



Department of
State Development

Our Ref: OUT16/2268

7 APR 2016

Mr Peter Russo MP
Chair
Finance and Administration Committee
Parliament House
Corner of George and Alice Streets
BRISBANE QLD 4000

Email: fac@parliament.qld.gov.au

Dear Mr Russo

I write in relation to the Parliamentary Finance and Administration Committee's inquiry into the proposed North Stradbroke Island sand mining bills, the draft North Stradbroke Island Economic Transition Strategy and the Sand Mining Workers Assistance Scheme.

As part of developing the Economic Transition Strategy, a report was commissioned by the Department of State Development titled *Economic and Employment Impact of Sand Mining on North Stradbroke Island, and the Broader Region*.

The department would like to provide the full report (enclosed) to the Committee to assist in its inquiry.

Please note the authors of the report, Deloitte Access Economics, have prepared a covering statement to be read in conjunction with the analysis. This statement outlines the purpose of the analysis, its limitations and caveats on its interpretation.

If you require any further information, please contact Mr Matthew Andrew, Executive Director, Industry Development, Department of State Development, on [REDACTED] or [REDACTED] who will be pleased to assist.

Yours sincerely

[REDACTED]
Michael Schaumburg
Director-General

Enc

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Danielle Ellem
Director, Economic Strategy and Policy
Office of the Chief Economist
Department of State Development
Level 2, 63 George Street, Brisbane Queensland 4000

21 March 2016

Dear Danielle

Re: Deloitte Access Economics Statement on the Use of the *Economic and Employment Impact of Sand Mining on North Stradbroke Island, and the Broader Region Report*

Deloitte Access Economics have consented to this report being provided to the Finance and Administration Parliamentary Committee in response to a request from the Department of State Development. This Statement sets out the original purpose of the report **and the limitations of the analysis, and should be read in conjunction with the report.**

Original requirement for the report

The *Economic and Employment Impact of Sand Mining on North Stradbroke Island* report was prepared in response to the State of Queensland (acting through the Department of State Development)'s Request for Quote (RFQ) No. DSD – 3234 – 15, dated 17 April 2015. The RFP provided to Deloitte Access Economics was as follows:

“A report is sought on the likely economic and employment impacts of closing sand mining operations on the island, and the broader region. The report must include:

- *Impact on local economy of NSI and the Redland City, including Gross Regional Product and employment.*
- *Estimated number of direct jobs and value added lost due to closure of the mining operation, broken down by:*
 - *Location: i.e. jobs on North Stradbroke Island vs the mainland*
 - *Type: i.e. operational vs. administration jobs, full time vs. part time*
 - *Employee profile: i.e. NSI residents vs mainland residents, indigenous vs non-indigenous, age.*
- *This will be supported by a qualitative assessment of any potential broader economic impacts, including indirect employment impacts.*

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- *Estimated number of retained/ongoing jobs and value added associated with rehabilitation obligations.*
- *Viable alternate industries on North Stradbroke Island where additional employment could be supported, and any barriers to growth in these industries, noting existing new developments in the catchment.*
- *The average wage and labour productivity of jobs in these alternate industries, compared to the average wage and labour productivity of the mining industry.*
- *A discussion of other impacts, particularly potential for increased business input costs on NSI, and other potential impacts as identified by the successful offeror and discussed with the Department of State Development.*

The response to this request must specifically outline the proposed economic modelling approach. Proposals must provide a justification for the proposed approach along with a discussion of assumptions, issues and any limitations."

The final report was delivered to the Department of State Development on 8 September 2015.

Limitations of the analysis

The *Economic and Employment Impact of Sand Mining on North Stradbroke Island* Report must be considered in conjunction with the assumptions and limitations that underpin the analysis. These assumptions and limitations, as set out in the report, are highlighted and provided below.

- This report only seeks to quantify the direct economic and employment impact of closing sand mining operations on North Stradbroke Island (NSI). The indirect impact of sand mining closure to NSI and the broader Redland City region are explored, but only qualitatively discussed.
- Deloitte was not provided with Sibelco's employment and financial records (which are private documents). The analysis was therefore conducted using public information from the Australian Bureau of Statistics' 2011 Census of Population and Housing data on employment and income. There are a number of limitations to using this dataset that should be noted. These include:
 - At the time of compiling the report, the Census was circa four years old;
 - Between 2011 and the time of the Report, there have been a number of developments in the sand mining industry on NSI. The major event being the decommissioning of the Yarraman mine in August 2015 and the cessation of full time production of the Vance mine in June 2013;
 - Between 2011 and the time of the Report, many other factors would have impacted the employment number, such as Sibelco's business decisions on the production, mining productivity changes and government policy changes on the closure date of certain mines.
- One hundred and forty-one mining jobs were identified in the 2011 Census and have been assumed to be the number of direct sand mining jobs on NSI in 2019. It is noted that the Census captured the employment associated with all three mines, including the Yarraman Mine, which, once closed, is expected to reduce the volume of mineral sands mined on the island by 34%. Hence, Deloitte Access Economics acknowledges that identifying these one hundred and forty-one positions as sand mining jobs in 2019, based on 2011 Census data (at which time all three mines were operating), represents an upper limit of the direct employment impact of the closure of the Enterprise mines that comprise the scope of this study.

- The direct economic activity (measured by Gross Regional Product (GRP)/Gross Value Added (GVA)) generated by the sand mining operations on NSI only captures the economic activity produced in the region; it is unable to further estimate the proportion of economic activity that is retained within this region. As a result, although GRP captures the amount of economic activity that is happening in the region, it does not necessarily reflect the wealth or welfare of the local community in the region. For example, there may be a large amount of economic activity in a remote area, but this may be due to foreign companies conducting resource extraction activities making use of the local resources but then repatriating the profits back to parent companies overseas. The standard GRP estimate for the region does not take into account this loss of profit (gross operating surplus) from the region.

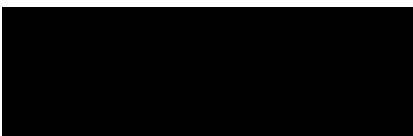
For NSI's sand mining operations, there are three components of income that are produced in this region but which are not retained locally:

- **Compensation of employees for the non-resident workers:** non-resident workers make up approximately 33% (46 workers) of total mining work force on NSI;
- **Gross operating surplus and gross mixed income:** this represents return to Sibelco in the form of profit. They are 100% repatriated overseas, as Sibelco is 100% foreign owned company; and
- **Production taxes less subsidies:** although there will be some rates and license fees paid to the local government (and as a result retained broadly in the Redland LGA), the majority of these production taxes are repatriated to the state and federal government in the form of royalties and company tax.

Therefore, the estimate of sand mining operations' contributions to NSI and the broader region are likely to represent the upper limit of GRP foregone in the region as a result of the cessation of sand mining activities.

- \$55 million was established to be the current total contribution of sand mining operations on NSI; however, this does not imply that the cessation of sand mining operations on NSI will take \$55 million worth of economic activity out of NSI. This is because while some economic activity will leave the NSI region as a result of the mines closure, it is expected that there will also be some local labour that will find alternative employment on the island, which in turn creates alternative economic activity. The magnitude of GRP generated by such alternative economic activity is not within the scope of this study.
- The loss of direct job and GRP estimates assumes constant rate of production throughout the mine life until the mine closes, in the absence of published mine production schedule for the Enterprise mines. This estimate therefore does not reflect any possible reduction in employment and the corresponding GRP towards the end of any mine production as the mining resources gets depleted.

Yours sincerely



Mark Ingham
Partner
Deloitte Access Economics Pty Ltd