REMOTE AREA TAX CONCESSIONS AND PAYMENTS

TERMS OF REFERENCE SUBMISSION APRIL 2019

Contents

Introduction

Rockhampton Regional Council (RRC) welcomes the opportunity to make a submission to the Productivity Commission with respect to its review of the zone tax offset (ZTO) and related remote area tax concessions and payments.

While the Rockhampton Local Government Area (LGA) is not situated within any of the prescribed areas applicable for the ZTO, fringe benefits tax remote area concessions (FBT concessions) or remote area allowance (RAA), its geographic location, population size and the important role it plays as a key regional capital city, provides us with a unique perspective on the arrangements currently under review.

RRC is not opposed to remote areas currently in receipt of tax concessions and payments from receiving targeted assistance to meet broader policy objectives. There is clear example however in the Rockhampton LGA and surrounds where the implementation of the FBT concessions in particular has resulted in fundamentally inequitable outcomes that place communities within our LGA at a distinct disadvantage.

Many of the challenges experienced by remote areas across Australia together including those relating to incentivising and retaining investment and employees apply not only to remote areas across Australia but many regional areas like Rockhampton also.

RRC supports the implementation of proactive measures by other levels of Government to boost employment, population, and output in remote and regional Australia. These areas are critical to our national economy - realising their potential remains essential to securing the future prosperity for all Australians and in addressing contemporary national challenges.

The primary focus of RRC's submission relates to the inequitable outcomes referred to above and the policy objectives and intent of the measures subject to this review.

Rockhampton Region Overview

Rockhampton is centrally located in Queensland 40 kilometres inland of the Capricorn Coast, 620 kilometres North of Brisbane and 720 kilometres South of Townsville.

Strategically positioned within Northern Australia (as defined by the Office of Northern Australia), Rockhampton's geographic positioning is particularly significant as the gateway to northern Australia. Rockhampton's central location along major north, south and west transport and freight infrastructure routes, its proximity to major mining and resource development, its large customer base and labour force and its role as the government and business hub of the broader region, including the Central Highlands and Central Western Queensland drives growth and prosperity across Central Queensland.

RRC was formed in 2008 by the amalgamation of Rockhampton City and Fitzroy, Livingstone and Mount Morgan Shires. Former residents of the Livingstone Shire voted for de-amalgamation in 2013.

With a population of approximately 81,067 people the Rockhampton Region services a broader population of over 225,000 people across Central Queensland[1].

FBT Concessions - Inequity

The current classification of 'remote areas' and 'eligible urban areas' with respect to the FBT concessions in particular leads to inconsistent and inequitable approaches where some regional communities like Rockhampton are placed at a distinct disadvantage, especially when it comes to attracting investment and skilled workers.

Under the current system, Rockhampton is classified an 'eligible urban area' and towns within its LGA boundaries (some 18,361 sq kms in size) are deemed to be 'non-remote.'

This includes small towns and rural communities such as Gogango (67.6kms), Westwood (51.1kms), Marmor (45kms), Morinish (44.1kms), Wycarbah (41kms) and Mount Morgan (39.6kms).

By contrast, the town of Yeppoon located 40.5kms from Rockhampton is classified as 'remote' and eligible for the FBT concessions.

Modelling undertaken by RRC has indicated that for eligible residents residing and working in Yeppoon earning approximately $66,464.00 per annum with either a:

- mortgage of $300,000.00, or
- renting at $400 per week.

would be $4,707 or $6,838 per annum respectively 'better off' than if they lived in Rockhampton (including utilities deductions) under the FBT concessions.

RRC considers it illogical and incongruous that towns within the Rockhampton LGA which are of a similar distance from Rockhampton as Yeppoon, or in some cases further in distance away (i.e. they are more 'remote'), do not qualify for the FBT concessions.

The example above shows that efforts for the FBT concessions to '*make it easier for employers to attract and retain staff in remote areas'* in fact leads to inequitable outcomes which have placed communities within the Rockhampton LGA at a distinct disadvantage notwithstanding that they are in fact more 'remote' than other communities which are eligible to receive these concessions.

[1] ABS Region Data Summary, Estimated Resident Population as at 30 June 2018

The 2008 amalgamation of Rockhampton City and Fitzroy, Livingstone and Mount Morgan Shires created a much broader and more diverse footprint than the previous Rockhampton City Council with greater responsibilities and a very large rural area. At the time of de-amalgamation in 2013, an independent credit review and financial analysis was undertaken by the Queensland Treasury Corporation which showed that if de-amalgamation proceeded the new Livingstone Shire Council (of which Yeppoon is situated within) would be a moderately rated body with a neutral outlook while the remaining RRC would be rated financially ‘weak’ with a negative outlook. The analysis showed that Rockhampton would be financially unsustainable within two years without the implementation of immediate and drastic measures.

Following de-amalgamation RRC put a range of measures in place that impacted residents in our LGA both in terms of service levels and rates increases to avert financial disaster and RRC is now in a sustainable financial position and is investing significant sums annually furthering an aggressive economic development and growth agenda to lay the foundation for increased business attraction and job creation.

The classification of ‘remote areas’ with respect to the FBT concessions as noted above directly undermines these efforts and creates a barrier for investment and growth in our communities.

RRC strongly urges that in the course of this current review, measures be recommended to address the imbalances as outlined above. RRC recommends either broadening the definition of ‘remote areas’ to include communities such as those referred to above or otherwise removing eligibility from areas, such as Yeppoon, which create the inequity identified.

Rationale and Objectives of Remote Area Tax Concessions and Payments

RRC considers that any examination and determination of the appropriate ongoing form and function of support to Australians residing in specific geographic areas must first be considered within the context of the original legislative intent and objectives sought to be met by the relevant measures.

In describing the original intent, as noted in the Issues Paper[2] subject to this review:

> *“the main justification was to compensate people for the relatively high living costs, isolation and uncongenial climate in remote Australia. The Government considered it in Australia’s economic and strategic interests to encourage people to settle in remote areas.”*

[2] Productivity Commission, Remote Area Tax Concessions and Payments, Issues Paper, March 2019, p2

Further, in the Second Reading of *A New Tax System (Fringe Benefits) Bill 2000*, with respect to the extension of the FBT remote area housing benefits, the then Minister for Financial Services and Regulation stated:

> *"The bill should make it easier for employers to attract and retain staff in remote areas because it will extend the fringe benefits tax exemption for remote area housing to all employers. Currently, only primary producers in remote areas are exempt from FBT on housing benefits provided to their employees.[3]"*

The Issues Paper (at p.12) further provides details of the different policy rationales that have been offered in favour of support to the specified regions:

- ***Equity****: to compensate residents of remote areas for the various disadvantages of living in those areas. These were originally conceived of as uncongenial climatic conditions, isolation or higher costs of living; an alternative basis for comparison may be the level of access to public services.*
- ***Regional development****: to actively encourage individuals to move to and work in remote regions. This includes historical justifications (an imperative to develop northern Australia's resources, and to populate the north to shore up national security) and contemporary arguments (decentralisation).*
- ***Industry-specific assistance****: to support industries located in remote areas by mitigating the higher costs of doing business (for example, freight).*

RRC submits that the same policy objectives and rationales apply equally to not only 'remote' areas, but also many 'regional' areas across Australia. In our view, the two terms should not be considered mutually exclusive, but rather that targeted assistance is required to be provided to both in order to properly address many of the unique issues and challenges faced by those communities.

Regional Development

RRC supports policy settings that actively nurtures and sustains remote and regional centres, grow jobs and which encourages individuals to move to and work in remote and regional centres.

An overview of population growth and demographic trends is critical in any review of mechanisms of assistance to Australians who reside in specified geographic areas.

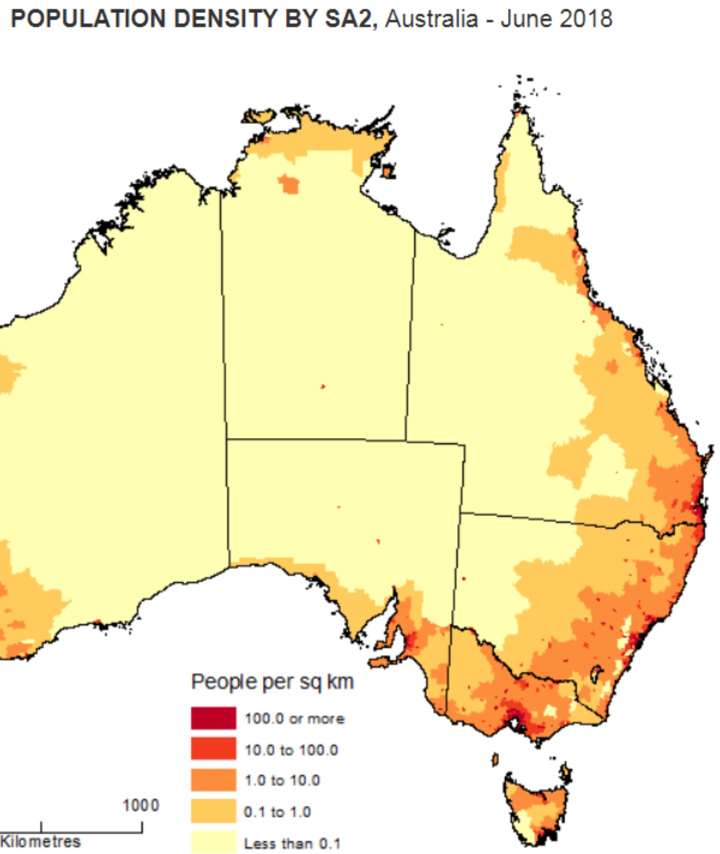
[3] Joe Hockey MP, Minister for Financial Services and Regulation, A New Tax System (Fringe Benefits) Bill 2000 Second Reading Speech, House of Representatives, 9 March 2000.

As noted in the Grattan Institute's 2017 working paper on Regional Patterns of Australia's Economy and Population:

> *"The most densely populated parts of Australia – mostly within the capital cities – house 80 per cent of the population. They occupy less than 1 per cent of Australia's land mass. Another 10 per cent of the population live around the capital cities, along the east coast, and in regional Victoria north east of Melbourne. The remaining 10 per cent live in more sparsely populated areas that cover 77 per cent of Australia.[4]"*

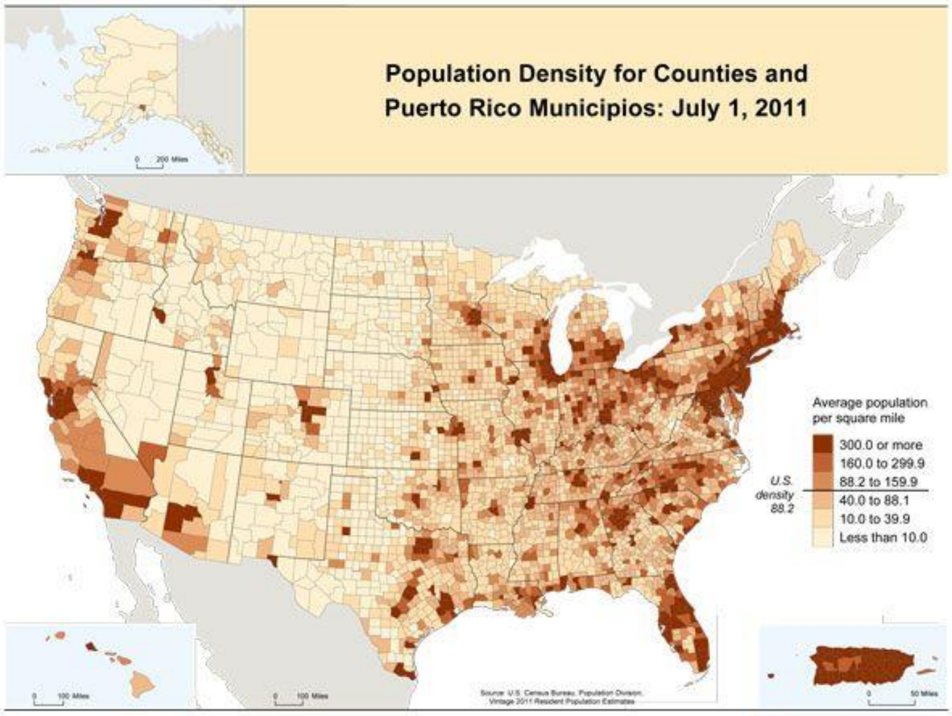
The trend towards population concentration in metropolitan cities and their outskirts is not a recent one. The impact of population growth in increasingly congested metropolitan cities across Australia has however become of increasing relevance to other levels of government as they confront the financial costs of addressing congestion and a shrinking workforce due to population ageing.

Australia has a particularly unusual distribution of its population with a greater share residing in large cities relative to other countries. The contrast between population density in Australia and the United States is illustrated below:



Source: Australian Bureau of Statistics

[4] Daley, J., Wood, D., and Chivers, C. (2017). Regional patterns of Australia's economy and population. Grattan Institute.



Source: United States Census Bureau

In a 2016 address to the Sydney Institute, the Minister for Resources and Northern Australia, Senator the Hon Matt Canavan observed:

> *"If our 24 million people were spread across the country in accordance with Zipf's Law, then we would have around five million more people living in regional areas, that is living outside the five mainland capital cities.*
>
> *Imagine the stimulus that would create to regional areas and the greater dynamism that our country would have. Townsville would be a city of 350,000 not 200,000, Rockhampton would have more than 200,000 people and Tamworth 140,000 people. We would have 44 cities with populations of more than 100,000 rather than only 16…(ibid.) This may seem like a radical shift but population in other countries are spread in exactly such a fashion[5]."*

To the extent that remote area tax concessions and payments assist in attracting people to remote areas (or retaining them once they are there) while also compensating them for living costs, isolation and climate, it is clear from the historical distribution of Australia's population however that there is more that can and should be done – not just for remote areas, but many regional communities as well.

Rockhampton's historical population growth example is of particular relevance.

[5] Senator the Hon Matt Canavan, Address to the Sydney Institute, 14 November 2016

In 1933 Rockhampton was the largest regional city in Queensland in terms of population. By around 1954, Townsville and Rockhampton had similar populations and by 1966 both Ipswich and Townsville were larger than Rockhampton.

By 1976, Rockhampton had fallen behind even further and by 1991, Cairns, Ipswich, Logan, Mackay and Townsville had significantly larger populations. The following link depicts the contrast in regional population growth - https://youtu.be/T6pvddM2Xj4.

It is not suggested that Rockhampton's exclusion from the measures subject to this review is the cause of its slower rate of population increase since 1930 when compared to other regional centres that are in fact eligible. RRC's observations above however reinforces the importance in ensuring that State and Federal policy settings are encouraged to facilitate the continued development of remote and regional Australia.

Encouraging individuals and businesses to move to and work in these centres will not only assist in addressing housing affordability, congestion and the significant infrastructure expenditure in metropolitan cities but also facilitate the new industries, employment and self-sustaining growth for remote and regional Australia.

Alternative mechanisms to support residents in specified geographic areas

Remote and regional communities are highly diverse in their characteristics, advantages and experiences, and in the particular risks, challenges and opportunities they face.

Concessionary and subsidy-based policies still has a part to play however they should not be used in isolation to the adoption of flexible, place-based approaches to enhance the capabilities and competitiveness of each remote and regional community in order to achieve self-sustaining growth.

Building capacity in regional communities that includes investments in major pieces of infrastructure and other projects which facilitate 'connectivity' — the movement of goods, services and people, and communication between people – and the declaration of State Development Areas by the Queensland Government are other mechanisms that would assist communities in specific geographic areas. Such targeted measures would encourage individuals to move to and work in remote regions and help to support industries located in remote areas by mitigating the higher costs of doing business.

Conclusion

RRC welcomes the Productivity Commission's interest in these matters and appreciates the opportunity to provide this submission for its consideration.

If any clarification or further information in relation to RRC's submission, please contact, Mr Evan Pardon, CEO.