



## Submission to the Australian Productivity Commission

### A study into the Zone Tax Offset and related Remote Area Concessions and payments

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The Central Land Council (CLC) welcomes this opportunity to provide a submission.

*The CLC is a Commonwealth corporate entity established under the Aboriginal Land Rights (Northern Territory) Act 1976 (‘ALRA’). Amongst other functions, it has statutory responsibilities for Aboriginal land acquisition and land management in the southern half of the Northern Territory. The CLC is also a Native Title Representative Body established under the Native Title Act 1993 (‘NTA’). Pursuant to the ALRA more than 50% of the NT and more than 85% of the NT coastline is now held by Aboriginal Land Trusts on behalf of traditional owners. A further 253,886 square kilometres of land and water is also held under native title. The CLC region covers approximately 780,000 km<sup>2</sup> of land, and 417,318 km<sup>2</sup> is Aboriginal land under the ALRA. Given existing pastoral land was unable to be claimed this Aboriginal land tends to be very arid and remote. In addition, rights have been asserted and won under the Native Title Act 1993, and traditional owners unable to claim land under the ALRA have succeeded in obtaining rights to small areas known as Community Living Areas, under NT legislation.*



## Submission to the Productivity Commission

### Remote Area Tax concessions and payments

#### Submission summary

It is submitted that the main justification of the need to compensate people for the relatively high living costs, isolation and uncongenial climate in remote Australia **remain today**.

The motivation for this submission - the Central Land Council (CLC) relies upon a range of Government concessions and employer-provided allowances with concessional tax to attract and retain employees. The CLC region is entirely within Zone A and Zone A (special). It is submitted that there is evidence that removal or diminution of the concessions would have a detrimental impact on staff recruitment and retention, and that an improvement in the concessions would make a positive contribution to recruitment/retention which would be offset by other Government/employer cost savings (e.g. recruitment/relocation costs).

#### Constitution – why remote area tax concessions/payments do ‘NOT’ discriminate/give preference

Remote tax concessions do **not** discriminate or give preference. It must be firstly recognised that residents of remote areas do not have access to the same level and standard of services available to the residents of capital and regional cities. For example, very remote areas will not have access to medical services (hospitals, GPS etc. - other than possibly a local clinic) and have to travel to regional centres for medical attention or capital cities for specialist care. Remote residents also experience many price disadvantages, for a range of reasons including a lack of competition. Tertiary education frequently involves students moving to capital cities at significant additional cost. For example, In Central Australia, a GP (in Alice Springs) would generally not ‘bulk-bill’ for adult patients and the ‘out-of-pocket’ is approximately 50% or more of the total consultation charge. The price of motor vehicle fuel is usually far in excess of a reasonable margin for the additional transport costs and volume, and the price is unconstrained in very remote communities. The government services provided are also often sub-standard relative to large population centres. Interstate air fares are predatory. A standardised income tax system that does not recognise this price and services differential is discriminatory and providing preference to non-remote areas between and within States.

Therefore, it is submitted that any provision of a concession or payment is actually intended (at least partially) to avoid the services and prices discrimination and preference available to non-remote residents of Australia. To the maximum extent possible the level of concession should compensate for the prices and services differential. This would assist with encouraging people to re-locate to, and remain in, remote areas



### **Views and evidence**

This submission directly and indirectly responds to the following factors, to varying degrees:

- Impact of the concessions and payments on wage and employment decisions
- Impact of the concessions and payments on labour mobility and retention, and changes to these impacts as the real value has eroded
- Extent to which fringe benefits tax (FBT) remote area concessions influence employers' decisions between offering fly in fly out and regular employment
- Likely impost on business and industry if the concessions or exemptions were removed
- Evidence that employers pay more to attract and recruit labour to remote areas where there is demand for workers
- Costs of living in regional and remote areas within the zones compared to other parts of Australia
- Changes in technology, transport, and infrastructure over recent decades that have affected the hardships of living in areas that are geographically isolated or have uncongenial conditions
- Whether the policy rationales given to support the zone tax offset (and its previous incarnations) apply to the fringe benefits tax, remote area FBT concessions, or Remote Area Allowance
- Whether these remote area tax concessions and payments are delivering on their policy objectives (including any quantitative evidence)
- Whether the ZTO, FBT remote area tax concessions or RAA should be kept

### **Impact on wage/employment decisions – Enterprise Bargaining (local) analysis**

The purpose of this section is to highlight the cost of staff turnover and lead into describing the deteriorating staff retention trend, which considerably increases recruitment costs and causes a deterioration in staff productivity.

In 2017, to comply with the Commonwealth Government's Enterprise Agreement (EA) policy for Commonwealth agencies (of which CLC is one), extensive analysis was undertaken of initiatives that could improve productivity and achieve cost savings. One of the EA initiatives was to 'reduce staff turnover'. The analysis undertaken was based on understanding a number of key factors that caused additional costs and lost productivity. The results were averaged to gain an understanding of the average lost productivity caused by a turnover, comprising the organisational recruitment process, the lost working days from the vacant position and the time for a new replacement to achieve full productivity. The key factors identified were:

- Average recruitment time per employee turnover (contracts, position descriptions, advertising, interviews, relocation, induction/on-boarding) = 12 hours
- Average working days lost per employee turnover until new employee commenced = 40 days
- Average working days lost for a new employee to become fully productive = 91 days



- Average value in lost productivity **per staff turnover** = **\$46,400**
- Average recruitment costs **per staff turnover** (vary widely with interstate and local recruitment) = **\$2,250**

Turnover is obviously a significant cost and lost productivity impost to the organisation. Any further deterioration in net staff benefits (which include remote concessions and tax offsets) will undoubtedly have a negative impact on attraction and retention of staff, especially key technical staff and managers, to remote and very remote locations.

The organisation has anecdotal evidence and experience that concessions influence attraction and retention of staff. Yet the organisation, for many factors including remoteness, still experiences high and increasing staff turnover and associated significant additional costs. Refer chart below for turnover trend. A reinstatement of the real value of remote tax concessions could alleviate the trend.

### **Influence of FBT remote area concessions**

**2 (a) Remote** allowances - anecdotal evidence 1 – Background - the EA provides that all staff (and dependents) receive an **annual airfare allowance**. This is provided income tax free to employees where its use complies with all FBT concession requirements. The employer pays the concessional FBT. The allowance, as per FBT rules, is paid at a benchmarked return economy airfare to Adelaide (currently \$996). Airfares to/from Alice Springs are extraordinarily high and are currently subject to a parliamentary inquiry. It is hypothesised that this remote concession is highly valued and a key aspect to attracting and retaining staff. The real value of the allowance is maintained by the benchmark to economy airfares. Evidence – in terms of EA negotiations, this allowance received/s significant attention from staff and their bargaining representatives. There was a rumour (without any basis) during the last EA negotiations, that changes to the allowance rules were being proposed by management. The staff response was hostile, and a staff survey indicated that it was a contributing factor to the first EA staff ‘vote’ being negative. The management plan was actually to enhance the allowance to improve staff attraction/retention (previously the child dependent allowance was 75% of the adult, which had been set when ‘child’ fares were available. All children 2 years and older must now pay the full adult air fare, so the allowance is now the same rate for children dependents).

Comment – removal of the FBT concession would significantly increase the employer cost and make the allowance taxable to the employee, making the arrangement unattractive. A major issue is the exorbitant airfares to/from Central Australia. Many new staff recruited from interstate are unaware of this until employed. Rejection of the first EA is partly evidence of the high value placed on this concessional allowance. The economy airfare has increased substantially, well ahead of inflation despite competition, and fares booked for next financial year are 2.8% more than 2018/19. The economy airfare (return), for the only airline providing a daily service to Adelaide, will be \$1,092 in 2019/2020.



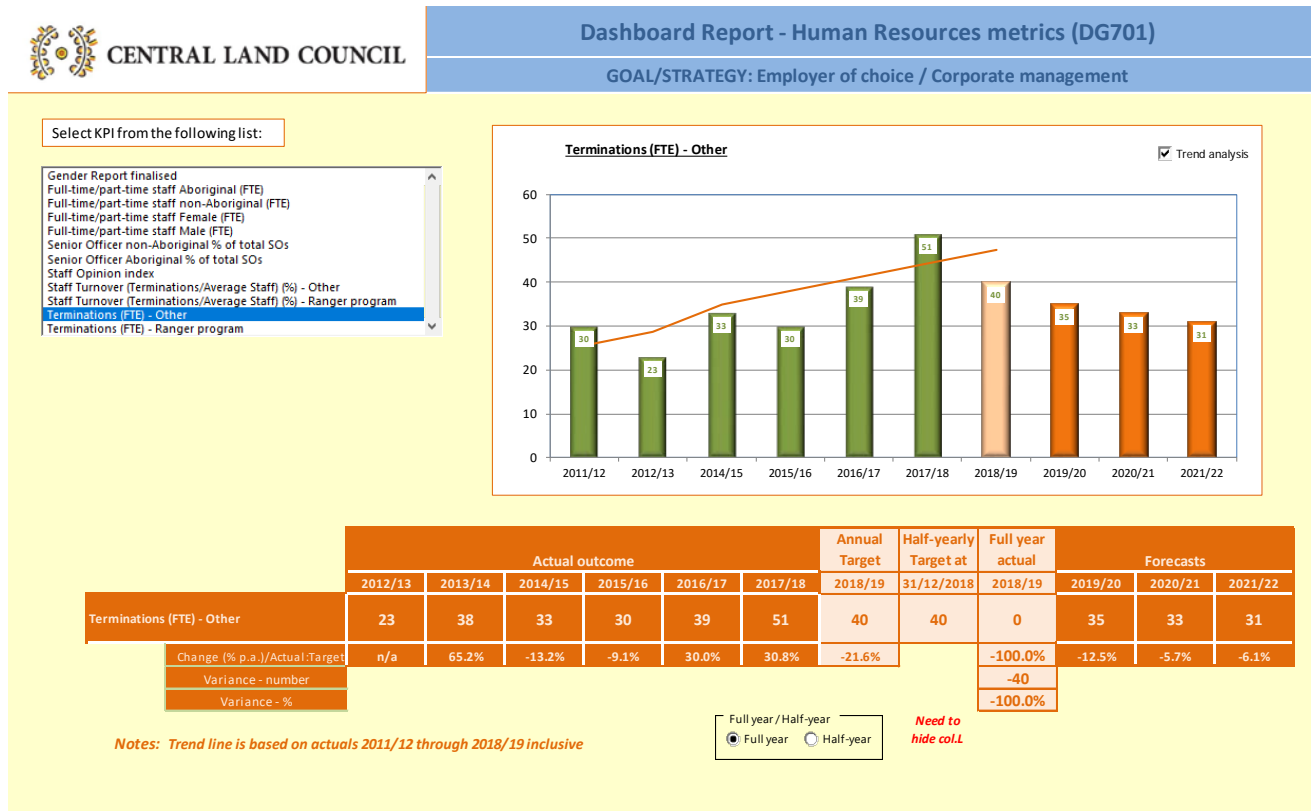
**Staff housing – Background** – the staff attraction/retention strategy includes new staff being provided with temporary ‘recruitment’ accommodation in Alice Springs, enabling new staff to pay a concessional rental for up to four (4) months to allow them time to research where they would prefer to reside and obtain private accommodation. The concessional rental (based on market valuation) is the minimum amount payable without the employer incurring an FBT liability or the employee receiving a taxable benefit. The organisation also provides housing to many staff who work and reside in communities remote from Alice Springs. *Refer attached map for CLC office locations.* In each of the office locations there are regional services staff and other program staff. The number of staff varies by the size and local of the communities and the Aboriginal/Native Title lands that are serviced. In addition, there is an ever-expanding ranger program (currently 12 remote ranger groups with an average of 7 rangers per community). Although the rangers are employed from local communities the ranger group coordinators for each group are recruited from elsewhere (often interstate). Regional staff and ranger group coordinators, and their families, are provided with rent-free residences (either furnished or part-furnished). This ‘benefit’ is provided income tax exempt and FBT-free due to the remote locations. **Anecdotal evidence 2** – there are 2 important factors regarding attraction and retention of employees at these very remote locations – 1) limited facilities available in these communities and distance to regional centres make it very difficult to attract employees to work/reside in these locations 2) turnover is high, as for most employees there is a tolerance limit to how long they can work in such communities (although there are a few exceptions). If the FBT concession on this remote accommodation was unavailable, and the employer was required to impose a minimum market rental it would undoubtedly make recruitment more difficult. **Comment** - removal of the FBT concession would significantly increase the employer cost if it was forced to provide rent-free accommodation but pay FBT on the value. EA conditions and employee contractual arrangements are inflexible to changes in taxation rules, so it would be difficult to alter existing benefits (although it would be unlikely that the CLC would want to pursue this approach anyway because of the impact on attraction/retention).

**Impact of erosion of tax concessions/benefits – Background** – it would be difficult to provide a direct causal connection between the erosion of the benefits and employment success, but it is surmised that to partly compensate for the erosion the organisation’s employment conditions have had to be improved to compensate over time. This puts significant pressure on the organisation’s budget (which requires Ministerial approval) when constraint is being demanded. However, despite the improvement in EA conditions, turnover rates have continued to escalate. This deterioration could be related to improved Australia economic conditions and reduction in unemployment in capital cities and major centres, reducing the incentives for people to seek remote employment. **Anecdotal evidence 3** – CLC undertook analysis, as part of EA negotiation preparation, to industry benchmark salary and conditions with the nearest major population centre/capital city, being Darwin. Darwin has a population of approximately 146,000, so is 5 times larger than



the largest centre in Central Australia (Alice Springs). The reasonable assumption is that staff attraction and retention is more successful in the capital city due to better services. The benchmark undertaken is a comparison of the average EA salary rates. On average the salaries paid were **25%** higher in 2015 (when this analysis was last undertaken as part of EA negotiations) compared to a similar size entity in the same industry (before the last EA was negotiated), indicative of the salary premium that needs to be paid to attract and retain staff to remote Central Australia. Yet despite this premium staff turnover rates are increasing significantly. Cost of living factors could be an overall influence, that the salary premium and other remote benefits is insufficient compensation for the additional costs, especially housing and utilities. Salaries were also constrained by Government EA policy between 2015 and 2018, which made it very difficult to negotiate an EA. There were 2 years when staff did not receive a salary increase. Bracket creep may also be offsetting any benefits of Remote tax concessions.

The following is an extract of a CLC ‘dashboard’ measuring staff change. The number of terminations in the previous financial year was very significant, and although it had been hoped that this trend would slow it didn’t in the first half of the current financial year with 2018/19 now likely to exceed 2017/18. Improving ‘targets’ have been forecast, but these are in ‘hope’ rather than related to any controllable factor. Funded positions are 228 FTE (full time equivalent). Approximately 50% of positions are occupied by Indigenous persons.



Note: terminations ‘other’ is all staff excluding locally recruited rangers.



**FBT concession ZTO retention?**

It is submitted that it important that remote area tax offsets and FBT concessions be retained and improved. The current system provides some recognition of the exceptional additional costs and diminished Government service availability to persons living in remote areas. An improvement will assist remote area employers to attract and retain qualified staff. The additional costs of an improvement would be more than offset by the reduction in recruitment costs and lost productivity. Government agencies are constrained by centralised policy remuneration 'caps' in offering additional benefits to encourage attraction/retention.

CLC is willing to provide further information or clarification.





Map of CLC office locations (where staff reside)

