



Submission to

Inquiry into Remote Area Tax Concessions, Australian Productivity Commission

**Townsville City Council
April 2019**

1. Introduction

While facing significant challenges, regional Australia remains a vital source of the nation's prosperity and development.

Resources in tourism, mining, agriculture and marine science, along with greater Indo-Pacific trade, will not be fully developed without the growth of regional areas, and particularly those across northern Australia.

Moreover, the investment in regional infrastructure and population centres will help mitigate the increasingly prohibitive costs of providing infrastructure within Australia's congested capital city areas.

Remote Area and Zonal Tax Concessions can play a key role, not just in relieving higher living costs, but in supporting regional growth.

With deep linkages to northern Australia's resources, Townsville is well placed to build economic growth and take advantage of Australia's global opportunities. The goal of the *Townsville City Deal* is to establish Townsville as the capital of North Queensland and the economic gateway to Northern Australia and Asia.

Broadening the investment and scope of zonal tax concessions will support Townsville's development and also aid the city's adjustment to recent changes in performance of key industry sectors like mining.

To ensure these outcomes over the next decade, the region-building support generated by zonal taxation must also be considered within the broader financial framework provided to local governments.

Local governments are fundamental to sustainable regional growth and reforms to zonal taxation will not be effective without improved commitments to service funding from state and federal governments.

Townsville City Council appreciates the opportunity to contribute to the Productivity Commission's Inquiry and offers the following recommendations:

1. Consideration should be given to the best support mechanisms for alleviating the burden of insurance costs in regional North Queensland. If directly targeted insurance assistance is foregone, an upgraded ZTO, of appropriate value, could function as financial relief for the high cost of insurance in northern Australia.
2. Consideration should be given to increasing the nominal value of FBT concessions for FIFO employers based in regional centres as opposed to capital cities.
3. To provide meaningful support for greater regional population growth and output, consideration should be given to broadening the scope of zonal tax concessions. In particular, this should include tax concessions for regionally based businesses.
4. A complimentary objective of zonal taxation reform should be reform to the quotient and distribution of federal Financial Assistance Grants (FAG). This would secure funding levels and improve the allocation model that distributes funding across Australia's regional councils.

2. Townsville: Economic Background and Development Challenges

2.1 City Profile

Figure 1: Townsville

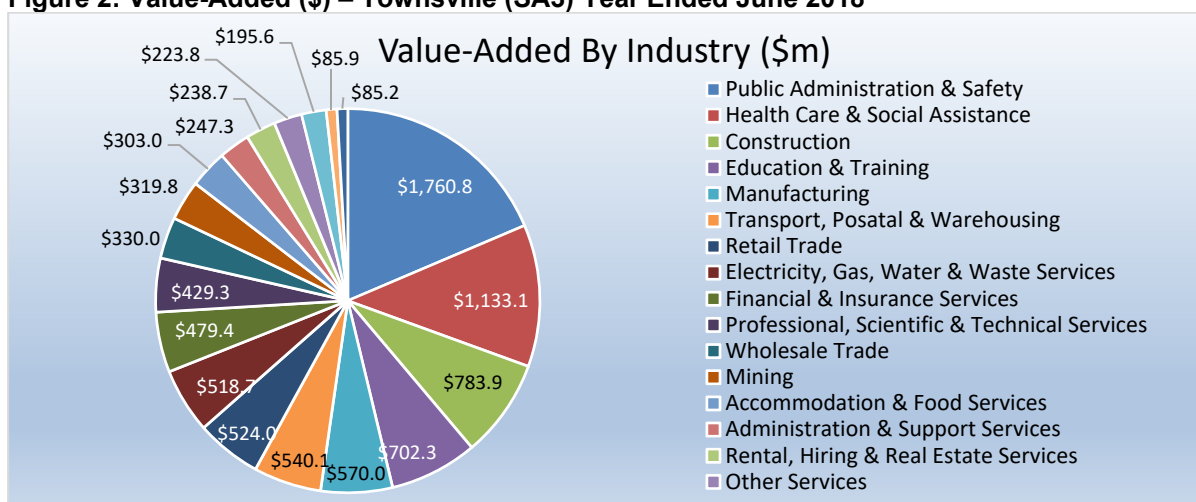


With strong ties to mining and agriculture, Townsville has grown to be the largest city in Northern Australia. Since founding, growth has been influenced by government investment including:

- the establishment of James Cook University, Australian Institute of Marine Science, the CSIRO and the Great Barrier Reef Marine Park Authority in the 1960s and 70s;
- the establishment of Lavarack Barracks and RAAF Base Townsville in the 1960s and 1970s; the Burdekin Dam construction in the 1980s;
- the relocation and development of Townsville General Hospital as a tertiary teaching hospital; and,
- the redevelopment of the Strand in the 1990s.

As at June 2018, Townsville's Gross Regional Product (GRP) was \$10,903 million¹. A breakdown of economic Value-Added by industry is provided in Figure 2.

Figure 2: Value-Added (\$) – Townsville (SA3) Year Ended June 2018



¹ National Institute of Economic & Industry Research

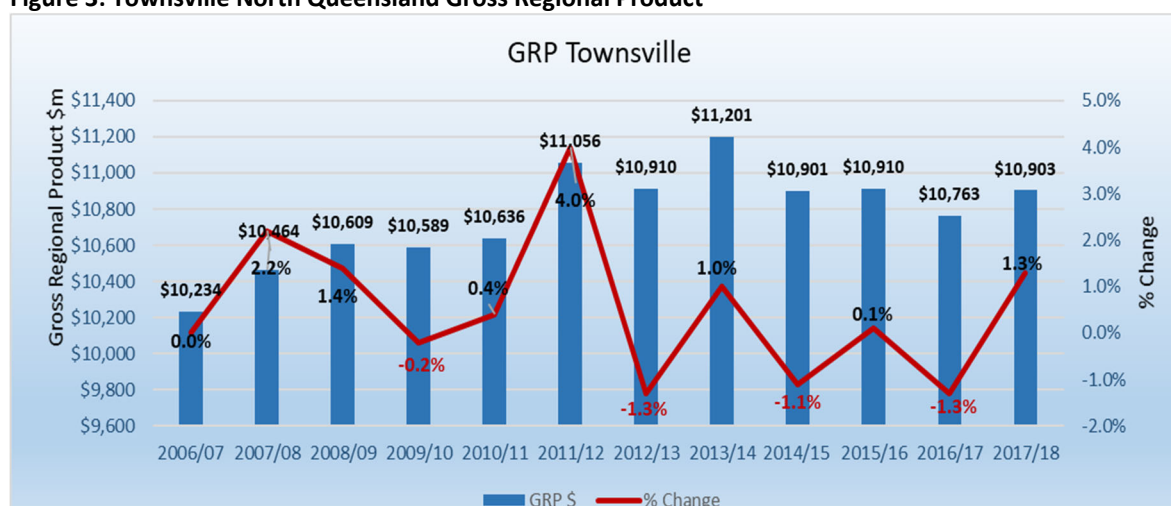
Contributing \$1,761 million (18.6%), Townsville's economy is relatively dependent on the Public Administration and Safety sector. Reflecting Townsville's role as the Australian Army's primary readiness and deployment base, Defence accounted for approximately half of the sectors value-add.

Other significant contributing sectors are: Health Care and Social Services (11.9%); Construction (8.3%); Education and Training (7.4%); and, Manufacturing (6.0%). Combined these five sectors contributed \$4,950.1 million or 52 percent of Townsville's total value-added.

2.2 Current Economic and Population Challenges

Over the past decade, Townsville has been undergoing a period of transition, adjusting to challenging economic conditions. The city has been impacted by synchronised cyclical (mining) and structural (traditional manufacturing) industry decline. These forces constrained the region's microeconomic performance resulting in declining investment, employment, income and population growth. This is evident in Townsville's GRP performance with the city experiencing recessions in 2009/10, 2012/13, 2014/15 and 2016/17.

Figure 3: Townsville North Queensland Gross Regional Product



Source: National Institute of Economic & Industry Research

In the ten years to June 2018, Townsville's GRP grew by 8.6 percent in real terms. This compares to Gross State Product which grew by 23.3 percent over the period². Significant contributing factors to Townsville's economic performance include the Global Financial Crisis (2008-2010), the end of the mining boom (2014) and the closure of Queensland Nickel Refinery (2016).

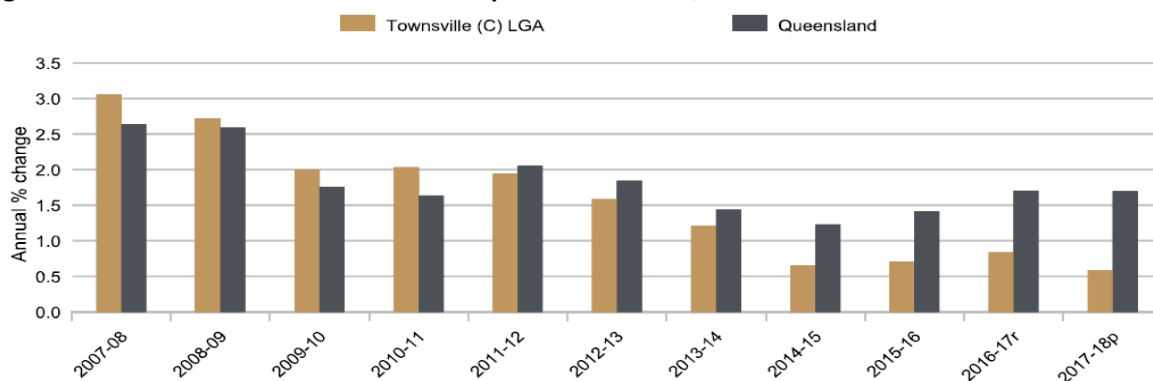
Poor economic conditions have impacted employment. From a low of 4.1 percent recorded in the March Quarter 2013, unemployment more than doubled over 4 years to record a 22 year high of 10.8 percent in March 2017. As at December 2018, Townsville's unemployment rate was 8.2 per cent, 2 percentage points higher than Queensland.

Poor economic performance and employment challenges have also impacted population growth.

At 30 June 2018, Townsville had a population of 194,072 with average annual growth of 1.4 percent over 10 years and 0.8 percent over the five years. This growth was 0.3 and 0.7 percentage points less respectively than the average for Queensland.

² National Institute of Economic & Industry Research

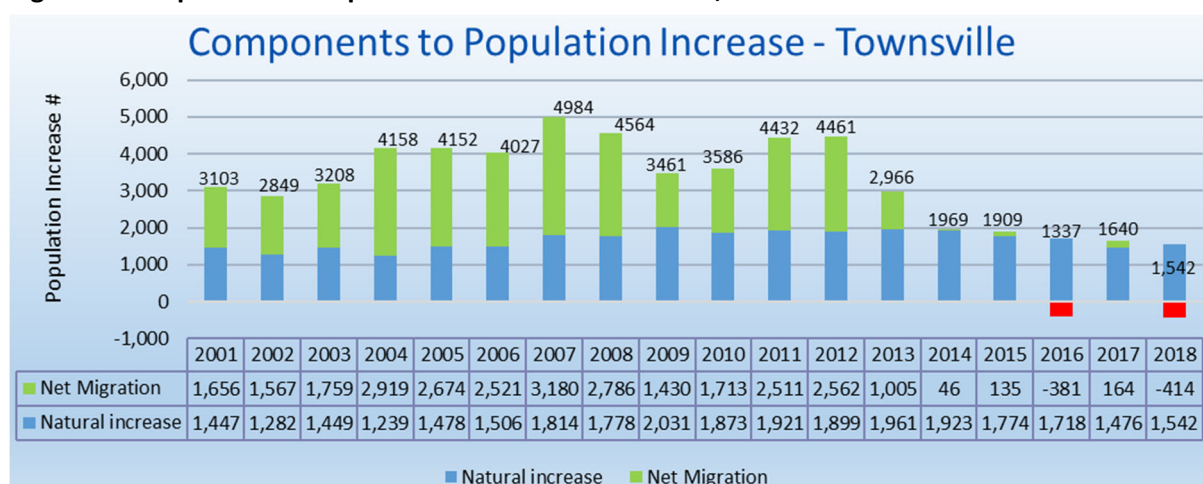
Figure 4: Estimated Rate of Residential Population Growth, Townsville and Queensland



Source: ABS 3218.0, *Regional Population Growth, Australia, various editions, QGSO*

The loss of employment opportunities and its impact on population growth is clearly evidenced in migration trends to Townsville. In 2007, prior to the Global Financial Crisis, Townsville recorded a net migration of 3,180 residents, while 10 years later in 2016 net migration was negative (-381). Most recently, net migration was also negative in 2018 (-414).

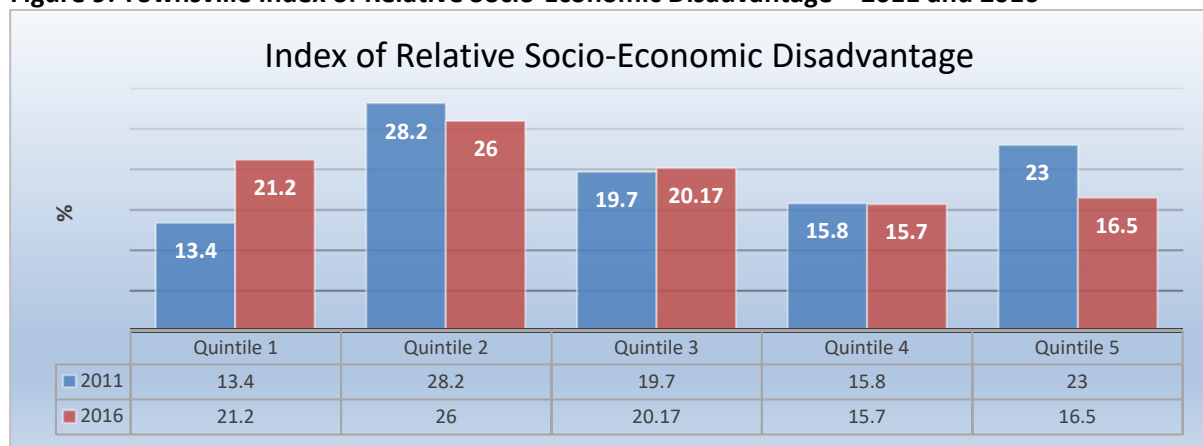
Figure 5: Components to Population Increase – Townsville, 2001 – 2018.



Source: ABS 3218.0, *Regional Population Growth, Australia, various editions*. ABS 3301.0 Births Australia; ABS 3302.0 Deaths Australia various editions.

High unemployment and declining migration of skilled workers has had a marked impact on Townsville's socio-economic characteristics. Figure 6 compares the relative socio-economic disadvantage experienced over the inter-censal period 2011-2016.

Figure 9: Townsville Index of Relative Socio-Economic Disadvantage – 2011 and 2016



Source: ABS 2033.0.55.001, *Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia - Data only, 2011 & 2016*, (Queensland Treasury derived)

Change is most evident in Quintile 1 (most disadvantaged) and Quintile 5 (least disadvantaged). Residents within the most disadvantaged quintile (1) went from a below Queensland average 13.4 percent in 2011 to an above Queensland average level of 21.2 percent in 2016 (increase of 7.8% of the population). Conversely, those within the least disadvantaged quintile (5) have gone from above average of 23 percent in 2011 to a below average level of 16.5 percent in 2016.

In the face of cyclical and structural economic challenges, there is a strong case to renew remote area tax support in regional centres like Townsville. As noted by the Commission's Issues Paper (March 2019, p. 12), the policy rationales traditionally underlying regional tax support have been equity, industry assistance and regional development. All three remain relevant to Townsville's current needs and future growth opportunities.

Tax support can help alleviate socioeconomic disadvantage and provide incentives for new businesses. This will generate employment and help transition Townsville's economy as an emerging trading centre with the Asia-Pacific region. However, to do so, the current arrangements and scope of concessional support must become more flexible and targeted to the unique developmental challenges of regional cities like Townsville.

3. Regional Development and the Future Scope for Place Based Concessions in Townsville

3.1 Existing Remote Area Tax Concessions in Townsville

Three types of remote area tax concessions are currently provided to regional Australia. These being: Zone Tax Offset (ZTO); Fringe Benefit Tax (FBT) remote area concessions; and the Remote Area Allowance (RAA). Currently, Townsville employees receive the ZTO in accord to the city's classification within Zone B. It amounts to \$57 + 20% of dependent rebate (max. \$75.20 per child a year). Townsville is not an eligible location for the RAA.

3.2 Upgrade of Zone Tax Offset

The original policy intent of the Zone Tax Offset (ZTO) was to compensate employees for higher costs of living and lifestyle disadvantages when residing in remote and regional areas.

It is possible to argue that this intent no longer applies to larger regional cities like Townsville. For instance, the most recent Retail Price Index for Queensland Regional Centres (Queensland Government Statistician's Office, 2015) found that Townsville's total all goods index was 2.3% cheaper than Brisbane. Even when housing prices were excluded, Townsville's index was only 2.6% more expensive.

Further relevant, however, is the continued impact of increased insurance premiums on the cost of living in Townsville. The 2015 regional price index excludes the cost of building insurance which has risen dramatically in Townsville over the past decade. The Australian Competition & Consumer

Commission has found that home and contents premiums are, on average, considerably higher in north Queensland when compared to the rest of Australia. Average costs in North Queensland are \$2400 per annum and only \$1300 per annum for the rest of Australia. Moreover, from 2007 to 2018, combined home and contents premiums rose by 130 per cent in real terms in northern Australia, compared to just over 50 per cent in the rest of Australia (ACCC, November 2018, p.16).

It is likely that the trend of increased insurance premiums will continue, particularly given ongoing forecasts of increased weather volatility into the future.

Consideration then must be given to the best support mechanisms for alleviating the putative social and economic burden of insurance costs in regional North Queensland. If directly targeted insurance assistance is foregone, an upgraded ZTO, of appropriate value, could function as financial relief for the high cost of insurance in northern Australia. As noted in the Commission's Issues Paper, the ZTO's nominal value was last increased in 1993.

In addition, it would also be appropriate to provide further financial relief to income support recipients in Townsville and North Queensland by introducing the Remote Area Allowance as is operating in other parts of northern Australia.

3.3 Review of Fringe Benefit Tax (FBT) remote area concessions

As outlined in section 2 of this submission, the cyclical downturn of mining activity in northern Queensland continues to create significant economic challenges for Townsville. In addition to the direct loss of employment caused the Queensland Nickel Refinery, the city has suffered from the diminution of its traditionally strong role as a base for fly-in fly-out (FIFO) workers servicing mining operations throughout the north west Queensland minerals province. At the height of the mining boom (2013-14), Townsville Airport estimated that 215,000 annual passenger trips were made through its gates by FIFO workers.

Rebuilding the FIFO sector is a key part of Townsville's development strategy. Significant competition, although, has arisen through the increasing trend for major operators to base FIFO workers out of capital cities, such as Brisbane.

FBT remote area concessions continue to reduce tax liabilities for travel and accommodation benefits given by employers to FIFO workers, provided their working base meets the prescribed criteria of 'remoteness'. That is: 100km from cities and more than 40km from designated larger towns.

Townsville City Council's view is that providing FBT concessions at the same rate for FIFO employers, whether they are based in capital cities or regional centres, provides little developmental benefit for regional Queensland.

Many of the remote locations for FIFO workers are self-contained mining operations. They do not generate reliable new expenditure for regional towns unless these towns, themselves, become a home base for FIFO workers.

If one of the principle rationales of remote tax policy is to boost regional population and development, then consideration should be given to increasing the nominal value of FBT concessions for FIFO employers based in regional centres as opposed to capital cities.

3.4 Individual versus Business Zonal Tax Concessions

At present, Zonal Tax Offsets only apply to individual employees. While this indexation has a role in providing relief for higher regional costs like insurance, it generates little in the way of broader economic benefits for regional areas.

As noted in the Commission's Issues Paper, the intended effect of place-based tax concessions is to boost population and output of targeted regions by making 'employment in these regions more financially attractive'. However, this goal cannot be achieved without the ongoing generation of new employment opportunities. The recent declines in population growth and migration experienced by Townsville, for example, has been driven by industry closures and the loss of jobs, rather than a decline in the relative attractiveness of the employment conditions and lifestyle offered by the city itself.

To provide meaningful support for greater regional population growth and output, consideration should be given to broadening the scope of zonal tax concessions. In particular, this should include tax concessions for regionally based businesses.

Regional tax concessions have already been implemented across several jurisdictions. A recent example is the Victorian Government's 2017 introduction of a reduced payroll tax rate for regional employers paying at least 85 per cent of their wages to regional employees.

Federally, potential options include offsets to company and income tax for regional businesses. These would provide further incentive for businesses to grow regional operations, strengthening the limited support presently offered by FBT remote area concessions.

Moreover, such reforms support the developmental objectives of the *Townsville City Deal*. Enacted in 2016 by the Queensland and Federal Governments, along with Townsville City Council, the City Deal sets out a twenty-year plan to develop Townsville as a Northern Australian capital through strategic investments and by growing 'Townsville as a place where people want to live and work' (Townsville City Deal, 2016, p.4).

4. Regional Development and Financial Support for Local Governments

To improve outcomes into the future, the region-building goals of zonal taxation must be considered within the broader financial framework provided for local government.

Local governments are fundamental to sustained regional growth, and reforms to zonal taxation will not be effective without improved commitments to services funding from state and federal governments.

As affirmed by the Australian Local Government Association, councils contribute significantly to the economic and social growth of their regions by focusing their efforts in three key strategic areas. These are:

- creating and maintaining the investment environment by ensuring service and lifestyle infrastructure;
- facilitating new local investment through strategic planning and promotion of local business associations; and
- attracting external investment through advocacy with local champions and development organisations.

These contributions to growth will continue to underpin any broader region-building outcomes generated by remote area taxation offsets. Any renewed investment by the Federal government in zonal offsets risks being wasted if the ability of local councils to support regional growth is diminished.

A complimentary objective of zonal taxation reform should be reform to the quotient and distribution of federal Financial Assistance Grants (FAG). Since 1996, local government share of taxation revenue has declined from 1 percent to an unsustainable 0.55percent in 2018.

As well as increasing funding levels, review and improvements should be sought to the allocation model that distributes this funding across Australia's local councils and varying regional areas. At present, the only identified infrastructure component for FAG allocation is road building and maintenance. There is an increasing case for introducing an environmental or water infrastructure component, given the ongoing challenges of climate change and sustaining secure water supply. Across North Queensland coastal councils, for instance, significant additional financial burdens are borne in the higher water and effluent treatments required to support the Great Barrier Reef.

Renewed investment in local government will multiply the region-building outcomes of future investments in zonal taxation offsets.

5. Summary of Recommendations

In response to the key research issues of the Commission's Inquiry into Townsville City Council offers the following recommendations:

1. Consideration should be given to the best support mechanisms for alleviating the burden of insurance costs in regional North Queensland. If directly targeted insurance assistance is foregone, an upgraded ZTO, of appropriate value, could function as financial relief for the high cost of insurance in northern Australia. It would also be appropriate to provide further financial relief to income support recipients in Townsville and North Queensland by introducing the Remote Area Allowance as is operating in other parts of northern Australia.
2. Consideration should be given to increasing the nominal value of FBT concessions for FIFO employers based in regional centres as opposed to capital cities.
3. To provide meaningful support for greater regional population growth and output, consideration should be given to broadening the scope of zonal tax concessions. In particular, this should include tax concessions for regionally based businesses.
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