CQUniversity submission to the Productivity Commission on the Remote Area Tax Concessions and Payments

October 2019

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ABOUT CQUNIVERSITY

CQUniversity provides the following submission to assist the Productivity Commission with the review of the Remote Area Tax Concessions and Payments. CQUniversity would be pleased to provide any additional supporting information to the Commission, as required.

Originally founded in Rockhampton in 1967, as the Queensland Institute of Technology (QIT) Capricornia, it was granted full university status in 1992 and was named Central Queensland University (CQUniversity). It now has more than 30 000 students across 27 sites and has firmly established itself as one of the largest universities based in regional Australia, with campuses in Adelaide, Brisbane, Bundaberg, Cairns, Emerald, Gladstone, Mackay, Melbourne, Noosa, Perth, Rockhampton, Sydney and Townsville. Along with these campuses, the University operates and/or delivers programs in University study centres in Biloela, Broome, Busselton, Cooma, Geraldton, Goulburn and Karratha.

Approximately 17 000 students study on campus and 13 000 study via online distance education. Approximately 75 per cent of the University's cohort of domestic students come from rural or remote areas across Australia.

In 2014, the University merged with Central Queensland TAFE bringing together more than 175 years of combined experience in the delivery of education and training. This merger established Queensland's first (and still the only) comprehensive, dual sector university. The CQUniversity student cohort is split approximately 70:30 between higher education and vocational education and training.

As such, CQUniversity is uniquely well placed to comment on the appropriate ongoing form and function of the zone tax offset, FBT remote area concessions, and Remote Area Allowance, particularly with respect to the effectiveness of measures taken to develop an appropriately skilled workforce.

SUMMARY COMMENTS

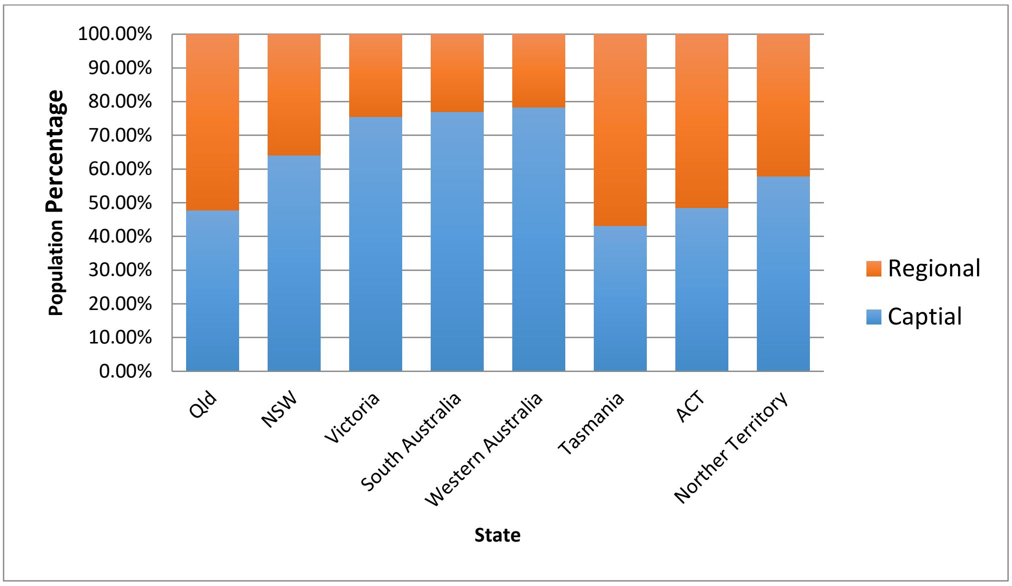
The key reasons for having a policy agenda focused on Regional Australia still remain: the regions face challenges that are different to those in and around the capital cities, and the regions enjoy opportunities that are different to those in and around capital cities. The challenges reflect a mix of factors relating to population, geography, climate and topography, industry, infrastructure, communities, skills and social issues that have been well articulated in other forums. Similarly, there are a wide range of opportunities that have been identified with varying degrees of precision.

However, while there is little doubt the Government's efforts (investments) in regional Australia to date have been focused on addressing real issues, there is little evidence that significant gains have been achieved in terms of enhanced economic opportunities or social dividends. Overall there is a lack of cohesion in the Government's approach to stimulating development in regional Australia.

THE BROADER CONTEXT

Regional Australia is fundamental to the Australian economy, accounting for one third of the Australian workforce and 40 per cent of Australia's total economic output (Regional Australia Institute, 2015a). Nearly eight million of Australia's 25 million people live outside capital cities (Australian Government, 2017; Government, 2017). In more than half of the States and Territories, the population resides predominantly in the capital cities (Figure 1).

Figure 1: Population percentage breakdown between capital cities and regional Australia



Source: ABS 2016 Census

While the majority of the voting population is clustered in capital cities, economically regional Australia is essential to the national economy and is therefore of political interest. Agriculture, forestry and fishing, and mining industries, predominantly located in regional Australia, made up 57% of Australia's merchandise exports in 2016 (Australian Government, 2017). Regional Australia is central to Australian's export industry, and has been the dominant source of economic growth in the mining, agriculture and manufacturing industries since 2001 (Regional Australia Institute, 2015a).

Another major industry located in Regional Australia is tourism, with natural attractions such as Uluru and the Great Barrier Reef attracting hundreds of thousands of international visitors per year (Australian Government, 2017). The critical role regions play in Australia's national prosperity and the importance of sustaining regional communities, provides a compelling reason why governments might have a keen interest in regional Australia. However, the pollical reality is much different, with Australia's major cities often the centre of political attention.

Table 1 draws from the ABS 2006, 2011, and 2016 Census of Population and Housing to show the population change of Capital Cities and Regional Australia during these periods. As can be seen in the table, the population growth in the capital cities was far greater than that of regional Australia, evidencing the fact that regional Australia as a whole is not experiencing the same population growth rates as the capital cities, albeit there may be exceptions for particular regions within the dataset, particularly peri-urban areas in close proximity to capital cities.

Table 1: Population Change 2006-2011

GCCSA (UR)	Capital Cities	Regional Australia
2016	15,575,623	7,775,388
2011	14,100,579	7,355,128
2006	12,656,380	7,196,588
2011 - 2016 % Change	10.46%	5.71%
2006 - 2011 % Change	11.41%	2.20%

Source: ABS Census 2016

Technological advances have not reduced the inequalities between regional Australia and capital cities, and in fact there are still areas in regional Australia who do not have reliable broadband services, and areas of high population who do not have internet speeds equivalent to those in capital cities.

While regional cities such as Cairns and Darwin may no longer be considered remote, they still face many of the challenges typical of disadvantaged regional areas, such as the high cost of attracting and retaining workers. These challenges are compounded when government investment in new industries and infrastructure is concentrated in the capital cities (as it is). With 60% of economic value emanating from regional Australia, a commitment to reward regional communities appropriately is needed. Regional cities should not be excluded from beneficial regional schemes (such as the remote area tax concessions scheme) until they reach a minimum size that is genuinely self-sustaining and is sufficient to attract the benefits of scale and agglomeration (perhaps 500,000).

Under optimal circumstances workers and their families would relocate to regional areas in the pursuit of economic opportunity. Unfortunately, this was not evident in the most recent mining boom with the sharp increase in Fly-in Fly-out (FIFO) workers residing in capital cities, underwritten by generous tax concessions, such as the Living Away from Home Allowance (LAFHA). Workers should be incentivised to take advantage of the economic opportunities in regional Australia in a way that helps to sustain regional communities, rather than providing opportunities for FIFO workers to exploit the opportunities while leaving little for regional Australia to show for it.

RECOMMENDATIONS: Allow regional cities to reach a greater size (suggested 500,000) before being removed from the scheme. This will support regional cities to sustain economic opportunities (through the benefits of scale and agglomeration) while reducing congestion in our capital cities.

For capital city residents, change the focus of the Living Away from Home Allowance (LAHFA) to incentivise worker and their families to live in the regions, replacing the current approach that incentivises workers *not to live in the regions* (i.e. FIFO).

THE ZONE TAX OFFSET

Economic disadvantage in regional and remote areas across Australia is an undeniable fact. As you move beyond the metropolitan areas of the state and territory capitals and the largest regional cities, levels of disadvantage increase rapidly. There are fewer jobs; high and systemic levels of unemployment; higher costs of living (groceries, fuel, etc); poorer levels of community and social services (availability and quality); less infrastructure, both in terms of availability and reliability; fewer personal and professional development opportunities, particularly for things like leadership or elite level sport; lower levels of community resilience (economic and social); greater community health risks through higher levels of isolation and dislocation, and reduced access to specialist medical support; and greater overall hardship.

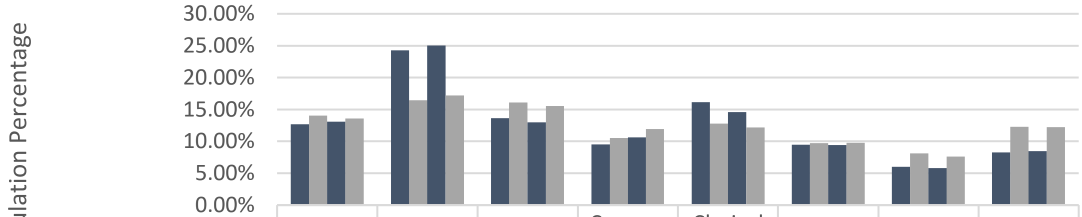
In order to drive a regionalisation agenda, and to support the Northern Australia agenda, incentives to live in regional Australia should be increased in order to attract and retain workers and their families in the regions. The change in boundaries as outlined in the recommendation (below) coincides with the Socio-Economic Indexes for Areas (SEIFA) Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD).

There is a reason why nearly half of ZTO claimants live in large regional cities: workers now have very little incentive to live in smaller regional towns and put up with the significant disadvantage this entails. Despite this, the population of the larger regional centres is still not growing at a rate commensurate with the capital cities. The removal of any of the tax concessions currently enjoyed by the larger regional centres will only exasperate this problem.

The people of regional, rural and remote Australia are fully invested in their communities and their industries, which provides significant benefit to the nation. They deserve effective regional policy that reduces disadvantage in regional Australia and provides them with a level of compensation that reflects the economic contribution they provide.

For example, incentives could be provided to businesses to relocate head office operations into regional Australia, to provide greater job opportunities. The regional inequality in the location of occupations (availability of employment opportunities) is displayed in Figure 2.

Figure 2: Occupations by usual place of residence 2011-2016



	Managers	Professionals	Technicians and Trades Workers	Community and Personal Service Workers	Clerical and Administrative Workers	Sales Workers	Machinery Operators and Drivers	Labourers
2011 Capital Cities	12.68%	24.29%	13.64%	9.52%	16.13%	9.47%	5.98%	8.29%
2011 Regional Australia	14.03%	16.43%	16.10%	10.53%	12.76%	9.73%	8.12%	12.30%
2016 Capital Cities	13.08%	25.04%	12.99%	10.62%	14.56%	9.44%	5.82%	8.44%
2016 Regional Australia	13.61%	17.19%	15.54%	11.90%	12.17%	9.77%	7.61%	12.22%

Occupation

Sources: ABS Census 2011 and 2016

As noted above, regional coastal cities are still disadvantaged when compared to capital cities. The retail markets are not well developed, and business closures are cyclically high. Whilst there might be an argument that they are 'well-connected to other capital cities' the price of airfares is exceptionally high when comparing airfare prices between capital cities.

Reducing the number of boundaries will not have a significant and positive economic affect. There are some very remote areas that cannot create economic sustainability, as they are too small and remote. A broader approach should be considered that stimulates regional areas of economic opportunity. This will produce a spill over effect to the smaller towns.

It is naïve to assert that *'regions need to be self-sustaining'* when there is no effective whole of government policy to support sustainability, even though regional Australia provides more than half of the country's economic sustainability.

The ZTO in its current form and with its current boundaries provides no incentive for living and working in remote areas.

Over time the dollar amounts available have become out-dated and do not reflect current economic conditions and living costs in the regions. In its current form it is debateable whether the ZTO is even relevant to the decision whether to relocate to regional Australia. The ZTO rates would require a significant increase to be effective in attracting individuals to live and work in regional locations, particularly given the benefit accrues once per year and provides little cash flow relief.

There is also no doubt that the nations perception of regional Australia needs to change and the government needs to drive this change. A proactive and positive approach might be to revisit the creation of special economic zones (SEZ) in regional Australia, focusing on the creation of jobs of the future (rather than traditional industries such as agriculture and resources) and driving long term sustainable economic growth. This approach has the capacity to challenge preconceived ideas of what regional Australia is and what the future of regional Australia looks like. This approach also has the potential to apply across a number of policy priorities (such as Northern Australia) and encourage corporate/industry investment.

RECOMMENDATIONS:	
Simplify the coverage and definition of the zone tax concessions program, with benefits/concessions to apply to just three (3) zones.	
–	**Exclude all areas within 100km of the state and territory capital cities (perhaps 50km in the case of Darwin).**
–	**Differentiate between Zone 1: coastal regional cities; and Zone 2: non-coastal regional cities.**
–	**Zone 3 is the remainder of regional Australia.**
Increase the concessions available through the zone tax offset to provide a greater incentive to live and work in regional Australia.	
Provide additional incentives for companies to establish regional operations, including relocating head offices.	
Create Special Economic Zones in regional Australia to drive industry transformation.	

FRINGE BENEFITS TAX REMOTE AREA CONCESSIONS

As evidenced by the recent mining boom, a lack of preparation and planning at a local level (in many cases reflecting capacity limitations) and insufficient investment by corporations/industries in housing stock, can quickly result in excessively high housing and rental costs in regional and remote areas. Excessively high accommodation and housing costs then have negative impacts throughout regional economies beyond the resources sector, such as in the service industries (health and education). These externalities are a clear market failure.

In that case, the provision of housing for people to relocate to regional areas as part of their employment should be exempt from Fringe Benefit Tax (FBT). Without this concession, the high cost of accommodation will be recouped through other means, such as through a higher Living Away from Home Allowance (LAHFA) or higher wages, with additional negative and unintended consequences:

- increased LAHFA (that is, increased FIFO operations) drives up the prices of airfares to and from the regions, disadvantaging local residents;
- higher wages impact on other regional industries, such as agriculture and tourism, that cannot afford to provide competitive terms, thus putting those industries at risk of losing workers; and
- higher wages impact on our international competitiveness.

Growth in the skills base within the region has the potential to alleviate this issue. There is clear evidence that workers who are trained or educated in regional areas, are more likely to be employed and remain in regional areas, establishing a cohort of skilled workers. Incentives need to be put in place for people to be educated in regional Australia. More than that, a whole-of-government approach is needed to support education and training providers who are operating in regional Australia, such as regional universities, and who are producing skilled workers. In stark contrast to this, current Government policy is to cap funding for universities (including regional universities), which limits opportunities for growth in regional communities. Compounding this, regional education and training providers operate in 'thin markets' wand typically struggle to cover their costs. The removal of any regional education providers will further disadvantage regional Australia.

Education delivered in place (in the regions) will also aid in the provision of key public services such, as health services. Doctors and nurses trained in the regions have a higher propensity to stay in region. Currently the majority of Australia's medical schools are located in capital cities, and regional health providers struggle to attract doctors.

Employees of hospital and PBI's currently receive an FBT benefit capped at $30,000 regardless of where they are located. This benefit should be relocated to regional Australia only, and expanded to cover all industries. Given the population imbalance between capital cities and regional Australia the clawback of this exemption from people located in capital cities will go towards a cost neutralisation. In order to further contain the costs, the exemption could apply only to special economic zones.

As an education provider, we currently rely on these concessions to attract key staff (both academic and professional) to our regional campuses. Should these concessions be removed and existing benefits continue to be provided in order to retain key staff, it would represent a cost of in excess of $280,000 to the University just on those existing housing benefits.

This concession enables the University to complete with capital cities in our regional locations where the cost of housing is at times exorbitant due to demand. This concession also enables the University to attract key personnel without incurring additional costs, i.e. FBT, on top of the remuneration package and benefits provided to employees in order to attract and retain regional staff. Removal of the concession would significantly impact our ability to attract staff to the regions, in direct competition with metro education providers.

RECOMMENDATIONS:
Retain the current tax treatment of employer-provided housing to correct for market failures.
Establish a whole-of-government approach to funding regional education institutions to alleviate the need for the FBT concession in the longer term.
Redirect the current $30,000 benefit for hospitals and PBI's to regional Australia (special economic zones).