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Remote Area Tax Concessions and Payments study
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Submission by Regional Development Australia Pilbara

RE: Remote Area Tax Concessions and Payments Draft Report

Regional Development Australia (RDA) Pilbara appreciates the opportunity to contribute to the Commission's Draft Report on *Remote Area Tax Concessions and Payments*. The submission is principally focused on FBT sessions for not-for-profits, herein referred to as Non-Government Organisations (NGOs).

RDA Pilbara has long been involved in supporting the development and sustainability of NGOs in the Pilbara. In 2016, RDA contracted the development of a 10-year Community Plan for the NGO sector. Building on an earlier *Map and Gap Analysis – Pilbara Non-Government Organisations*, the plan which is embedded in the Federal and State policy context, focuses on community priorities and actions and associated KPIs; collaborative and sustainable service delivery; and addressing local challenges for community capacity building. The plan was underpinned by extensive research and community and stakeholder consultations.¹

The plan was produced at a time of considerable contraction in the economy which led to major changes in NGO practices (reduction in exploration dollars, retrenchments, elimination of discretionary spending, and reduction in capital investment).

As at 2018, the outlook for the Pilbara economy is strong on the back of global demand for iron ore and rising iron ore prices. Notably, the plan forecast total earnings from minerals and petroleum at \$211 billion for 2018². For the financial year 2018/2019 commodities achieved a record \$275 billion, showing a substantial upswing in the economy.³ Emerging economic data, together with that contained within the 2016 plan, shows the impact of commodity fluctuations on the performance of the NGO sector and associated challenges.

¹ Regional Development Australia Pilbara, *Ten Year Community Plan for the Non-Government Organisations Sector in the Pilbara*, 2016.

² *Ibid.*, p11.

³ Regional Development Australia Pilbara, *Pilbara Quarterly Economic Update*, Issue 1 July 2019, p1.

About the Pilbara

The Pilbara region is expansive, encompassing 507,806 km² and has a population of approximately 59,994,⁴ with nearly 70 percent resident in the towns of Karratha, Port Hedland, South Hedland, Newman, Onslow, Tom Price and Paraburdoo, with the remainder in smaller settlements, Aboriginal communities, and pastoral and mining leases. Approximately 14 percent identify as Aboriginal compared to the national average of 2.5 percent,⁵ comprising approximately 9 percent in the City of Karratha and Shire of Ashburton, 17 percent in the Shire of East Pilbara and 14.8 percent in the Town of Port Hedland.⁶ Western Australia hosts the highest number of Fly-in, Fly-out workers in Australia,⁷ estimated in 2018 to be 63 percent of the 96,200 resource sector workers in the state. This has major implications for the Pilbara given the predominance of mining.

Pilbara NGOs

The Pilbara hosts approximately 182 NGOs of which about 81 percent as at 2016 had operated in excess of 10 years. These comprise Community-based (66), regional (25) and state-based (30) NGOs (which usually operate via shopfronts in various regional centres or via FIFO). National NGOs (16) based in the Pilbara and international NGOs (1) also operate within the region, as well as Aboriginal Corporations (44) delivering health, personal support or managing royalties.⁸ Details of the services provided by these NGOs are listed in Appendix ii of the Ten Year Community Plan.

Government policy framework

The Australian Government's policy and funding framework, particularly those targeting Indigenous disadvantage, focus on alignment between education, employment, economic development and social participation on the success or lives of individuals, families and communities; and the importance of a healthy and safe home and community to attainment of full potential. The Council of Australian Governments has recently established the Joint Council on Closing the Gap, embedding shared decision-making with Indigenous communities in the design, implementation and monitoring of the Closing the Gap framework; is developing the Fourth Action Plan of the *National Plan to Reduce Violence against Women and their Children 2010-2022* (with a strong focus on Aboriginal women); as well an approach to achieving Aboriginal Constitutional Recognition.⁹ The Northern Australia Strategic Partnership is preparing a further five-year plan under the *Our North, Our Future, White Paper on Developing Northern Australia*, which focuses substantially on promoting Indigenous economic participation and advantage.¹⁰

The Department of Prime Minister and Cabinet also oversees the Indigenous Advancement Strategy¹¹ which sets Indigenous advancement as a national priority. It consolidates Indigenous

⁴ Remplan Community. Available at: <https://www.communityprofile.com.au/pilbara>.

⁵ Regional Development Australia Pilbara, *Ten Year Community Plan for the Non-Government Organisations Sector in the Pilbara*, 2016, p9.

⁶ *Ibid.*, p10.

⁷ Parliament of Australia, House of Representatives Standing Committee on Industry, Innovation, Science and Resources, *Keep it in the Regions*, November 2018, p135.

⁸ Regional Development Australia Pilbara, *Ten Year Community Plan for the Non-Government Organisations Sector in the Pilbara*, 2016, pp19-20.

⁹ Council of Australian Governments, *COAG Communique*, 9 August 2019 and *COAG Communique*, 12 December 2018.

¹⁰ Council of Australian Governments, *COAG Communique*, 9 August.

¹¹ Australian Government, Department of Prime Minister and Cabinet. Available at: <https://www.indigenous.gov.au/indigenous-advancement-strategy>.

policies, programs and funding streams into five themes; jobs, land and economy; children and schooling; safety and wellbeing; culture and capability; and remote Australia strategies, and is supported by regional network staff through the National Indigenous Australians Agency who work with NGOs to ensure policy priorities are met. RDA Pilbara, which is part of a broader network instigated by the Federal government, works with NGOs to strengthen leadership and collaboration.¹²

At a state level, the Regional Services Reform Program, delivered under the auspices of a special taskforce by the Department of Communities, is working to reduce the gap in life outcomes of Aboriginal and non-Aboriginal Western Australians. Substantially focused on the Pilbara and Kimberley regions given high populations of Indigenous persons, the program is heavily reliant on collaboration between Aboriginal people, the federal, state and local government, and NGOs, to achieve a holistic approach to three broad outcomes; improved living conditions, skill development; and education, employment and housing opportunities.¹³ Expenditure is allocated to achieve wellbeing outcomes identified as part of a mapping exercise against the Productivity Commission's Overcoming Indigenous Disadvantage (OID) Indicator framework and some sub-regional OID analysis.

The program prioritises areas with the greatest capacity to be safe and sustainable, planning is gradual and incremental, minimal contract requirements have been set for both value and duration and are monitored for continuous improvement. Further, there is a requirement that programs be coordinated to reduce duplication and that consultation occurs with District Aboriginal leadership groups on priority issues and places and co-designing of service models.

Importance of NGOs to attainment of outcomes under government's policy framework

Partnership arrangements between the NGO sector and governments are integral to the effectiveness of governments' service delivery to vulnerable persons in regional and remote communities. In simple terms, it ensures:

- local knowledge and connections are utilised, particularly in the context of a current focus on practice methodologies that utilise 'strengths-focused, place-based and community driven approaches'¹⁴
- the user is placed at the forefront of planning and co-design, ensuring effective and sustainable service delivery
- services are only engaged by government if the desired change, benefit or impact is intended to improve health, well-being, social, cultural and/or **economic outcomes** for Western Australians
- provides for a mix of possible service response strategies through collaboration between key stakeholders, delivering a more holistic response to needs
- assists in creating culturally connected and respectful communities through enhancing community awareness of Indigenous culture and working *with* Aboriginal people as opposed to *for* Aboriginal people

¹² Regional Development Australia Pilbara. Available at: <http://rdapilbara.org.au>.

¹³ Government of Western Australia, Department of Communities. Available at: <https://regionalservicesreform.wa.gov.au/> <https://regionalservicesreform.wa.gov.au/p/mapping-government-funded-services>.

¹⁴ Regional Development Australia Pilbara, *Ten Year Community Plan for the Non-Government Organisations Sector in the Pilbara*, 2016, p33.

The strength of those relationships is based on collaboration, interdependence, mutual respect, trust, and the value and contribution of both sectors.¹⁵

Cost of delivering services in the Pilbara

Mining companies are significant funding sources for NGO programs. The resource sector's capacity to provide grants and community contributions oscillates in accordance with downturns or upswings in mining sector profitability. The recent downturn saw significant reductions in funding and staff retrenchments in the NGO sector.¹⁶

While since 2011, the gap between the Pilbara Regional Consumer Price Index and Perth has fallen from 137 to 118 in 2015 and to 111 in 2017, it remains the second highest in Western Australia after the Kimberley. The percentage differences in operating a Small to Medium Enterprise (SME) in the Pilbara and impacts on NGOs were considered in a report commissioned by RDA into the *Cost of doing business in the Pilbara, 2018*.

The report applied cost multipliers for similar products and services for SMEs in different Pilbara locations, to Perth, noting that although prices have moderated over the last few years, they are likely to remain elevated and may well increase significantly if the full suite of approved and possible resource sector investments are progressed.¹⁷ While the findings pertain to SMEs, they are useful indicators for operational challenges for NGOs. It found that for 2018 the cost of doing business in the Pilbara was 72 percent higher in Karratha, 70 percent higher in Port Hedland, and 86 and 62 percent higher in Newman and Onslow respectively.¹⁸ It noted that while the practice of SMEs and NGOs providing housing had become less necessary between 2013-2017, it is now required in some cases.¹⁹ The report similarly notes that while employment costs have moderated, high levels of investment saw labour costs rise in the prior 6-12 months with further increases expected.²⁰

Extremely high insurance costs in Northern Australia prompted an inquiry by the Australian Competition and Consumer Commission in 2017. This is currently ongoing and the Commission is waiting for a response from the Federal government regarding its recommendations. An RDA commissioned *Study on insurance and banking in the Pilbara, August 2015*, found that insurance costs in the main centres in the Pilbara (Karratha, Port Hedland, Onslow, Tom Price and Newman) were between 600 percent and 1000 percent higher than in Perth. Further, that the cost of insurance varied markedly between older properties which were likely to be double the cost of newer properties (cyclone rates). The report noted that insurance for strata-titled properties had risen 338 percent since 2009-2010.²¹

While overall the Pilbara generates significant wages compared to its population size, there exists considerable wage disparity, including between NGOs and the resource sector.

As noted, global iron ore prices and demand have improved in the past year, and earlier investments in Iron Ore and LNG infrastructure are realising higher levels of production. This

¹⁵ Regional Development Australia Pilbara, *Ten Year Community Plan for the Non-Government Organisations Sector in the Pilbara, 2016*, p18.

¹⁶ *Ibid.*, p22.

¹⁷ Regional Development Australia Pilbara, *The cost of doing business in the Pilbara, 2018*, p17.

¹⁸ *Ibid.*, p6.

¹⁹ *Ibid.*, p18.

²⁰ *Ibid.*, p20.

²¹ Regional Development Australia Pilbara, *Study on insurance banking in the Pilbara*, p3.

upward trend is translating into increased costs of living, including housing affordability and wage rises.²² For example, in 2018 housing values in Karratha rose 35 percent in 2018 and rents were up 5-8 percent and similarly property prices rose 20 percent in Port Hedland and rents were also up.²³ This is the pattern across the Pilbara which is exacerbated as more mining projects come on board.

The net result of the start of the economic upswing is that NGOs, that are already operating in a reduced funding environment as a result of State Government funding cuts due to the budget deficit, are unable to compete with resource sector salaries and attraction and retention of skilled staff is becoming an issue. This is exacerbated by the uneven weighting of employment by the resources sector which comprises over half of the Pilbara employed population. Some NGOs have markedly increased training opportunities to retain staff, but this has come at significant cost. It is forecast that NGOs will need to increase wages by 10-15 percent in the interim to compete and to cover rises in accommodation costs which is preclusive for many.²⁴

Income support recipients

Pilbara costs of living are already high. In fact, the Productivity Commission noted that costs were higher for Zone A and B residents than elsewhere in Australia.²⁵ NGOs have noted that the increase in cost of living for people on income support, particularly those renting, is causing financial hardship and is only likely to be exacerbated as the economy improves.

Assumptions

The Productivity Commission's report tenders a couple of assumptions relevant to NGOs on which RDA comments as follows:

Those working in not-for-profits do the work for altruistic reasons – The NGO sector demonstrate high level commitment to empowering clients to achieve better health, social and economic outcomes. That said, workers still need to be able to benefit economically and rising costs and higher incomes elsewhere are an impetus for leaving the NGO sector. This undermines service and project stability, client relationships, and the achievement of government policy outcomes.

The rationale for certain regional employers is not specific. However, given that additional areas are more populous towns, the need for provision of accommodation for operational reasons is less credible – the Treasurer's press release No.22 of 13 April 2000²⁶ and attached letters speaks to the disadvantage of some employers and the need to support them in attracting and retaining quality staff in regional centres and areas. With respect to NGOs, this rationale seems clear. If NGOs do not receive FBT exemptions then they simply cannot compete with the resources sector for staff which will substantially impact the breadth of services delivered and capacity to meet government

²² Regional Development Australia, *Cost of doing business in Australia*, 2016, pp6-7

²³ Ibid., pp7-8.

²⁴ Ibid., p7.

²⁵ Productivity Commission, *Remote Area Tax Concessions and Payments*, August 2019, *Draft Report*, p270, p149.

²⁶ Hon Peter Costello, Treasurer, *Treasurer's Press Release No. 22 of 13 April 2000*. Available at: <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;adv=yes;orderBy=customrank;page=0;query=%3AFBT%20Date%3A13%2F04%2F2000%20Dataset%3Apressrel;rec=4;resCount=Default>

outcomes, particularly in relation to Indigenous communities and more recently, directly in fostering economic growth initiatives.

Impacts

The ZTO, and the FBT which facilitates housing and residential fuel subsidies for not-for profits, are key taxation initiatives in attracting and retaining staff to the NGO sector in the Pilbara. Employer-provided housing is a means of competing with resource sector salaries. The ZTO in its current form is insufficient in meeting cost of living expenses for salaried NGO staff and needs to be indexed to provide a realistic level of offset. Assessing its impact at current levels is not the right approach. The FBT exemption needs to be retained as per the current arrangement.

NGOs operate in a high cost but reduced funding environment. Key constraints on NGOs are labour, housing affordability and the cost of training. NGOs are not commercial businesses and cannot afford to pay increased wages in lieu of employer-provided housing. Further, given economic fluctuations associated with an economy driven by global demand and commodity prices, and payment of FBT on rental market value (which rose to \$2,500 for executive properties during the last boom), the cost of FBT on housing would be prohibitive for NGOs in a constrained funding market.

While the Pilbara NGOs as part of the 10-year plan have reviewed self-sustaining funding options, this has not been substantially progressed and the business environment in the Pilbara is restricted by high costs.

The State government, under the Regional Services Reform Program, has responded to the Productivity Commission's report *Overcoming Indigenous Disadvantage Indicator Framework*, including further assessment of disadvantage at the sub-regional level. Funding is allocated according to need and NGOs operate in a tightly controlled and measured environment. Funding does not appropriately recognise cost of living differentials in regions, hence financially NGOs are limited in their capacity to meet rising costs.

NGOs are either depend on funding from, or work closely with, other organisations that will be substantially affected by the changes to the ZTO and FBT. This includes various government agencies and particularly local governments (which are both a partner in initiatives and a funding source) where substantial impacts will be felt due to high costs, low revenue and wage disparity.

The NGO sector in the Pilbara has responded to federal and state expectations under their respective policy frameworks as well as reductions in state funding to the sector, by developing the aforementioned sectoral plan; an agreed charter of operating and behavioural principles; increasing collaboration for collective impact; undertaking voluntary amalgamations and physical colocations; implementing joint training and peer support; establishing interagency networks as planning forums; and investigating supplementary sources of funding, including investigating self-generating funding sources. There remains limited scope for further streamlining within available funding.

The absence of remote area concessions and payments will constrain the capacity of NGOs to operate effectively and to meet government policy outcomes for remote and regional communities (including Indigenous populations). Government needs to determine whether those policies are in fact priorities and support those agencies that are central to their realisation.

Recommendations

That the Commission

- Raise the RAA for income support recipients as recommended;
- Index the ZTO to recognise the cost of living expenses in the Pilbara and other high cost remote regions;
- Retain the 'customary' provision under(2)(d)(iii) of Section 58ZC of the FBTA 1986 for employer-provided housing;
- Retain extension of the exemptions under 140 (1A), including for not-for-profits/NGOs;
- Ensure that population parameters established for remoteness capture Pilbara towns, and acknowledge the unique cost structured of those towns. The current extended parameters for an eligible urban area for 'certain regional employers' acknowledges the high cost structure and low funding environment experienced by the sector;
- Establish a review timeframe for eligibility for the remote area tax concessions that provides some guarantee of security for NGOs.

Yours sincerely



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