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Dear Sir/Madam,

Transitioning Regional Economies – Commissioned Study

Please find attached a submission in regards to the above mentioned study.

This submission is designed to provide background data and information on the Far North SA Region in terms of history and the present, which in turn paints a picture of the transition that this region is undergoing.

Yours sincerely



Claire Wiseman
Chief Executive Officer

SUBMISSION FOR TRANSITIONING REGIONAL ECONOMIES – COMMISSIONED STUDY

PRODUCTIVITY COMMISSION STUDY ON THE TRANSITION OF REGIONAL ECONOMIES FOLLOWING THE RESOURCES BOOM

Background

The Far North region of South Australia, as per the Regional Development Australia Committee boundaries, covers approximately 80% of South Australia. The area has a land mass of approximately 800,000km² with a population of 28,212 and incorporates the Anangu Pitjantjatjara Yankunytjatjara Lands. The region takes in the iconic Flinders Ranges and Outback region, popular and well visited tourism destinations in the State. The Flinders Ranges is also now recognised as a National Landscape.

The main townships in the region include (but are not limited to) Port Augusta, Quorn, Hawker, Leigh Creek, Copley, Lyndhurst, Marree, Innamincka, William Creek, Oodnadatta, Marla, Mintabie, Coober Pedy, Glendambo, Pimba, Woomera and Roxby Downs. Some of these remote townships are between 800 - 1,000 kilometres from Port Augusta.

A region's comparative advantage can stem from various resources, such as its geographical location, availability of natural resources, the existence of industry clusters, access to infrastructure or the skill profile of the local population. These underlying attributes influence the types of economic activity that are likely to be successful. They also have implications for development initiatives, which are generally more effective where they build on an existing strength.

A critical input to the Far North SA region's economy, and central to its competitiveness, is its natural resources. Much of the economic activity in regional Australia is directly linked to local natural resources. The Regional Australia Institute (2015) asserts that access to natural resources can create economic opportunities through offering inputs to production (such as access to water or good quality soil), and can be used to generate production outputs (such as minerals or extractives), or as a foundation for services such as tourism and recreation.

Mining is undoubtedly the Far North region's dominant industry and will continue to be so given the potential revealed in exploration programs over the past 10 years. There are currently 15 operating mines in South Australia, nine (9) of which are located in the Far North region. These are Beverley North Mine, Cairn Hill, Challenger, Four Mile Uranium Mine, Kanmantoo, Olympic Dam, Portia, Prominent Hill (Ankata and Malu) and White Dam. Tarcoola Gold Project has also received approval to operate and is still going through other approval processes. Of the 34 developing projects, 18 of these are in the Far North region, as follows:

- Atacama
- Carrapateena
- Flinders
- Hawks Nest
- Junction Dam
- Kalkaroo

- Khamsin
- Maldorky
- Mutooroo
- Mutooroo Magnetite Project
- North Portia
- Olary Creek
- Olympic Dam Extension
- Snaefell
- Sonoran
- Tripitaka
- Tunkillia
- Typhoon (source: www.minerals.statedevelopment.sa.gov.au)

The Far North region is facing a significant period of transition as a result of the mining slow-down and subsequent, flow-on industry closures - such as the winding back of rail services across the region as mining activity decreases and there is less demand for minerals haulage, for example.

According to the South Australian Centre for Economic Studies the overall volume of resource production in South Australia in 2010/11 was approximately 70% greater than in 2003/04, however mining output in South Australia accounts for only around 4% of the States Gross Product. The Far North region of SA is a major contributor to these economies.

KPMG was commissioned in June 2012 to carry out a SWOT Analysis of the mining industry in the Upper Spencer Gulf, as part of their preparation of an Advisory Report on the Upper Spencer Gulf Heavy Industry Hub. The SWOT analysis revealed the following characteristics:

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> • Significant existing heavy industry capability and capacity, and support industry • Pro-development community • Steel fabrication infrastructure • Geographic proximity to mining provinces • Training infrastructure (High School Trade Centre, TAFE, private providers operating in region) • Committed Local Government and RDAs 	<ul style="list-style-type: none"> • Lack of trust between potential competitors • Lack of firm leadership for joint bidding and coordinating local industry responses • Lack of deep sea port for importing products • Lack of skilled labour force • Proximity to Adelaide labour market may see employers hiring outside the region rather than within it, and this will push up wages and prices • Challenges in attracting workers to the region • Social infrastructure (education, health) and town amenities • Whyalla, Port Pirie and Port Augusta identify with different regions (Eyre Peninsula, Northern Region, Mid North). Also reflected in the RDA structure. • Townships compete rather than coordinate • Lack of gas capacity required for further industrial expansion 	<ul style="list-style-type: none"> • Existing and developing major projects (Olympic Dam, Prominent Hill, Eyre Peninsula) • Grow the scale of operations, through industry consolidation • Indigenous employment • Attraction of skilled migrants to the region (457 visas) • Industrial diversification away from Olympic Dam and existing industry to net projects • Compared with mine sites, the USG may be an attractive place to live and raise a family • In the medium to long term former mine workers may wish to settle in the USG 	<ul style="list-style-type: none"> • Bypass of the USG, i.e. goods/services may be cheaper from Adelaide or overseas • Retention. Churn of skilled labour does not encourage investment in skills, apprentices etc • Fly In Fly Out • Loss of workers. Labour rates well below Western Australia and Queensland • Future of existing industry base unclear

Employment

Census data reveals the following in terms of Far North SA regional population and employment:

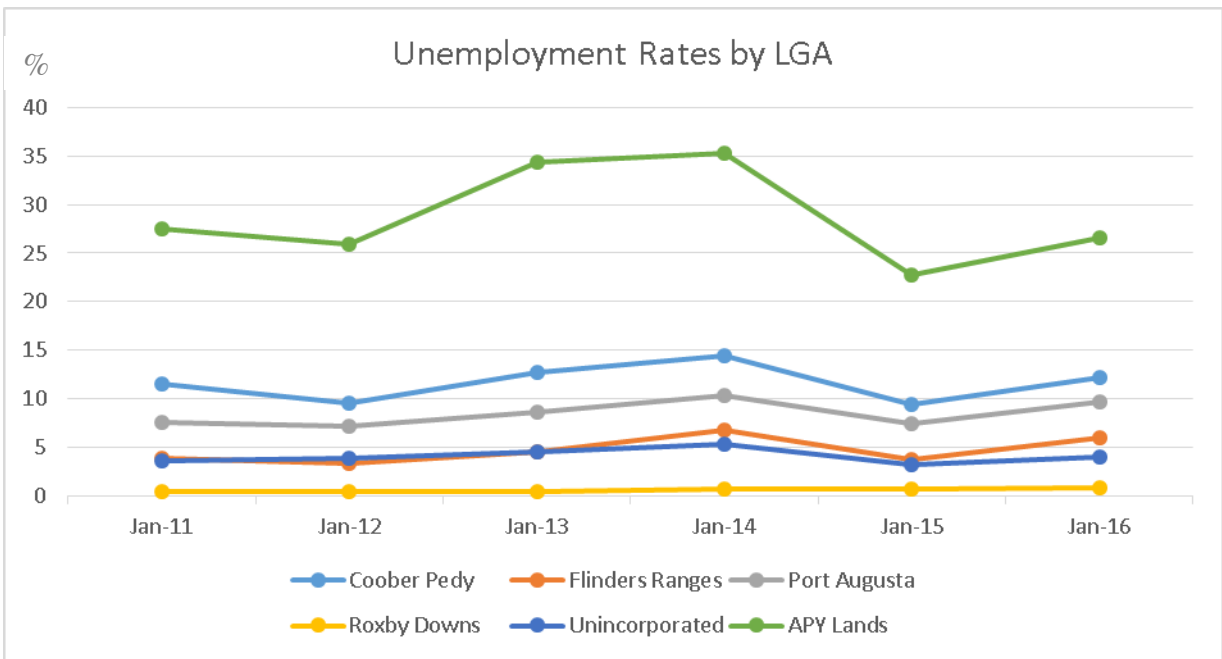
	Unincorporated Far North	Port Augusta	Leigh Creek	Cooper Pedy	Roxby Downs
2001 Population	*7,274	13,474	618	2,877	3,803
Unemployment	3.2%	10.4%	1.6%	16%	2.9%
Main employment Industry	Oil & Gas - 3.3%	n/a	Coal Mining – 34.7%	Other Mining (Opal)– 3%	Metal Ore Mining – 29.8%
2006 Population	1,568	13,874	549	1,913	4,055
Unemployment	5.2%	7%	.9%	9.5%	2.3%
Main employment Industry	Metal Ore Mining – 9.8%	**Electricity Generation – 3.4%	***Coal Mining – 5.9% Electricity Generation – 46.3%	Other Mining – 8.7%	Metal Ore Mining – 41%
2011 Population	2,046	13,985	505	1,695	4,702
Unemployment	2.4%	5.8%	0%	8.9%	1.9%
Main employment Industry	Metal Ore Mining – 16%	n/a	Coal Mining – 45.9%	Other Mining – 4.5%	Metal Ore Mining – 40.3%

* Population data in 2001 incorporates APY Lands and other areas, which are separate in later Census data

** Electricity generation is linked to the mining of coal at Leigh Creek

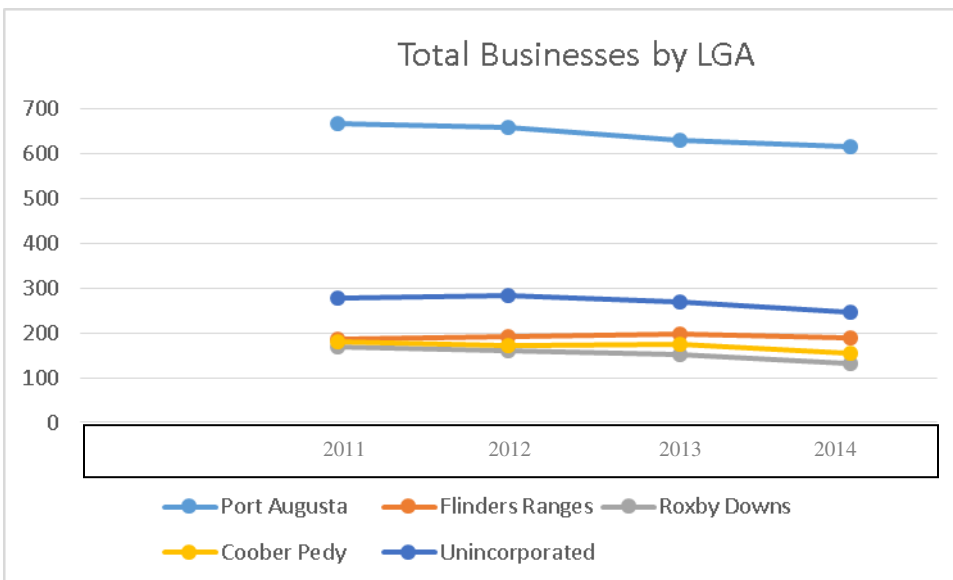
*** Coal mining and electricity generation related to the same industry which equals a percentage of 52.2% representing employment in mining industry

These data show that the population in the Unincorporated Areas, Port Augusta and Roxby Downs has increased slightly over the years, with Leigh Creek and Cooper Pedy declining. The declining population in Leigh Creek is certainly attributable to the fact that the mine life has always been targeted for an end date, therefore as that end date drew nearer people sought secure employment elsewhere. Further ABS data show that the estimated population in Roxby Downs has continued to increase since 2011 with it sitting at 5,078 in 2015.



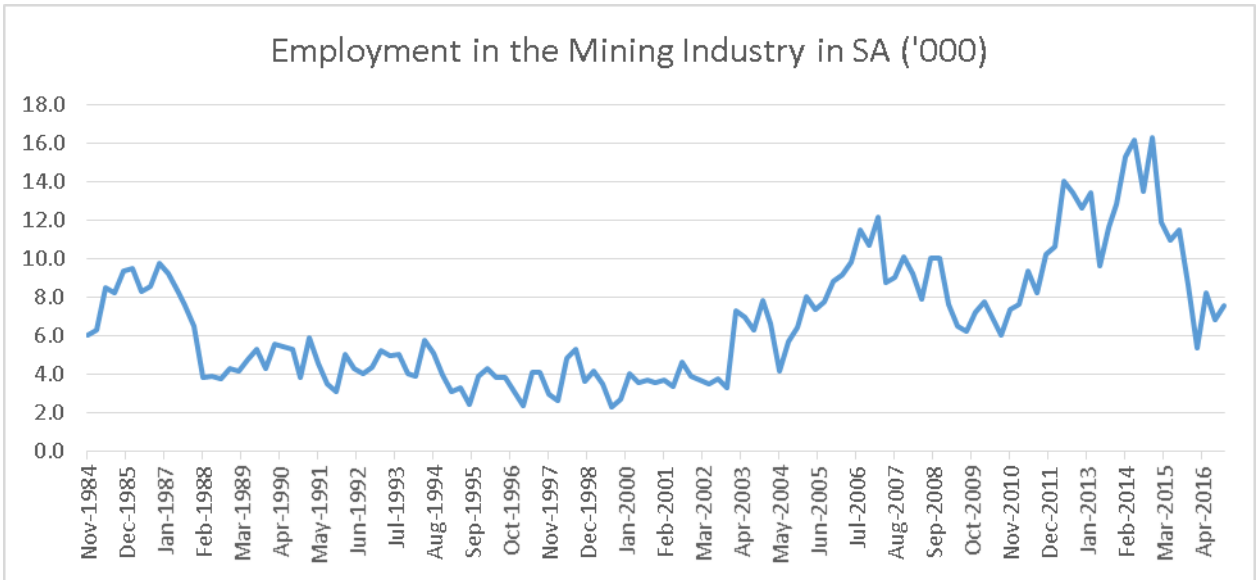
Source: Department of Employment, LGA Data Table Small Area Labour Markets

The above chart shows the unemployment rates in the Local Government Areas of the Far North Region. As the chart shows, there was a spike in the unemployment levels from 2013, when the mining boom finished. This spike lasted over a two year period, which fits with employees having to find alternative employment and the time taken to do so. However, the unemployment rates are once again increasing which fits with the closure of the Leigh Creek Mine, Port Augusta Power Stations and a few of the smaller mines such as Peculiar Knob and Cairn Hill.



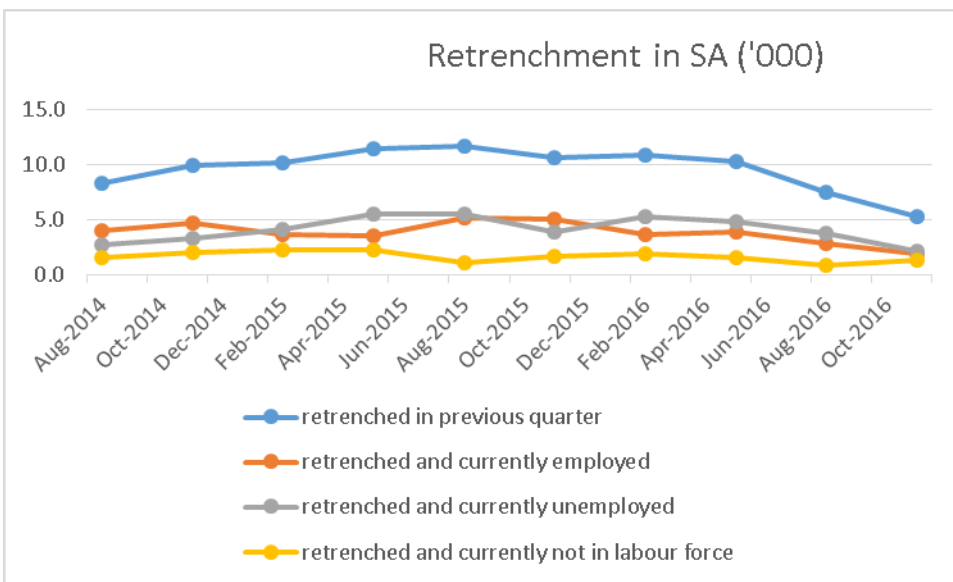
Source: ABS, Labour Force, Australia, Category Number 6291.0.55.003

Data available for the number of businesses in Local Government Areas only allows data up to 2014, but this data shows a steady decrease in the number of businesses since 2012. This fits with the downturn in economy from the end and nearing the end of the mining boom in 2013.



Source: ABS, Labour Force, Australia, Category Number 6291.0.55.003

The above data shows clear spikes in employment in the mining industry in SA since 2003 when the mining boom started, with some downturns in 2009 and at the end of the boom in 2013. Even though the “mining boom” was seen to finish in 2013, the spikes for 2014 and 2015 show that it was certainly still a key area of employment with some mines still growing and expanding outside of what was called the “boom”.



Source: ABS, Labour Force, Australia, Category Number 6291.0.55.003

The retrenchment figures for SA show a clear downturn in all categories of retrenchment and especially from 2015 onwards. This is reflected in major industries in SA including Holden and the Port Augusta Power Stations etc with employees not necessarily being able to find work immediately, and with some of these seeking to further their skills in other areas before seeking longer term employment elsewhere. Unfortunately, specific data for the Far North region was not available for analysis at the time of preparing this submission.

General Data

The 'Australian Government Department of Infrastructure and Regional Development, Yearbook 2016, Progress in Australian Region's shows the following:

Main growth industry in SA Outback (North and East) is Mining with 706 growth from 2006-2011

Top employing industry in SA Outback (North and East) is Mining with 13.7% in 2006 and 18.1% in 2011

Actively trading businesses in SA Outback (North and East):

2008 1,389
 2011 1,392
 2013 1,415
 2014 1,359
 2015 1,328
 = overall decline of 61 businesses

Business size:

	Non-employing %	1-4 employees %	5-19 employees %	20-199 employees %	200+ employees %
2013/14	54.2	27.7	15.2	2.9	0
2014/15	55.4	27.6	13.8	3.2	0

Average residential property prices:

SA Outback:

2009 246,689
 2011 267,060
 2013 273,686
 2015 259,543
 = increase \$12,854

Net internal migration:

SA Outback (North and East):

2007/08 -443
 2008/09 -315

2010/11	-571
2011/12	-248
2013/14	-525
2014/15	-276
= overall -167	

Predicted Population projections (population growth) for 2012 – 2017 SA Outback (North and East): 3,563 persons = 0.8%

Estimated resident population for Outback SA (North and East):

2005	27,714
2010	29,008
2015	29,413

Increase of 1,294 between 2005-2010 and 405 between 2010-2015.

Analysis:

The data around Mining being the major employment industry and main growth industry in the Far North SA region is not surprising, as per the previous reported data which shows that 60% of the operational mines and 53% of the developing projects are in the Far North region. Whilst these mines do have 'Fly In Fly Out' practices, they still focus on local/regional employment as well as flow on employment effects from having policies in relation to using local contractors and providers/suppliers where possible.

The overall decline of 61 businesses in the last five (5) years in the Far North SA region is significant when considering the population of the region. Some of these businesses are mining operators, both small and very large employers, and the close of these also has a flow on effect for employees and, as referenced above, to local suppliers and contractors.

Non-employing businesses make up nearly half of the businesses in the region, which is not uncommon in many of Australia's regions. These non-employing micro- and/or small businesses are family owned and/or owner operators. There are no commercial enterprises in the region which employ 200+ employees but with the growth of some sectors including mining and service-based operations employee numbers may grow, e.g. Corrections¹. The other sector to show considerable growth over the last two years has been the health and social services sector. This includes Not for Profits, commercial operators and charities. Some of this can be attributed to the gradual rollout of the NDIS across the Far North and contiguous regions, with operators gearing up to provide packaged care. However, a considerable part of the increase in service delivery can be attributed to economic downturn, and services reflect this. Increased service delivery includes general and family relationship counselling; financial services counselling and support and mediation.

¹ Alinta Energy did employ over 200 staff and contractors, however, their closure means the end of this large employment figure.

The average residential property prices have increased slightly overall in the region, however, not as much as metropolitan and urban areas, which is expected. The increase in prices is in line with the market prices and general real estate price increases.

The consistent Net Internal Migration decrease could be attributed to the closure of mines and mining operations and therefore their Fly In Fly Out and Drive In Drive Out practices are in turn affected.

In terms of impacts related to transitioning economies, we are seeing a net out-migration of skilled workforce, because those with skills in demand will leave (and have done so) in the pursuit of employment elsewhere. This leaves regions vulnerable, particularly those who rely on single-industries. While the Far North Region has a significant mining sector, it is also supported by a diversity of other economic contributors. However, the Far North Region has not escaped unscathed.

What is important in ensuring regional resilience is that regional policy at both state and federal levels supports economic diversity. For example, at the height of the mining 'boom,' we had the situation in SA where State Government support mechanisms for regional businesses were almost exclusively focused on ensuring such businesses were 'mining-ready.' This is of course important, in ensuring that regions maximize the relatively short-term benefits that can accrue from mining activity, but it jeopardizes the longer-term economic sustainability of those same regions when commodity prices fall and mining slows down. What is required is balanced support mechanisms that encourage economic diversification and parallel industry developments.

The increase in social services provision in the region would indicate two things:

Firstly, that we are seeing 'new poor' i.e. those semi- or unskilled workers who have previously benefitted from relatively high wages in the mining industry who now find themselves without work in the region and less mobile than those with higher-level skills. These workers are often also heavily committed financially, with local investment properties etc.

Secondly, both these workers and their assets are now 'stranded.' Social service providers, particularly those who provide financial counselling and support services have reported an increase in the numbers of 'new poor' they are seeing.

Industry Output and Value-Added

Economic modelling undertaken by SC Lennon and Associates in preparation of Economic Growth and Investment Strategies for the Outback Communities Authority and Roxby Downs Council shows the following gross revenue and value-added estimates:

- Outback Communities Authority – Gross Revenue = \$4.4b with the regions mining sector accounting for over three quarters of economic output. Total value-added estimate = \$1.7b, which is 55% of the total for the whole Far North region. The majority of the Outback Communities Authority region industry value-added is attributable to mining, which accounts for around three quarters (74%) of the regions total value-added.
- Roxby Downs - Gross Revenue = \$1.2b with the regions mining sector accounting for over two thirds (70%) of economic output. Total value-added estimate = \$400m, which is 13% of the total for the whole Far North region. The majority of the Outback Communities Authority region industry value-added is attributable to mining, which accounts for 60% of the regions total value-added.

The total estimated value of regional exports is as follows:

- Outback Communities Authority - \$3.6b (84% of the region's economic output) with mining the largest contributor with 85% of total export value compared to 72% for the wider Far North region.
- Roxby Downs - \$927.5m (77% of the region's economic output) with mining the largest contributor with 89% of total export value compared to 72% for the wider Far North region.

Upper Spencer Gulf and Far North SA – regions in transition

Whilst this submission is focused on the Far North region, the major township of Port Augusta forms part of the Upper Spencer Gulf (USG) region which also incorporates the other major regional townships of Port Pirie and Whyalla, which we understand are putting forward separate submissions.

The USG region is certainly in a process of transition. Following the end of the mining boom/exploration boom in 2013 the USG experienced the closure of other major businesses and industries such as Port Augusta Power Stations, EDI Rail major scaledown in Port Augusta and the scaledown of Arrium Steelworks in Whyalla.

On the positive side, the upgrade and expansion of the Smelter in Port Pirie is moving forward along with the focus on Port Augusta as a renewable energy hub and the attraction of major industries such as the Solar Thermal operating Sundrop Farms, Reach Solar Energy's Bungala Project and DP Energy's Port Augusta Renewable Energy Park project.

There are some Government barriers that could be seen to have been hindering the transition process. One of these has been the uncertainty around the Federal Government's Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation (CEFC). The

announcement of the \$1b Clean Energy Innovation Fund which will be managed by ARENA and the CEFC is a positive move forward. ARENA has already invested considerable funding in the Far North Region as follows:

- \$18.4m for Coober Pedy Renewable Diesel Hybrid Project
- 32.75m for Cooper Basin Enhanced Geothermal Systems Heat and Power Development
- \$4.2m for Demonstration of Geothermal Heat Exchange in Hot Sedimentary Rocks
- \$408,100 for Port Augusta Solar Thermal Feasibility Study

The continuation of the Clean Energy Innovation Fund will be crucial to the Far North region focusing on renewable energy options and innovations.

Policy Intervention

Both the State and Federal Governments have had various grants and funds available in the region over the last 20 plus years. These grants and funding have provided mainly short term opportunities in the form of new infrastructure and programs, with a few of them providing opportunities for longer term outcomes including employment.

An example of some of the funding and grants provided over the last five (5) years is as follows:

Federal Government

Delivered Projects to the value of approximately \$20.5m including the Regional Development Australian Fund, Remote Airstrip Upgrade, Small Business Advisory Service, Remote Aerodrome Safety Program and the Regional Development Fund.

Promised Projects to the value of approximately \$22m including the Regional Jobs and Investment Program and the National Radioactive Waste Management Facility.

State Government

Delivered Projects to the value of approximately \$9.6m including the Regional Project Fund, STIG/TQUAL, Tourism Industry Regional Development Fund, Tourism Development Support Program, Upper Spencer Gulf Enterprise Zone Fund and the Upper Spencer Gulf & Outback Futures Program.

Both the State and Federal Government have funding and grant programs open at the moment which include the Building Better Regions Fund and the Job Accelerator Grant, however, use of these by businesses in our region at present is difficult to calculate.

Most of the above funds and grants are for infrastructure and whilst these create short term employment and encourage the use of local contractors, these projects have also enabled communities and businesses to improve their infrastructure which in turn lifts the community spirit. However, overall State and Federal Government short-term policy intervention over the past 20+ years haven't always been successful in longer term outcomes.

Economic Metric

In relation to the Terms of Reference, dot point three:

- Establish an economic metric, combining a series of indicators to assess the degree of economic dislocation/engagement, transitional friction and local economic sustainability for regions across Australia and rank those regions to identify those most at risk of failing to adjust.

There is a need to ensure that the metrics discussed encompass community and economic factors in order for it to accurately reflect the true and correct situation and forecast.

Whilst broader regions such as the USG and major sub-regions and townships work closely together in many areas and at all levels of Government and regionally, each sub-region region is different and therefore requires a tailored approach.

Regional Partnerships

As mentioned above, there is a strong partnership across all levels of Government and Regional Development Associations in SA. This is evident with the Regional Development South Australia committee (peak body for SA RDAs) and the work that the Upper Spencer Gulf and Outback, in particular, entities undertake together, for example the Upper Spencer Gulf Transition Forum, the Leigh Creek Futures Forum and the Far North Local Government Roundtable. Although each sub-region might put in separate submissions for this enquiry, it should be noted that this is so that a specific focus on priorities is obtained, which is key to that specific area/body. It does not reflect the lack of partnerships, which remain consistently strong.

Regional Roadshow

Whilst this submission aims to paint a thorough picture of the region and the issues, challenges and opportunities that it faces, a real picture would be clarified by a face to face visit to the region. It would be beneficial for this visit to provide an opportunity for us to contribute further to this submission and to show you the issues and opportunities at sight. Therefore, we welcome the commission to undertake a tour of the Far North SA region, and the Spencer Gulf region to provide an opportunity for further input via presentation to this submission.