



18 October 2019

Inquiry Secretary
Remote Area Tax Concessions and Payments
Productivity Commission
Level 12, 530 Collins Street
Melbourne VIC 3000, Australia

remotetax@pc.gov.au

Dear Madam / Sir,

Submission on the Remote Area Tax Concessions and Payments Draft Report

The Local Government Association of Queensland (LGAQ) is pleased to provide this submission on the *Remote Area Tax Concessions and Payments Draft Report – August 2019*. This submission focusses on matters of importance to local government and the communities they serve.

As noted in our initial submission, **the policy objective that underpins the measures that are the subject of the Inquiry is to improve economic conditions in remote, regional and Northern Australia, including through investment and workforce attraction. This is a stated policy objective of the Federal Government.**

While there is evidence that Zonal Tax Offsets, Fringe Benefits Tax (FBT) concessions and other measures provide mechanisms to encourage people to live and work in remote areas, over time these measures have not been maintained or indexed and their efficacy has diminished.

There remains a widespread expectation by communities and local governments in remote areas that the policy commitments made by the Federal Government, including those in the Northern Australia White Paper, will improve the conditions for economic development through measures such as investment and workforce attraction.

It is not clear how the draft report reached the conclusion that the tax offset is no longer in line with contemporary Australia, or that other measures should be pared back.

An overview of the initial submissions and submissions following release of the draft report (made public to date), indicates that **the vast majority of submissions support retaining and improving the current mechanisms that are the subject of the Inquiry with a view to providing better support for people living in, and businesses based and operating in, remote, regional and Northern Australia.**

A number of submissions suggest how these improvements may be achieved, both by revising existing measures and implementing further measures, to improve the efficacy of programs to better achieve the policy objective of improving economic conditions in remote, regional and Northern Australia.

The following comments are provided in response to the draft findings, recommendations and information requests:

DRAFT FINDING 2.1

While population settlement patterns and technology have changed since 1945, remote Australia is still remote when compared with metropolitan centres. Living, working and operating a business in a remote location continue to present challenges that are not experienced in metropolitan centres.

The drought of the past few years has exacerbated the challenges for many people living and working in many parts of Australia.

Fundamental scale and market failure issues, evident in the comparative prices and the availability of goods and services, persist despite advances in technology. This does not simply mean reduced consumer choice and higher prices; it extends to the availability of some goods and services at all, including key services from even a single provider.

Technological advances have provided benefits to both remote communities and metropolitan centres.

Metropolitan centres with comparatively large populations and busy trading ports will always enjoy location advantages that are not available in other parts of the country. Indeed, location advantage is part of the reason these centres have developed to become metropolitan centres. International trade continues to provide metropolitan centres with considerable benefits in terms of the price and range of goods available in those markets. High-density population centres attract more human service providers.

Conversely, remote areas will always experience location disadvantages, particularly the transportation cost and time associated with distributing goods. Advances in telecommunications, refrigeration and transportation have undoubtedly helped address the availability of food and other goods. While these have afforded improvements, the adoption of technology alone is not capable of addressing scale issues that will always mean that living in a remote area is not the same as living in a metropolitan area.

The centres of Cairns and Darwin receive specific mention. While these two centres may not be considered 'remote' by contemporary standards, their relatively small populations and distance from major metropolitan centres continues to present challenges to those communities. The international airports they host are made 'international' by the independent decisions of airline operators to provide international flights, more in response to international tourism than local population demand.

Tourism highlights another example of exports from remote, regional and Northern Australia that requires a skilled workforce and other services to be able to continue.

DRAFT FINDING 2.2

Indigenous people may prefer to stay on land for family and cultural reasons. They also make an important contribution to local workforces, including to those of local governments in remote, regional and Northern Australia.

Indigenous people have an inherent cultural connection and obligation to country. They represent over 80% of the workforce of local governments in discrete and remote indigenous communities.

There is a significant disparity in income distribution between indigenous and non-indigenous populations within these communities. The inquiry should be cognisant of this inequity when considering changes to the Remote Area Tax Concessions and Payments so as to not further disadvantage indigenous peoples.

While some Aboriginal and Torres Strait Islander workers will be beneficiaries under the measures that are the subject of this Inquiry, supporting Aboriginal and Torres Strait Islander populations in remote and regional areas involves a range of programs that are beyond the scope of this Inquiry.

Issues of service delivery to Aboriginal and Torres Strait Islanders in Queensland remote communities was the subject of a 2018 Queensland Productivity Commission Inquiry. The LGAQ submission included suggested actions and a copy of this document is attached for reference.

DRAFT FINDING 2.3

It is agreed that there is evidence that the cost of living increases with remoteness and this would follow from the scale of remote markets, transportation and distribution costs.

When compared with metropolitan centres, there is also evidence of reduced consumer choice and market failure across a range of goods and services. This includes the availability of age and childcare, education and health services.

Despite the assumption that a core set of services are available to all Australians, including some core public services provided by Federal, State or Territory governments, local government is often the level of government that must step-up to support the provision of core services to their communities through various measures, including as a 'provider of last resort'.

When provided in response to community need by local government, these services are funded by local (rates) revenues administered through the local government. In this context alone, the taxation principle of equitable service provision infers that some form of Federal taxation benefits / concessions for the local, resident population are justified.

The broader issue of cost-shifting some service delivery onto local government by other levels of government withdrawing services from regional communities also deserves urgent attention.

DRAFT FINDING 2.4

This Draft Finding is noted, although it is unclear what it contributes to the discussion.

DRAFT FINDING 3.1

It is true that there are a range of measures that are intended to support individuals, businesses and communities and to facilitate development in regional and remote Australia.

In the context of policies to support remote, regional and Northern Australia, the regular review of program performance, and necessary refinements, are needed to ensure that any program continues to contribute to the Government's intended policy objectives.

A number of submissions to the current Inquiry indicate that many of the issues regarding the effectiveness of remote area taxation measures, including take-up, are a result of the availability and/or communication of information and program maintenance (real value / indexation) issues.

Before consideration is given to closing a program, potential solutions should be considered. If a decision is then made to close a program, beyond stating 'there are other programs', it will be necessary to undertake a proper assessment of what related programs will meet the requirements of current program participants and fulfil the Federal Government's policy objectives.



INFORMATION REQUEST 1

The LGAQ is aware of a report recently prepared by the Queensland Council of Social Services (QCOSS) *Living affordability in Queensland - A report on living affordability in metropolitan and regional communities in Queensland February 2019*

<https://www.qcoss.org.au/publication/affordability-in-queensland-report/>

DRAFT FINDING 4.1

The LGAQ supports the application of work by the ABS in defining remote areas.

It is also interesting to note that the ABS 2016 remote areas significantly represent the lowest two quintiles of the ABS 2016 Socio-Economic Indicators for Areas (SEIFA) Index of Relative Socio-economic Disadvantage (IRSD)

DRAFT FINDING 4.2

As noted in both the initial submission and earlier in this submission on the draft report, **the Government has repeatedly stated regional development as a policy and objective and there remains a clear need for taxation and other incentives that attract people to live and work in remote, regional and Northern Australia.**

ABS regional population data (3235.0) indicates many regional areas are in decline and the rate of decline is not sustainable if regional communities are to continue to support major industries, including primary industries and tourism.

DRAFT FINDING and DRAFT RECOMMENDATION 5.1

The LGAQ disagrees with this Draft Finding and Draft Recommendation.

The Federal Government has repeatedly stated policy commitments to support the economic development of remote, regional and Northern Australia. This requires support for the regional communities and workforces that contribute to the production of primary industries, the majority of which is exported to international markets.

Tourism also requires sustainable regional communities and workforces to provide the necessary services for the viability of this significant export sector.

Equitable service provision is a basic taxation principle and another argument in support of the case for zone tax offsets and other allowances. The situation is not about the allowances and concessions 'creating advantage', it is about using these programs as a policy mechanism to address disadvantage and inequity.

People living and working in remote, regional and Northern Australia experience inequitable levels of public services available to them as taxpayers. They may also need to incur significant private travel and accommodation expenses to access specialist services.

For some proportion of people living in remote, regional and Northern Australia, the most highly-valued location to live and work may be influenced by factors other than economic ones, including community, culture and country. However, that is not a justification for removing measures that go some way to address inequitable service delivery in remote, regional and Northern Australia.

This case could be extended to the circumstances of Australian Forces serving overseas.

DRAFT FINDING 5.2

Businesses that locate and operate in remote, regional and Northern Australia support regional economies.

The Federal Government has repeatedly stated policy commitments to support the economic development of remote, regional and Northern Australia. This requires support for the regional businesses that contribute to the production of primary industries, the majority of which is exported to international markets.

Tourism also requires a network of small, integrated regional businesses to provide the necessary services for the operation of this significant export sector.

While it is true that the Federal Government should set the broad economic fundamentals that support businesses, a recent Inquiry into a major sector of the Australian economy demonstrates that the task of achieving a competitive environment is not a simple 'set and forget' policy exercise. Regulating to address market failure has come into fresh focus as a responsibility of the Federal Government.

DRAFT FINDING 6.1

This Draft Finding is noted. This set of recipient characteristics should be qualified to acknowledge that there are data gaps and to recognise that a number of submissions make the observation that, possibly due to low levels of knowledge about the measures, there is a level of under-subscription. That is, not all people who may be eligible are aware of the available measures.

DRAFT RECOMMENDATION 6.2

This Draft Recommendation is noted. A revision of the Remote Area Allowance (RAA) and its re-setting to a suitable level could be maintained through an appropriate indexation formula that could be included in the amendment to s14 of the *Social Security Act 1991* noted in draft recommendation 6.1.

DRAFT FINDING 7. 1

This Draft Finding is noted.

A number of submissions suggest that FBT concessions provide a valuable incentive and that the guidelines could be simplified to improve take-up and remove disparities. One example is the differing rate applied to employer-provided versus employee-sourced housing. **The current disparity between employer-provided versus employee-sourced housing should be addressed by bringing both to 100% to remove the inconsistency in the current arrangements.**

One remote Queensland council suggested this should be extended to employee mortgage payments to encourage settlement, including a commitment to stay for a defined period of time.

Another council suggested a HECS debt relief scheme to attract and retain skilled graduates to live and work in remote areas for a defined period of time. Although not stated in the Inquiry Terms of Reference, if the Inquiry is to suggest current measures are ineffective it might also wish to suggest replacement measures that could fulfil the intended policy objectives. The issue of attraction and retention of those skilled workers in regional areas remains a significant issue for the economy.

Another submission suggested that there should be some form of relief for the high cost of insurance for people and businesses in remote, region and Northern Australia.



Overall, a number of remote, regional and Northern Australia local governments have indicated that they attempt to make appropriate use of the current FBT measures to attract and retain people to their communities and workforces, and that this makes a real difference.

DRAFT RECOMMENDATION 8.1, 8.2 and 8.3

The LGAQ does not support Draft recommendation 8.1, 8.2 or 8.3 as it would reduce the eligibility for, or value of, or remove altogether, incentives and these changes would have a negative outcome on the efforts by local governments (along with businesses, chambers of commerce, regional economic development associations etc.) to attract and retain skilled workers and their families.

INFORMATION REQUEST 5

Can the other eligibility rules for remote area concessions be improved sufficiently to make geographical boundaries redundant?

The LGAQ suggests consideration of a multi-part definition that could incorporate the ABS Remote Area definitions and the ABS SEIFA Index of Relative Socio-Economic Disadvantage (IRSD). While geographical areas are an element, the methodology looks at additional indicators and a composite approach could help resolve the issue presented by using a single, geographically defined approach.

If there is a need for further information or clarification of LGAQ's submission, please contact Roland McMillan, Lead – Economics and Finance

Yours sincerely

Sarah Buckler PSM

GENERAL MANAGER - ADVOCACY