THE AUDIT OFFICE
OF NEW SOUTH WALES

30 November 2010

MEDIA RELEASE

Coal mining royalties

The Auditor-General, Mr Peter Achterstraat, today called for an overhaul of the administrative arrangements for collecting mining royalties in NSW.

> "The Department of Industry and Investment cannot assure the people of NSW that all coal royalties are being paid in full. This is because it does not have robust processes to identify what is owed and to make sure it is paid", said Mr Achterstraat.

In 2008-09, the Government received $1.28 billion in mining royalties, representing about 2.6 per cent of the State's total revenue. Coal accounted for over 95 per cent of the royalties.

Royalty payments are complex and not properly supported
The Department has not made it easy for coal mining companies to work out what they owe. There are three different royalty rates that are often complex to apply in different mining settings.

Royalty returns do not provide sufficient detail for the Department to assess whether the correct payment has been made. As a result, the Department's audits are virtually the only means to ensure that coal mining lease holders pay what they owe.

Audits of royalty returns need to improve

> "Audits are not well targeted, take too long, and do not cover all unaudited years. The Department's policy is to audit all coal mining lease holders at least every two years, but this is not happening", Mr Achterstraat said.

The Department's audits recovered $3.9 million additional royalties over the last five years.

> "A better targeted and structured audit approach could have returned more royalties", Mr Achterstraat said. "We estimate the potential revenue leakage in coal royalties in this five-year period to be at least $8 million", he added.

No penalties for not paying the correct royalties
The Department is not penalising companies if they pay the incorrect royalty, only if they pay late.

Mr Achterstraat outlined several solutions to improve the collection of coal mining royalties:

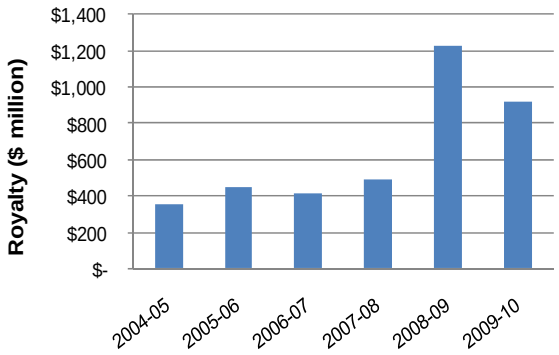
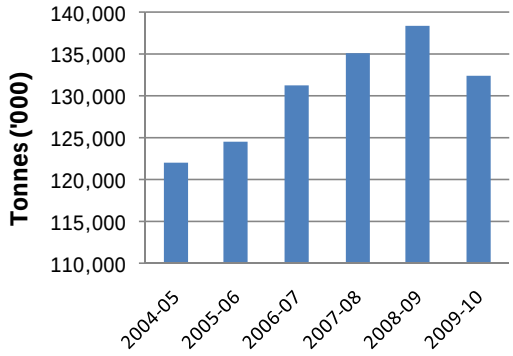
- give clients online services and better guidance
- ensure companies provide more information to support royalty payment calculations
- validate information supporting the collection of royalties
- target auditing resources better
- impose penalties on companies which underpay royalties.

In summing up, Mr Achterstraat said:

> "One way to achieve a better approach would be to consider transferring the administration of mining royalties to the Office of State Revenue which specialises in identifying and collecting revenue owed to the State."

Further information

A full copy of the report is on the Audit Office's website.
Barry Underwood, NSW Audit Office, 02 9275 7220 or 0403 073 664

Coal mining royalties	Coal sold
	

Source: NSW Department of Industry and Investment

Source: NSW Minerals Council, Key industry statistics 2009

Note: 2009-10 is an estimate based on DII's data and does not include June 2010.

Coal royalties collected by region - 2008-09		
NSW region	**Royalties ($millions)**	**Percentage**
Gloucester	$21	2%
Gunnedah	$46	4%
Hunter	$897	73%
Southern	$141	11%
Western	$128	10%
Total	$1,233*	100%

Source: NSW Parliamentary Library Research Service, e-brief 8/10

Top ten minerals' contribution to royalties in 2008-09		
Mineral	**Royalty revenue (million)**	**Percent of total royalty revenue**
Coal	$1,227.0	95.86%
Gold	$23.5	1.84%
Copper	$17.8	1.39%
Lead	$2.9	0.23%
Zinc	$2.2	0.17%
Limestone	$1.7	0.13%
Zircon	$1.3	0.10%
Rutile	$1.3	0.10%
Silver	$0.7	0.06%
Iron minerals	$0.4	0.03%
Others	$1.2	0.09%
Total	$1,280.0	100.00%

Source: NSW Department of Industry and Investment