.431 billion wages & salaries is paid in East Pilbara (S) (25.21 %)*
- *$975.438 million wages & salaries is paid in Port Hedland (T) (17.19 %)*
- *$1.896 billion wages & salaries is paid in Karratha (C) (33.41 %)*

Definition: *Wages & Salaries in this report refers to the value of entitlements earned by employees from their employers for services rendered, includes wages and salaries received by employees in cash and in kind (e.g. provision of food, accommodation or motor vehicles), and employers' social contributions such as superannuation contributions and workers' compensation premiums.*

Source: Australian Bureau of Statistics Cat. 5209.0.55.001

The mining industry paid wages of around $26 billion in 2014-15, with the broader mineral resources sector bringing the total to almost $34 billion (ABS 2016a; 2016e). According to Skills-DMC, average incomes per person were almost $200,000 in the oil and gas sector in the 2015 financial year, while iron ore was not far behind at almost $184,000. (Minerals Council of Australia)

In the case of iron ore mining, for example, it shows $100 of final demand is associated (as expected) with around $100 of gross value added in the Australian economy, of which around $76 is internal to the iron ore industry itself with the balance of around $24 trickling in to other sectors such as business services, construction, mining support services, finance and wholesale trade sectors (Minerals Council of Australia).

Table 1 **GVA requirements matrix: selected entries**
(Impact on GVA of a $100 increase in final demand for the sector in the column)

	Coal mining ($)	Oil & gas extraction ($)	Iron ore mining ($)	Non-ferrous metal mining ($)	Non-metallic minerals mining ($)	Exploration, mining support services ($)
Own industry	40.40	66.70	76.05	33.15	48.62	55.60
Exploration, mining support services	5.69	1.02	1.73	3.35	4.25	As above
Structural metal manufacturing	0.94	0.41	0.36	1.10	0.62	0.62
Construction services	1.92	2.07	1.60	3.14	2.27	0.97
Wholesale trade	2.95	1.75	0.98	4.12	2.30	1.77
Finance	3.41	4.34	1.75	3.26	3.36	3.01
All services	41.79	25.59	16.44	42.87	34.14	34.96
Total 144 industries	99.48	99.46	99.65	98.50	98.90	99.39

Source: ABS 2016a and TNC Calculations. Data on 'All services' includes 'exploration, mining support services' except for that industry itself.

Impact Analysis

A striking feature when looking at flow-on affects from mining industries in the GVA matrix above is the significance of the export revenue to the services industries. For iron ore, $100 of final demand (exports) is associated with gross value added for services industries of around $16. Services which benefit cover a wide range of industry sectors, among them construction services, exploration and mining support services, wholesale trade and finance.

Table 2 **Jobs associated with $1 billion in exports: selected mining industries**

	Coal mining	Oil & gas extraction	Iron ore mining	Non-ferrous metal mining	Non-metallic minerals mining	Exploration, mining support services
Total jobs	4,830	2,690	1,840	5,380	Not applic.	Not applic.
Own industry	980	450	380	1,020		
Other industries	3,860	2,230	1,460	4,360		

Source: ABS 2015b; 2016a; 2016b; and TNC Calculations. Jobs are full-time equivalents. No data are provided for 'non-metallic minerals' and 'exploration, mining support services' because their exports are well below $1 billion dollars.

The impact of the worst case economic scenario upon incomes and consumption is stark. If we consider Table 2 which stipulates the jobs associated with $1 billion in mining exports, we can see this equates to 380 jobs in the mining sector itself and indirectly these exports also generate and/or support up to 1,460 jobs in other industries. If we apply this metric to the value of Western Australia iron ore exports worth $48.4 billion in 2015/16 this created or sustained 18,240 jobs directly or indirectly 70,080 jobs nationally.

If we consider the worst case scenario and a hypothetical reduction in iron ore value and export receipts to the tune of A$13.9 billion we can use the Table 1 matrix to conclude the economic impact this would have on those other sectors that benefit indirectly from iron ore exports and then use Table 2 to demonstrate the jobs losses i.e.

2015/16 - $48.4 billion iron ore exports = 18,240 direct jobs and 70,080 indirect jobs

2016/17 - $34.5 billion iron ore exports = 13,110 direct jobs and 50,370 indirect jobs

A plunge of iron ore in value and export trade volumes would have a catastrophic impact upon Port Hedland and the local economy but it would also be a major shock to the national income and the nation's economy. The situation and importantly the required responses would acquire a national perspective and priority.

Economic Indicator – Housing and Other Dwelling Values

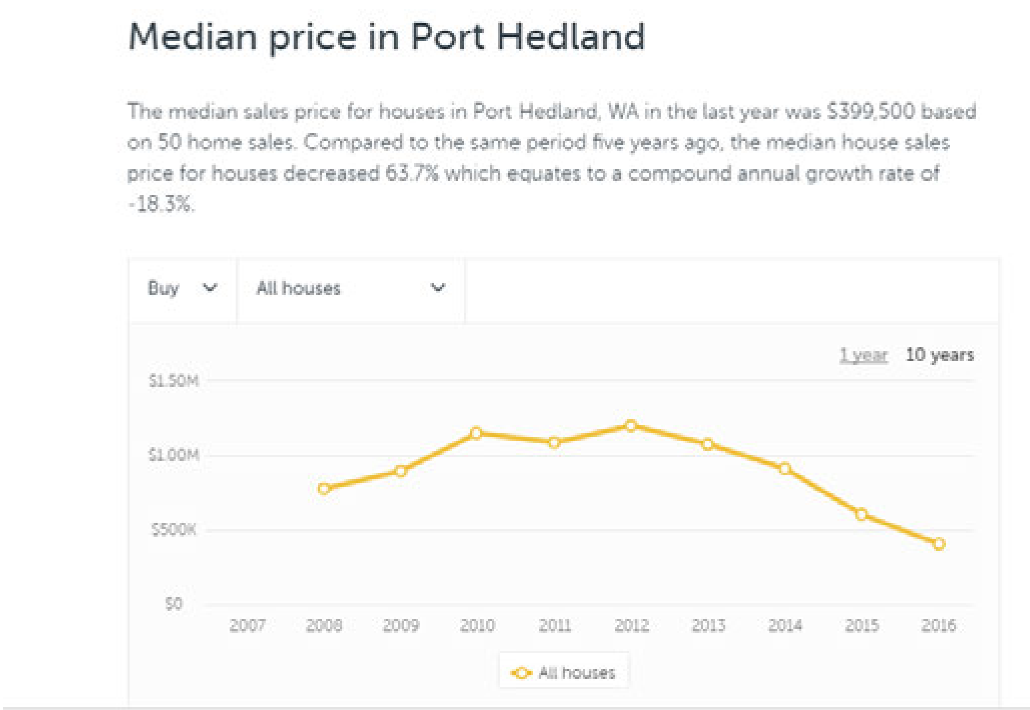
- Minimal new investment will continue to undermine housing values;
- Dwelling values to remain on the downside
- Sales activity to increase due to perceived bargains to be had

Background

Much has been written about the drop in house and unit prices in the Pilbara following the mining boom. With the mining sector having contracted sharply, thousands of jobs lost and workers are no longer working in the resources sector, they have left or simply not returned as many were FIFO (on average this was 80% of the workforce in the Pilbara during the construction phase of the mining boom).*

There are a series graphs reproduced here that illustrate the decline in these values. The question to pose is whether the trough has bottomed out and will prices now stabilise before they start to rise. In this worst case scenario that couldn't happen but starting from such a low base it is difficult to comprehend further steep falls in housing values and rents.

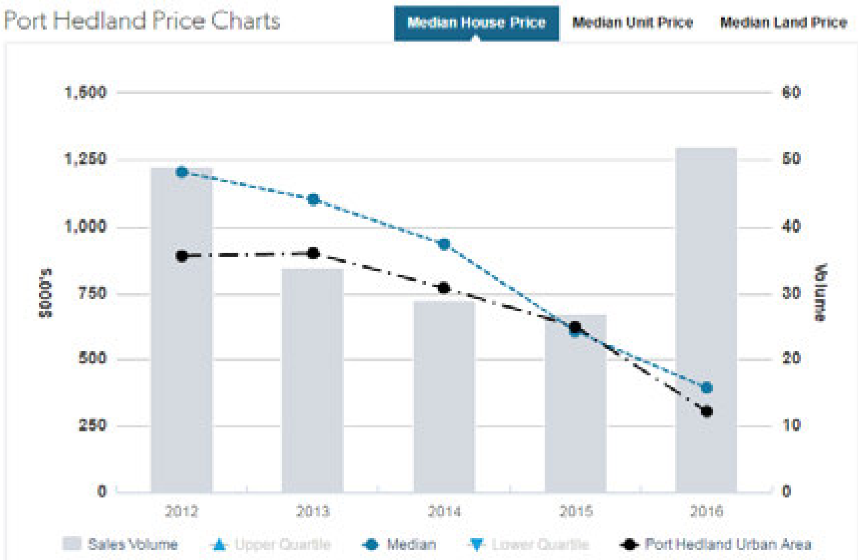
* CME Pilbara Study Nov 2012



Source: REA Group corporate website; www.realestate.com.au

Impact Analysis

In the absence of State Government funding initiatives and flat economic growth housing values will remain subdued with investors who can, simply bunkering down for any signs of growth. Like all mortgagers it is the "equity buffer" that will be the key to their financial stress or indeed occupancy levels and rents for property investors. It is this element of the mix that will determine the level of any *further decline in housing values. The unknown is the response from the banks and the other lenders. A large number of mortgage defaults may just encourage the banks to be more accommodating given the loss they would endure from large numbers of mortgagee sales.*



Based on Settled Sales as at 27 March, 2017

1 January 2016 - 31 December 2016

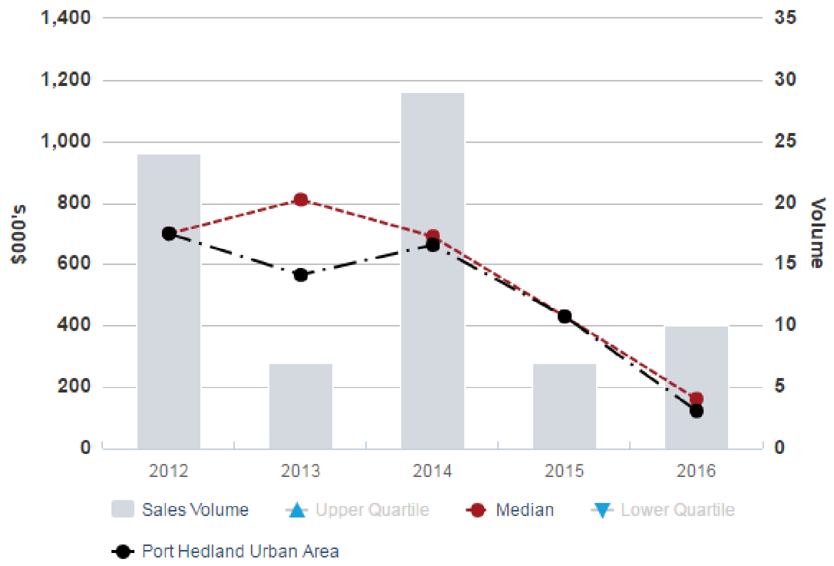
UPPER QUARTILE	MEDIAN	LOWER QUARTILE
$525,000	$392,500	$330,000

GROWTH RATES	YTD QTR	1 YEAR	5 YEARS	10 YEARS
Port Hedland	-12.8%	-35.1%	-18.6%	-2.0%
Port Hedland	-12.2%	-51.0%	-17.4%	-0.5%
CPI		0.5%	1.8%	2.4%

Source: REA Group corporate website; www.realestate.com.au

Port Hedland Price Charts

Median House Price | **Median Unit Price** | Median Land Price



Based on Settled Sales as at 27 March, 2017

1 January 2016 - 31 December 2016

UPPER QUARTILE	MEDIAN	LOWER QUARTILE
$320,000	$160,500	$150,000

GROWTH RATES	YTD QTR	1 YEAR	5 YEARS	10 YEARS
Port Hedland	3.6%	-62.7%	-26.5%	-4.8%
Port Hedland	-5.8%	-71.5%	-30.4%	-6.9%
CPI		0.5%	1.8%	2.4%

Source: REA Group corporate website; www.realestate.com.au

While devastating for those who bought property at the height of the mining boom in 2010/2011, the painful adjustment in the market has opened the door for owner-occupiers and could become the respite the market would need to cope with any further price shock. The banks would be pivotal in facilitating a: soft option or being party to an alternative of mass defaults and no-win mortgagee sales.

Further housing values decline would hurt all parties financially and also create a rates revenue issue for the Council with the numbers involved determined by the scale of the loss.

Population and Housing Indicators

Background

The population of Port Hedland fluctuates due to a large transient work-force which is influenced by the overwhelming size and economic importance of the mining and resources sector. The 2011 Census recorded the Port Hedland population to be 18,552 persons, although that census was undertaken when the mining and resource sector was set for unprecedented growth and expansion. The first data series to be released by the ABS from the 2016 Census will be on population and this will be available in July 2017.

For the purpose of this analysis the Port Hedland population is estimated to be 3773 residents and the population of South Hedland 9376 giving a total estimated, current population of 13,149 within the Town of Port Hedland local government area. This population estimate has been calculated using age range figures from Hometrack which are used in building a Port Hedland housing market profile.

Impact Analysis

The purpose of analysing housing values and the composition of housing stock which identifies owner occupier vis-à-vis rented housing, is to assist the Town of Port Hedland gain an appreciation and understanding of the population decline on rates revenues. The figures in the preceding tables provide an air of optimism in relation to residential rates revenues, notwithstanding any community expectation created around falling property values and commensurate rates reductions. Another positive is the ratio of houses to units and the percentage of rented vis-à-vis owned or properties being purchased which have positive connotations for rates revenue.

The departure of people from the Town due to job loss will adversely impact the local economy, as incomes decline, consumption falls and those people leaving will often take with them dependents and spouses who are of course consumers. It is the social impact upon the community which is difficult to quantify but if the population drift or decline is not overly dramatic from herein it is likely to be of lesser consequence to Council rates revenue. With 73% of housing in Port Hedland rented and whether tenanted or not the landlord retains the obligation to pay Council rates. In South Hedland the figure is similar with 67% of housing rented. The metric that is not known and which would indicate financial or mortgage stress is the equity or loan liability held on the rented property.

The attractive nature of property investment via Government incentives (enables investors to off-set losses against their income) has encouraged and perpetuated interest only investor loans, with capital growth expectations acting as a type of collateral, at least in the mind of the investor. That said prudential regulation is curbing debt to equity (property value ratios) loan ratios and retail Banks have increased investor loan interest rates outside of the Reserve bank rates cycle to deliberately curb demand. While this is not applicable to the Port Hedland property market, the decline in housing values has resulted in a significant wealth adjustment and a housing market reality that is expected to remain flat in 2017/18 and 2018/19.

The ABS figures for dwellings approvals confirms private residential and private non-residential dwellings construction is depressed with figures from the Council below, supporting this conclusion.

Economic Indicator – Business Exits

Background

There were 731 businesses operating in Port Hedland in 2016 with business exit figures trending up over the past 3 years since 2014. Of these total numbers of businesses 438 had no employees and can be classified as sole traders while the numbers of businesses that do have employees is illustrated below. There is a range of 1 - 4 employees, 5 – 19 and 20 – 199 employees with the numbers of businesses who have employees in each range. Those businesses with turnover of $200-$500k have shown more resilience and their numbers have been stable in 2014-2016.

What's of interest is the, number of businesses that have no employees and their fluctuation in terms of entry and exit, which one might expect is less fraught given the obligations and complexities businesses which have employees confront. The relevance of these figures is the impact upon the rates revenue levied on industrial and commercial properties, which may be owned and occupied by the business owner or be leased.

Businesses in Port Hedland	2014	2015	2016	2017*
Total Number of Business	803	762	731	692

***These business figures are estimated based upon trend: Pilbara Development Commission**

Number of Business	2014	2015	2016	2017*
Turnover of $0 – 50K	146	131	129	126
Turnover of $50 – 100K	101	99	102	102
Turnover of $100 – 200K	162	136	141	141
Turnover of $200 – 500K	151	136	153	153
Turnover of $500– 2M	113	124	118	112
Turnover of $2M +	92	74	64	60

***These business figures are estimated based upon trend: Pilbara Development Commission**

Number of Employees	2014	2015	2016	2017*
0 - Employees	468	480	438	401
1 – 4 Employees	203	160	171	170
5 – 19 Employees	96	91	90	90
20 – 199 Employees	36	31	32	31

***These business figures are estimated based upon trend: Pilbara Development Commission**

The tables are referred to as Business Counts and are based on snapshots of actively trading businesses as at June 2014, 2015 and 2016 from the Australian Bureau of Statistics Business Register (ABSBR). The ABSBR contains counts and rates of business entries and exits from the Australian economy as well as counts and rates pertaining to the survival of businesses. This count only includes businesses which actively traded in goods or services during the reference period.

The percentage changes in business counts from year to year reflect the entry and exist of businesses and it is important to note that the percentage changes also reflect turnover and staffing level changes in these businesses.

Source: Australian Bureau of Statistics, Counts of Australian Businesses, including Entries and Exits, Cat. 8165.0 (Jun 2012, Released May 2015. Jun 2013, 2014, 2015 & 2016, Released 26 Feb 2017

Note: Due to a change in ABS methodology, care should be taken when comparing data since the 2014 release with earlier releases. Percentage changes of business counts from year to year reflect entries and exits of business. It is important to note that the percentage changes also reflect turnover and staffing level changes in businesses. Therefore, a large percentage change, for example in businesses employing 200+ staff, does not necessarily mean an exit or entry of large firms but may instead relate to changes in staffing levels.

Impact Analysis

If we consider the larger businesses with turnover of $2 million or more in 2014/15 and 2015/16 that have been exiting Port Hedland, approx. 18 exited in 2014/15, a further 10 in 2015/16 and for 2017 an estimate of 4 more, a total of 32 businesses. A quick analysis of the average wages paid as a ratio (percentage) of turnover or total sales provides a basic illustration of the pay packets that have been removed from Port Hedland when those businesses exited.

The ATO benchmarks key financial ratios for business based on size ($2M turnover) and sector but we will use the business size or annual turnover of $2M. If these Port Hedland businesses were paying wages as a percentage of turn-over (45% average) as benchmarked by the ATO they would have been paying wages and salaries equal to 45% of turnover or $900,000. If we multiply this $900,000 x 32 business, $28,800,000 in pay packets, have been removed from the Port Hedland economy in this business size segment. It is a basic analysis but it can be applied to all the business sizes based upon turnover to understand the direct financial loss upon the Town as an economy.

The Town of Port Hedland levies rates on 151 commercial and 408 industrial properties. With total business exits forecast to decline by a further 5.6% in 2017 one needs to factor in the ownership of the business premises which is difficult data to acquire. If we compared commercial-industrial to residential dwelling ownership, which has approximately 70% of housing rented we could use a similar figure to estimate commercial and industrial unit ownership. As such the Leaser would have Lease Agreements that legally binds and compels the Leasee, as part of out-goings to pay council rates, fees and charges.

The impact of businesses exiting the town and their premises may have some impact upon rates revenue from these businesses in the short-term. There are other factors at play and if the business exit results in bankruptcy or a New Co. or liquidation then this creates a queue of creditors and would result in non-payment of rates and an outstanding debt. In order to calculate the impact pf these business exits on Council's rates revenue we could assume of the 39 businesses exiting in 2017, 30% or 12 have leased premises and of these 10 have closed shop due to trading conditions and face bankruptcy.

Economic Indicator – Iron Ore Price – incomes and Wages

Background

Iron ore sales from WA reached a record 756 million tonnes in 2015–16 which was a 5 per cent increase on the previous period due largely to, increased production by the three major producers: Rio Tinto, BHP Billiton and Fortescue Metals Group (FMG). Despite this production spike the effect of continued low prices saw the value of Western Australian iron ore fall 11 per cent, from $54.3 billion in 2014–15 to $48.3 billion in 2015–16.

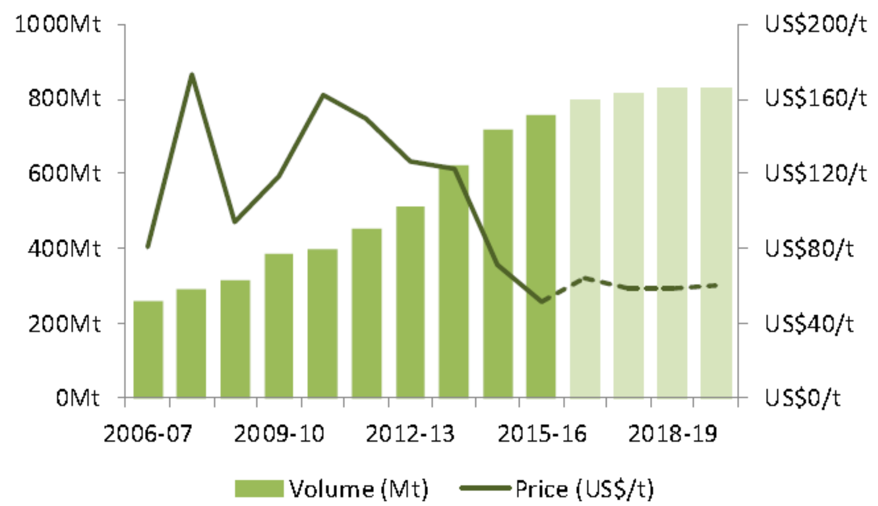
It is estimated there is around 130 to 140 million tonnes of iron ore capacity in China. Despite this commodity analysts estimate there is approximately 70 million tonnes a year net surplus of iron ore in the market so it is assumed the Chinese are building some sort of stock pile. The reasoning behind this development or possible theory is national security concerns or more specifically an anticipated interruption to free-navigation and sea-faring trade.

Industry analysts are basically at a loss to explain the current (21 March 2017) surge in iron ore prices [$88.99 (US/t)] but the widely held view in the industry, which is also the view of the Federal Government (Australian Treasury forecast [$55.00 (US/t) for 3rd Qtr. 2017), is that iron ore supply exceeds demand and that current prices will not be sustained. As at 19 April 2017 the iron ore price is residing at $63.20 US/t or in approximately one month the price has fallen by 29% and as at 15 May 2017 the spot price has declined further to $61.01 US/t (24 July - $60.05 US/t). Iron ore is trending very much toward the Australian Treasury 2017 3rd Qtr. forecast price of $55.00 US/t.

96% of Western Australia's iron ore exports come from the Pilbara, including both, iron ore and petroleum, the region produces over two-thirds of the State's commodity exports and roughly 20% of Australia's total merchandise exports by value (RDA Pilbara, 2014). This was the starting point for the worst case economic scenario, the unravelling of iron ore exports and values as China descends into financial turmoil. The consequences for Western Australia and the nation let alone Port Hedland are damaging but the trend figures that follow somewhat support the scenario and should be heeded by the Council as part of their budget processes or expectations.

- *The value of Western Australia's iron ore sales fell 11% to $48.4 billion in 2015-16, compared with an annual average growth of 14% over the past ten years.*
- *The volume of iron ore sales rose 5% to 757 million tonnes in 2015-16, below annual average growth of 12% over the past ten years.*
- *The annual average price of iron ore sales fell 15% to A$64.0 a tonne in 2015-16.*
- *The WA Government Mid-year Financial Projections Statement forecasts a rise in Western Australia's iron ore sales to 830 million tonnes by 2019-20.*
- *CITIC Pacific's Sino Iron (28mtpa) and Hancock Prospecting's Roy Hill (55mtpa) projects are ramping up production.*
- *Rio Tinto is developing Yandicoogina/Oxbow, West Angelas F, Silvergrass and Nammuldi deposits (over 40mtpa), and proposing to develop the Koodaideri deposit (40mtpa) by 2021, to utilise newly installed infrastructure.*
- *BHP Billiton is ramping up the Jimblebar mine and optimising its supply chain to raise output. It is proposing to develop the South Flank deposit to replace Yandi mine production by 2021 (80mtpa).*
- *FMG needs to replace Firetail mine production by 2021 (23mtpa).*

Iron ore sales and price outlook



Source: WA Department of Mines and Petroleum, Resource Data Files; World Bank Commodity Markets, Monthly Price Data; and WA 2016-17 Mid-year Financial Projections Statement.

The WA Government Mid-year Financial Projections Statement forecasts an annual average price of iron ore of US$64.3 a tonne in 2016-17, easing to US$60.0 a tonne in 2019-20 and the graph on the following page provides pricing prediction for all resources and energy commodity exports out to 2018. Without the scenario the values and volumes are declining.

Australia's resource and energy commodity exports

		volume			value		
	unit	2016–17	2017–18 f	% change	2016–17	2017–18 f	% change
Alumina	kt	18,211	18,211	0.0	5,843	6,106	4.5
Aluminium	kt	1,490	1,532	2.8	3,350	3,463	3.4
Copper	kt	981	1,024	4.4	7,579	8,549	12.8
Gold	t	323	317	-1.6	17,353	16,929	-2.4
Iron ore	Mt	832	879	5.6	62,230	57,021	-8.4
Nickel	kt	186	219	18.1	2,245	2,855	27.2
Zinc	kt	941	985	4.7	2,634	2,552	-3.1
LNG	Mt	52	67	28.5	23,713	37,000	56.0
Metallurgical coal	Mt	191	191	-0.3	39,988	26,661	-33.3
Thermal coal	Mt	208	208	0.2	18,370	17,395	-5.3
Oil	kbd	244	295	20.8	6,221	8,723	40.2
Uranium	t	7,141	7,850	9.9	907	995	9.8

Notes:
b In current financial year Australian dollars.
f forecast.
Source: ABS (2016) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2016)

(WA Department of Mines and Petroleum)

The Impact Analysis

The export of Iron ore to a large degree defines the Port Hedland relationship with China. The table above is the forecast values and export quantities of minerals published by the WA Department of Mines and Petroleum. One can see that it predicts higher export volumes but slightly lower prices, business as usual. However, in the event of a quite significant reduction in export volume and values, which is the basis of a worst case scenario for Port Hedland, the dire economic impact would commence. As illustrated previously the values and volumes of iron ore exports are forecast to fall in 2016/17 by 12% followed by a worst-case-scenario collapse in 2017/18, it was the trigger for the, China Syndrome!

To understand and appreciate the economic reality of the situation regarding iron ore export values, the analysis commences with the number of jobs associated with the iron ore industry. It is estimated that 1840 jobs directly or indirectly "for every $1 billion in iron ore exports" are generated and/or supported, "with approximately 380 jobs in iron ore mining and another 1460 in other sectors" (WA Department of Mines and Petroleum). This finding is fundamental and impacts upon all economic indicators of consequence to the Town of Port Hedland, they are all interconnected to this premise.

For example if we considered a $13.9 billion reduction in iron ore exports in 2016/17 this would result in the loss of 7600 iron ore mining jobs and 20,850 indirect positions supported by iron ore mining. The consequences for Port Hedland in terms of employment, local business, incomes and household finances, property values and importantly future prospects and profits would be enormous.

Conclusion

What emerged as very evident from the economic analysis of Port Hedland (undertaken by Conway Highbury) as an economic entity, is its reliance upon the iron ore industry as a generator of jobs, income, wealth and indeed their resident population. It is literally a one-horse town and has been since it was established. It has also over many years been the recipient of economic diversity strategies developed by statutory planners who have a duty to produce these economic development plans that seem to have gone nowhere and done nothing to diversify the Port Hedland economy. Policy makers in WA would appear to operate on the basis and belief that these economic cycles ebb and flow along with commodity demand and prices and are now simply waiting for the next boom to fix things!

While this submission is brief and has not considered the social element explicitly, one can more than hazard a guess that volumes of material is being or will be generated on that topic that will offer an insight into the impacts and consequences upon regional economies of the loss of people and their social capital.

It would appear, those factors contributing most to the challenge confronting the capacity of the Town of Port Hedland to successfully transition their economy, are as follows:

- Population drift or loss of residential population
- The extent to which the Town is viewed and used as an investment destination only e.g. 73% of residential property is rented
- The ongoing predominance of FIFO in the mining sector
- The rapid decline in residential property values
- The number of businesses exiting the Town
- Government(s) budget repair and declining mining royalty revenues
- China

There are some metrics reproduced within this submission but the quantitative analysis performed as part of the economic analysis was quite basic. There were other financial details provided to the client that are not included in this submission as these figures are deemed to be of commercial-in-confidence or not relevant.

It is worth noting that unemployment is one economic indicator of particular relevance to most regions, certainly the unemployment or jobless rate in Perth is an unfavourable indicator of soft economic activity. However, in Port Hedland the unemployment rate is just over half that of Perth and is hovering around 4% which suggests that when people become unemployed they leave town.

This not only reinforces the transient nature of the workforce and lack of economic diversity but it suggests that the skills sets of these displaced workers are not readily transferable or applicable to other sectors or job opportunities. It would appear jobless miners have minimal prospects when it comes to obtaining suitable, alternative employment in Port Hedland.

Initial Findings Comments

Initial Finding 3.3 suggests that mining regions with smaller mining operations have less adaptive capacity due to the size of those operations. It is acknowledged that size matters when it comes to the cost of extracting and transporting iron ore the only thing different it is suggested is scale. The Port Hedland findings indicate the size of the town and the miner is not a significant contributor to adaptive capacity. The scale of the mining operations, simply enable it to get it out of the ground more cheaply and it is not a prompt for generating or achieving economic diversity. One needs to remember that 80% of the people who work in Port Hedland are not inhabitants.

Initial Finding 3.4 is a very observant finding and it is agreed that the impact and consequences revealed in the Commission's initial report re Mandurah in particular is very pertinent and very painful for that community, with unemployment hovering at around 12%. The challenge for WA and for those areas of Perth now suffering is finding the appropriate agency to actually focus on the problems, the possible solutions and do something about it! Where is Regional Development Australia in this mix? They have a wonderful plan called *Driving Change - Perth and Peel Economic Development Strategy and Infrastructure Plan* and one person at the wheel. Like many Commonwealth agencies it is the drive of the Officer charged with making it all happen which amounts to convincing partners with resources to get on board.

Initial Finding 4.2 is at the heart of the challenge facing regions in trouble and defines Port Hedland as a region that is unable to adapt. People are leaving, it is remote and has no other economy (1 detached house was built in Port Hedland in 2015) apart from iron ore mining. Its senior football team can no longer field a side! The school enrolments are most likely declining as well, although this is not known.

Initial Finding 5.1; Initial Finding 5.2; Initial Finding 5.3; Initial Finding 5.4; Initial Finding 5.5 and 5.6
Yes to all of the above, it is agreed that intervention needs to be appropriate, timely and impacts measurable but get the right people involved and engaged. Local government may not be the right entity to lead the charge or take responsibility for the task but they will have a notion of where to start and they will know who else can be engaged to help. The views of the author on the capability and suitability of the State to add value to the debate let alone the solution is reserved but one outcome that is being anticipated with some relish is learning which WA Government agencies made a submission to this inquiry.

Final Comment

Key observations since undertaking and completing the economic analysis of the Port Hedland economy, in order to generate a worst-case scenario for the Town of Port Hedland Council are:

- Its knowledge of the local economy has been enhanced by the study and its findings

- The capacity of local government to enable or mange any economic adjustment or transition from the reliance and significance of iron ore upon the Port Hedland economy is marginal
- Population drift or decline is synonymous with high unemployment in other regions with large numbers of unskilled or unqualified-displaced-workers and immobile job seekers
- The state government is suffering reduced royalty revenues as iron ore prices fall and is seeking revenue alternatives to plug the holes in the state's budget
- The state government 's alternative revenue sources will result in more fiscal pain for a beleaguered community already confronted with significant increases in fees and charges, falling real incomes, rising unemployment and underemployment and falling confidence
- The state government is not operating in a strategic mind-set vis-à-vis the capacity of those regional communities unable to transition their economies post mining-boom, they are pre-occupied with budget repair.

Submission Ends

For further information contact
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Appendix 1

Economic Assumptions - A Definition

In order to provide an insight into the value and relevance of assumptions in creating a credible and realistic worst case scenario for the Port Hedland economy, we start by simply explaining what economic assumptions are. An organisation or firm or any trading enterprise will often make assumptions about what the economic environment will be like during a certain time period, in order to: predict how this will affect or influence an upcoming project or plan or option or operation or business function. An assumption is about the cause and effect so we are essentially stating the "what if" (this occurs) to simulate a dire economic reality.

For the purpose of this study an economic assumption, is referred to as a possible situation or event that will help us understand its economic impacts. A number of economic and socio-political variables that will impact upon the local economy have been identified and are listed as the assumptions. They can be accepted, rejected, amended or additional assumptions may be adopted as part of the worst case scenario conversation.

N.B. the assumptions are not listed in any particular order and do not reflect economic significance but the explanatory material and the statistics are factual.

Assumption 1

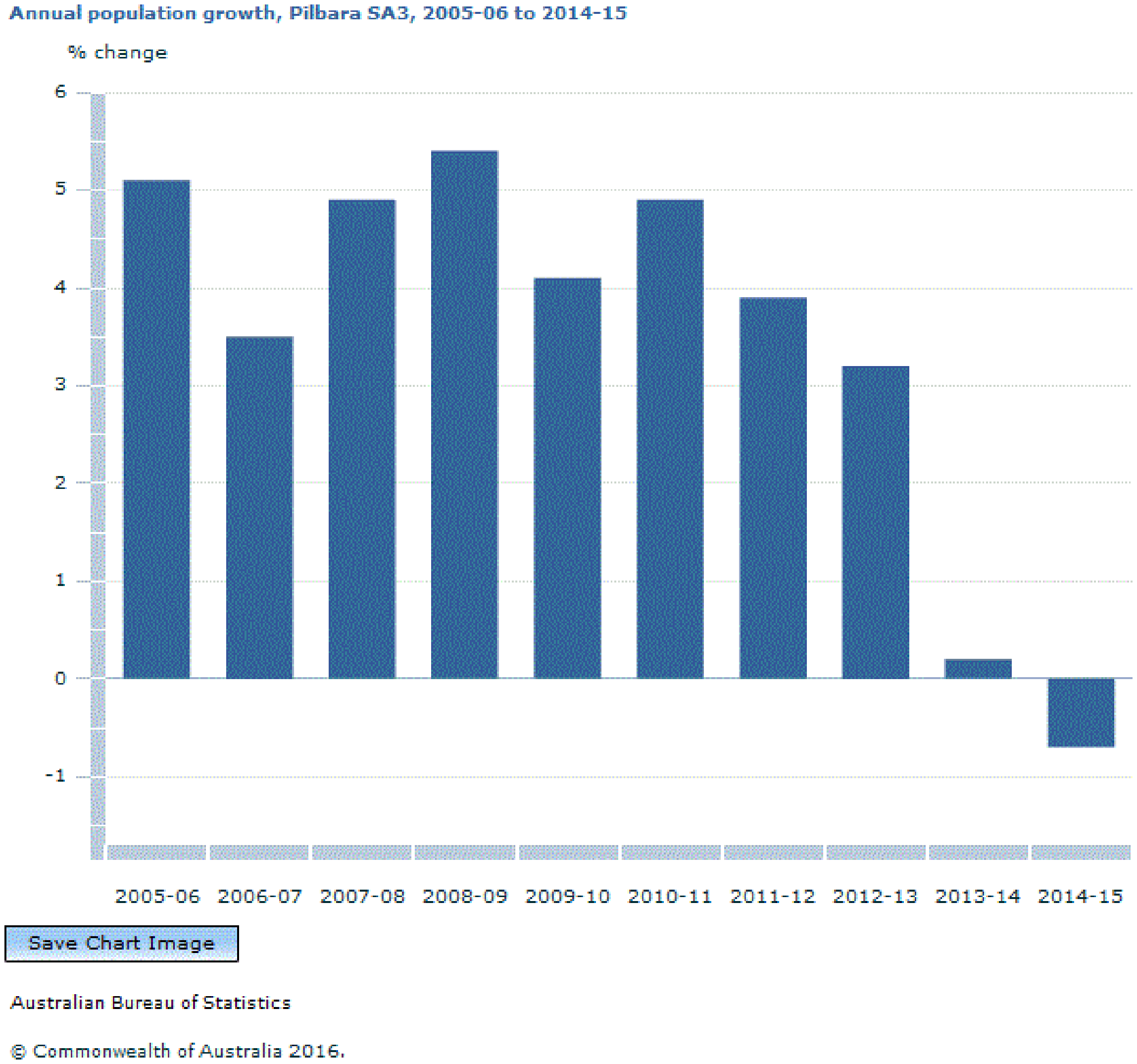
The downward trend in mining and resources sector employment will continue due to reductions in business investment and as a consequence the population in the Pilbara and Port Hedland will continue to decline.

Since 2001 employment in mining began its rise and over the next eleven years the number of people working in this sector more than tripled, to a peak of 275,200 in May 2012. Since that time employment levels have declined significantly, falling by 18% (to 226,300) between May 2012 and May 2015. For example in 2015-16 the WA petroleum industry employed an average of 1380 people, in 2014-15 this figure was 2058 which is a 33% reduction in employment in just 12 months.

Assumption 2

The slowdown in population growth is set to continue due mainly to a fall in immigration into Australia. This poses particular challenges to economic growth and the housing market, with all net migration into Western Australia and the Pilbara to continue declining.

In the Pilbara the population increased by over 40% between 2005 and 2013 (from 47,000 to 66,200 people) growing between 3.2% and 5.4% per year before levelling off in 2013-14 (0.2%) and then declining in 2014-15 (-0.7%).



Assumption 3

Economic growth is to remain on the downside with the likelihood of consecutive quarterly negative growth figures producing a technical recession in Australia for the first time in 25 years. Global growth is modest and trade concerns and conflicts will weigh upon growth prospects.

Assumption 4

The distribution of revenue growth from iron ore export sales will be of minimal direct benefit to the sectors workers with increased profits retained by companies to strengthen balance sheets, reduce or restructure debt and reward overseas investors and shareholders.

Assumption 5

The Western Australian unemployment rate will remain above the national average which will rise further. Under-employment will continue rising, the labour market participation rate will continue falling and youth unemployment rates remain high.

Assumption 6

Consumption is set to continue declining, with discretionary consumer spending impacted by rising unemployment, falling real incomes and job security fears.

Assumption 7

The Chinese financial system will face a severe financial/liquidity shock and subsequent confidence crisis, with global equities markets to stagger in response. Resource stock values will suffer and Chinese commodity demand to fall, pushing down prices.

Assumption 8

The Australian dollar will continue to trade within a narrow band vis-à-vis the $US but with downside pressure. A sharp $A depreciation is triggered by Chinese economic woes and increase in the value of the US$ as investors seek safety from the global reserve currency. The U.S. Federal Reserves' public policy stance on increasing U.S. interest rates to reduce inflationary pressures in the economy remains unchanged.

Assumption 9

Major operations interruptions to inward and outward shipping at the Port of Port Hedland, are not anticipated although a significant weather event may be expected and it is assumed its impact will delay or curtail shipping movements. This however, would be minimal in terms of timeframe, physical damage and economic impact.

Assumption 10

Rising geo-political tensions in the South China Sea will continue due to ongoing, conflicting sovereignty claims and disputed access rights which will impact upon freedom of navigation. Maritime trade will be intermittently halted by Chinese and/or U.S. Naval encounters and blockade(s) and will result in significant disruption to commodity exports out of Port Hedland.

Assumption 11

State and Federal Governments are focused upon budget repair and as a consequence GDP and GSP growth will be impacted with government consumption and investment expenditures to fall. Royalties for Regions and all other State Government funding programs will be reviewed, reduced, suspended or cancelled. Current State Government programs, projects, capital works and recurrent expenditure commitments in the regions will be impacted.

Assumption 12

Consumer sentiment and expectations around the local and national economy is negative and is to remain cautious and pessimistic with household expenditure subdued. With household debt levels and leverage ratios at record levels they are unsustainable and a damaging economic correction will occur.

The economic expectations of people or consumers matter because they have such a profound impact upon economic behaviour. While few people spend time analysing their behaviour and its impact upon the economy, people do know the difference between having money in their pocket and having less money. As consumers, people base their purchasing decisions not only upon their current incomes but also on whether they expect that income to rise or fall. If they expect a surge in income or wealth, many consumers will be inclined to use credit to buy now and pay later.

If we consider business investment and sentiment on the new purchase of expensive plant and equipment or real estate, this to a large degree depends upon expected future profits as upon current profits. Therefore, changes in expectations about the future will cause changes or fluctuations in their current spending behaviour. Given that business cycles reflect fluctuations in economic activity, the importance of unfavourable expectations and resultant behaviour is a valid and very important economic assumption.

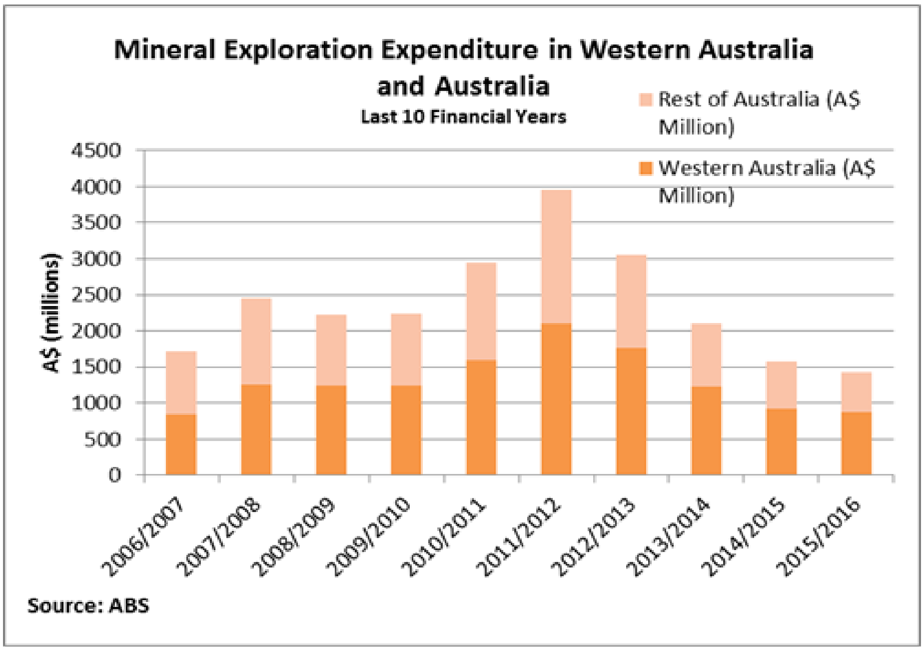
Assumption 13

Iron ore pricing and the global commodities market is to become volatile and unpredictable, prices are set to continue their downward trend with the quantities and value of commodity sales to China to decrease significantly.

The relevant strength in iron ore prices will not be sustained and will unwind due to a number of down-side pressures and risks associated with relaxed Chinese GDP targets and the planned, managed decline of their contemporary investment (capital expenditure) driven economic growth model to a domestic consumption model.

“Global economic growth is the primary factor that drives supply and demand. When economies are growing, the need for steel in construction increases which drives up input prices i.e. coking coal and iron ore. Economic growth in China (the world’s largest consumer of metals) impacts upon the price of iron ore so much that the spot price can almost be considered a proxy for China’s economic health.”

Globally, there will continue to be a resources surplus combined with weaker demand, which will keep prices subdued. This downward trend in export receipts for minerals and petroleum will continue. The combined value of Western Australia’s minerals and petroleum industry in 2015-16 was $87.9 billion, which represents a reduction of 12 per cent from 2014-15, a trend that global economic growth is incapable of reversing.



Assumption 14

The decline in mining investment will continue to reduce the demand and need for labour, which will exert downward pressure on wages, household incomes and consumer expenditure prompting further departures from Port Hedland.

Over the past decade Western Australia benefitted significantly from increased exploration, investment and production across a range of commodities. These investment and activity patterns have now reversed with the project development trend very much one of suspension or delay as proponents, wait for more favourable market conditions. The assumption is: the stay in mining investment since its peak in mid-2012 will continue.

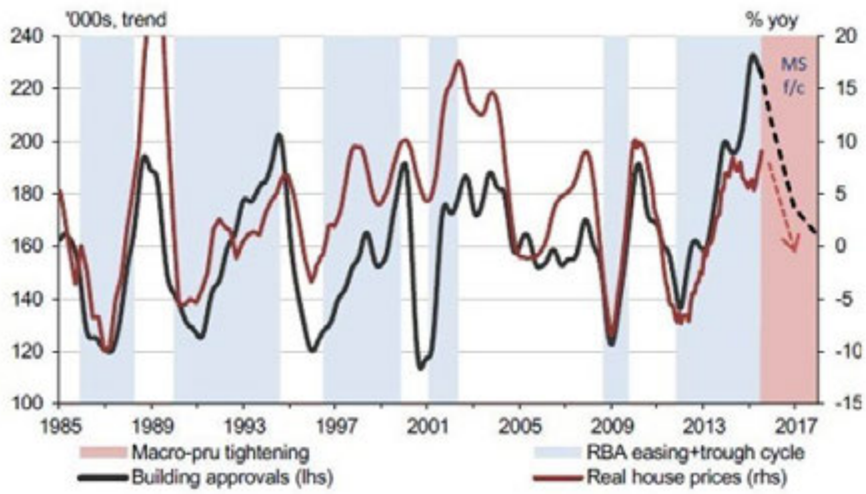
Assumption 15

Building approvals and activity will be subdued with all residential dwelling investment and construction to continue declining. Non-residential building activity and construction will also decline.

The level of Australian household debt has climbed to 186% of disposable income which the WA Treasury Corporation has stated is unsustainable (this is the same corporation that advises the WA Government on its finances). In affect a, 2-tier economy in the housing market has emerged with Sydney and Melbourne leading the stupidity, the reverse of the situation that the resources boom created for the economies, construction and housing markets in WA, QLD and the NT. This market failure is engineered and is sustained by a policy mix upon which the government cannot renege without electoral misfortune but it is creating a generation of homeless Australians. The 14% fall in the total value of non-residential building approvals nationally in January is a trend that is likely to continue. Closer to home the value of non-residential approvals in Western Australia fell 19.0% which makes any negative assumptions regarding building approvals and construction a safe bet. The deep trough that is the construction sector and the housing and property values market in WA has yet to touch the bottom.

Impact of APRA's "Macro-prudential" tightening

Building activity to fall: Morgan Stanley



Source: ABS, RBA, Morgan Stanley, ABC News

Assumption 16

The capacity for expansion in the resources, agricultural, tourism and fisheries sectors, along with complementary developments in the provision of services in these sectors in the Pilbara will be minimal with business investment and employment opportunities outside the mining sector to be insignificant.

Assumption 17

No significant new industry investment secured from the Northern Australia Infrastructure Facility (NAIF), the Commonwealth-funded concessional loan scheme for private sector investors developing economic infrastructure in northern Australia.

Assumption 18

Royalty rates will remain unchanged during the economic scenario period, they will be stable and predictable with no other government tax increases or revenue measures to be imposed upon the resources sector.

Assumption 19

Industry will continue to place emphasis on investing in "remote computer access centres" in Perth for mining product extraction and management which will streamline local mine, plant, rail, port and utility management. This practice will be replicated by all mining operations over the next decade.

Assumption 20

Native Title, land supply and/or land sales are not considered or incorporated into the economic analysis.

Financial Assumptions

Financial Assumption 1

The Council's capacity to raise additional revenue from all rates sources will be limited with declining property values, albeit less acute to continue along with community pressure to retain the 0% rate increases.

Financial Assumption 2

The Council's fees and services revenue will decline due to reduced economic activity and related approvals processes with any prospect of fee increases to reflect the Local Government Cost Index.

Financial Assumption 3

Asset management obligations, liabilities and requirements to remain as they are with the current cost trends associated with maintaining and managing these assets to be unchanged.

Financial Assumption 4

Due to market conditions, the Town of Port Hedland Council will be: unable to dispose of or develop existing land holdings or properties as a mechanism for raising revenue within the next 24 months.

Financial Assumption 5

The upward pressures on interest rates are building with the cash rate to rise by 50 basis points to 2.00% by the third quarter of 2018, with retail lending rates rising accordingly. The Big-4 will continue to demonstrate its disdain for anything other than themselves' and will continue to act independently of the Reserve's interest rate setting cycle as they cloak ever-increasing lending margins on bogus cost pressures.

Financial Assumption 6

The Town of Port Hedland Enterprise Agreement will reflect industry trends with employee conditions and benefits and wages and salary increases to reflect the low wages growth trend in the economy.

Financial Assumption 7

Council service provision obligations which are outsourced to third-parties will continue operating as they are currently in relation to financial terms and conditions.

Appendix 2

The ERDF focuses its investments on several key priority areas. This is known as 'thematic concentration'. In the event the productivity Commission is interested in learning more a visit to the link below is worth a look and it provides further detail in the menu options of: Policy, Funding, What's New, Location, Projects and Further Information.

Source: http://ec.europa.eu/regional_policy/en/funding/erdf/

- Innovation and research;
- The digital agenda;
- Support for small and medium-sized enterprises (SMEs);
- The low-carbon economy.

The ERDF resources allocated to these priorities will depend on the category of region.

- In more developed regions, at least 80 % of funds must focus on at least two of these priorities;
- In transition regions, this focus is for 60 % of the funds;
- This is 50 % in less developed regions.

Furthermore, some ERDF resources must be channelled specifically towards low-carbon economy projects:

- More developed regions: 20%;
- Transition regions: 15%; and
- Less developed regions: 12%.

European Territorial Cooperation
Under the European Territorial Cooperation programmes, at least 80 % of funds will be concentrated on these four priority areas mentioned above.

Specific Territorial Characteristics
The ERDF also gives particular attention to specific territorial characteristics. ERDF action is designed to reduce economic, environmental and social problems in urban areas, with a special focus on sustainable urban development. At least 5 % of the ERDF resources are set aside for this field, through 'integrated actions' managed by cities.

Areas that are naturally disadvantaged from a geographical viewpoint (remote, mountainous or sparsely populated areas) benefit from special treatment. Lastly, the outermost areas also benefit from specific assistance from the ERDF to address possible disadvantages due to their remoteness.