INQUIRY INTO THE USE 'FLY-IN, FLY-OUT' (FIFO) WORKFORCE PRACTICES IN REGIONAL AUSTRALIA

Pilbara Regional Council Submission (Part 2)

28 June 2012

Introduction

The Pilbara region is located in North West Australia. Although the region has a large land area of 502,000km^2, it has a local resident population of only 49,903 (ABS, 2011). The area is well known for its rich mineral and petroleum deposits, the mining and exporting of which is doing a large part towards driving the State and National economies' total economic output. In the 2010-11 financial year, the contribution made by the Pilbara region towards Australia's Gross Domestic Product equalled $26.5 billion, which is equivalent to 1.9% (AECgroup), yet the region makes up a fraction of the States total population. The Pilbara region comprised 15.5% of Western Australia's GRP in the same financial year.

The Pilbara contains several major and a number of support towns within four Local Government Areas (LGAs): Ashburton LGA (Tom Price, Paraburdoo and Onslow), Port Hedland LGA (Port Hedland, South Hedland), Roebourne LGA (Karratha, Dampier, Wickham), and East Pilbara LGA (Newman, Marble Bar).

The Pilbara economy has expanded by over 100% since 2006, supported by significant growth in the mining sector - which forms almost 90% of economic activity. The strength of the economy and the low residential population bases has resulted in extremely low levels of unemployment (at 2.6% in the December quarter of 2011). The Chamber of Minerals and Energy Western Australia (CME) indicates the value of resources production from the Pilbara was over $71 billion in 2010, contributing to approximately 78% of the State's total. The Region was responsible for $49 billion of minerals exports, with offshore petroleum (largely concentrated off the North West coast) accounting for $22.8 billion. Taken together, this accounts for approximately 29% of Australia's merchandise exports. Indicative of the growth in the resources sector, the CME notes that approximately 400 million tonnes of iron ore were exported in 2010/11 from the Pilbara, with a total sales value of nearly $47 billion, while the Pilbara Development Commission has identified the potential for iron ore exports to grow to 1 billion tonnes by 2020.

Under the State Government's Pilbara Cities Vision the Region will have two cities: Karratha City (consisting of the Karratha and Dampier town sites) and Port Hedland City (consisting of Port Hedland and South Hedland) - each expected to have a population of 50,000 by 2035, supported by the Newman sub-regional centre (population 15 000). Other settlements (e.g. Paraburdoo, Tom Price and Onslow) will be planned to accommodate growth largely associated with expansion of the mining and oil and gas sectors.

The unprecedented level of mining activity combined with the fast growing trend of non-resident worker operations in the region brings economic development opportunities, however it also presents a number of challenges, which need to be addressed if communities are to remain sustainable and resilient into the future. The Pilbara Regional Council (PRC) understands a non-resident workforce assists in meeting business needs and supports all residents to have choice in their workplace and living arrangements. The PRC also recognises that labour-intensive, short-term activities such as construction and maintenance work are best managed through FIFO arrangements. This practical approach acknowledges that it would be inappropriate to expect workers to uproot themselves and/or their families in order to take on a residential position that only offers a short-term employment contract, as is often required in construction and maintenance positions.

However, at the same time it is recognised that population growth through a local resident employee population as identified in the Pilbara Cities Vision will ultimately lead to sustainable, resilient communities, with a diverse economic base that will see the region continue to prosper post mining.

Both social and hard infrastructure in the resource communities is often inadequate to service the rapidly growing populations associated with increased mining activity and local governments are facing increasing pressure to provide this infrastructure. Whilst funding for infrastructure projects has been provided through programs such as the Royalties for Regions, funding options for the ongoing operation of infrastructure and social programs are constrained by the disparate relationship between the residential rate base and the consumers of the local government services and infrastructure.

Key Recommendations:

- Support FIFO as a valid option for resourcing the major resource projects in the Pilbara region.
- Recognise the filtered impact of the benefits from significant resource driven economic growth on the local government area.
- Apply principles of contribution, based on demand and consumption by the residential and transient workforce.
- Undertake further piece of work to provide a statistical basis for the demand of the local government services and infrastructure by workforce composition and location.
- Establish full stakeholder involvement in assessment process by incorporating the local government as a key stakeholder in the assessment of the financial impact of the resource project.

Terms of reference and Pilbara Regional Council response

1 "The extent and projected growth in FIFO/DIDO work practices, including in which regions and key industries this practice is utilised"

Mining in the Pilbara Region was founded on purpose-built mining towns such as Tom Price and Newman. They became family towns with good infrastructure. In recent years, non-resident workforce is a trend that has quickly grown to become an industry preference. The aforementioned towns have seen a major increase in non-resident workforces and the dynamics of the towns have changed significantly. This is a trend unlikely to slow down, particularly with expected starts to new iron projects such as Roy Hill, Hope Downs, Sino Iron and Chichester and the ramp up and starts to several gas projects such as Pluto Trains 2 and 3 and the expansion of existing projects to the region's east in remote sites that do not have support towns in close proximity. The sheer scale of the ongoing shift towards FIFO over residential workforces is evidenced by the high growth rates on principal regional air routes shown below.

Growth in scheduled journeys – One way trips

Route	Growth 2009-10 to 2010-11	Average Annual Growth 2000-01 to 2010-11
Perth - Karratha	9.0%	14.5%
Port Hedland - Perth	15.5%	15.8%
Kalgoorlie – Perth	11.7%	2.7%
Newman – Perth	20.6%	19.6%
Paraburdoo- Perth	42.2%	18.7%

Department of Infrastructure and Transport, 2011

The trend of using FIFO workers is likely to continue, with the cost of employing and accommodating a local resident for a mining company being much greater than employing a FIFO worker. This is largely due to the high amount of rent and living allowances needed to be paid to local employees, driven by the high cost of property, rent and living in mining regions. The Chamber of Minerals and Energy (CME) has indicated that up to 90% of employment growth in the Pilbara to 2015 will come from FIFO sources.

2 "Costs and benefits for companies, and individuals, choosing a FIFO/DIDO workforce as an alternative to a resident workforce"

It is understood that cost and time are the major benefits to the mining industry by utilising a non resident workforce. The Pilbara Regional Council believes that supporting the mining industry means working in partnership with firms, and all tiers of government to ensure that non resident workforces are able to be utilised, particularly during construction and production increase where time frames are urgent.

Maintaining a non resident population is considered an operational cost, rather than capital, and is consequently easier to fund and justify to shareholders and the board. The financial equation for companies predominantly utilising a residential workforce in the Pilbara Region is approximately $1m to provide a company house, together with its administration, holding and maintenance costs, compared with $40,000 per year for airfares per worker (Story, 2010). Further adding to the attractiveness of FIFO practices over residential workforces are taxation impacts, whereby the impacts of capital gains and write-off provisions to mitigate against company housing provision and make mining camps financially more attractive for the sector. Aside from operational cost mitigation, companies employing FIFO are better able to regulate their workforce and manage fatigue on site. Moreover, given the remoteness and distance of many of the resource sites within the Pilbara, a locally based force is not practicable.

In AEC*Group's* Economic Impact Assessment (EIA) of the Pilbara FIFO Workforce (2012) it is estimated that 56.1% of the location of the workforce is at remote sites, indicating even if the existing local community expanded a significant proportion of the workforce would still commute to the place of work, and within the Pilbara, due to distance, this would accommodation on site rather than daily commute.

Local Government Area	Workforce located at Remote Sites (Site Camps)	Workforce located in Communities (Town Camps, Town accommodation and Residential)	Total Workforce in Resource Sector
Shire of Roebourne	5,539	6,174	11,713
Town of Port Hedland	0	5,296	5,296
Shire of Ashburton	9,476	4,984	14,460
Shire of East Pilbara	10,732	3,663	14,395

3 "The effect of a non-resident FIFO/DIDO workforce on established communities, including community wellbeing, services and infrastructure"

The potential economic, social and environmental effects and opportunities for host FIFO communities are becoming more apparent and include some of the following.

Economic and Population Growth

While the growth occurring in the mining industry generates a significant increase in the state and national economic base – via more jobs, higher wages, higher consumer expenditure, business growth and increased ability to fund major infrastructure, at the FIFO host community level, these benefits are not as keenly felt as much of the revenue, transfer payments and salary income is spent outside the local area. AEC*Group's* 2012 Pilbara FIFO EIA model, has been used to estimate the difference between hiring a local resident and hiring a FIFO worker (measured by their differing expenditure patterns within the local region) and then these differences are scaled up to estimate the total impact on the Pilbara economy of a FIFO versus local residential workforce. The model and key findings are described below.

Economic Impact Assessments are often used to understand how an economic catalyst feeds through the broader economy. In order to understand the economic impact of a FIFO worker in the Pilbara SD, AEC*group* developed an understanding of the expected expenditure patterns of an average FIFO worker and an average local resident worker. The average local resident spends more than 6 times that of a FIFO worker in the local region over the course of the year.

When this expenditure is broken down into the key expenditure categories (i.e. housing costs, fuel costs, transport etc) one can begin to understand how this expenditure can impact on the local economy.

In the following sections a range of direct and indirect impacts are discussed. The direct impacts are those impacts which stem directly from the purchase of these goods and services. For example, over the course of a year, buying a newspaper every morning from the local shop will contribute to the shop's output (turnover), the shop's value add (the value of the newspaper once all the costs of inputs to its development have been taken out), the wages and salaries paid to the sales assistant and the shop's staff level.

The indirect impacts are the impacts which occur within industries as a result of the transaction. The local shop will probably buy a range of goods and services from wholesalers or from the media industry. These impacts are also recorded as an indirect impact of the initial expenditure.

AEC*group* have estimated that there were a total of 33,100 FIFO mining workers in the region in 2011-12. Had all these workers been local residents with the average expenditure pattern on goods and services, the local economy would have benefitted (both from the direct contributions and the flow on activity) from an additional:

- $2,126 million in output
- $1,087 in gross value add to the local economy
- $709 million in wages and salaries

By comparison, the 33,100 FIFO workers, being paid the same amount and following the usual expenditure pattern of a FIFO worker in the region, the economic contribution to the Pilbara local economy is estimated to be:

- $339 million output
- $180 million in gross value add
- $123 million in wages and salaries

On average, hiring a resident mining worker and not a FIFO mining worker in the Pilbara SD results in an estimated total (i.e. direct and indirect[1]) net beneficial impact of;

- $53,500 in economic output
- $27,000 in gross value add (a measure of GRP)
- $17,500 in incomes (wages and salaries)

Accommodation Costs

The significant number of new resource projects and the expansion of existing projects, and the resulting demand for worker accommodation has created severe shortages of permanent housing (this is especially the case in the Pilbara communities of Karratha, Port Hedland, Tom Price and Newman) and resulted the associated inflation in purchase and rental cost of the housing. Not only does this impact the resource sector, but more importantly it creates hardships for medium and low income earners, and reduces the economic vailidity of the local community. This is widening the gap in the so called “two speed economy” of the region, and the resultant impact is lower paid residents cannot afford to live in the communities in which they work. Key service workers such as local government employees, health sector and hospitality and tourism staff are especially disadvantaged. In order to attract quality provision of services, affordable accommodation needs to be constructed.

[1] Indirect type 1 impacts (industry induced impacts) have been included in this assessment; however, type 2 impacts (consumption induced impacts) have been excluded due to the nature of the study.

Planning and resourcing local communities for economic development is hindered by this significant constraining factor (example of McDonalds has decided not to open a store in Newman because of the lack of affordable housing for workers).

Poor resourcing of essential community services - Essential community services such as Health, Education, Local Government and Emergency Services are increasingly finding they are unable to retain and recruit staff due to wages incompatibility, housing affordability and lack of supply of personnel.

As population data does not include the FIFO workforce, that is true population, only resident population numbers are included in allocations of staff to resource services. The public health system is especially impacted by the non-resident population as the services and facilities are utilised by the non-resident population to treat all manner of injuries and ailments.

Effect on Community Infrastructure and Services

Limited research has been undertaken to qualify the impact of a non resident population on important hard infrastructure that sustains and builds communities i.e. roads, water, sewer, waste and social infrastructure that supports strong local communites i.e. community sport and recreation facilities, libraries, community events.

Resource sectors expand and contract rapidly, often with little warning due to volatile commodity prices, which makes it difficult for councils to plan for and supply key community and emergency services. Community services such as GPs, emergency rooms, ambulances, hospitals, pharmacies, nursing services, dentists and police confront significantly increased levels of demand as FIFO workers are as likely to use these as local residents. A resulting situation where these essential services are only provided to the level of "permanent" population benchmarks is that local residents perceive under delivery of service in the local community and may be forced to travel to other larger towns to access these services.

Many of the services provided by the local government are of a public benefit nature, that is available to all participants in the community. The traditional source of funding for public goods has been taxation through rates, however the nature and location of the FIFO workforce does not provide assurance of the alignment the compensation for access to services and infrastructure.

The location of the workforce is critical in understanding the impact of the FIFO workers on the services and facilities provided by the local government. Some of the resource sector workforce is located on in accommodation villages on site, especially at remote sites. This workforce will consist of both out of region FIFO and local residents (Drive-in, Drive-out, DIDO). Many of these accommodation villages supply their own water, power and sewerage infrastructure, and it is often supposed that there is little impact on the local communities. Equally a significant number of the workforce is located within the town area at specific purpose built accommodation camps. The workforce residing in this accommodation is predominately the out of region FIFO workforce. Finally there is a component of the workforce that is located in the "overflow" accommodation of the hotels, motels and caravan parks of the local communities. Similar to the specific accommodation camps, this workforce is predominately the out of region FIFO workforce.

The lack of published data about the location of the workforce for a site, identified by the workforce base residential location, has inhibited any grounded assessment of impact of the mining sector workforce on local communities. The perception that all "men in fluro" are an out of region worker, using local facilities and exporting economic benefit to their home base is not necessarily correct, however it cannot be easily refuted nor confirmed.

The Pilbara Regional Council has committed to the development of a methodology to assist the local government in assessing the demand and consumption for their local services and infrastructure by the development of a model that identifies the community into the residential, FIFO based at site accommodation camps, FIFO based in town accommodation camps and FIFO based on town accommodation.

The model utilises a range of information sources to assess the relationship between demand and consumption of services and infrastructure. As expected, the demand for service and the perception of the availability of the service and facilities appears to be impacted by the composition of the workforce (residential or out of region resource), and location of the workforce within the local government area (on site or in town). The model highlights differences of the profile local government, even within the Pilbara region, impacts on the ability of the local government to source and fund activities and this is further stressed by capital programs with little or no support on-going operational funding base.

The initial findings for the model indicate there is a level of cross subsidisation between the local community and resources companies; that is the FIFO workforce is enjoying the public benefit nature of the services and infrastructure of the local government with much of the common user infrastructure and services (the aforementioned roads, bridges, sports field, recreational facilities, libraries etc) being predominantly paid for by the local government authorities and ratepayers.

In addition to more extensive modelling, the Pilbara Regional Council proposes that a subsequent project is undertaken with the co-operation of the mining sector to improve the workforce analysis and for local government to collate a statistical basis for the demand and consumption of their services and infrastructure.

Improved understanding of the demand by each sector will assist the local government in effectively planning for future requirements ensuring a sustainable local government, and provide a platform for discussion with the mining sector to recognise the sectors contribution, and establish a ground for future contributions.

4 "Long term strategies for economic diversification in towns with large FIFO/DIDO workforces"

There are two primary inhibitors for the progression of residential workforces in the region. The first is high costs associated with investing in the necessary infrastructure to sustain a population growth in resource communities. The second primary factor is the proponent's inability to source readily available labour. This is and will continue to be an issue for resourcing the Pilbara. The PRC believes that both the state and federal governments could introduce policy settings to alleviate this issue at least to some extent. The Pilbara Cities initiative is an appreciated strategy to pursue large permanent communities in mining regions.

Economic diversification requires investment in community infrastructure to support population growth and stability through the provision of schools, health services, roads, training etc. Economic diversification requires investment and support by mining companies for local business and industry to develop capacity to survive and thrive post mining. Essential to this is the development of partnerships between state and local governments and industry. Business attraction and retention programmes that enable local SMEs to network and link with larger firms in the region to build business and supplier expertise; are examples of collaborative initiative for the local governments, local firms and larger resource companies to explore.

5 "Provision of services, infrastructure and housing availability for FIFO/DIDO workforce employees"

While there is obvious anecdotal evidence of FIFO dominated resource projects utilising local hard infrastructure (roads, bridges, streetscapes etc) to date there have been few attempts to quantify these impacts.

One exception is a 2010 survey of LGAQ member councils to gain a better understanding of the infrastructure funding impact of projected growth in the Queensland resources sector on its resource communities councils. The study revealed that as a direct result of resource industry activity growth, the estimated five-year infrastructure capital outlay for eight councils was $421 million. The combined capital and recurrent costs for this capital was estimated at $770 million. Infrastructure (primary roads, water and sewerage) accounted for almost two-thirds (63.5%) of the total cost estimates. In contrast, the projected total increase in rate revenue from increased mining company activity for councils where data was available was estimated at $87 million per year over the next five years.

The vision and actions underpinning the Pilbara Cities Initiative are resulting in significant investment by the state and federal governments in infrastructure and service provision. Nonetheless in some key service delivery areas, further investment in emergency services, social workers, medical staff and other state departments will need to be increased to cope with an increasingly mobile workforce. This needs to be enforced at a state and federal government level in conjunction with local government and mining proponents.

6 "Strategies to optimise FIFO/DIDO experience for employees and their families, communities and industry"

There is a significant "knowledge" gap within local government around the base information on the quantity the transient workforce entering and exiting their local area. This is reflective of a lack of requirements for local government to be involved in the accommodation determinations for the resource companies, both historically and going forward. Much of the evidence and data that exists in Western Australia is anecdotal.

There is a need to establish a stronger evidence base to encourage better outcomes and improve long term sustainable community planning by both the resource sector and the local government (host) communities.

7 "Current initiatives and responses of the Commonwealth, State and Territory Governments"

General overview

Whilst the Pilbara Regional Council and the four Pilbara shires, strongly support the aims and initiatives contained in programmes like Royalties for Regions and the Pilbara Cities Initiative, the rapid growth experienced in Western Australia key resource regions has resulted in significant multiple cross government agency initiatives and proposals, that, from local government's perspective, lack coordination, clear channels of reporting and monitoring of outcomes against their stated objectives. These include; but are not limited to Landcorp, the Department of Housing, the Department of local Government, the Department of State Development, the Department of Regional Development and Lands at the state level, Infrastructure Australia and Regional Development Australia at the federal level.

The need for federal tax reform

It is the contention of the Pilbara Regional Council that local government authorities should be compensated for infrastructure plans and infrastructure charging models to establish an equitable basis for the charging of infrastructure and services. The first of these shared issues is in respect to the application of various taxes, which encourage FIFO activities to the detriment of permanent based residents as workers. Currently taxation encourages companies to utilise FIFO workforces as all costs associated with the use of this workforce are largely tax deductable. If FIFO workers are housed in camp arrangements there are no FBT implications however, housing subsidies paid to a permanent resident workforce attract this tax. Further to this, to avoid FBT implications plus secure a 50% concession on rental costs, the companies can rent the house as opposed to purchasing it outright. This activity has a dual implication in some communities as this use of the commercial rental market to house FIFO workers drives the rental market upward (this issue is dealt with in the relevant section of this submission)

FBT laws should be changed to allow FBT exemption only where the FIFO is to non-metropolitan areas within the same state as the mine or the project being undertaken. Changes in tax policy, specifically FBT has had a dramatic and significant impact on the practices used by mining companies and it has spawned the FIFO phenomenon. It would be assumed that at the time the changes were implemented there was little opportunity to have foreseen the consequences and impacts these changes were to have on regional communities.

The second area of tax reform should be to the Taxation Zone Rebate (TZR) an income tax concession which recognises the disadvantages to residents in 'specific areas' of Australia. These 'specific areas' consist of two zones. Zone A includes nearly the entire continent above the 26th parallel and some offshore islands with the exception of approximately 50% of eastern Queensland. Zone B which is deemed to be less remote includes the remainder of the continent except for highly populated areas. A resident is defined as a taxpayer who spends time in the Tax Zone Rebate zones, not necessarily continuous time. Entitlement to the rebate requires a combined residency period of 182 days minimum over 2 years. It presently allows large benefits in equal measure to FIFO workers and remote bona fide residents. It is recommended that for the purpose of Tax Zone Rebates the definition of resident be restricted to permanent residents residing continuously in an area and those eligible to be enrolled are enrolled at that address.

Specific State Initiatives

The continuation of investment programs such as the Royalities for Regions program will improve the provision of significant infrastructure in the area to support economic growth. However the lack of associated operational funding for infrastructure programs must be addressed by the a provision to assist the local government increase operational revenue sources, particular where the new infrastructure is not supported by an associated increase in residential and commercial rate base.

The most visible adverse effects of the growth of FIFO work practices is the impact on housing affordability for non-FIFO residents should be addressed regionally by both the Federal and state authorities assisting by the development of affordable housing facilities to help alleviate high costs of living in resource communities.

Financial Assistance Grants (FAGs) are based on permanent population numbers as recorded by ABS, with little contingency for the added demands of FIFO workforces which are not counted as official residents in ABS population. The proposed review of the Financial Assistance Grant should take consideration of the outcome of this review.

Moreover, state agreements (especially in WA) many determined decades before, exempt resources firms from having to pay rates. The future detereminaton of resource agreements should take into consideration a submission by the local government on the assessment the impact the workforce will in relation to the provision of local services and infrastructure to the workforce.