

Submission on FBT treatment of LAFH reforms

Kirk Coningham, 3 February 2012

1.0 Submission on FBT treatment of LAFH reforms

The proposed reform of LAFH FBT concessions will have a significant negative impact on the delivery of infrastructure and mining projects in Australia. The proposed reform demonstrates a lack of understanding of the impact of the skills shortage in Australia, the fierce competition for skills globally, and the difficulties associated with encouraging domestic workforce mobility to remote locations.

The proposed changes:

- Put Australia at a competitive disadvantage in attracting skilled workers;
- Impose onerous red tape compliance measures on domestic workers, damaging workforce mobility;
- Make it even more difficult to deliver nation building projects, particularly in remote areas;
- Push up the cost of infrastructure development across the country;
- Impact further on Australia's falling productivity; and
- Seek minor short term financial and political gain at significant potential cost to Australia's long term prosperity.

The reform pulls the welcome mat from under prospective temporary skilled workers at a time of fierce global competition for their expertise and an acute skills shortage in Australia. It also imposes substantial compliance burdens on domestic workers that will further retard workforce mobility. The reduced ability to attract quality people could delay or even stop current projects and impact on the capacity to bid on future projects.

This appears to be in direct contradiction to government efforts to encourage mobility and the use of 457 visas as a means of addressing the skills shortage and delivering nation building projects.

As well as impacting on the delivery of key infrastructure, and thereby reducing potential government revenue streams, the reform could also open the government to litigation as industry seeks to address the costs of late delivery or delivery failure caused by the loss of skilled labour brought about by precipitous legislative change.

The reform will deliver a substantial cut in take home pay for foreign workers. In response employers will either be forced to top up salaries or see skilled foreign workers move to other countries where their talents are recognised and rewarded. Top up costs for salaries and the extra compliance burden will ultimately be factored into future contracts – pushing up the cost of construction projects across

the country. Loss of the extra productivity delivered by skilled workers and managers will also drive costs higher. Australia's resources sector already has some of the highest labour costs in the world. This reform will make them higher still.

The reform also dismisses the important contribution foreign workers make to our nation. Discriminating against international workers is at odds with the intent of the concession which is designed to compensate employees for additional costs they incur when they are temporarily relocated by their employer for work. This is precisely the circumstance of the vast majority of foreign workers.

The LAFH concessions today recognise not just the value of international workers to the economy but also that those same workers accrue significant costs in maintaining a home (and often their family) in their own country.

More broadly the concession as it stands recognises the role of government in supporting and attracting highly skilled workers and encouraging essential workforce mobility.

Abruptly changing the rules now sends the wrong message. It actively discourages workers coming to Australia and moving for work within Australia. It pushes up the cost of infrastructure, brings productivity down and retards growth.

The reform delivers little and costs a lot.

1.1 Scalpel instead of a sledge hammer

International workers and their Australian colleagues who make major sacrifices to work in some of Australia's toughest environments should be rewarded, not punished through the blanket application of onerous new requirements. Where legitimate areas of concern are identified these should be specifically and intelligently targeted by government in consultation with industry. The objectives of the reform could then be properly realised while minimising the impact on workers and the economy.

At the very minimum this should include:

- Exclusion of existing employment contracts;
- Extended transitional arrangements that ensure expatriate workers can minimise substantial potential impacts on themselves and their families;
- Extended transitional arrangements that ensure businesses can manage the impact on current and future contracts;

- A commitment to prohibit all retrospective impacts; and
- Exemption for temporary residents who maintain a home anywhere in the world.

The Leighton Group stands ready to share industry experience, provide details and data on our expat workforce and generally engage with government to ensure the reform delivers the required outcome for government while minimising the impact on business and the economy.

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