



## **Study into Remote Area Tax Concessions and Payments**

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Interim submission to the Productivity Commission

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Western Australian Local Government Association  
ONE70, LV1, 170 Railway Parade, West Leederville, WA 6007  
P.O. Box 1544, West Perth, WA 6872

## 1. Introduction

The Western Australian Local Government Association (WALGA or ‘the Association’) is the peak organisation for Local Government in Western Australia. The Association is an independent, membership-based group representing and supporting the work and interests of 136 mainland Local Governments in Western Australia, plus the Indian Ocean Territories of Christmas Island and Cocos (Keeling) Islands.

The Association provides an essential voice for more than 1,200 Elected Members, approximately 14,500 Local Government employees, and the 2.4 million constituents that they serve and represent. The Association also provides professional advice and offers services that provide financial benefits to the Local Governments.

WALGA is grateful for the opportunity to provide a submission to the Productivity Commission study into remote area tax concessions and payments. Ensuring a sustainable population and workforce is a key issue for remote and regional areas of Western Australia. Local Governments have a keen interest in ensuring sustainable remote and regional populations both in terms of maintaining a suitable workforce for economic development as well as making certain that these communities can access essential services.

There are many challenges for remote communities, and these require complex policy responses in order to overcome these issues. While remote area concessions in isolation will not be a complete solution to these problems, they can form part of a broader suite of policy measures to help overcome some of the challenges faced by remote and regional communities and to encourage sustainable population in these areas.

WALGA considers that the rationale for retaining remote area assistance- *to lessen the impact on residents and businesses from living or operating in remote areas, in order to encourage people to locate to these areas* - still exists and there are still overall benefits that can be achieved by encouraging population growth in regional and remote areas.

However the current arrangements are outdated and are not delivering on their objectives. Any reforms to remote area assistance programs must ensure that they are operating as intended to support the population of remote and regional areas and are not acting as a disincentive to establishing a residential population in remote and regional areas.

WALGA’s submission sets out the rationale for maintaining remote area assistance programs and identifies some of the key challenges faced by remote and regional communities. It also puts forward some options for reform for consideration by the Productivity Commission.

Due to meeting schedules, this interim submission has not yet been endorsed by the Association’s State Council. The Productivity Commission will be informed of any changes to the Association’s submission following consideration by the Council.

## ***Findings and Recommendations***

- Local Governments recognise that addressing many of the challenges faced by remote and regional communities is a complex task, which requires multi-faceted policy solutions. In this regard, remote area assistance programs are not the panacea for regional Australia.
- Nonetheless, the sector considers that remote area assistance programs can still form an important part of a broader suite of policy solutions which can help to address some of the unique challenges they face related to the future economic development of the regions, ensuring their communities have access to services and infrastructure and encouraging a sustainable population.
- While the existing support programs were introduced from 1945, the rationale for these policies still remains. Even in the current economic and social environment, there are a range of economic and social benefits that can be achieved by encouraging people to live in remote and regional areas.
- WALGA considers that there remains a strong rationale for regional assistance programs as part of a broader policy agenda to support regional areas of the nation by encouraging development and offsetting some of the challenges of living in these areas. Some of the key objectives of these programs should include:
  - Economic development in remote and regional areas;
  - Ensuring communities in remote areas have access to essential services and infrastructure;
  - Encouraging sustainable populations within regional areas.
- There are a number of issues with the current remote area assistance programs that were outlined in the Productivity Commission's Issues paper. In light of this, and feedback from WALGA members, the Association considers that the current arrangements do not appear to be delivering on these objectives at present.
- WALGA supports the analytical approach proposed by the Productivity Commission to assess the current programs against the principles of good policy, as outlined in the issues paper. The Association's assessment of the current arrangements against these principles, and some preferred options for reform are outlined below.
- The Association believes that the Zone Tax Offset arrangements should be reviewed to ensure:
  - *That it provides reasonable acknowledgement of the cost of living in remote Australia*  
- At a minimum, the ZTO should be increased by applying the change that has occurred in the Australian CPI since January 1993. The Association also recommends that in future years the ZTO should be indexed to the CPI to prevent inflation from again eroding the real value of the offsets. An alternative measure could be to index the ZTO to changes in the Wage Price Index to ensure that provides a genuine benefit based on contemporary measures of income. A further option could be for the Government to develop an appropriate measure of regional costs as an appropriate inflator through

the Australian Bureau of Statistics or another appropriate agency. For example, the WA Department of Primary Industries and Regional Development produces an annual Regional Price Index, which could be an appropriate inflator.

- *That the zones are based on a contemporary measure of remoteness* – The existing measures of remoteness are not necessarily reflective of the contemporary demographic profile of the nation. There needs to be a review to determine whether the current methodology is still appropriate, or whether an alternative measure (for example the ABS classification of remoteness) is a more appropriate benchmark.
- *That the zones are based on up-to-date census figures* – The current zones are based on figures from the 1981 census. Given the considerable changes that have occurred in the economic, demographic and population profile of the nation, the existing zones need to be updated based upon the latest census figures to ensure that it is genuinely targeted at remote areas. There are some areas (for example Darwin, Townsville, and Cairns) that may no longer meet a more contemporary definition of remoteness. It is also important that these Zones are reviewed regularly (for example after each Census update) to ensure the offset reflects accurate population figures.
- Local Governments have raised concerns that the current Fringe Benefits Tax arrangements are acting as a disincentive to a residential workforce and are instead encouraging the use of FIFO and the associated effects on the community.
- Specifically, the sector has raised concerns that the current arrangements are creating perverse incentives, whereby the FBT concessions are encouraging the use of FIFO instead of a residential workforce. Under current arrangements, employers' use of work camps is exempt from FBT, but using housing in existing towns is subject to FBT. This means FBT has encouraged employers to use FIFO rather than locating workers and their families in regional communities.
- The House of Representatives Inquiry into Fly in, fly out workforce practises in Regional Australia, which recommended the *Fringe Benefits Tax Assessment Act 1986* should be reviewed and reformed in order to:
  - remove impediments to the provision of residential housing in regional communities;
  - remove the exempt status of fly-in, fly-out/drive-in, drive-out work camps that are co-located with regional towns;
  - remove the exempt status of travel to and from the workplace for operational phases of regional mining projects;
  - remove the general exemption for fly-in, fly-out/drive-in, drive-out workers from the 12-month limit of payment of the living away from home allowance;
  - enable specific exemptions for construction projects that have a demonstrated limited lifespan; and

- enable specific exemptions for projects in remote areas where the fly-in, fly-out/drive-in, drive-out work practice is unavoidable.
- WALGA is supportive of these changes and encourages the Productivity Commission to examine these options as part of the study.

## 2. Background

Western Australia is a vast state, with significant areas that are sparsely populated. With the exception of the densely populated South-West regions, most of the State's geography is considered very remote. According to the latest data from the ABS, some 6% of WA's population lives in 'remote' or 'very remote' areas, well above the 2% share of the population that lives in remote or very remote areas across the country.<sup>i</sup>

These characteristics mean that there are many areas in the state where residents qualify for remote area assistance programs. For example, the locations designated as eligible for the Zone Tax Offset (ZTO) in WA fall within approximately 16 Local Government areas. There are also many locations within WA that are considered remote for Fringe Benefit Tax (FBT) purposes.

The size and sparseness of the state means that WA's remote and regional areas face a number of challenges such as difficulties in funding and providing infrastructure, thin labour markets, narrowly based economies and a small State Government presence. These factors all contribute to the more challenging living conditions in remote areas, including higher costs.

For example, the latest Regional Price Index produced by the WA Department of Regional Development found that prices were highest in remote areas of the state including the Kimberley and Pilbara regions.<sup>ii</sup> The higher construction costs in regional areas of WA are also reflected in the Department of Finance's guidelines requiring the application of a "regional loading" to construction cost estimates for State Government projects, in recognition of the higher costs in regional and remote areas as a result of factors such as transporting materials, labour challenges and lack of competition.<sup>iii</sup>

Anecdotal feedback from WALGA members also states that the cost of living in remote areas is significantly more than closer rural and regional areas mostly due to freight costs, which disproportionately increases the costs of everyday supplies such as fresh fruit and vegetables. Transport costs are also reported to add to the costs of construction materials and household items.

Given the significant costs associated with provision of services and infrastructure in many of these areas, the private sector is often reluctant to enter the market. As a result, Local Governments in remote areas play a critical role in the provision of essential services and infrastructure in these communities. For example, Local Governments in remote areas often provide services such as housing for essential services workers or airports .

This can lead to significant pressures for the sector. A key challenge is in relation to funding. Local Governments in remote and regional areas generally do not have the same capacity as those in metropolitan Perth or large regional centres to use rates revenue to fund the services they provide. As a result, these Local Governments are reliant on grant funding from other levels of Government to help finance the infrastructure and services required by their communities. In 2014-15, own sourced revenue accounted for only 56% of total revenue for regional Local Governments without large towns. This is exacerbated by the need to provide a wider range of services.

This is reflected in the significant number of Local Governments in WA that are running operating deficits, which are predominantly those in regional WA without large towns, and those with declining populations. Based on research by Deloitte Access Economics, approximately 47 Local Governments in WA have finances that are unsustainable based on existing policy settings. The report also found that smaller rural councils often have a far higher ratio of assets to annual operating income and therefore typically face greater asset management challenges.<sup>iv</sup>

Local Governments recognise that addressing many of the challenges faced by remote and regional communities is a complex task, which requires multi-faceted policy solutions. In this regard, remote area assistance programs are not the panacea for regional Australia. Nonetheless, the sector considers that remote area assistance programs can still form an important part of a broader suite of policy solutions which can help to address some of the unique challenges they face related to the future economic development of the regions, ensuring their communities have access to services and infrastructure and encouraging a sustainable population.

### **3. Objectives of remote area assistance programs**

The current remote area assistance programs exist to lessen the impact on residents and businesses from living or operating in remote areas, in order to encourage people to locate to these areas. At the time these policies were introduced, it was considered that there was benefit to the nation in encouraging people to settle in remote areas. Some of the issues that these benefits and concessions look to offset are the harsh climate, isolation and high costs of living, or in the case of businesses, operating.

While the existing support programs were introduced from 1945, the rationale for these policies still remains. Even in the current economic and social environment, there are a range of economic and social benefits that can be achieved by encouraging people to live in remote and regional areas. Many of these have been reflected in recent reviews focussed on the development of regional Australia, including the *Our North, Our Future: White Paper on Developing Northern Australia*; the Productivity Commission's study into *Transitioning Regional Economies*; and the House of Representatives *Inquiry into the use of 'fly in fly out' workforce practises in regional Australia*.

In this context, WALGA considers that there remains a strong rationale for regional assistance programs as part of a broader policy agenda to support regional areas of the nation by encouraging development and offsetting some of the challenges of living in these areas. Some of the key objectives of these programs should include:

- Economic development in remote and regional areas;
- Ensuring communities in remote areas have access to essential services and infrastructure;
- Encouraging sustainable populations within regional areas.

These objectives and some of the issues and challenges that remote area assistance programs can look to overcome are discussed in further detail below.

#### ***Regional Economic Development***

Developing regional Australia has consistently been identified as an opportunity for our economic future. Remote area assistance programs are an important tool along with other policy measures to ensure that this potential can be realised by ensuring the availability of a suitable workforce and population base to support economic diversification.

While economic development is clearly a priority for the State and Federal Governments, many Local Governments also have a strong focus on strengthening their local economy as a way to deliver better local outcomes. WALGA research has shown that economic development has become a growing focus for the sector. Some 80% of respondents to a recent survey of WA Local Governments believed that the sector plays a key role in supporting local economic outcomes; 70% allocated dedicated resources to economic development activities; and more than half have a formal economic development strategy in place.

Some of the key objectives of local economic development activities include:



- *The creation of local jobs* – Creating a strong local economy ensures jobs are available in the local area, which is an important way to attract residents and reduce the need to commute or relocate to other areas for work.
- *Availability of local products and services* – A thriving and diverse business community can mean that the community has access to a range of products and services in their local area. This is often a particularly important objective in regional areas of the state where there are fewer services available.
- *Reducing crime* – There have been a range of studies that link higher levels of unemployment with crime and antisocial behaviour. A strong economy and labour market is an important tool to address these social issues.
- *Generating revenue for service delivery* – Growing the overall size of the economy and business community can generate revenue for Local Governments to reinvest back into community services and infrastructure, and lower the overall burden on individual ratepayers.

In Western Australia, many of the opportunities to diversify the economy and support our future growth will be driven by regional areas of the state, including in remote areas. Some of the key opportunities in regional WA that have been identified by the State Department of Jobs, Tourism, Science and Innovation include:

- *Lithium* – Western Australia is currently the global leader in lithium production and also has a significant endowment of other key resources to feed into the new battery technology such as vanadium, manganese, cobalt and nickel resources. WA is also in close proximity to manufacturing hubs in Asia.<sup>v</sup>
- *Space* – WA has experience in the Space industry spanning more than six decades, and is home to key institutions and infrastructure including the International Centre for Radio Astronomy Research and the Pawsey Supercomputing Centre. WA has other key advantages for this industry including geographical location; expertise in remote operation; and capabilities in development and use of space-derived applications.<sup>vi</sup> The expanding national research and development agenda associated with the space industry is likely to drive an expanding market of opportunities for WA.
- *Mining equipment, technology and services* – WA's expertise in resources extraction has led to the development of expertise in areas such as core engineering design and project management, consulting services, core mining and processing equipment, IT equipment and related services, specialised technology and general support services.<sup>vii</sup>
- *Renewable Energy* – There are also considerable opportunities for the state in the production of renewable energy due to its vast available land and climate conditions, with renewable hydrogen, solar, wave and wind power all key opportunities.<sup>viii</sup>
- *Tourism* – WA is located in close proximity to key growth markets in Asia, and is home to unique natural attractions.<sup>ix</sup>

- *Agriculture and food* – Being located in the southern hemisphere, WA is well placed to take advantage of seasonal export opportunities into northern hemisphere markets. The state is also renowned for its stringent safety and quality systems and the production of premium food and beverage products.<sup>x</sup>

However, the ability to leverage these opportunities is not guaranteed and will amongst other things require effective provision of public infrastructure and policies that will ensure that WA's regions can attract the employment and private investment they need to realise their potential. Tax concessions and incentives are an important part of this policy mix along with other reforms to improve the productivity and competitiveness of the economy, in particular to ensure an appropriate workforce is available in the regions to make the most of these opportunities.

WALGA members in many regional and remote areas of the state have reported that access to a suitably skilled labour force can act as a barrier to economic development. This issue affects both local businesses as well as the ability of the Local Government itself to source staff.

This was clearly demonstrated during the mining boom in the early 2000s where labour and skills shortages were a major issue affecting the state. There are signs that this will once again be a challenge for the state in coming years as the WA economy returns to growth. There have already been anecdotal signs that skills shortages are starting to occur in regional and remote areas of WA. For example, the Kalgoorlie Chamber of Commerce and Industry reported in March 2018 that up to 1500 jobs were unable to be filled due to a lack of workers in the region, with shortages being experienced across industries including mining, engineering, education, real estate, transport and the not for profit sector.<sup>xi</sup>

The inability to source local workers is a particular issue in the resources regions of the state, which are required to accommodate significant increases in demand for labour during 'peak' phases of a project, and has required the use of fly in fly out (FIFO) workers. This has broader implications for local communities beyond the economic impact.

While the use of a fly-in fly-out workforce is often necessary, Local Government's preference is for the use of a residential workforce in the first instance. Further detail on the issues surrounding FIFO can be found on page 12.

### ***Access to services and infrastructure***

Access to basic services and infrastructure is problematic for many remote communities. It is recognised that this is a complex issue and that these challenges will not be overcome by remote area assistance programs in isolation.

However, these examples do highlight the challenges faced by remote communities and reinforces the rationale for assistance programs as a measure to help compensate residents of these areas for the more difficult conditions and higher costs. This is particularly important for those on lower incomes who have less capacity to travel to access services.

Remote area assistance programs can provide an incentive for essential services workers to locate in the region, but also to grow the population more generally which contributes to the viability of these services and infrastructure by creating scale.

Some examples of the challenges faced by remote communities in WA in accessing essential services and infrastructure are outlined below.

### *Health Services*

WALGA members in remote and regional areas of WA have identified access to essential services as a key issue for their local community, often due to the lack of a suitable workforce. Specifically some of the concerns that have been raised by WALGA members include:

- Difficulties attracting and retaining appropriately skilled and experienced staff, in particular doctors, nurses and allied health staff (health professionals), police, teachers and education providers;
- Distance to travel to see a professional or access to essential services; and
- Access to essential services and professionals (hours of operation or number of staff providing service that is not meeting demand).

WALGA recently conducted a survey of its members to better understand the challenges related to health services in regional and remote areas.

In terms of regional WA more generally:

- Twenty-one Local Governments had no medical centre at all. Of those with a medical centre within their boundaries, sixteen have very limited hours.
- Forty-two respondents stated that they had a nursing post operating in their local community, including nurses stationed at the hospital, medical centres, external organisations such as Silver Chain or in communities. Many of the responses stated that nurses worked in their community part-time with some areas having only one day of coverage per week.
- Some regional and remote areas have considerable distance to the nearest health services, and in some cases there is a 500km drive to receive care.

In terms of the areas that are eligible for remote area concessions, some of the specific issues reported included:

- Some remote towns do not have access to a doctor service (for example, Dampier, Coolgardie).
- Workers in medical centres are often not replaced, leaving these services unstaffed. For example, some areas no longer have access to a community or aboriginal health officer as these roles have become vacant and not been replaced.

- Where services exist, there is not necessarily consistent coverage. One Local Government reported that its nursing posts was unstaffed while the existing nurse is on leave.
- In areas where there are no services, there are significant distances to the nearest available centre. For example, one Local Government reported the nearest hospital is 500km away and the nearest medical centre 712km away.
- Some services do not exist or there are gaps in service availability. For example, some towns did not have access, or had only limited access, to dental, paediatric, chiropractic and mental health services, or more specialised services such as kidney dialysis.
- There can be significant waiting times to access services due to lack of resources. For example, one Local Government reported a case where an individual left the emergency department after not being assessed for 3 hours.
- Lack of resources to provide preventative health activities. For example, insufficient resourcing to provide health promotional material to provide knowledge and awareness to at risk communities, particularly in relation to drug and alcohol abuse.

Many Local Governments being forced to directly procure the services of health professionals or to provide financial incentives to address this issue and ensure equitable access to services for all Western Australians. For example:

- The Town of Port Hedland has built housing to accommodate General Practitioners and medical staff.
- The City of Karratha has previously run financial incentive programs to attract doctors, and facilitate commercial space at attractive rates. The City has also partnered with local industry to manage a medical service incentive scheme to encourage doctors to the region by providing housing and other incentives

#### *Aviation Services*

There is an ongoing issue in WA in relation to the provision of efficient, cost effective air services to ensure accessibility for residents, visitors, workers and service providers in remote and regional areas, and to underpin the economic and social sustainability of these regions.

While there are a number of routes that are regulated by the WA Government to ensure access to essential air services in remote areas which are not commercially viable, there remains an ongoing concern about the cost of airfares in regional WA. This is of particular concern for residents needing to travel to Perth regularly for medical or other reasons.

Recently, a Parliamentary Committee undertook an Inquiry into this issue and found that the current arrangements are impacting on social amenity, government service delivery, business operations, and tourism. In particular, the final report found:

- The more remote a community is from Perth, and the more limited alternative transportation arrangements are, the more significant the impact of high airfares on regional communities.
- Isolation and high airfare prices work in synergy to create pressure and challenging living conditions for regional communities, and is a major factor detracting from the 'liveability' of regional centres. The report cited the submission from the Shire of Derby West Kimberley, which stated that their population has declined since the cessation of the regular public transport service from this town.
- Isolation and high airfares influence people's long-term decisions to live in remote centres.
- High regional airfares are significantly and adversely affecting the lives of regional Western Australians, particularly those who are forced to travel due to sickness, emergency or other family incident.
- Many residents are affected by inadequate scheduling, a poor quality older air fleet and unreliable and expensive freight services.<sup>xii</sup>

To address the issues surrounding high regional airfares, many Local Governments are undertaking initiatives to address this issue, primarily those which operate the regional airport. The Inquiry noted that many regional local governments have taken direct action to reduce or freeze airport passenger and landing charges. For example:

- The City of Kalgoorlie Boulder has agreed to rebate the \$25.95 per passenger landing fees for those passengers who use the new Qantas residents discount trial fares each month. It is estimated that this will cost the City approximately \$250,000 per annum.<sup>xiii</sup>
- The City of Greater Geraldton has frozen its airport passenger service fees and landing fees for the past three years.<sup>xiv</sup>
- The City of Karratha has reduced its airport charges to match the discount provided by Qantas for residents using the residents discount trial fares.<sup>xv</sup>

### *Telecommunications*

WALGA members in remote and regional areas have consistently identified telecommunications as a challenge for their communities. Some of the issues raised related to the reliability and speeds of mobile telephone and internet access and the implications for both the community and economy.

The anecdotal feedback provided by WALGA members has also been reflected in recent research.

For example, the Bankwest Curtin Economics Centre examined access to the internet in WA. While this report shows that WA compares favourably to other states in terms of internet access in remote and very remote areas, it still shows that people located in these areas are accessing the internet less than those in major cities. Some 82.7% of households in very

remote areas have internet access in WA, compared to 65.5% across the country. However, this is still well below the 92.6% of households in major cities which have internet access.

In terms of those households which don't access the internet, a large proportion of these were located in remote areas. For example, the lowest performing region in WA was East Pilbara, with 55% of households not accessing the internet. This was followed by Halls Creek (47%), Leinster-Leonora (44%) and Derby-West Kimberley (41%).

The report also did not provide any information about the quality of services being accessed by households. However, it did examine small business access to telecommunications and provided some indication of service quality.

Overall, the report found that small businesses in the Pilbara and Kimberly regions had a high share of respondents rating the quality of broadband as low (26.2% and 24.4% respectively) and a small share rating the quality of broadband as very high (11.9% and 8.9% respectively). In terms of mobile phone and internet services collectively, some 13% of small businesses in the Kimberley and rated the quality of both internet and mobile services as low – the highest of all areas. A similar result was reported for around 10% of small businesses in the Goldfields.

### ***Sustainable populations***

Population and demographic issues remain important considerations in many regional and remote areas of WA. Many Local Governments have reported challenges arising from declining populations and the larger “service” populations associated with FIFO workers and other seasonal residents.

These issues all help to reinforce the rationale for remote area assistance programs to encourage a residential workforce and sustainable population in remote areas.

### ***Declining populations in remote areas***

After a period of record growth, WA's rate of population growth has declined in recent years in line with the downturn in the economy and end of the mining investment boom. Over the year to September 2018, WA's estimated resident population grew by just 0.9%, well down on the growth rates in excess of 3% recorded during the height of the boom in 2008.

Although the rate of growth has declined, the State's overall population has continued to rise. However, growth has not been evenly spread, with many remote areas of the state experiencing population decline. According to the Australian Bureau of Statistics, the number of Western Australians living in very remote or remote areas has been in decline for the four years from 2014 to 2017 (-4.9% to 155,265 from 163,311), while the number of people living in outer regional areas of WA has declined for the last three years (-1.3% from 189,218 to 186,065).<sup>xvi</sup>

Addressing this decline and ensuring sustainable populations in regional areas – particularly the regional capitals – is important to ensure that these locations can continue to service the significant industry base that is located in regional areas.

The importance of regional centres was set out by Regional Capitals Australia, which emphasised that the role of these centres is to provide a ‘central point to access essential infrastructure, services, business, employment and education for local residents as well as those in surrounding towns and rural areas.’<sup>xvii</sup> This is particularly relevant to WA Local Governments, since they provide important rail, road and port links to export markets for the State’s key commodities, such as wheat and iron ore.

### *Fly in Fly Out Workers*

While FIFO is an economic reality and has allowed for the development of an industry that has delivered significant wealth for the state economy more broadly, Local Governments have concerns that FIFO operations can lead to a range of challenges for host communities. For these reasons, Local Governments have a preference for a residential workforce in the first instance.

The use of FIFO creates challenges for Local Governments in providing services and infrastructure, as they are required to contend with ‘service populations’ that are larger than their resident populations. Many Local Governments stated that they were carrying the burden of services and infrastructure to support FIFO workers without appropriate funding to cover for these costs, and pointed towards resulting shortages across a number of areas including:

- community infrastructure and services;
- rail and road infrastructure;
- town services, including water, road and sewerage;
- airports; and
- telecommunications.<sup>xviii</sup>

For example, Local Governments in Karratha, Port Hedland and Kalgoorlie/Boulder are required to service larger populations due to the impact of the large FIFO workforce. A 2012 Parliamentary Inquiry into the use of FIFO received a number of Local Government submissions regarding the economic impact of FIFO workers. Local Governments pointed out that infrastructure such as roads, airports, water and sewerage services, and community facilities were provided to the non-resident population, who do not contribute financially to meeting the costs.<sup>xix</sup> Some remote areas such as Broome also cater to a large service population due to the impact of tourism.

Local Governments have also raised concerns about the social impact of FIFO, including declines in community identity and social cohesion; reduced community safety; and lower engagement in community life.<sup>xx</sup> Regional towns have also reported adverse outcomes for their local economy and business community.

The overall economic impact of FIFO was outlined in research by Hogan and Berry which found that FIFO:

- Delivers benefits to capital cities and large urban or regional centres by diversifying their economies;

- Is destructive to local communities that are not able to meet the infrastructure and service demands generated by a non-resident workforce;
- Can reduce the economic viability of local infrastructure, services and businesses in situations where there has been a shift from a permanent resident workforce to a largely FIFO workforce.<sup>xxi</sup>

Many of these concerns were also raised by Local Governments in their submissions to the 2015 House of Representatives Inquiry, *Cancer of the bush or salvation for our cities?*, which examined the impact of FIFO and Drive In Drive Out (DIDO) workforce practices in Regional Australia.

In particular, the final report noted that there is evidence of projects in the Pilbara where there has been effectively no integration with the local or regional economy, and pointed towards examples where major resources projects were not using local suppliers for basic services even when suitable local suppliers were available.<sup>xxii</sup> The report also pointed towards examples where FIFO work camps in close proximity to host towns contained services such as supermarkets and bars, which have reduced benefits to the local community.<sup>xxiii</sup>

While it is recognised that FIFO is necessary in some circumstances, it is important that any remote area assistance does not actively encourage FIFO in preference to a residential community.

#### **4. Options for revising current arrangements**

While the rationale for remote area assistance programs still exists, these alone are not a panacea for the challenges faced in remote and regional areas, such as high costs, lack of services and infrastructure. Many of the issues will require a broader, multifaceted policy solution.

Remote area assistance programs can form part of the policy solution, and as outlined earlier, Local Governments consider there is a clear rationale for these to be maintained. However, it is important that any remote area assistance programs are appropriately targeted, delivering on their stated policy objectives and delivering an overall net benefit to the community.

There are a number of issues with the current remote area assistance programs that were outlined in the Productivity Commission's Issues paper. In light of this, and feedback from WALGA members, the Association considers that the current arrangements do not appear to be delivering on these objectives at present.

WALGA supports the analytical approach proposed by the Productivity Commission to assess the current programs against the principles of good policy, as outlined in the issues paper. The Association's assessment of the current arrangements against these principles, and some preferred options for reform are outlined below.

##### ***Zone Tax Offset***

WALGA questions whether the current ZTO arrangements are delivering on the elements of good policy design which require that the policy:



- Bring a net benefit to society
- Be proportional to the objective that they are designed to achieve
- Be evaluated over time to ensure that they remain relevant and cost-effective
- Be transparent, clear and concise

Given that the nominal value of the ZTO has not been adjusted since 1993 and that only a limited number of people are accessing the offset, it is not likely that the offset is delivering any clear benefit for the community. The base payment for a single person has remained at \$338 a year in Zone A, \$57 in Zone B, and \$1,173 in the special areas. Based on average weekly earnings, even in the special areas the offset represents less than 2% of annual income. Further, the multiple zones and special areas make the offset confusing and are not likely to reflect contemporary measures of remoteness given that they are based on census figures from 1981.

The Association believes that the ZTO arrangements should be reviewed to ensure:

- *That it provides reasonable acknowledgement of the cost of living in remote Australia* - At a minimum, the ZTO should be increased by applying the change that has occurred in the Australian CPI since January 1993. The Association also recommends that in future years the ZTO should be indexed to the CPI to prevent inflation from again eroding the real value of the offsets. An alternative measure could be to index the ZTO to changes in the Wage Price Index to ensure that provides a genuine benefit based on contemporary measures of income. A further option could be for the Government to develop an appropriate measure of regional costs as an appropriate inflator through the Australian Bureau of Statistics or another appropriate agency. For example, the WA Department of Primary Industries and Regional Development produces an annual Regional Price Index, which could be an appropriate inflator.
- *That the zones are based on a contemporary measure of remoteness* – The existing measures of remoteness are not necessarily reflective of the contemporary demographic profile of the nation. There needs to be a review to determine whether the current methodology is still appropriate, or whether an alternative measure (for example the ABS classification of remoteness) is a more appropriate benchmark.
- *That the zones are based on up-to-date census figures* – The current zones are based on figures from the 1981 census. Given the considerable changes that have occurred in the economic, demographic and population profile of the nation, the existing zones need to be updated based upon the latest census figures to ensure that it is genuinely targeted at remote areas. There are some areas (for example Darwin, Townsville, and Cairns) that may no longer meet a more contemporary definition of remoteness. It is also important that these Zones are reviewed regularly (for example after each Census update) to ensure the offset reflects accurate population figures.

### ***Fringe Benefits Tax – Remote Area Concessions***

Given the lack of available information about the FBT remote area concessions, it is difficult to determine whether it is consistent with the elements of good policy design. In particular, WALGA questions whether the current arrangements:

- Bring a net benefit to society
- Are better than any alternative
- Are proportional to the objective that they are designed to achieve
- Are transparent, clear and concise.

The lack of available information about the use of the concession also reinforces that it has not been evaluated over time to ensure that it remain relevant and cost-effective.

Local Governments have raised concerns that the current Fringe Benefits Tax arrangements are acting as a disincentive to a residential workforce and are instead encouraging the use of FIFO and the associated effects on the community.

Specifically, the sector has raised concerns that the current arrangements are creating perverse incentives, whereby the FBT concessions are encouraging the use of FIFO instead of a residential workforce. Under current arrangements, employers' use of work camps is exempt from FBT, but using housing in existing towns is subject to FBT. This means FBT has encouraged employers to use FIFO rather than locating workers and their families in regional communities.

The Association acknowledges that the FBT exemption for work camps is reasonable particularly for remote project sites or for the construction phase of projects. In contrast, operational workforces located near existing cities and towns should not be encouraged, through the tax exemption, to be located in camps. Indeed, this practice is detrimental to the development of mining regions as it discourages workers from participating in community life and spending money in the local area.

These issues were acknowledged by the 2013 House of Representatives Inquiry into Fly in, fly out workforce practises in Regional Australia, which recommended the *Fringe Benefits Tax Assessment Act 1986* should be reviewed and reformed in order to:

- remove impediments to the provision of residential housing in regional communities;
- remove the exempt status of fly-in, fly-out/drive-in, drive-out work camps that are co-located with regional towns;
- remove the exempt status of travel to and from the workplace for operational phases of regional mining projects;
- remove the general exemption for fly-in, fly-out/drive-in, drive-out workers from the 12-month limit of payment of the living away from home allowance;
- enable specific exemptions for construction projects that have a demonstrated limited lifespan; and
- enable specific exemptions for projects in remote areas where the fly-in, fly-out/drive-in, drive-out work practice is unavoidable.

WALGA is supportive of these changes and encourages the Productivity Commission to examine these options as part of the study.

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