



The Productivity Commission's Draft Report on Remote Area Tax Concessions and Payments

WALGA's Response

Introduction and about WALGA



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

The Association provides an essential voice for more than 1,200 Elected Members, approximately 15,000 Local Government employees, and the 2.6 million constituents that they serve and represent. The Association also provides professional advice and offers services that provide financial benefits to Local Governments.

WALGA is grateful for the opportunity to provide a response to the Productivity Commission’s (PC) Draft Report into remote area tax concessions and payments. WALGA’s response to the Draft Report is based on consultation with its members and is framed within the overarching belief that remote area tax concessions and payments should have a core policy objective of regional development. As in WALGA’s original submission to the Issues Paper, this submission once again highlights some of the challenges that make it difficult for regional and remote communities to secure sustained population and workforce growth. Within this context, WALGA and its members strongly believe that the rationale for retaining remote area tax concessions and payments – *to lessen the impact on residents and businesses from living or operating in remote areas, in order to encourage people to locate to these areas* – still exists.

WALGA is concerned that some of the recommendations contained in the Draft Report, particularly those in relation to FBT exemptions and concessions, go directly against regional development objectives and will have a considerable negative impact on the WA Local Government sector and regional communities. While WALGA has provided examples of these potential impacts in this submission, it would welcome the opportunity for the Association and its members to work more closely with the Productivity Commission to understand and consider these impacts prior to the Commission releasing its Final Report.

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

Summary of WALGA's response to the Productivity Commission's Draft Report



- In terms of the difficulties facing regional WA, the Draft Report acknowledges that in some instances cost of living increases with remoteness, and that access to government services is generally poorer in remote areas. WALGA, however, disagrees with the Draft Report's conclusion that people in remote Australia receive more generous remuneration to work in those areas. The Commission's analysis in this regard has not considered wages on an occupation for occupation and industry for industry basis. When this is taken into account, WALGA's preliminary analysis has demonstrated that wages are generally comparable between Perth and WA's remote and very remote areas, but are usually lower in inner and outer regional areas. WALGA also disagrees with the Commission's justification for poorer access to Government services in remote areas being a higher cost to deliver these services. Regardless of costs, people will be less willing to live in regional and remote areas if their access to services is poorer.
- WALGA proposes that the original policy objectives of remote area tax concessions and payments are still relevant for contemporary Australia. The combination of tight labour markets, a lack of labour supply and stagnant population growth in parts of remote WA over the past decade highlights that remote area tax concessions and payments should continue to have the core policy objective of regional development. They should continue to aim to entice employees to live in remote areas by compensating them for higher costs of living and poorer access to government services.
- The Draft Report consistently highlights that regional development is primarily a responsibility of State, Territory and Local Governments. WALGA disagrees with this notion primarily due to three reasons:
 1. Regional development has historically been, and continues to be, a shared responsibility of all levels of Government.
 2. Due to vertical fiscal imbalance, Local Governments have limited capacity to undertake additional functions and responsibilities, including those relating to economic development.
 3. The sheer importance of regional areas to national, state and local economic growth necessitates a collaborative, multi-faceted approach to regional development.

Summary of WALGA's response to the Productivity Commission's Draft Report (cont.)



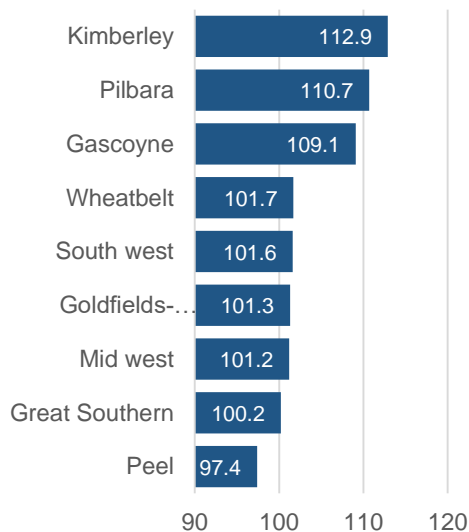
- On the basis that remote area tax concessions and payments should continue to have a core policy objective of regional development, WALGA disagrees with the Draft Report's recommendations relating to the abolition of the Zone Tax Offset (ZTO) and the tightening of Fringe Benefits Tax exemptions and concessions. WALGA believes that:
 - The ZTO should be increased to a nominal amount that would genuinely influence decisions to work in regional and remote areas, its boundaries should be updated to reflect contemporary areas of remoteness, it should be limited to those in certain tax bands and its effectiveness should only be reviewed once these changes have been implemented.
 - FBT employer housing exemptions should not be removed, the provision allowing FBT exemptions to be claimed when it is customary to provide housing should be retained, the FBT boundaries should be updated to reflect contemporary areas of remoteness and FBT exemptions that incentivise FIFO and DIDO work practises as opposed to residential work practices should be removed.
- The Draft Report does not adequately assess the employment and economic impacts of the Productivity Commission's proposed changes, and nor does it provide a realistic view of alternative, better mechanisms to support regional development. In terms of considering the economic impact of its proposed changes, WALGA believes the best way for the Productivity Commission to do this would be through scenario modelling that considers the alternate responses of key sectors that currently utilise FBT exemptions and concessions. WALGA has noted in this report some expected responses of the Local Government sector that the Commission should model. In terms of the consideration of alternative mechanisms to support regional development, the Productivity Commission should consider ways to improve the financial capacity of Local Governments so that they can undertake regional development activities, and also consider ways in which the use of FIFO or DIDO employees could be limited to times when it is necessary.

Despite some progress being made, Regional WA still faces significant economic and social challenges...



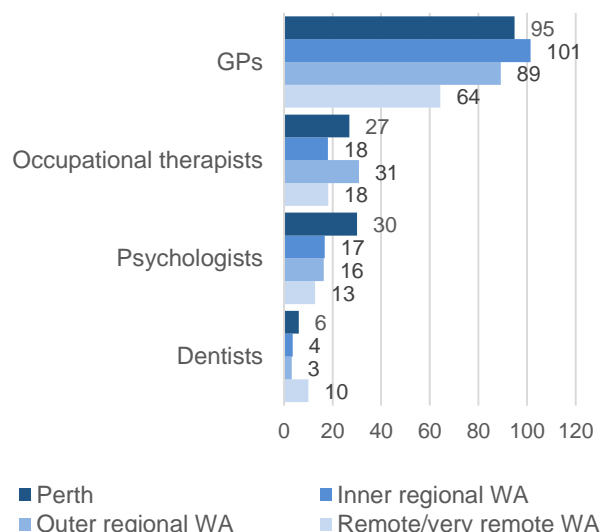
Cost of living is higher in regional WA than in Perth...

WA Regional Price Index 2017
Perth = 100



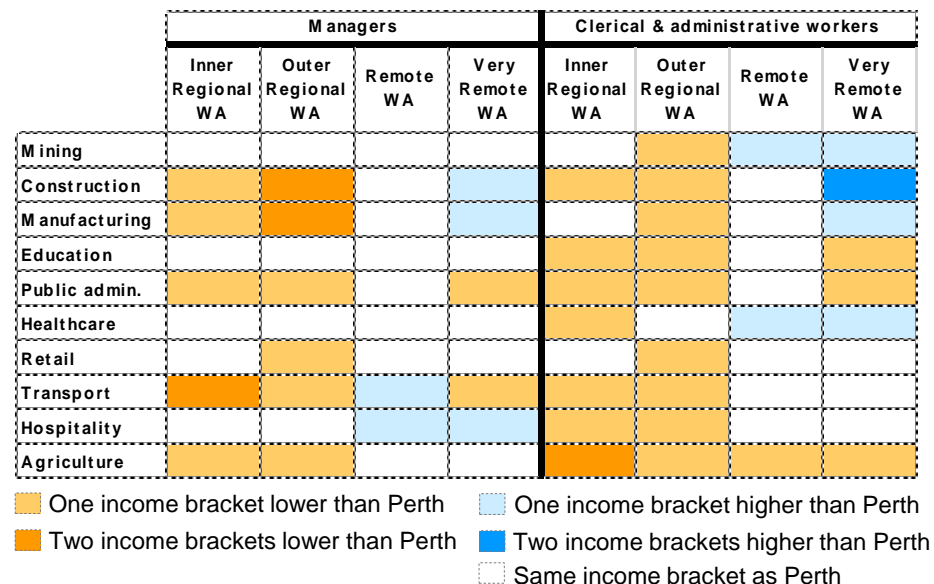
...service provision is generally lower...

Public employees per 100,000 people



...and wages aren't necessarily higher

Median income for managers and administrative workers, by Industry



Source: Department of Primary Industries and Regional Development, 2017 WA Regional Price Index

Source: Productivity Commission 2019 Report on Government Services

Source: WALGA analysis based on ABS 2016 Census data

Response to the Productivity Commission's Draft Report

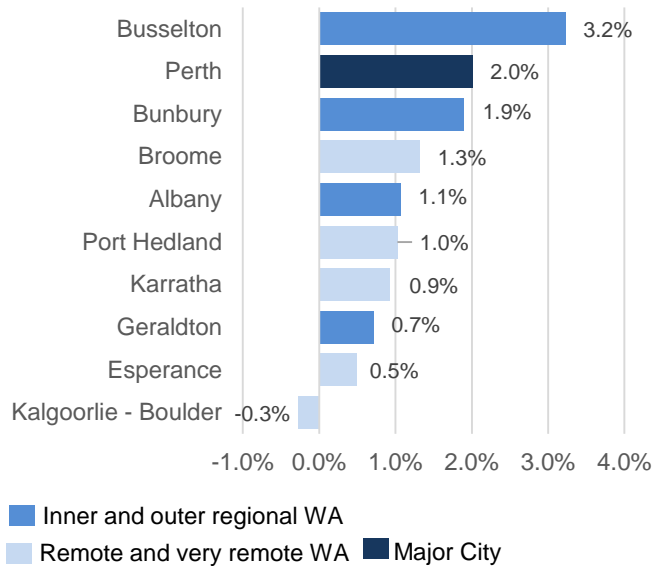
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...making the original objectives of remote tax concessions & payments still appropriate for WA...



Parts of regional & remote WA are still faced with stagnant population growth...

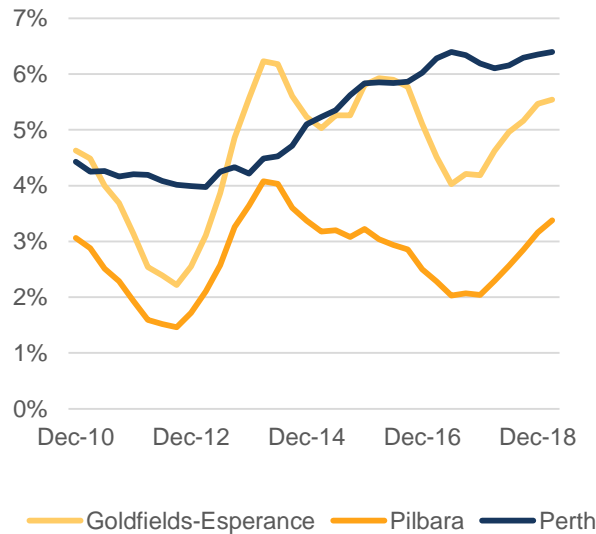
Population growth 2008 to 2018



Source: ABS Cat 3218.0

...even when their labour markets are comparatively tight...

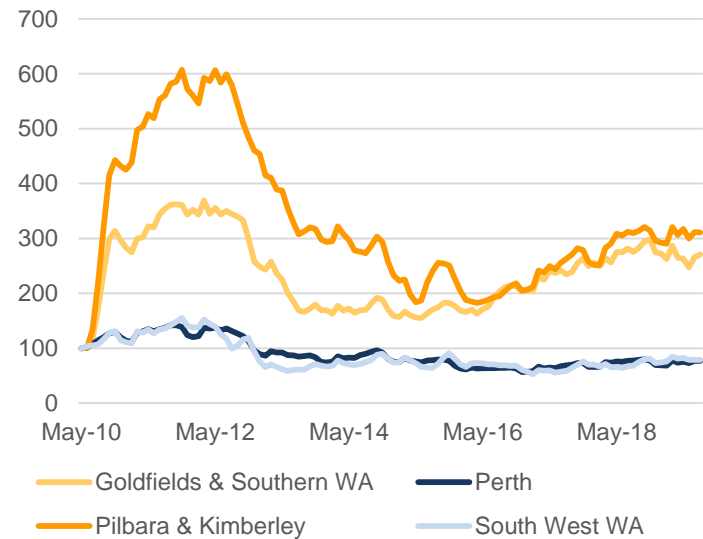
Unemployment rates 2010 to 2019



Source: Department of Employment Small Area Labour Markets

...and they face labour supply issues

Index of job vacancies 2010 to 2019, May 2010 = 100



Source: Labour Market Information Portal Regional IVI Data

Response to the Productivity Commission's Draft Report

WALGA proposes that the original policy objectives of remote area tax concessions and payments are still relevant for contemporary Australia. The combination of tight labour markets, a lack of labour supply and stagnant population growth in parts of remote WA over the past decade highlights that remote area tax concessions and payments should continue to have the core policy objective of regional development. They should continue to aim to entice employees to live in remote areas by compensating them for higher costs of living and poorer access to government services.

...and unless vertical fiscal imbalance is rectified, all levels of Gov. must continue to play a role in regional development



Regional development has historically been a shared responsibility between all levels of Government...

Commonwealth Government examples

- The development of the Northern Australia White Paper, and the subsequent funding and implementation of initiatives arising from the White Paper
- The \$841.6 million Building Better Regions Fund

WA State Government examples

- Public employee allowances for regional employees
- The \$1 billion per annum Royalties for Regions Program

WA Local Government examples

- The development of Strategic Community Plans and Economic Development Plans
- The development and maintenance of infrastructure, such as roads, bridges or community facilities

..with lower levels of Gov. not having the financial capacity to do regional development activities by themselves

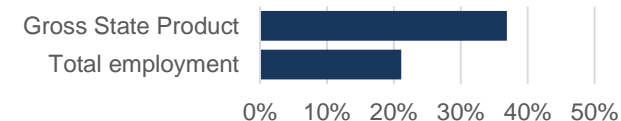
When WALGA asked Local Governments what the barriers were that prevented them from playing a more active role in economic development

- 81% said funding constraints
- 52% said a lack of support from Government
- 50% said a lack of qualified staff

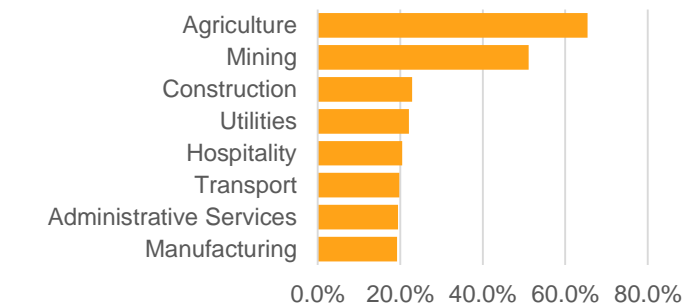
In addition, a 2014-15 study undertaken by Deloitte found that 47 Local Governments in WA (approximately a third) have finances that are unsustainable based on existing policy settings. Any additional responsibilities being borne onto the sector without additional tied funding would add further financial stress to the sector, and would come at a time when the list of responsibilities carried by Local Government is longer than ever.

The sheer economic importance of regional areas calls for a collaborative, multi-faceted approach to regional development

Regional WA's share of WA's employment and GSP in 2018



Regional WA's share of WA's employment in selected industries in 2018



Source: Department of Primary Industries and Regional Development

Response to the Productivity Commission's Draft Report

The Draft Report consistently highlights that regional development is primarily a responsibility of State and Local Governments. WALGA disagrees with this notion due to three reasons:

1. Regional development has historically been, and continues to be, a shared responsibility of all levels of Government.
2. Local Governments have limited capacity to undertake additional functions and responsibilities, including those relating to economic development.
3. The sheer importance of regional areas to the national and state economic growth necessitates a collaborative, multi-faceted approach to regional development.

To meet their original objectives, however, changes are required to existing remote area tax concessions & payments



The ZTO currently has a minimal impact but it should not be abolished, just updated

The zone boundaries should be updated

The current boundaries of the ZTO do not reflect contemporary areas of remoteness. WALGA supports the use of the ABS' remote area classifications, with areas designated as very remote, remote and outer regional provided with the greatest concessions.

The value of the Zone Tax Offset should be increased

The real value of the ZTO has almost completely eroded, and now has a minimal impact on the decision of people to move or stay in regional and remote areas. WALGA supports an increase in the value of the ZTO to a nominal amount that would genuinely influence decisions to live and work in regional and remote areas.

Means testing should be considered

WALGA supports limiting an updated ZTO to those in certain tax bands, to ensure that it provides assistance to those most in need.

The effectiveness of the Zone Tax Offset should be reviewed once the above changes have been made

WALGA believes that reviewing the ZTO's future appropriateness on its current impact would be unwise, given it has not been updated for several years.

Regional & remote FBT exemptions do currently support regional development objectives, but in their current form, they also unnecessarily support FIFO & DIDO projects

FBT employer housing exemptions should not be removed and the provision allowing exemptions to be claimed when it is customary to provide housing should be retained

Feedback provided by WALGA's members suggests that the current exemptions and concessions for employer provided housing do support regional development objectives. A common theme from feedback provided by members is that the proposed reduction of the full exemption to a concession, or the removal of the provision allowing an exemption to be claimed when it is customary to provide housing, would limit the ability for Local Governments and businesses in regional communities to attract people to come and/or stay and work in the region.

The FBT boundaries should be adjusted

WALGA supports an update of the existing FBT boundaries to one that provides the ABS' remote area classifications of very remote, remote and outer regional with the greatest assistance.

FBT exemptions for FIFO and DIDO employees incentivises the uptake of these employees

WALGA members have raised concern that the current FBT arrangements act as a disincentive to provide a residential workforce as opposed to a FIFO/DIDO workforce. There are also concerns that the proposed removal of housing exemptions will incentivise the uptake of FIFO/DIDO employees even more. As an example, one Local Government has told WALGA that mining companies in their district currently offer residential options or FIFO options to employees, as they own 75% of properties in the town in addition to FIFO camps. That mining operator has suggested that the proposed changes will make FIFO a more financially attractive option for them, as opposed to having employees that reside in town.

Response to the Productivity Commission's Draft Report

On the basis that remote area tax concessions & payments should continue to have an objective of regional development, WALGA believes that:

- The ZTO should be increased to a nominal amount that would genuinely influence decisions to work in remote areas, its boundaries should be updated to reflect contemporary areas of remoteness, it should be limited to those in certain tax bands and its effectiveness should be reviewed once these changes have been implemented.
- FBT employer housing exemptions should not be removed, the provision allowing FBT exemptions to be claimed when it is customary to provide housing should be retained, FBT boundaries should be updated to reflect contemporary areas of remoteness and FBT exemptions that incentivise FIFO/DIDO work should be removed.

In its final report, the PC should model the impacts of its recommendations and provide alternative measures of support



Assessing employment and economic impacts was a key component of the PC's original terms of reference...

Feedback provided by WALGA's members suggest that impact of the PC's recommended changes to FBT exemptions and concessions will be significant. One Local Government even suggested to WALGA that there would be a 'mass exodus of staff' if they could no longer access FBT exemptions or concessions for housing and they did not subsequently increase wages.

Within this regard, the PC should consider the economic impacts to regional communities (including population and employment impacts) of their proposed FBT changes, in particular. Without doing this, it will be difficult for the PC to determine whether the proposed changes will bring a net benefit to society. In WALGA's view, the best way for the PC to undertake this analysis would be through scenario modelling that considers the alternate responses of key sectors that currently utilise FBT exemptions and concessions. Some Local Government specific scenarios that the PC should consider include:

- Local Governments providing additional wages or paying additional FBT to continue to attract/retain employees and then passing these additional costs onto the rates base. Consultation with members suggests this could increase rates by 6-7%. Alternatively, Local Governments could meet increased costs by a reduction in service delivery.
- Local Governments not providing additional wages or not paying additional FBT to continue to attract/retain employees and utilising external contractors instead (increased rates)
- Mine operators that provide both residential or FIFO employment options electing to only provide FIFO options due to its increased financial attractiveness.

Response to the Productivity Commission's Draft Report

The Draft Report does not adequately assess the employment and economic impacts of the Productivity Commission's proposed changes, and nor does it provide a realistic view of alternative, better mechanisms to support regional development. In terms of considering the economic impact of its proposed changes, WALGA believes the best way for the Productivity Commission to do this would be through scenario modelling that considers the alternate responses of key sectors that currently utilise FBT exemptions and concessions. In terms of the consideration of alternative mechanisms to support regional development, the Productivity Commission should consider ways to improve the financial capacity of Local Governments so that they can undertake regional development activities, and also consider ways in which the use of FIFO or DIDO employees could be limited to times when it is necessary.

...and so was the consideration of alternative, better mechanisms to support regional areas

The PC should consider ways to improve the financial capacity of Local Governments to undertake regional development activities

The Draft Report consistently places the responsibility for regional development into the sphere of State, Territory and Local Governments. From the perspective of Local Government, this is not achievable due to the financial stress the sector already finds itself in from an ever growing list of responsibilities. For the sector to be able to undertake regional development activities like the development and implementation of Regional Economic Development Plans, the maintenance of existing economic infrastructure such as roads and bridges, or even to attract staff through additional wages assuming the proposed changes to FBT exemptions are implemented, it must receive more untied funding. In this regard, the PC should consider ways to potentially improve the financial capacity of Local Governments. Local Governments and their Associations across Australia have long argued for an increase in the quantum of Financial Assistance Grants (FAGs) to at least 1% of Commonwealth taxation.

The PC should consider ways in which the use of FIFO or DIDO employees could be limited to times when it is necessary

Given the well researched and established negative impacts associated of FIFO and DIDO work practices, mechanisms to limit the use of FIFO or DIDO to when it is necessary should be considered by the PC in its Final Report – especially if the proposed changes will increase the use of such work practices.