

## Submission – Town of Port Hedland, Shire of East Pilbara, and the Shire of Ashburton

Thank you for the opportunity to submit to the Productivity Commission's ('the Commission's') examination of remote area tax concessions and payments, giving due regard to the preliminary assumptions and recommendations in the Commission's *Draft Report August 2019*. The Councils fully support the review of the remote area tax concessions, to ensure they have clear policy rationales and that they support regional development.

The Town of Port Hedland, Shire of East Pilbara and Shire of Ashburton in the remote Pilbara region of Western Australia ('the Councils') share unique challenges associated with isolation, significant mining and resource sector investment, and comparative wage disparity.

In providing commentary, the Councils' submission respectfully acknowledges the complexity of the task before the Commission in the absence of sufficient empirical evidence and the disparate nature of the regions eligible for the concessions. The Councils are cognisant that further data has been requested before finalisation of the report and the drafting of recommendations to government and provides this within.

That said, the Councils are extremely concerned about the application of some of the preliminary assumptions to the Pilbara, the Commission's methodology (in some instances) and the impact of the Commission's draft recommendations on the viability of Pilbara towns, the economy, and regional Indigenous communities. Councils are also concerned about what appears to be a diminishment of the federal government's role in regional development in favour of the states and territories, which effectively disconnects remote area tax concessions from federal policy on regional development.

While the Councils note the Commission's acknowledgement in its report on *Transitioning Regional Economies* of the significant contribution of the resources sector to Australian, state and territory economies; the cyclical impact of global demand and commodity prices on the resources sector communities; and the poor adaptive capacity of Pilbara towns,<sup>1</sup> Councils do not believe these factors have been fully considered in arriving at the Commission's assumptions and recommendations in the *draft report*. Councils are also concerned about the draft report's focus on tax concessions for FIFO, as opposed to residential workforces that participate directly in mining or facilitate mining (aka economic development).

While these and other issues are addressed in detail below, many hinge on understanding the:

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<sup>1</sup> Australian Government Productivity Commission, *Transitioning Regional Economies*, December 2017, pp102-103, p136.

- current and forecast contribution of the Pilbara mining and resources sector to the state and national economy;
- impact of fluctuating commodity prices and resource investments in a mono-economy and adjustment in cost of living on lower paid or service sectors;
- criticality of regional development and growth (as opposed to diminishing populations) to the state and national economies; and
- reliance on wage data indices to counter cost of living expenses.

The Councils support the Commission's proposals regarding the Remote Area Allowance (RAA) concessions as an offset for cost of living expenses for income support recipients. The Councils' submission is centrally focused on the Zone Tax Offset (ZTO) and FBT tax concessions for employer-provided housing and fuel as these have significant impacts on Pilbara local governments and their employees and the towns they service. As discussed in this submission, a shift by resource sector companies from residential to FIFO as a result of proposed changes to FBT concessions will have a substantial impact on Pilbara towns.

## *About the Pilbara*

As the Commission is aware, the Pilbara region of northern Western Australia ('WA') is located 1200km north of Perth, extends from the Indian Ocean inland to the Northern Territory border, and comprises approximately 508,000km or 20 percent of the WA land mass. Comparatively, it is twice the size of Victoria and two-thirds the size of New South Wales.<sup>2</sup>

Approximately 13.5 percent of the 59,994 Pilbara resident on the 2016 census night<sup>3</sup> identified as Indigenous.<sup>4</sup> Population centres include Port Hedland and South Hedland (14,975) in the Shire of Port Hedland;<sup>5</sup> the towns of Newman (5,000),<sup>6</sup> Marble Bar (634) and Nullagine (1701)<sup>7</sup> in the East Pilbara;<sup>8</sup> and Onslow (848), Pannawonica (695), Paraburdoo (1,359), and Tom Price (2,956) in the Shire of Ashburton.<sup>9</sup> The City of Karratha, hosts Karratha (15,828), Dampier (1,104), Roebourne (981), Wickham (2,295)

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<sup>2</sup> Remplan Community Profile. Available at: <https://www.communityprofile.com.au/pilbara>

<sup>3</sup> Remplan Community. Available at: <https://www.communityprofile.com.au/pilbara>

<sup>4</sup> Remplan Community. Available at: <https://www.communityprofile.com.au/pilbara/population/indigenous-status#!bar-chart;i=0>

<sup>5</sup> Town of Port Hedland *Economy Profile*. Available at: <https://www.economyprofile.com.au/porthedland/>

<sup>6</sup> Shire of East Pilbara calculation

<sup>7</sup> Shire of East Pilbara notes this calculation has reduced since the Census

<sup>8</sup> 2016 Census QuickStats. Available at:

[https://quickstats.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/quickstat/SSC50889](https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/SSC50889) and [https://quickstats.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/quickstat/SSC51155](https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/SSC51155)

<sup>9</sup> Shire of Ashburton, *Economic Investment Profile*. Available at: <https://www.ashburton.wa.gov.au/the-shire/about-the-shire/economic-investment>

and Point Samson (231).<sup>10</sup> A significant number of Indigenous communities and remote mine sites are also located within the region.

Population centres are isolated and subject to very hot summers, mild winters and low to variable rainfall. Northern inland areas are classified as hot desert and the north-west, hot grasslands. Average daily temperatures during Summer range between 30-35 degrees centigrade with 45 plus degrees common in inland areas. The Pilbara is the most cyclone prone area along the Western Australian coastline.

Temperatures have increased over the last 40-60 years in the Pilbara and future climate projections show very high confidence of substantial temperature increases in the Pilbara with the north-west warming more than elsewhere in Australia.<sup>11</sup>

### *Economic contribution of the Pilbara*

In providing the following economic data, Councils acknowledge the Commission's role in economic research.

The resources sector has been a key driver of both the WA and national economies over the past decade given increased capital investment realising significant employment opportunities, higher incomes and enhanced demand for services.

Western Australia, the primary minerals and petroleum exporting region of Australia, produces a substantial proportion of the world's mineral and petroleum commodities, and accounted for 52 percent of Australia's mining gross value added in 2017-2018 and 67 percent in 2013-2014.<sup>12</sup> In 2017-2018 Western Australia's resources sector's direct economic contribution (wages/salaries, business purchases, payments to government and community contributions), comprised \$38 billion of \$57.7 billion for Australia.<sup>13</sup> For the same period, mining accounted for 30 percent of Western Australia's Gross State Product (GSP), and 37 percent in 2010-2011.<sup>14</sup>

Western Australia is the largest iron ore supplier in the world, accounting for 39 percent of global supply in 2018 against 19 percent from Brazil. Iron ore demand from Asia is predicted to rise by 226 million tonnes from 2018-2039 with expanded demand in other

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<sup>10</sup> AbS QuickStats. Available at:

<https://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>

<sup>11</sup> Department of Agriculture and Food, *Climate in the Pilbara*. Available at:

<https://www.agric.wa.gov.au/sites/gateway/files/Climate%20in%20the%20Pilbara%20-%20Bulletin%204873%20%28PDF%203.3MB%29.pdf>, p6. The Pilbara will achieve 0.6-1.5 degree centigrade increases in the next 10 years with progressive increases to a potential 5.9 degrees centigrade by 2090.

<sup>12</sup> Department of Jobs, Tourism, Science and Innovation, *WA economic profile, August 2019*, p10.

<sup>13</sup> Chamber of Minerals and Energy Western Australia. Available at: <https://cmewa.com.au/wp-content/uploads/2019/06/Australia.pdf>

<sup>14</sup> Chamber of Minerals and Energy Western Australia. Available at: <https://cmewa.com.au/media/publications/economic-contribution-factsheets/>

countries in Asia offsetting a forecast decline from China. The price of iron ore is forecast to be \$US74 a tonne in 2019-2020 and \$US66 in 2020-2021. As at 2018, Western Australia has large iron ore reserves and 29 percent of the world's crude iron ore reserves.<sup>15</sup> While world GDP growth is expected to be 3.3 percent over the next decade and Australia's 2.6 percent, the Chamber of Minerals and Energy WA (CMEWA) forecasts WA's economic growth to be higher than the national average on the back of Asian demand for iron ore.<sup>16</sup>

New investments in iron ore declined sharply between 2015-2018 as a result of substantially lower prices in global markets, as supply outstripped demand. Further, significant investments in Liquid Natural Gas (LNG), such as property and infrastructure, were completed by the end of 2017. This resulted in less employment, a decrease in populations in key centres, reduction in incomes and a significant slowdown in most sectors of the Pilbara economy.<sup>17</sup> In 2017, investments over a 5-6 year period in iron ore went into full production, prompting decisions on replacement iron ore mines and increased LNG capacity. Intensive feasibility studies underpinned the new wave of investment with the result that at the commencement of 2018, mining gathered pace with the economy and business opportunities strengthened further in 2019.<sup>18 19</sup>

The *Pilbara Quarterly Economic Update, July 2019*, reports a deepening and broadening of the resources sector, and record earnings in Australian commodity exports over the prior 12 months (\$275 billion) substantially off the back of the Pilbara, as well as record forecasts for 2019-2020 (\$285 billion). A possible further \$65 billion in investments in the medium term in iron ore replacement mines, increased iron ore production, large-scale investment in LNG, and expanded activities in lithium, gold and fertiliser are forecast and are likely to realise a marked increase in the demand for labour during construction phases.<sup>20</sup> The report notes the Reserve Bank of Australia's statement that urbanisation and increased GDP in Asia could drive the resources sector for decades.<sup>21</sup>

The Pilbara Ports Authority manages two of the world's largest bulk export ports, the Port of Port Hedland (the largest in the world) and Port of Dampier, as well as the Port of Ashburton, near Onslow. Three greenfield ports are also in development; Anketell, Cape Preston and Balla Balla (all located in relative proximity to Karratha), to support long term forecast growth.

The Pilbara Ports Authority reported *record* annual throughput of 697.2 million tonnes 2018-2019, including 647.8 million tonnes of iron ore, constituting 42 percent of global seaborne supply and 31.4 million tonnes or 9 percent of global exports of LNG (record for

<sup>15</sup> Department of Jobs, Tourism, Science and Innovation, *Iron Ore Profile, August 2019*, pp1-3.

<sup>16</sup> Chamber of Minerals and Energy WA, *2018-2028 Western Australian Resources Sector Outlook*, April 2016, p16.

<sup>17</sup> Regional Development Australia Pilbara, *The cost of doing business in the Pilbara*, Executive Summary.

<sup>18</sup> Ibid.

<sup>19</sup> Regional Development Australia Pilbara, *Pilbara Quarterly Economic update, July 2019*, p1.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

LNG).<sup>22</sup> For 2018-2019 total tonnage out of Port Hedland was 513,302,000 and 172,996,000 tonnes out of the Port of Dampier.<sup>23</sup> In 2018-2019 the Port of Ashburton's throughput was 10,966,000 tonnes, a combination of LNG and condensate.<sup>24</sup>

Major port expansions have occurred or are scheduled to occur to meet predicted resource sector demand at Port Hedland Port, Port of Dampier and the Port of Ashburton, as well as construction of extensive landside and transport infrastructure.

The impact of Port expansions to the state and national economy is evidenced by a recent economic study of the Port Hedland Port Supply Chain (comprising the port and entities that use the port for trade) which reviewed forecast growth in exports for the 10-year period from 2016-2017 to 2026-2027, and concluded that there would be an average 4.4 percent growth per annum in the first five years (increasing export tonnage from 495.6Mt to 613.7Mt) and 2.7 percent thereafter to 2026-2027 (taking export tonnage to 700Mt).<sup>25</sup> The economic contribution of growth in port exports over 10 years achieving 700 Mt in 2026-2027 is forecast to be a cumulative \$37.2 billion in real income from iron ore exports (\$1.3 billion to \$5.6 billion); cumulative \$32 billion in real output (\$1.2 billion to \$4.8 billion); \$33.2 billion in real exports (5 percent increase in total exports in 2015-2016); employment of 5,377 FTE per annum (71 percent external to the Pilbara); and cumulative \$20.6 billion in real taxation and royalty receipts (\$734 million to \$3.2 billion).<sup>26</sup> Achieving port exports is in part, predicated on significant population growth in Port Hedland.

The following identifies in brief terms, the economic output from the three Council LGAs, the subject of this submission.

*Town of Port Hedland* – As detailed, Port Hedland hosts the Port Hedland Port and Port Supply Chain (comprising the port and entities that use the port for trade). The aforementioned study found that for the period 2015-2016 if the Port and its supply chains were classified under ABS as an industry in its own right, that it would be the largest in the state behind the overall mining industry, constituting 28.1 percent of the state's economy and construction industry.<sup>27</sup> Port Hedland's GRP is estimated at 2018 at \$3.72 billion, representing 1.5 percent of GSP.<sup>28</sup>

*Shire of East Pilbara* – The Shire of East Pilbara, specifically Newman, hosts BHP Iron Ore's major Pilbara Iron Ore mine, Mt Whaleback. Mining contributes approximately \$15.174 billion (90 percent) of total output within the Shire,

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<sup>22</sup>Pilbara Ports Authority. Available at:

<https://www.pilbaraports.com.au/PilbaraPortsAuthority/media/Documents/ABOUT%20THE%20PORT/About%20Us/Value-Prop-Infographic.pdf>

<sup>23</sup> Pilbara Ports Authority. Available at: <https://www.pilbaraports.com.au/>

<sup>24</sup> Pilbara Ports Authority. Available at: <https://www.pilbaraports.com.au/Port-of-Ashburton>

<sup>25</sup> ACIL Allen Consulting, *An Economic Study of Port Hedland Port*, prepared for the Port Hedland Industries Council, piii.

<sup>26</sup> *Ibid.*, ppiii-iv.

<sup>27</sup> *Ibid.*, pii.

<sup>28</sup> Town of Port Hedland, *Economic Profile*. Available at: <https://economy.id.com.au/port-hedland>.



followed by construction \$432 million (2 percent), and manufacturing \$192 million (1 percent).<sup>29</sup>

The Town of Port Hedland and Shire of East Pilbara also co-host the Pilgangoora project, one of the largest Lithium Spodumene deposits in the world.

*Shire of Ashburton* – The Shire of Ashburton’s economy grew by 59 percent in 2017-2018 due to the Wheatstone LNG project and the Port of Ashburton. As at 2017-2018 it contributed over \$42 billion in exports to the state and national economies, translating to 18 percent of GSP and 2.5 percent of GDP. Rio Tinto and FMG are investing substantially in new mines in the area.<sup>30</sup> The shire also hosts the Onslow Marine Support Base which services the offshore oil and gas industry.

## *Cost of living*

‘From a policy perspective, economic development in the Pilbara remains critical to the fortunes of WA and the nation’.<sup>31</sup> The global economy and commodity markets, which heavily influences increases and decreases in investment and production, costs of production, and demand for services, has a significant impact on economic growth in the region and the regional inflation trend.<sup>32</sup>

The Commission’s *draft report* notes that cost of living appears to be higher in Zone A and B in Western Australia than elsewhere in Australia, being 10.7 percent higher in Zone A than Perth. It requests further data to inform its considerations.<sup>33</sup>

Regional Development Australia (‘RDA’), Pilbara, has compiled a series of economic reports on the *Cost of doing business in the Pilbara*, which date back to 2013, the tail end of the mining boom. While focused on the business environment and non-government organisations, these reports provide useful comparisons that evidence cyclical changes in the cost of living in sync with fluctuations in the global economy and commodity markets. In 2010, the then Deputy Governor of the Reserve Bank of Australia noted that there had been several significant mining and/or energy booms since the late 1960s which have had significant macroeconomic impacts.<sup>34</sup>

The Councils respectfully suggest that the Commission’s reliance on a single set of cost of living data for decision-making (i.e. current) on remote area tax concessions which have long-term financial implications, fails to account for economic fluctuations associated with resource sector mono economies (such as the Pilbara). Comparative cost of living data therefore has direct relevance to the Commission’s recommendations for changes

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<sup>29</sup> Shire of East Pilbara, *Economy Profile*. Available at: <https://www.economyprofile.com.au/eastpilbara/>

<sup>30</sup> Shire of Ashburton, *Economic Investment*. Available at: <https://www.ashburton.wa.gov.au/the-shire/about-the-shire/economic-investment>

<sup>31</sup> Regional Development Australia, *The cost of doing business in the Pilbara*, 2018, p12.

<sup>32</sup> Ibid.

<sup>33</sup> Productivity Commission, *Remote Area Tax Concessions and Payments*, August 2019, *Draft Report*, p270, p149.

<sup>34</sup> Reserve Bank of Australia, *Mining Booms and the Australian Economy*, <https://www.rba.gov.au/speeches/2010/sp-dg-230210.html>

to remote area tax concessions. The state government experienced a negative return in revenue as at 2013–2014 as a consequence of a downturn in mining, indicating the end of the boom.<sup>35</sup>

The 2018 *Cost of doing business in the Pilbara*,<sup>36</sup> which is based on an RDA 2017 *Map and gap supply chain study*, a 2018 cost of doing business study compiled by CMEWA and various economic reports, provides key cost findings and useful comparative data. The cost indicators are those common to all types of business but are costed according to a *middle-sized commercial business* and compared with the same size business in Perth (sometimes Australia). Future price increases and cost structure are based on available data and the views of various organisational stakeholders. While wages in local government are not comparable to the salary findings in this scenario, it is a useful exercise for understanding changes in cost of living expenses over time:

- Since 2011, the Pilbara Regional Price Index (RPI) has fallen from 137 to 118 in 2015 and to 111 in 2017, making it the second most expensive region in WA after the Kimberley.<sup>37</sup>
- 2013 cost of living data showed that while there had been a decrease in costs in the Pilbara compared to 2011, the cost of living in all Pilbara centres was higher than Perth, the remainder of Western Australia and Australia.<sup>38</sup>
- While costs have moderated over the last few years, in the medium term (2018–2021), costs will remain high and may start to rise again, ‘particularly transport, construction, accommodation and wages’ but it is unlikely they will achieve previous boom levels in 2008–2013.
- Business cost multipliers for a range of cost items, comparing the Pilbara to Perth indicate that while high price differences have continued since 2015, some prices are now on par with Perth or in some instances, lower (i.e. rents).
- That said, the Pilbara remains expensive and there is evidence that prices have started to rise along with increases in investment activity, this being particularly true of wages.<sup>39</sup>
- The percentage difference in the cost of operating a business of a similar type to Perth in Karratha, Port Hedland, Onslow and Newman while it declined in 2014 and 2015 from the height of the boom, 2018 evidences that they are on the rise again and are very high due to the increasing cost of labour, ranging from 62 percent in Onslow through to 86 percent higher in Newman.<sup>40</sup>

<sup>35</sup> Government of Western Australia, *2014–2015 State Budget*. Available at: <https://www.ourstatebudget.wa.gov.au/2014-15/index.html>

<sup>36</sup> Regional Development Australia Pilbara. Available at: <http://www.rdapilbara.org.au/publications.aspx>

<sup>37</sup> Regional Development Australia Pilbara, *The cost of doing business in the Pilbara*, p5.

<sup>38</sup> *Ibid.*, p16.

<sup>39</sup> *Ibid.*, p5.

<sup>40</sup> *Ibid.*, p6.

- While resource sector capital costs have reduced due to streamlining production processes, costs are unlikely to fall further and in fact, will likely increase in the medium term.<sup>41</sup>

The report also provides preliminary cost snapshots for the three largest Pilbara towns, noting that differences in geography, demographics, facilities, diversity of the resource base and diversification opportunities impact the scale and longevity of the business cycle and resultant impact on the local economy. Port Hedland is the most expensive town followed by Karratha and Newman.<sup>42</sup>

*Port Hedland* –The property market is improving and rents and property prices are up in Port Hedland (20 percent) and are expected to rise in South Hedland. If demand continues, it may result in a shortage of accommodation and a further rise in rents in the medium term. Costs for Small to Medium Enterprises will increase due to resource sector competition. Costs for staff accommodation in the Non-Government Organisations’ (NGOs) sector have started to rise, necessitating increased staff retention measures.<sup>43</sup>

*Newman* –Housing prices are rising following marked strengthening of the economy and rents are increasing at a slower pace. Costs are rising and will continue to do so and pressure on wages is becoming evident. The cost of a tradesperson now sits at 25 percent above Perth prices given a shortage of skilled trades. Resource sector competition for labour and housing affordability is causing major difficulties for NGOs.<sup>44</sup>

*Onslow* - No data was provided for the next largest town, Onslow, where the economy is based on offshore LNG, although the Shire of Ashburton reports that Pannawonica, Paraburdoo and Tom Price which are largely Rio Tinto towns, are experiencing similar costs to Port Hedland and Newman.

*Karratha* – Karratha has experienced more families settling due to improved liveability and economic diversification and this will likely strengthen in line with additional industry and infrastructure investment. House prices increased in 2018 by 35 percent and rents by 5-8 percent. Costs for executive staff and semi-skilled and skilled workers are on the rise and it is becoming difficult to attract and retain staff and consideration is being given to the provision of housing. Rents for executive housing have risen to \$1000 per week. Government funding for NGOs has reduced and staff are leaving for mining roles. To remain competitive, wages need to increase in the order of 10-15 percent.<sup>45</sup>

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<sup>41</sup> Ibid.,pp5-6.

<sup>42</sup> Ibid., p16.

<sup>43</sup> Ibid., p8.

<sup>44</sup> Ibid., p8.

<sup>45</sup> Ibid., p7.



## *The importance of local government to regional development and sustainability*

Due to isolation, geography and climate, regional local governments in northern Western Australia face markedly different challenges and cost structures than their city counterparts, and play a key enabling role in economic development, specifically:

- addressing the cumulative economic and social impacts on communities of multiple resource sector operations
- strategic residential and industry land development and infrastructure planning in consultation with government and other key stakeholders to support mining and LNG operations, and economic diversification (downstream processing, residential land for skilled workers, tourism facilities, town-based and transport infrastructure, and technology, a number of which are key growth enablers for the resources sector)<sup>46</sup>
- environmental management to protect natural assets and Indigenous heritage
- management of airports, a key enabler of economic development (Port Hedland is now subject to lease), including operations, security and terminal expansion. Local governments have been required to meet increased statutory compliance standards, including unfunded costs of staffing, ongoing maintenance and capital replacement of security infrastructure pursuant to a change in national security standards for regional airports.<sup>47</sup>
- preparedness, prevention, response and recovery for natural disasters i.e. bushfires and cyclones
- staff retention strategies i.e. remote provision of training, wage on-costs, and housing and utilities
- co-funded housing as an incentive for doctors to service regional towns
- co-management of high levels of anti-social behaviour, exacerbated by substantial inequality
- planning for delivery of municipal services by local governments to town-based Indigenous communities as part of the State Government Pilbara Town Based Reserves project (i.e. Parpijinya, Irrungadji, Goodabinya in the Shire of East Pilbara)

A number of these responsibilities are either unfunded or insufficiently funded to offset costs. In Western Australia, state agreement Acts and the *Mining Act 1978* largely exclude resource investments from the town planning process, negating the capacity for Councils to mandate an economic or social impact assessment and mitigation plan for resource projects. They also substantially reduce the capacity to charge rates. Local governments are therefore largely reliant on industry commitment to corporate social responsibility (residential settlement and cash or in-kind contributions) to offset impacts.

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<sup>46</sup> Chamber of Minerals and Energy Western Australia, *2018-20128 Western Australian Resources Sector Outlook*, April 2018, pp41-89. Available at:<http://cmewa.com/policy-and-publications/annual-reports-submissions-publications/preview?path=2018-2028%2BResources%2BSector%2BOutlook%2BReport%2Bv1.0.pdf>

<sup>47</sup> ABC News, *New security screening costs could devastate regional air travel, councils warn*, 21 June 2019.

The Australian Department of Industry, Innovation and Science's *Resources 2030 Taskforce Report* cited the adverse impact of industry programs and contributions being conducted on a site-by-site basis and governments' failure to account for the cumulative impact on towns of projects (noted as 'the complex multidimensional' social challenges).<sup>48</sup>

Infrastructure and land development costs for local governments, depending on location, are exacerbated by isolation, cyclone ratings, coastal erosion and flooding, high professional and technical costs, native title and high construction costs. Perth construction costs, which influence costs in the Pilbara, are the highest in the nation (257.85) and remain elevated in Pilbara towns at 160 in Port Hedland, 165 in Newman, 155 in Karratha and very high in Onslow. Indicatively, it costs \$165,000 and \$235,000 more in Port Hedland and Newman respectively to build a house. This provides perspective on what it costs to construct large-scale social infrastructure. Construction costs are expected to increase by 1.5 percent over the next few years.<sup>49</sup> Insurance costs are also markedly higher through commercial insurers for residential and commercial properties because of climatic conditions. This is exemplified by the high cost of insurance for light industry and small to medium enterprises which range from 1.6 to 3.0 times higher and 2.1 to 2.5 times higher respectively with the highest costs being coastal because of cyclone risk.<sup>50</sup> A 2018 report of the Australian Competition and Consumer Commission identified residential insurance costs (building and contents) as twice that of the rest of Australia, having risen between 60-80 percent between 2007 and 2017.<sup>51</sup> That said, the majority of home owners in coastal Pilbara towns are paying home insurances of between \$10,000-\$15,000 per annum.

Even with government grants, most Pilbara local governments struggle to remain viable in the current economic environment. There are significant fluctuations in property valuations due to economic swings and associated Valuer-General's Office revaluations and limitations on the capacity to rate mining companies due to objections to valuations.

The wage impost on Pilbara local governments in a resource sector environment is discussed below.

### *Wage disparity and staff attraction and retainment*

The cost of labour at a given point in time in all sectors in the Pilbara is influenced by the level of investment, production, demand and supply of labour in the resources sector. The upswing in the resources sector has seen labour costs rise over the past six to 12 months

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<sup>48</sup> Australian Department of Industry, Innovation and Science, *Resources 2030 Taskforce Report*, p53.

<sup>49</sup> Regional Development Australia Pilbara, *The cost of doing business in the Pilbara*, pp40-41.

<sup>50</sup> *Ibid.*, p5.

<sup>51</sup> ABC News, *ACCC finds north-west WA a hotspot for high residential insurance premiums*, Available at: <https://www.abc.net.au/news/2018-06-10/insurance-in-north-west-western-australia-highest-in-country/9853136>

beyond equivalent labour costs in Perth. This is likely to increase in the medium term as investment speeds up.<sup>52</sup>

The Commission asserts that in resource sector communities, wages offset cost of living, a key factor for setting employment benefits. The inherent problem is that wage indices are heavily skewed by wages in the resources sector which are the highest of all Australian industries, more than twice the average wage and 40 percent higher than the industry with the next highest wages.<sup>53</sup>

While the *Cost of doing business in the Pilbara* provides employment data for a medium sized business, it asserts that the data needs to be treated with caution 'as particular business costs vary enormously as do variations between sectors.'<sup>54</sup> It also notes that while the Pilbara accounts for nearly 8 percent of wages and salaries paid by businesses and organisations in Western Australia, there is a large variance in income levels, for example, 13 percent of workers have an income of less than \$800 per week.<sup>55</sup>

CMEWA notes that as at 2016-2017, approximately 118,000 (near the peak of 120,000 in 2013) were employed in the resources sector and more than half of those in the Pilbara. In 2016, approximately 70 percent had higher levels of educational attainment.<sup>56</sup> It notes further that the Chamber is working with government because of identified skills shortages; and that over the outlook period (2018-2028), demand and competition for skilled-labour is expected not only to increase for the resources sector but also across all sectors.<sup>57</sup> In other words, competition for skilled labour between the resources sector and other sectors will increase.

While there are inherent problems with the census and measuring FIFO versus residential workforce, economic data for the three shires evidences the following employment statistics for mining and construction (ex-supply chains):

*Port Hedland* – 5,266 (49.6 percent) of 10,629 jobs<sup>58</sup>

*Shire of East Pilbara* – 12,223 (79.6 percent) of the 15,353 jobs<sup>59</sup>

*Shire of Ashburton* – 18,237 (73.1 percent) of the 24,920 jobs<sup>60</sup>

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<sup>52</sup> Regional Development Australia Pilbara, *The cost of doing business in the Pilbara*, p20.

<sup>53</sup> Australian Government, Department of Industry, Innovation and Science. Available at: <https://www.industry.gov.au/data-and-publications/australias-national-resources-statement/the-australian-resources-sector-significance-and-opportunities>

<sup>54</sup> Regional Development Australia Pilbara, *The cost of doing business in the Pilbara*, p14.

<sup>55</sup> *Ibid.*, p21.

<sup>56</sup> Chamber of Minerals and Energy Western Australia, *2018-2028 Western Australian Resources Sector Outlook*, April 2018, p1. Available at: <http://cmewa.com/policy-and-publications/annual-reports-submissions-publications/preview?path=2018-2028%2BResources%2BSector%2BOutlook%2BReport%2Bv1.0.pdf>.

<sup>57</sup> *Ibid.*, p2.

<sup>58</sup> Economy.id. Available at: <https://economy.id.com.au/port-hedland/employment-by-industry?>

<sup>59</sup> Remplan Economy. Available at: <https://www.economyprofile.com.au/eastpilbara/industries/employment>.

<sup>60</sup> Remplan Economy. Available at: <https://www.economyprofile.com.au/pilbara/industries>.

Key recruitment challenges for Pilbara shires in attracting and retaining a stable workforce include:

### *Staff recruitment*

The critical shortage of skilled staff in certain sectors and unwillingness to live remotely is a major issue. Recent examples include:

- The Town of Port Hedland has been unable to fill several finance positions and is currently using contractors. The position of Town Planner has been advertised three times, including through a specialist recruiter; the Occupational Health and Safety position has been vacant for one year; and the town has resorted to interstate recruitment agencies for a senior Human Resources advisor role. The town consistently struggles to recruit project managers for infrastructure projects.

While child-care workers are not employed by the Shire, there is a current shortage of approximately 300 childcare places in Port Hedland, partly due to the difficulty in recruiting childcare workers due to high cost of living and low salaries.

- The Shire of East Pilbara has advertised on three occasions for a Coordinator Information Services which remains vacant and until recently was unable to fill an Environmental Health Officer role.
- The Shire of Ashburton's position of Manager Finance and Administration was vacant for 9 months requiring the use of contractors and assumption of finance duties by the unit Director. Positions of Waste Manager and waste and grader driver have been difficult to fill. Before broadening of housing subsidies (see below), there was a critical shortage in cleaners in Onslow.

### *Staff turnover*

Annual turnover for 2018/2019 was 29 percent in the Town of Port Hedland and 27 percent in the Shire of East Pilbara (averaging 25 percent for the last three years). Interestingly in 2014-2015, the Shire of East Pilbara experienced a 44 percent turnover. In the Shire of Ashburton, turnover has been between 40-50 percent for the past five years. The lack of a stable residential workforce severely impacts strategic planning, financial, occupational health, environmental and industrial relations compliance capacity for Pilbara towns.

### *Staff training costs*

Staff training costs are heavily impacted by turnover and remoteness. For the financial year 2018-2019 Port Hedland incurred approximately \$158,000 of nearly \$18 million in wages (.9 percent) for 127 training applications, 46 of which were not able to be provided locally or online. For the same period, the Shire of East Pilbara incurred approximately \$170,000 of \$10 million in wages (1.7 percent) and the Shire of Ashburton \$302,000 of \$16 million in wages (1.9 percent).

## *Housing as an incentive*

While no formal data is captured on the difficulties in staff attraction, the Councils collectively reported the following reasons:

- high rents mean any additional wage advantage from the region is lost, particularly for lower paid positions (those that are not able to afford rents and utilities)
- councils cannot compete with resource sector salaries which escalate markedly during economic upswings;
- it is difficult to attract the right set of skills to meet the unique requirements of remote local governments coupled with a candidate's willingness to live remotely;
- isolation and lack of amenity and services for families;
- similar pay scale to cities (or marginal difference) where people would prefer to live; and
- absence of qualified staff in certain sectors nation-wide.

Housing or housing subsidies are necessary attraction mechanisms and have been the point of difference in successfully recruiting a candidate on a number of occasions. The three councils provide or subsidise staff housing as follows:

*Port Hedland* – Executive Managers, managers, and next level down from manager as well as group housing for new graduates;

*East Pilbara* – Executive Managers, Managers, coordinators, specialist staff and outdoor workers; and

*Shire of Ashburton* – rental subsidy to lessors for housing for all staff (value varies according to locality).

The Town of Port Hedland and Shire of East Pilbara use housing as a point of last resort as an attraction incentive for critical positions which they have tried to recruit but where they have been unsuccessful on a number of occasions. The Town of Port Hedland and Shire of East Pilbara also provide utilities allowances in line with employer-provided housing, to meet substantial electricity costs associated with air conditioning, and high gas costs. Only bottled gas is available in Pilbara towns which comes at a Premium. Electricity is charged at the maximum legislative rate and Pilbara towns do not have the benefits of peak and off-peak charge rates as per city counterparts. It is not unusual for an electricity bill for a two-month period in Newman to achieve charges of \$1500-\$2000.

While the Shire of Ashburton pursued the same arrangement as the aforementioned Councils, following a sustained critical shortage of staff severely impacting operations, Council resolved (as at 1 July 2019) to pay a rental subsidy to lessors. The shire still maintains housing stock and where those houses are allocated rental is offset.

## **Importance of a stable residential workforce**

As detailed, Pilbara mining towns are quite unique in that they experience rapid and sometimes exponential growth during mining upswings or 'booms' as people move into an area and harness employment opportunities. Western Australia's extensive reliance on



FIFO and Transient Workforce Accommodation camps also means escalated demand for local services during periods of economic growth.<sup>61</sup> As evidenced, skilled worker shortages compound recruitment issues for smaller players such as local governments, small businesses and non-government organisations who already face higher costs. While local governments play a key enabling role in planning and infrastructure for economic development (in line with federal and state government policy), small businesses provide valuable local supply chain opportunities for industry and community and reduce costs for sector operations. A shortage of skilled labour in businesses supporting extractive industries has recently been raised by the resource sector.<sup>62</sup> When markets recover, there is a lag in accessing skilled workers and in the absence of supply chains, resources companies pay more.

The cost of establishing a business during a downturn is markedly different to establishment costs in an inflated regional economy and it is important that effective policy and funding strategies support local business viability.

Non-government organisations are key to the health of communities. Anti-social behaviour, Indigenous disadvantage, poor health outcomes, and FIFO mental health are just some of the areas addressed by the NGO sector. With recent reductions in State funding and employment competition from the resources sector, the viability of some of these organisations is under threat.

In the Pilbara, education staff work directly with industry, local government authorities and NGOs to meet the shortfall in skilled staff. For example, in Newman an education program for Indigenous youth is delivered from, and supported by, the Shire's youth centre.

Major resource sector operations, tourism, national highways, and poor Indigenous health outcomes command residential medical staff, which despite significant incentives, are difficult to attract and retain. High levels of fatigue at Pilbara hospitals are an ongoing concern.<sup>63</sup>

As noted, the capacity to rate FIFO camps that impact town infrastructure is limited by legislation and objections to valuations; however, infrastructure and services still need to be provided to these areas. Limited rates revenue from mining companies places an additional financial burden on local government's ability to financially service the requirements of the town. Industry-owned residential housing (rates and wages) contributes substantially to the sustainability of local government and local business. Industry residential investment also facilitates higher levels of direct financial contributions from mining companies (i.e. infrastructure) and social contribution from its

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<sup>61</sup> Parliament of the Commonwealth of Australia, House of Representatives Standing Committee on Industry, Innovation, Science and Resources, *Keep it in the regions: mining and resources industry support for businesses in regional economics*, November 2018, p135.

<sup>62</sup> Regional Development Australia Pilbara, *The cost of doing business in the Pilbara*, p22.

<sup>63</sup> Western Australian Parliament, *Parliamentary Questions*, Legislative Council, *Karratha Health Campus and Hedland Health Campus*, 4 September 2019, Hon. Jacqui Boydell.

workers (i.e. sports clubs). Community integration is also a key strategy for improving FIFO mental health and reducing rates of suicide. Companies need to be able to provide alternatives to FIFO that support both worker choice and realise positive psychosocial outcomes.<sup>64</sup> The alternative to FIFO, being residential settlement, is an approach supported by the CMEWA as the peak representative industry body for the resources sector.<sup>65</sup>

### *Productivity report assumptions and methodology*

The ZTO was introduced to counter the impact of ‘isolation, high costs of living and uncongenial climatic conditions’, and encourage settlement. It was a response to businesses in remote areas struggling to encourage workers to relocate and fill labour shortages. Isolation, climate and high cost were confirmed as ‘social grounds’ for the continuation of the allowance in 1981. Extension of FBT exemptions for employer provided housing in 2000 from primary producers was seen to enhance fairness of the taxation system and again make it easier for employers in remote areas to attract and retain staff.

The following details in brief some of the productivity commission assumptions and methodologies in the context of Pilbara towns and the above stated intent of the remote area tax concessions. This information is provided in response to the Commission’s request for assessment of the plausibility of its assumptions:

*Methodology for assessment of the Zone Tax Offset* – the ZTO has not been sufficiently reviewed against cost of living since it was introduced, despite the 1981 Cox review asserting that for any measure of relief to continue to provide assistance, ‘it must be the subject of regular and programmed review’.<sup>66</sup> The cyclical impact of mining economies on local government authorities, NGOs, SMEs and essential services’ workers, who earn lower wages, is considerable. Assessing the benefits of the ZTO at current levels is counterintuitive. While they have some impact on lower incomes, the concept of the zonal rebate offsetting cost of living is diminished by its value and taxable status. The reality is that these ‘lower level industries’ are struggling to attract workers because wage capacity does not generally offset cost of living or the hardships of isolation. Councils respectfully suggest that remote communities should not be penalised because the ZTO has not kept pace with the challenges of remote living.

*Unconstitutional (aka discriminatory between states and parts of states) to grant remote concessions* – this argument of legal validity is untested and has been debated intermittently since introduction of the concessions with varying views proffered. In the Second Reading speech for the *Income Tax Assessment Bill 1945*

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<sup>64</sup> Parliament of Western Australia, *The impact of FIFO work practices on mental health: Final Report*, 18 June 2015.

<sup>65</sup> Chamber of Minerals and Energy Submission, Productivity Commission, *Remote Area Tax Concessions and Payments*, p1.

<sup>66</sup> Parliament of Australia, *Report of the Public Inquiry into income tax zone allowance*, June 1981, p33.

and in response to a question about the constitutional validity of the ZTO, Minister Chifley noted 'I have been assured that the proposal is constitutionally sound...the soundness of the decisions made was checked by comparison with similar decisions made by industrial authorities and in particular, with the party allowances in Queensland, basic wage variations and district allowances in Western Australia, and public service and railways district allowances for Australia.'<sup>67</sup>

Further, a journal article reviewing Australia's taxation rebates for residents in isolated areas and referencing work by Dr Lex Fullarton, Adjunct Professor, Curtin University, Western Australia, and retired tax practitioner, contends that apart from the widespread application of the tax concessions to Australian jurisdictions, two possible reasons why they have not been challenged as infringing the constitution (that is section 79A being declared as unconstitutional) are:

- that 'the isolated zone is in effect financial assistance to those individuals living in certain parts of Australia and therefore is allowed pursuant to s 96 of the Constitution'; and
- 'the offset is not taken into account in determining the individual's taxable income and therefore is outside the scope of s51 (ii) of the Constitution.'

The article also goes on to demonstrate where various tax concessions have been provided but does argue that this issue of paying preferential benefits to parts of Australia being unconstitutional is constraining the economy and needs to be resolved.<sup>68</sup>

*Difficulties of remoteness are now 'cushioned' by technological and economic development* – the cost of living remains high for middle-to-low income earners; attraction and retainment of staff largely by the non-resource sector is hampered by poor infrastructure, low amenity, anti-social behaviour, accommodation costs, isolation from family due to high airfares and the tyranny of distance; and uncongenial climatic conditions that limit community participation. High speed internet and connectivity remain problematic in the Pilbara, particularly for small business. Pilbara residents also encounter difficulties accessing some health and education services. The Pilbara Development Commission as part of preparing the *Pilbara Regional Investment Blueprint* identified a suite of *Sustainable Community Indicators* across economic sustainability, community vibrancy and diversity and health and education access. Performance percentages for the Pilbara relative to the nation are provided. While these figures pertain to 2015, they are useful indicator of the extent to which the Pilbara lagged behind national performance

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<sup>67</sup> Hon Ben Chifley MP, Parliament of Australia, *House of Representatives, Income Tax Assessment Bill 1945*, Second Reading Speech, Thursday 19 April 1945, pp1-2.

<sup>68</sup> McLaren, John, *The Economic Development of Northern Australia: A critical review of the taxation benefits and incentives of both past and present and the potential taxation options for the future*, Journal of the Australasian Tax Teachers Association 2017 Vol.12 No.1, pp5-7.

percentages per capita in access to hospital (0.04 to 0.11), General Practitioner (.0023 to 0.054) and Allied Services (4.1 to 11). Access to adult health was comparable and child development services were double that of other centres. Distances to secondary education were also markedly different (92.2km to 23.3km).<sup>69</sup> The Commonwealth Government has acknowledged the difficulties in recruiting teachers to remote schools, citing an intention to waive HECs liabilities under certain conditions.<sup>70</sup> The State government provides attraction mechanisms such as housing and other subsidies.

*Living in remote locations is a personal choice* – Freedom of choice is closely aligned with the concept of allowing the market to do its job. Where freedom of choice is not being sufficiently exercised because of perceptions of ‘liveability and lifestyle’ and interdependent and interrelated economies exist that are heavily reliant of the attraction and retainment of a skilled workforce, and regional growth is central to harnessing emerging economic opportunities, tax and coordinated policy intervention is critical. The Department of Regional Development’s 2016 *Living in the Regions Report* and associated survey evidenced that significant motivators for people moving away from the North of Western Australia, included cost of living and cheaper housing noted as 58 percent for the Pilbara and 67 percent for the Kimberley, and 40 percent for the Pilbara and 47 percent for the Kimberley respectively.<sup>71</sup>

As noted, Councils fully support raising the RAA for those on income support in the Pilbara and acknowledge Indigenous connection to land. However, Councils question the validity of the argument that it is better to facilitate mobility during periods of decline but support those that can’t be mobile through tax concessions, as an argument for non-payment of remote area concessions such as the ZTO and FBT. This would be a dangerous practice in terms of preparation and readiness for economic upswings, industry diversification, retaining key supply chains and realising Indigenous health and social outcomes.

This notion of personal choice also negates the fact that Western Australia has just experienced a substantial economic downturn and high unemployment rates.

*Reliance on data at a given point in time* – reliance on one set of data as an indicator of cost of living i.e. 2016 ABS data on median rents in remote and very remote Australia, is problematic for areas where economic drivers dramatically impact the cost of housing (price and rental) and where construction of new premises for affordable housing is heavily constrained by cost of construction (including compliance with the cyclone code).

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<sup>69</sup> Pilbara Development Commission, *Pilbara Regional Investment Blueprint*, p56.

<sup>70</sup> Australian Government, *Study Assist*. Available at: <https://www.studyassist.gov.au/news/remitting-very-remote-teachers-help-debt-these-initiatives-are-subject-passage-legislation>

<sup>71</sup> Department of Primary Industries and Regional Development, *Living in the regions report*, p14 and p20.

*International airport as a defining factor of isolation* – Port Hedland has an international airport offering very limited international services. This in part, is a strategy to grow regional investment and diversification of the economy. The high costs of airfares in regional Australia, particularly northern Western Australia, has been investigated by both the Federal and State Parliaments, and compound disadvantage.<sup>72</sup>

*Living in remote areas does not justify compensation from other taxpayers* – the Pilbara is a primary resource sector contributor to the Australian and State economies (taxation, royalties, employment, spend) and will be for the foreseeable future. It is also said that the ‘mining boom placed Australia in a strong economic and fiscal position ahead of the [GFC] crisis, and helped accelerate the post-crisis recovery’.<sup>73</sup> In other words, the economy was sustained by skilled and unskilled workers in the resources sector, workers who face a range of disadvantages over their city counterparts that are not always compensated for by remuneration. Councils respectfully suggest that the returns on regional economic development could justify ‘compensation’ from other taxpayers. The concept of tax discrimination is more equalised through the concept of zoning. The issue is whether those zones are appropriately demarcated and the benefit, sufficient to meet envisaged outcomes.

*FBT housing benefits draw resources away from other regions (or industries in the same region) that cannot access them* – the counter argument is that if LGAs, NGOs and SMEs in the Pilbara do not have housing incentives, a critical support component for regional economic growth, liveability, diversification and achieving the national commitment on closing the gap on Indigenous disadvantage, will not be achieved. A number of Shire staff in Port Hedland rent at Osprey Village, managed by the Department of Communities and constructed during the last mining to address accommodation needs of lower salaried workers who could not afford higher rents. This centre is currently full.

Approximately 182 NGOs operate in the Pilbara as well as about 44 Aboriginal corporations.<sup>74</sup> Government and NGO partnerships are critical to the delivery of ‘government’ services to vulnerable people in communities and there is a need to respect the interdependency of the two sectors. Further, in the absence of industry residential investment, the financial sustainability of LGAs (rates), business (spend) and amenity (financial contribution and participation) will markedly decline and the cumulative impact of FIFO on townships will increase. In Western

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<sup>72</sup> Parliament of Australia, *Cancer of the Bush or Salvation for our Cities* and Parliament of Western Australia, *The Impact of FIFO Work Practices on Mental Health: Final Report*.

<sup>73</sup> Mining People, *Did the mining industry help Australia survive the GFC*,

<https://www.miningpeople.com.au/news/Did-the-mining-industry-help-Australia-survive-the-GFC>

<sup>74</sup> Regional Development Australia Pilbara *Ten Year Community Plan for the non-government organisations sector in the Pilbara*, 2016, pp19-20.



Australia, government has delivered low cost housing for essential services workers (not NGOs).

The report notes that ‘on face value’ that encouraging workers to relocate from larger cities to zones is likely to reduce productivity because service industries tend to congregate in industry hubs where productivity benefits are realised from agglomeration.<sup>75</sup> This doesn’t recognise the enormous benefits that can be obtained in establishing businesses in regional areas i.e. increasing diversification, responding to new markets (i.e. the northern towns have proximity to Asian markets) or on the job training (mining and industry skills).

*That remote residents lack immediate access to primary health services but that there are more GPs per person in remote areas* – Previously mentioned data from the Pilbara Development Commission shows that as at 2015, the Pilbara had significantly fewer General Practitioners per capita than the national average. Further, this assumption does not consider the incentives required to attract GPs and the significant role of some local Pilbara Councils (sometimes in partnership with industry) in the provision of quality housing. Port Hedland leases 10 GP houses to medical organisations. The Shire of East Pilbara and Karratha have similar arrangements in place.

*It is unlikely that FBT concessions would be the main motivator for employing FIFO over DIDO* – As the Commission notes, the majority of housing concessions derive from the Pilbara, and the Bowen Basin and Central highlands in Queensland.

In Pilbara towns, a high percentage of housing is owned by industry and some of the large players, the majority of which are shareholder companies (i.e. in Newman 49 percent of housing is owned by BHP, equating to approximately 1220 homes and about 75 percent are mining owned in Port Hedland). Full exemptions for FIFO versus FBT charged at the highest marginal tax rate will undoubtedly influence decisions on FIFO and DIDO. Pilbara Councils have worked proactively with resource companies over an extended period to increase community investment in the form of residential housing.

The Commission’s assertion that choice of FIFO over DIDO as a consequence of tax changes would be in the minority is true in the context of overall FIFO numbers in WA which are the highest in Australia. Such an assertion; however, diminishes the impact of substantial residential settlement by mining industry workers in Pilbara towns (as opposed to FIFO) on the local economy and amenity of communities. The Queensland government has enacted legislation that requires mines located within 125 kms of a townsite to locate FIFO camps within those towns. While not residential housing per se, this provides an indication of

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<sup>75</sup> Ibid.,p144.

government's expectations of the importance of town settlement and expectation of DIDO.<sup>76</sup>

*FBT concessions are poorly targeted to regional development goals – the Commission refers to FBT exemptions on employer-provided housing as the ‘big ticket item...worth many thousands of dollars at the employee level.’<sup>77</sup> Further, that they ‘tend to increase employment by reducing labour costs, particularly in regions where they are heavily use’<sup>78</sup>...but that the Commission is not able to assess their value due to employer-provided housing not being reportable at present. The report then contends that FBT concessions are not well suited for the purpose of regional development, and that businesses will invest ‘if the expected returns exceed the costs and risks.’<sup>79</sup> In this respect, the Commission takes a very narrow view of regional development. Regional development is not just about direct resource sector investment, it constitutes a whole-of-government, business, and community response to informed regional planning and service delivery (lands, infrastructure, support services, supply chains, disadvantage, affordable housing, anti-social behaviour, mental health), that facilitates economic growth and industry diversification and supports Indigenous communities. As detailed by the Commission in its report *2017 Transitioning Regional Economies*, local government planning processes are key to town adaptation and resilience during economic downturns.<sup>80</sup> Sustainable northern towns are also part of a broader defence strategy and are a key part of Governments’ Asian engagement strategies.<sup>81</sup> In this context, FBT exemptions are a critical consideration if organisations and SMEs are to attract and retain skilled (and unskilled) labour, even more so when market dynamics command rents in excess of \$1000 per week (up to \$2500 during the boom). The reality is that housing, the ‘big ticket item’ is worth millions of dollars to the community and economy.*

*State and Territory Governments carry primary responsibility for regional development and it is not up to the Commonwealth to provide these tax concessions- there has been ongoing debate about the extent to which the Commonwealth can extend beyond its powers under section 51 of the Australian Constitution. In the *Transitioning Regional Economies* report, the Commission views that ‘[t]here is significant confusion, overlap and uncooperative rivalry between the*

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<sup>76</sup> Queensland Government, Department of State Development, Manufacturing, Infrastructure and Planning. Available at: <https://www.statedevelopment.qld.gov.au/coordinator-general/strong-and-sustainable-resource-communities.html>

<sup>77</sup> Productivity Commission, *Remote Area Tax Concessions and Payments*, August 2019, *Draft Report*, p26.

<sup>78</sup> *Ibid.*, p27.

<sup>79</sup> *Ibid.*, p29.

<sup>80</sup> Productivity Commission, *Transitioning Regional Economies*, 2017, p23.

<sup>81</sup> Government of Western Australia, Department of Jobs, Tourism, Science and Innovation, *Asian Engagement Strategy*. Available at: <https://www.jtsi.wa.gov.au/about-the-state/asian-engagement>. Commonwealth Government, *Our North, Our Future: White Paper on Developing Northern Australia*.

Australian, State, Territory, and local governments in the pursuit of regional development<sup>82</sup> and that the Commonwealth should return to 'its core business' by limiting its focus to national economic development through policy settings and 'built-in' funds (FAS grants) that have a significant impact on regional development.<sup>83</sup> The Commission's position on the confluence of Commonwealth/state roles is tendered as a reason for the Commonwealth not providing tax concessions.

The Commission is correct regarding the lack of coordination between the States and Territories on regional development and the risk of duplication and Pilbara Councils have called on Government for a shared planning and infrastructure vision for the Pilbara. That said, COAG evidences enhanced collaboration between the states and the Commonwealth for growth of the regions, and particularly the north, through the Northern Australia Strategic Partnership and Regional Ministers' Forum. In August 2019, COAG confirmed its 'deep and enduring commitment to Northern Australia, and emphasised that a strong north is critical to our nation's future security, identity and prosperity.'<sup>84</sup> Tax concessions have long been used for regional development. The Commission's concept of towns being allowed to 'develop and prosper, or not, according to their own attributes' (aka intrinsic features and economic advantages and disadvantages)<sup>85</sup> would have considerable productivity impacts on industry and more broadly, the Australian and State economy and trade. The broader application of the FBT housing exemption in 2000 was based on making it easier for employers to attract and retain staff in remote areas.<sup>86</sup> This impetus remains today and was confirmed in the Australian Parliament's 2014 Pivot North Report which saw value in tax concessions to encourage regional development and settlement in the North.<sup>87</sup> Local governments struggle to attract and retain skilled labour (over extended periods) yet are expected to provide comparable city level services to major infrastructure providers (Port, airport, roads) and mining companies.

*There are other ways of encouraging regional settlement i.e. infrastructure and amenity funded through GST redistribution and specific purpose payments and that concessions would be better diverted to these types of programs – Regional development strategies and initiatives in combination with tax concessions make*

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<sup>82</sup> Productivity Commission, *Transitioning Regional Economies*, 2017, p26

<sup>83</sup> *Ibid.*, p27.

<sup>84</sup> Council of Australian Governments, *COAG meeting communique, 9 August 2019*, <https://www.coag.gov.au/meeting-outcomes/coag-meeting-communique-09-august-2019>

<sup>85</sup> Productivity Commission, *Remote Area Tax Concessions and Payments*, August 2019, *Draft Report*, p164.

<sup>86</sup> Joe Hockey MP, Parliament of Australia, *Hansard*, 9 March 2000, p14278. Available at: <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansard%2F2000-03-09%2F0027%22>

<sup>87</sup> Parliament of Australia, *Pivot North: Inquiry into the Development of Northern Australia – Final Report*, p149.

it more financially viable for people to choose to live in the regions. The two are not mutually exclusive.

It is important to note that the level of amenity in remote communities is subject to a number of influences, including cumulative FIFO impacts; local government's capacity to attract and retain skilled workers for funding submissions and project management; poor renewal ratios for existing assets; high construction costs; low sources of local revenue and fiscal capacity; and the impact of anti-social behaviour on maintenance and repairs. While the State's Royalties for Regions funding improved the amenity of Pilbara towns, a number of projects have stalled such as land assembly projects, limiting the supply of industrial and residential land and housing availability.

*Providing fringe benefits to low income earners is financially unattractive to paying wages* – employer-provided housing in Port Hedland and the Shire of East Pilbara is primarily about attraction of key managerial, specialist, strategic or compliance positions; however, it is also used as an incentive for lower paid positions where those positions cannot be filled or in the case of the Shire of East Pilbara for their outdoor workforce who would not otherwise be able to afford local rents. The Shire of Ashburton 'rents' properties for all staff because of major issues with recruitment and turnover. Remote Councils must retain quality housing stock to ensure critical positions are filled during varied market dynamics which influence housing affordability. The cost of substituting FBT for wages is discussed below.

*Concept of goods or services being able to be readily purchased by employees in the absence of an operational reason to provide the good or service* – in remote mining towns, 'readily' is largely influenced by wage capacity, and availability and affordability of quality housing, which is contingent on market dynamics.

## *Impact of recommendations on Pilbara Councils/Towns*

### *Zone Tax Offset*

Attraction and retainment of staff is a significant challenge for Pilbara Councils and other sectors. Evidence has been provided under 'assumptions' that cost of living and cheaper housing are reasons people move away from the Pilbara. While the ZTO has an impact on lower income earners, it is clearly insufficient and government has not ensured that it has kept pace with regional inflation. The methodology employed in relation to assessment of the effectiveness of the ZTO against its policy intents is deficient. It needs to be reassessed with a view to appropriately indexing the ZTO to offset costs of living and other hardships associated with remote living.

### *Remove 'customary' requirement under 58ZC of the Act*

The report proposes to remove clause (2)(d)(iii) of section 58ZC of the *Fringe Benefits Assessment Act*, shifting the benefit to reliance on (2)(d)(i) and (ii), specifically:

*(i) the nature of the employer's business was such that employees of the employer were liable to be frequently required to change their places of residence; or*

*(ii) there was not, at or near the place or places at which the employees of the employer were employed, sufficient suitable residential accommodation for those employees (other than residential accommodation provided by or on behalf of the employer);...*

Tests for either are not defined and place Councils (and other stakeholders such as NGOs or SMEs) in a position of uncertainty. Councils use employer-provided housing or in the case of the Shire of Ashburton, employer-provided subsidies to attract skilled (and in some circumstances, unskilled) staff to their respective Local Government. It appears in the absence of the 'customary' provision, employers will not be able to rely on part (i) as staff do not frequently change residence. The evidential basis for the absence of 'sufficient alternative residential accommodation' under part (ii) is not explained in the Commission's report or the Explanatory Memorandum for the *A New Tax System (Fringe Benefits) Bill 2000*. The majority of Pilbara towns currently have an insufficient supply of suitable 'habitable' residential accommodation at an appropriate market rate, to house Council employees required to ensure appropriate levels of legislative, regulatory and other performance. Reliance on this provision would leave councils (and other sector stakeholders such as NGOs and SMEs) in an uncertain and ambiguous position and make it extremely difficult to plan and budget for housing. There is also a risk that without a defined test, that Councils and other stakeholders would apply this test incorrectly.

If Council's cannot meet either of these tests in the absence of the 'customary' provision then this will come at significant financial cost to the LGA, the economy and to the liveability of the Pilbara.

In qualitative terms, a reduction to 50 percent or 100 percent loss of exemption in an already inflated regional economy with extremely high operating costs (and mining sector impacts), will affect Councils (and other stakeholders) as follows. The financial impact will vary according to the market value of properties which are subject to substantial increases during a boom:

- Councils will need to raise wages, rates or reduce services to offset increased costs in an already inflated regional economy
- Non-provision of housing or an inability to afford an increase in wages would lead to a loss of senior managers and strategic and technical staff
- Councils may elect to employ workers remotely which will create a disconnect with the community in both strategic planning and the provision of services
- Resource companies as shareholder companies will potentially offload properties in favour of FIFO (which attract full FBT exemptions) impacting housing values (including the Councils' housing stock) and the viability of investment, rates income (due to property devaluations), and mining contributions for capital infrastructure and services, resulting in an increase in anti-social behaviour through vacant housing
- May impact recruitment from the local community i.e. apprentices and Aboriginal people who move into the community but still require housing support



- NGOs that operate in reduced funding and higher compliance environments will need to raise wages or reduce services to vulnerable people which will not only impact the health and liveability of communities but the achievement of government policy outcomes for Indigenous people. A number of NGOs may not survive due to a tight fiscal environment
- Smaller companies reliant on cash flow will feel disincentivised to provide housing and potentially opt for a FIFO arrangement
- A potential loss of SMEs and valuable supply chains for mining, reducing access to skilled workers and increasing costs for servicing which may result in regional and wage inflation and competition for skilled workers
- Provision of medical housing (with FBT exemptions likely claimed by the recipient) may be impacted and consequentially constrain access to health services
- Potential increase in compliance burdens. Assuming the current requirements apply to the calculation of FBT, which do not involve Valuer General GRV calculations for determination of market rent and include calculation of a number of related considerations such as provision of utilities and onerous conditions of occupancy relating to employment, the administrative burden for housing stock could be considerable.<sup>88</sup> If 58ZC (2) (d) (ii) applies then there will also be a burden of proof in relation to insufficiency of housing supply.

Fuel subsidies have been a valuable component on the housing package for the Town of Port Hedland and the Shire of East Pilbara given the extremely high tariffs for electricity and cost of bottled gas.

Financially, it will substantially test the viability of Pilbara Councils. Preliminary impact calculations provided at **Attachment A** for the Town of Port Hedland, **Attachment B** for the Shire of East Pilbara, and at **Attachment C** for the Shire of Ashburton (pages 6-8), and related considerations by each Council are discussed below.

### *Town of Port Hedland*

- Port Hedland currently owns 38 houses but intends to lease more, hence the figures below are provided at current housing ratios
- On calculation of \$500 per week in rent, the changes to FBT would cost Port Hedland \$438,077 per annum at 50 percent concession and \$876,154 per annum at no concession.
- Total annual gross up in wages per employee for a rental at \$500 per week would be \$56,212. An additional 5.5 percent would be incurred by GPs as local governments do not pay payroll tax (\$3,092 per annum)
- Fuel costs for Port Hedland would be approximately \$20,019 per annum with no concession

## *Shire of East Pilbara*

- The Shire of East Pilbara currently has 86 residences
- On calculation of \$250 per week in rent, the changes to FBT would cost the Shire of East Pilbara \$490,464 per annum at 50 percent concession and \$980,928 at no concession. This equates to over half, or the full running costs, of the Newman Recreation Centre respectively.
- On calculation of \$350 per week in rent, the changes to FBT would cost the Shire of East Pilbara \$686,650 per annum at 50 percent concession and \$1,373,300 at no concession.
- On a calculation of \$900 per week (currently achieving \$1000 per week for executive properties in Karratha), the changes to FBT would cost the Shire of East Pilbara \$1,765,671 per annum at 50 percent concession and \$3,531,343 per annum at no concession.
- Fuel costs for East Pilbara would be \$47,810 per annum with no concession
- Indicatively, if rate rises were required to counter the costs of the proposed changes then this would equate to between 4 and 11 percent (on the calculations in Attachment A), or a reduction in services to meet these costs

The following is an assessment of impact using *Newman* as an example:

- \$5.4m in government revenue would be generated (FBT and ZTO)
- \$1.28m of ZTO would be unclaimable (based on an extrapolation of current total population applied to the 2016 census work profiles of full and part-time workers).
- A 50 percent FBT concession for employer provided remote housing would have a \$5.1 million impact for the town, a conservative impact based on the Commission's figures of \$3,666 per home, with a 50 percent concession on \$300p/wk rent on an estimated 1400 homes. Full removal of the exemption would increase this figure substantially.

## *Shire of Ashburton*

- The Shire of Ashburton currently has 100 residences
- The Shire of Ashburton pays rental subsidies for all staff which varies according to the average rental market price in a given town.
- The actual cost for a 50 percent concession would be \$3,556,401 and \$4,649,893 for no concession

## *Retain existing geographical boundaries and update population figures*

Retaining the existing geographical boundaries and updating population figures to the 2016 census would have no impact on eligibility for the ZTO or FBT concessions for the Pilbara Councils, the subject of this submission, as all Councils are located in Zone A for income tax purposes and meet the criteria for an 'eligible urban area'.

## *Link eligibility rules to ABS remoteness areas*

While it is not clear how the ABS 'remoteness areas' would apply to FBT, the Commission indicates that it would broadly mirror application to the zone boundaries:

*That is, larger population thresholds could be applied in areas classified as remote or very remote, with smaller population thresholds applying elsewhere. In practice, this would broadly mimic the current approach while removing dependency on historical ZTO boundaries. However, it might also introduce additional complexity in specifying and identifying areas where the remote area concessions apply.<sup>89</sup>*

It is likely that all three councils and their towns would be captured under the ABS remoteness areas categorisation.

### *Remove geographical boundaries*

This requires employers to satisfy the legislative requirements under Section 58ZC of the *Fringe Benefits Assessment Act 1986*, decoupling the definition from 'remote area' discussed above. This is problematic in the context of removal of the 'customary provision'. Decoupling FBT concessions from the ZTO zones and changing the population thresholds for eligible urban area to 14,000-28,000 may well exclude Port Hedland (and Karratha) and would have significant financial, economic and social implications for the town.

### *Recommendations*

That the Commission reconsider its recommendations with due regard to the following proposed recommendations:

- Commission negotiates with Government for an extension on the report delivery timeframe to ensure impacts on proposed changes to FBT are quantified and fully considered
- Redefine the definitions of remote and very remote (and retain special areas), with all recommendations reconsidered in the context of the new definitions. The definitions should be based on identified parameters as opposed to lines on a map, thereby demonstrating a contemporary approach to policy.
- Apply the new definitions of remote and very remote, (and special areas) to the remote area tax concessions under the following circumstances:
  - An indexed ZTO that appropriately reflects the cost of living and other hardships experienced by remote, very remote and special area residents. This should be based on effective financial modelling that recognises and assists in countering the costs and conditions of living remotely.
  - Retain the 'customary' provision under(2)(d)(iii) of Section 58ZC of the FBTAA 1986 for employer-provided housing
  - Retain the full FBT exemption for employer-provided or employer-subsidised housing

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<sup>89</sup> Parliament of Australia, *Pivot North: Inquiry into the Development of Northern Australia – Final Report*, p252.

- Retain the 50 percent exemption for fuel associated with employer-provided or employer-subsidised housing
- Index the Remote Area Allowance (RAA) for income support recipients to meet cost of living in the defined areas
- If the definition of 'eligible urban area' is retained, ensure that population thresholds account for the impacts of remoteness on towns like Port Hedland
- Any reassessment of eligibility for ZTO and FBT must provide long term certainty for local governments, businesses and investors or it will destabilise the regional economy.

Attachment A – Town of Port Hedland

	ToPH
Actual	2019
Residential fuel invoices paid	\$45,150
Amount subject to FBT (concession 50%)	\$22,575
FBT paid	\$20,019
Estimate	
Number of staff residences	38
Estimated rental value p.a.	\$988,000
Current FBT payable	\$0
Estimated FBT payable 100%	\$876,154
Estimated FBT payable 50% concession	\$438,077
Rates yield	\$42,765,534

Salary gross up calculation assuming top tax bracket paid by employee

After tax rent per week		\$500
Pre-tax salary to pay	$500 / (1 - 0.485)$	\$971
Plus 9.5% super	$971 \times 0.095$	\$92
Plus workers compensation 1.7%	$(971 + 92) \times 0.017$	\$18
Total annual cost to gross up salary to cover rent per employee		\$56,21

Does not cover leave accruals

Local government authorities do not pay payroll tax, however other providers (e.g. GPs) would incur another 5.5% on the \$56,212 being \$3,092.



Attachment B – Shire of East Pilbara

	2019	2019	2019
Residential fuel invoices paid	97,803.00	97,803.00	97,803.00
Amount subject to FBT (concession 50%)	48,901.50	48,901.50	48,901.50
FBT Paid	47,810.70	47,810.70	47,810.70
<b>Rent Estimates at \$350/\$450 and \$1,000/week with employee paying \$100.</b>	<b>Estimate @\$250/week rent</b>	<b>Estimate @\$350/week rent</b>	<b>Estimate @\$900/week rent</b>
Number of Staff Residences	86	86	86
Estimated rental value P.A	1,118,000.00	1,565,200.00	4,024,800.00
Current FBT payable	0	0	0
Estimated FBT payable 100%	980,928.73	1,373,300.22	3,531,343.42
<b>Estimated FBT payable 50% concession</b>	<b>490,464.36</b>	<b>686,650.11</b>	<b>1,765,671.71</b>

# Town of Port Hedland, Shire of East Pilbara and the Shire of Ashburton Productivity Commission Submission

## Attachment C – Shire of Ashburton

### Quantifying the impact of the proposed changes

The following table shows the number of residential accommodations currently provided by the Shire of Ashburton to its employees. Under the current rules, the properties are eligible to be provided to employees exempt from FBT:

Location	No. Owned	Estimated cost (\$)* (A)	No. Leased	Cost of lease payments (\$) (B)	Total cost (A) + (B)
Tom Price	28	\$ 873,600	28	\$ 440,757	\$ 1,314,357
Onslow	18	\$ 514,800	14	\$ 385,152	\$ 899,952
Paraburdoo	10	\$ 208,000	2	\$ 41,600	\$ 249,600
		<b>\$ 1,596,400</b>		<b>\$ 867,509</b>	
					<b>\$ 2,463,909</b>

\*The total cost of the Shire's owned property is calculated by the average rental market price per week multiplied by the number of properties in each location.

Total cost to the Shire of Ashburton if they are eligible for the 50% concession under the proposed changes:

Taxable value of the benefit	<b>\$ 2,463,909</b>
Gross up factor	1.8868
Gross up taxable value	\$ 4,648,903
FBT RATE	47%
Gross FBT payable	\$ 2,184,984
Less: Proposed 50% concession	\$ 1,092,492
Net FBT payable	<b>\$ 1,092,492</b>
Add actual cost	\$ 2,463,909
<b>Total cost</b>	<b>\$ 3,556,401</b>

Based on the information available to us, the estimated total cost of providing these remote area housing benefits in the situations detailed in this report are summarised below. This estimated cost includes the cost of providing the housing, and the additional cost of FBT if applicable based on the proposed changes in the PC report.

	Estimated cost	Percentage increase in cost (from current position)
Current law	\$ 2,463,909	Nil
Suggested changes (50% concession)	\$ 3,556,401	44.34%
Suggested changes (No concession)	\$ 4,649,893	88.68%