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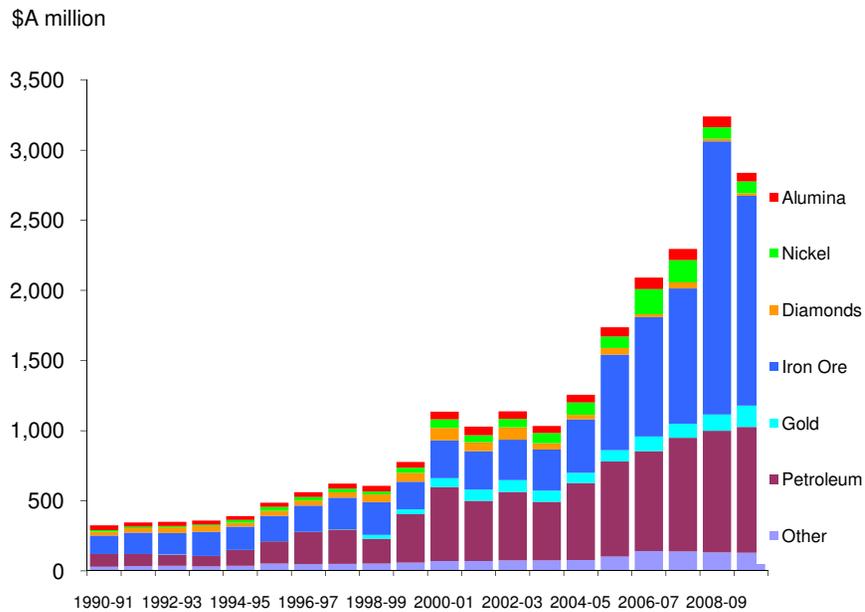
Business School
Regional Funding Flows; What Should We Be doing?
Presentation to SEGRA Oct 19 2010
Associate Professor Paul McLeod



- Introduction
- Overview WA Regional Issues
- Why Royalties for regions
 - Growth in royalties v growth in funding (data and graphs)
- Processes for funding
 - Formula v one offs (grants commission process v royalties for regions)
- Issues
 - Who owns resources
 - Proper royalties and taxes
 - Local Govt taxes
 - BUT
- Coherent regional policies are main issue
- Better measurement needed

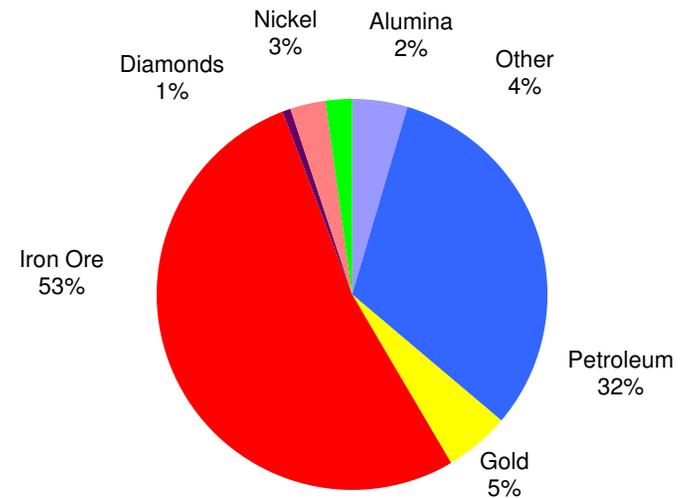
Background WA

Royalty Receipts by Commodity



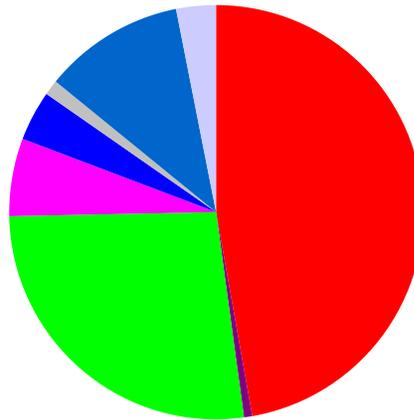
Source: DMP

**Royalty Receipts 2009-10
\$2.8 billion**



Source: DMP

Minerals by region



Source: DMP

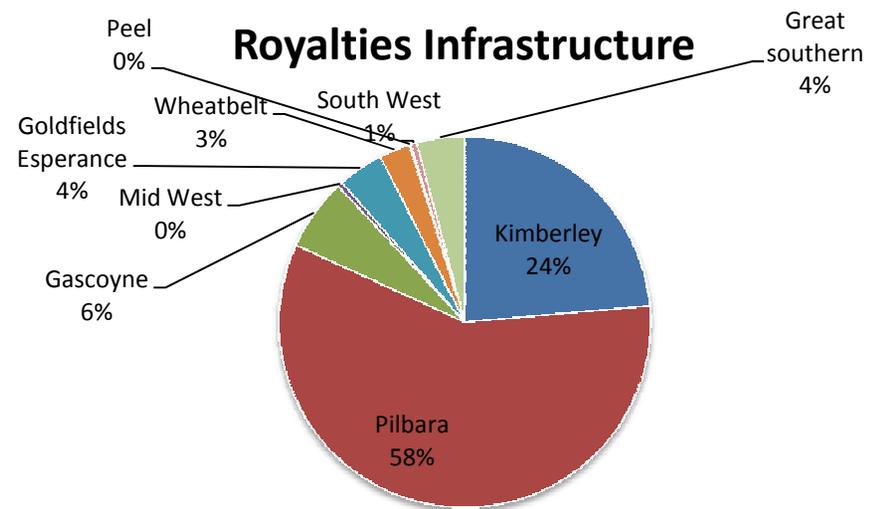
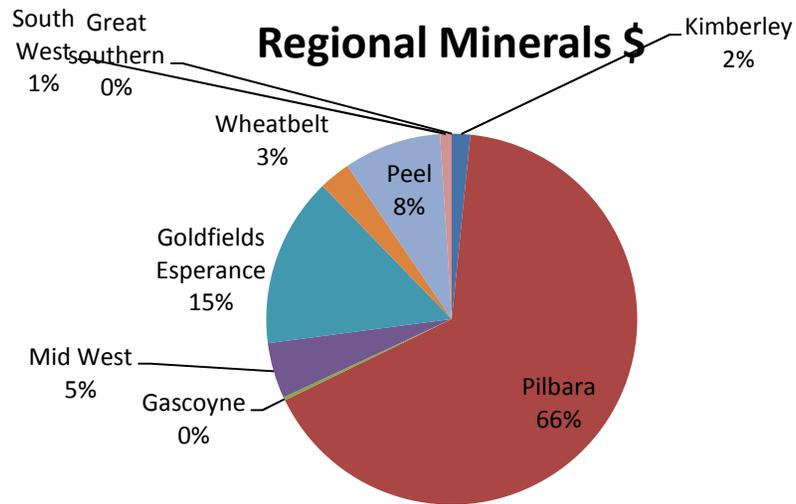
Royalties for Regions

- Grants based process
- Three funds

	2010/11 \$mill
Country Local Govt Fund	94.6
Regional Community Services fund	92.6
Regional Infrastructure and Headworks Fund.	541.4
2010/11 grants totalled	728.6

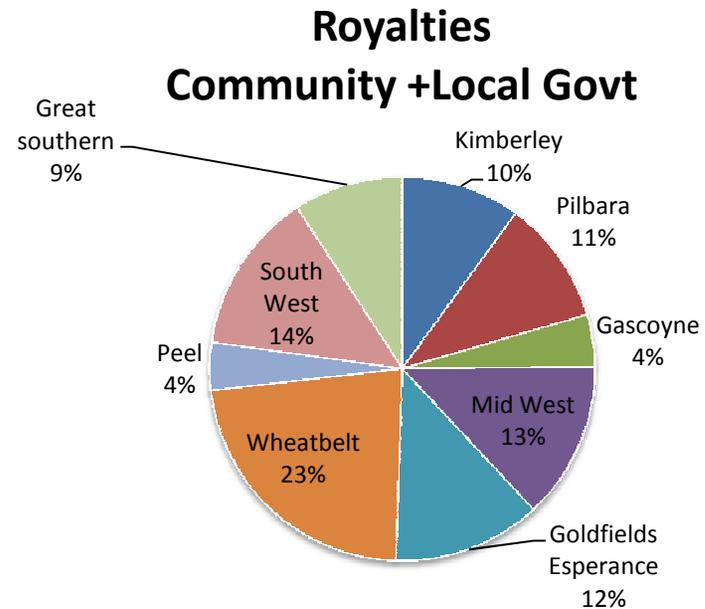
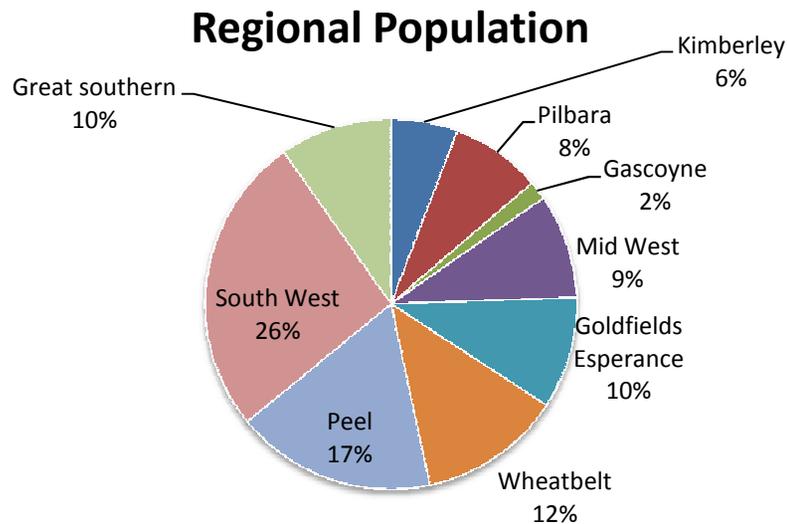
Infrastructure Grants from Royalties to the Regions

- Compared to: minerals production values



Community and Local Govt Grants from Royalties to the Regions

- Compared to: population



Royalty Debate

- Before accept as template need a broader debate about royalties and regions focused on:
 - Base and collection levels – the MRRT debate
 - Spending distribution – efficiency and the Royalties for Regions debate
 - Sustainability and Intergenerational equity – the hypothecation debate

Are we on the right track?

- Depends on your view about
 - Ownership
 - Efficiency and
 - Equity including intergenerational equity
 - Accountability

Ownership – Who Counts?

- Owned by state
- Royalties = payment for access
- Depletable assets - natural capital transformed into cash in classic extraction model
- Who counts - the owners and
 - Arguably all Australians are the owners but what about WA and the regions?
 - Arguably all have an interest

A Starting Point

- Govt accounts for Perth and the regions that
 - allowing for spillovers and cross subsidies
 - document the geographic origin of public revenues; the geographic destination of public expenditures and
 - the consequent, positive or negative, net fiscal transfer between Perth and regions.
 -

And for what? Sustainability

- Arguably as resource stock as exploited we should invest royalties to ensure that capacity to ensure future consumption is unimpaired
- Narrowly this would focus on man made capital as a replacement for diminishing natural capital but may also need to encompass natural capital

- Sustainability criteria may not be consistent with handing royalties back to the region that produced them.
- do not compromise the ability of future generations to share in the benefits of WA's current royalties
- work against using grants based processes and against using simple formulas based on share of population or production/value
- Focus needs to be on metrics that that can indentify which localities need to be supported for long term economic sustainability

Criteria and Structure

- The criteria need to be about sustaining reasonable per capita economic well being on going without subsidies
- Recent WA study looked at sustainability of small communities including:
 - Difference in percentage of over 60s when compared with Perth
 - Where the population resides compared with where it works
 - Difference in percentage of that workforce residing in the town compared with Perth
 - Percentage of resident population in the workforce
 - The level of population movement
 - The percentage of the resident population working in areas other than mining
- Also looked at more complex benchmarks for regional hubs

Rethink Governance

- Regional hubs
- Smaller centres served from hubs
- Some small centres not funded beyond resource life
- Fix Local Govt rating encouraging Local Govt to normalize collection of rates from extractive industry.

- Royalties for Regions has attractions and casual look at projects in WA indicates a focus on infrastructure and capacity building
- BUT
 - It ought not to “automatic”
 - It logically should include all “regions” and that means Perth as well
 - It ought to have a tough focus on capital and sustainability
- So that economic benefits to future generations not compromised.