A square deal? Mining costs, mining royalties and local government in New South Wales, Australia

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\section*{A R T I C L E I N F O}

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\section*{A B S T R A C T}

Mining operations are often controversial since they can impose significant external costs on the local municipalities and local inhabitants. Under current legislative arrangements in New South Wales (NSW), Australia, local governments are constrained from recouping costs directly from mines by means of increased property taxes on mines due to state-wide limitations on tax increases – known colloquially as the ‘rate-cap’. Moreover, mining royalties are paid directly to the NSW government and not to affected councils. In this paper, set against the background of mining activities in NSW, we estimate the magnitude of costs imposed by mining operations on rural and regional local authorities. We then offer alternative public policy solutions which would enable affected municipalities to recoup some or all of the cost burden placed on them by mining operations in their respective local government areas.

\section*{1. Introduction}

Australia is blessed by considerable mineral wealth and it has become a major exporter of both energy commodities, especially coal, liquefied natural gas and uranium, as well as minerals, notably iron ore, gold and base metals (ABARES, 2016). Under the Australian Constitution, mineral reserves are owned by state and territory governments, which assign both exploration and production rights to mining companies, and then levy resource taxes or royalties on these companies (Henry et al., 2010; Blackwell and Dollery, 2013). A substantial literature exists on the taxation of minerals in Australia (see, for example, Ergas et al., 2010; Ergas and Pincus, 2014; Freebairn, 2012, 2015; Garnaut, 2010; and Hogan, 2012), which mostly focuses on the evaluation of existing taxes and developing improved methods of taxation. One strand considers differences between the regulatory regimes of the different states and territories (Cronshaw and Grafton, 2016), which can affect the impact of mining.\textsuperscript{1}

A number of scholars, including Battellino (2010) and Robson (2015), have considered the economic, environmental and social effects of the recent Australian mining boom. Although much of the scholarly literature directed at the mining boom has focused on its macroeconomic impact (see, for instance, McKissack et al., 2008; Downes et al., 2014; Knop and Vespignani, 2014; Bashar, 2015; Fleming et al., 2015; Fleming and Measham, 2015), some work has also examined the impact of the boom at the regional and local levels. For example, Perry and Rowe (2015) examined the effects of ‘fly-in fly-out’ workers on local communities, Blackwell and Dollery (2014) considered the effects of mining expenditure on local economies, Fleming and Measham (2014) investigated the local job multipliers attendant upon mining, Blackwell et al. (2015) empirically analysed employment leakage by Local Government Area (LGA) in the Northern Territory, Petrova and Marinova (2013) evaluated the social impact of mining, and Garnett and Lewis (2007) studied demographic and employment shifts contingent upon mining.

In addition, some scholars have considered the impact of mining on local government in regional and remote Australia. For instance, Cheshire et al. (2014) examined the challenges posed by mining. Similarly, Loechel et al. (2013) studied climate change mitigation at the local level. Internationally Paredes and Rivera (2017) tested the impact of mining taxation on the provision of local public goods. However, to date no work has examined empirically the financial impact of mining operations on local authorities responsible for their LGAs in terms of...
In this paper we seek to address this gap in the literature by investigating municipal operational expenses contingent on mining in New South Wales (NSW) local government over the period 2012–2015 inclusive. We also offer alternative public policy proposals which would allow local authorities negatively affected by mining operations to recoup some or all of the cost burden placed on them by mining in their respective local government areas. Given that the NSW Government (i.e. the government of the state of NSW) has the exclusive power to levy taxes on mining, we are thus concerned with the fiscal relationship between the NSW and its local government system.

The paper is divided into four main areas. Section 2 provides a brief synoptic review of both the NSW local government system as well as the mining industry in NSW by way of institutional background. Section 3 outlines the data and empirical methodology employed in the paper and the results of the empirical estimations are considered in Section 4. The paper ends in Section 5 with a discussion of the policy implications of the analysis.

2. Institutional background

2.1. New South Wales local government

Under the Australian Constitution, Australia is a federal state with a national government, has six states and two territories. The ownership of mineral resources under the surface resides with state and territory governments, including the capacity to impose taxes on the exploitation of these resources. Apart from the Australian Capital Territory, containing the national capital city Canberra, each of the seven states and territories has its own local government system. In terms of the Constitution, each local government system falls under its own state government. In general, state governments exercise decisive powers over local government, including the ability to abolish or forcibly merge local councils.

Prior to its recent structural reform through forced municipal mergers,\(^2\) NSW local government comprised 152 ‘general purpose councils’ (referred to as Local Government Areas for statistical purposes), 12 ‘special purpose councils’ and the NSW Aboriginal Land Council. NSW local councils are overseen by the NSW Office of Local Government, the NSW Independent Pricing and Regulatory Tribunal (IPART), NSW Local Government Grants Commission and various other ancillary bodies falling under the NSW Local Government Act (1993). Relative to most other advanced nations, Australian local government systems, including NSW, provide a limited range of functions largely focused on ‘services to property’. In particular, NSW councils deliver local infrastructure, including local roads, and local services, like sewage and solid waste disposal, with some regional councils operating local water utilities. NSW local government is financed through a combination of property taxes (‘rates’), fees and charges, intergovernmental grants, developer charges and some other minor sources of income. Its financial latitude is severely constrained by a longstanding rate-capping policy by the NSW Government which imposes upper limits on aggregate increases in property taxes. Local councils fall under elected councillors and (usually) indirectly elected mayors, who face four-year electoral periods. The operational side of councils is run by a general manager overseeing a local bureaucracy.

2.2. Mining and mine revenue in New South Wales

Mining in NSW began with the discovery of coal in Newcastle in the 1790s and spread to the Illawara region with its high grade coking coal in 1848 (NSW Minerals Council, 2013a). From the late 1800’s onwards, Newcastle and Wollongong developed into fully-fledged ports, exporting

![Fig. 1. NSW Mine Numbers and Mineral Types. Source: NSW Minerals Council (2013b).](image-url)
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