

Future role and contribution of regional capitals to Australia

Senate Rural and Regional Affairs and Transport
References Committee for inquiry and report



Regional Development Australia – South West

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The presence of long term spatial change as a direct result of a growing economy invites government to consider settlement patterns as part of its management of the economy as a whole.

BITRE, Research Report 136¹, p238

Background

On 11 February 2015, the Senate moved that the following matters be referred to the Senate Rural and Regional Affairs and Transport References Committee for inquiry and report by 1 December 2015. The future role and contribution of regional capitals to Australia, including:

1. an assessment of current demographic trends and the changing role of regional capitals;
2. an analysis of current funding provided to regional capitals;
3. an analysis of the benefit of additional funding regional capitals could receive based on population, demand for services and their strategic importance for the region, state or country;
4. investment challenges and opportunities to maintain or grow regional capitals, including infrastructure, community and human services, communications and natural resources;
5. incentives and policy measures that would support sustainable growth in regional capitals;
6. the impact the changing environment will have on regional capitals; and
7. any other related matters.

This feedback is provided at the request of the Senate Standing Committees on Rural and Regional Affairs and Transport. This document will follow the structure above and will have a bias towards the Western Australian experience with any references presented as footnotes.

Defining a regional capital

The larger Western Australian cities outside metropolitan Perth vary from about 30,000-70,000 people which is similar to places like Warrnambool, Victoria (35,000) but tiny compared with Newcastle, NSW (308,000) or Cairns, Queensland (180,000).

This report will apply the meaning of a regional capital as a commerce and administration hub that smaller towns and settlements look to for higher level regional services. So function rather than size will therefore define what should be deemed a regional capital.

¹ BITRE (2014) *Research Report 136: The evolution of Australian towns*, Bureau of Infrastructure, Transport and Regional Economics, Australian Government, Canberra

Executive summary

This summary raises key points and messages spread through this inquiry feedback:

- The role of regional cities is both administrative and commercial.
- Strong regional capitals provide more services and are an anchor point for their regions.
- Regional capitals are urban, though they are treated the same way as remote Australia in terms of funding.
- The pace of growth has exposed local government's fiscal inability to cope without help from higher levels of government.
- Addressing decision-making cultures is one of the biggest hurdles to change.
- Best practice development strategies are widely accepted, but they need to start with consistent Government policy to develop regional capitals with a view that is long term and bi-partisan.
- Catch-all initiatives based on population are less likely to be effective than judging a regional capital's value based on its strategic importance to its region.
- Boosting regional capitals takes the pressure off metropolitan sprawl and developing regional capitals is more effective than retro-fitting established metropolitan areas.
- Providing access to quality services has an important role in the development of regional capitals.
- Public investment inspires confidence and stimulates private investment.
- Infrastructure investment should be directed towards boosting competitiveness, creating the preconditions for business to do business.
- If we are going to encourage the location of processing offices, IT support, administrative support, call centres and the like to regional capitals where costs will be lower and labour plentiful then connectivity (transport and telecommunications) is absolutely vital.
- Encourage regional public service postings to aid understanding across the bureaucracy.
- Investing in lifestyle amenity is investing in places where people want to live.

1) An assessment of current demographic trends and the changing role of regional capitals

Hierarchies and roles

From the viewpoint of historical development it is plain that settlements grow at different rates and have scale and spatial hierarchies that reflect their strategic value for military/administration purposes and for trade. Some grow faster than others reflecting their changing importance and comparative advantage. It is no coincidence that the greatest growth tends to be focused on port towns and cities.

While the world has seen boom and bust troughs devastate significant settlements (Detroit, for example), most modern cities and regional capitals are resilient and their roles are as much administrative as commercial.

The administrative role has certainly grown as historical ad hoc arrangements and local road boards have fallen away to be replaced by more focused expertise across a range of services from health to environment.

It can be argued that the administrative role ensures settlement survival but it is the commercial role that ensures growth. For this reason the demographic trends of regional capitals are varied and change is patchy rather than homogenous.

South West²

From the South West WA perspective demographic growth has been robust for some time. The two strongest settlements are Bunbury and Busselton. The urban footprint of the former encompasses about 68,000 people with planning under way to cope with double that number. Busselton's population is estimated to rise 44% in the mid-range of forecasting.³

In contrast, growth in the hinterland has flat-lined in some areas. This reflects the primary nature of industry and increased mechanisation in agriculture particularly. Where inland towns have lost population, people have tended to migrate to regional capitals. This is especially likely among older residents seeking the healthcare amenity provided in larger centres.

The South West's demographic profile has seen increased ageing. The other notable trend is the number of migrants (particularly English and South African families) attracted to the region in addition to Perth residents seeking to escape metropolitan lifestyles in favour of a gentler way of life.

Runaway growth has meant that local governments have struggled to keep pace with community infrastructure needs.

² The figures quoted will be using ABS data from the 2011 Census unless otherwise stated.

³ WAPC (2012) *WA Tomorrow Population Report 7, 2006-2026 Forecast Profile*, Department of Planning, WA

2) An analysis of current funding provided to regional capitals

Australia is financially and politically dominated by five cities and while Australia divides itself between metropolitan areas and the bush, those who live in regional capitals are urban dwellers but are not recognised in any urban policy or research agendas despite the fact that they have influence over almost the entire landmass. Regional capitals are massively influential, have small scale but nonetheless metropolitan characteristics, but continue to be rounded up in the same funding/policy basket as remote Australia.

The only time we have seen an institutional focus on non-metropolitan areas is when there has been a political imperative. For example, the Gillard Government was forced to deal with Wilkie, Oakeshott and Windsor who gained the temporary creation of the Department of Regional Australia. In WA the Nationals held the balance and pushed through the Royalties for Regions policy which has subsequently been diluted.

Royalties

There are no specific programmes for regional cities offered by the Commonwealth. However, the Western Australian Government does feature a Royalties for Regions programme that is for all regional WA but with a specific \$1bn policy of supporting “Pilbara Cities”⁴, a plan to grow the resources-rich mining towns and put back some of the money into the area where it was made. As its name suggests, the Royalties programme is dependent on the iron ore price as well as political change. Iron ore is trading at about half the level it was two years ago and policy change has seen regional expenditure (roads, hospitals, policing etc) shifted from general funding to the Royalties allocation.

Through its Department of Regional Development, the WA Government has promoted a SuperTowns agenda which identified smaller settlements where it is believed that growth should be encouraged. Some robust planning went into the programme but little in the way of sustained investment in infrastructure.

There are currently indications of a focus shift towards regional centres, but without a long term and agreed bi-partisan approach this may be just another magic bullet methodology applied to regional development initiatives.

NSRF

Projects in regional capitals may be funded by the nationally competitive National Stronger Regions Fund although this is not quarantined for any specific area.

At the time of writing this submission the outcome from Round 1 applications is not known, although previous programmes saw an emerging trend of higher cost, higher impact projects

⁴ Regional Australia Standing Council (2011) *Framework for Regional Economic Development*, Department of Regional Australia, Australian Government

being funded. The cost of “game-changing” projects has increased and so too has the level of planning and business case documentation that accompanies such projects.

Put simply: the money follows the data, giving confidence to Ministerial decisions and a defensible position on determinations.

3) An analysis of the benefit of additional funding regional capitals could receive based on population, demand for services and their strategic importance for the region, state or country

Benefits of strong regional capitals

The first point is a continuation of the settlement hierarchy discussion and follows the widely accepted fact that larger settlements have a significant influence over their satellite towns. If a regional capital is weak then the region is weak. Strong regional capitals with a breadth of services can ensure a region’s support and provide population stability by providing high level healthcare and education options for example.

Regional policy cannot reverse the decline in rural towns and national strategies may be overly prescriptive with a one-size-fits-all dogma. It is clear that regional capitals in WA are quite different in scale and function to those in Queensland or NSW. Even Bunbury, the closest to Perth’s sprawl of all WA’s regional capitals is two hours away from the most remote major city on the planet.

Catch-all initiatives based on population are therefore less likely to be effective than judging a regional capital’s value based on its strategic importance to its region, state or the nation as a whole. That means any additional funding opportunities for regional capitals should be determined on potential gain.

In a financially constrained environment, investments in regional cities should not be made because a particular place is “lagging” but because that investment increases competitiveness and boosts comparative advantage so that jobs and wellbeing can be generated. Investment in areas of strength rather than weakness is the broad principle behind ‘economic gardening’, ie the greatest returns will come from within and capitalise on economic drivers.

OECD regional policy frameworks suggest that the best value is gained from investment that aligns with broader macroeconomic strategies. In regional development planning this translates as examining how a particular project/investment would fit in the wider context of the region, state and overseas commerce. In a global economy, the thinking must be far-reaching and investments examined on their merits.

Population and sprawl

An often overlooked benefit of strong regional capitals is their ability to attract population through lifestyle benefits. There is a trade-off between lifestyle and convenience, a balance which regional capitals often enjoy.

An economically sound regional capital therefore helps alleviate metropolitan stress by drawing population out to the regions.

Sprawling metro areas can constrain economic activity. In WA, Fremantle and Kwinana ports are very quickly reaching throughput capacity with no opportunity for outward expansion. An option is that future demand could be taken up by investment in Bunbury Port, enabling containerisation on an existing asset rather than developing a greenfield site. That is just one example of opportunity and echoes the BITRE⁵ view that transport has a profound impact on settlement.

The regional options can thus be seen as complimentary to metropolitan areas rather than internally competitive.

4) Investment challenges and opportunities to maintain or grow regional capitals, including infrastructure, community and human services, communications and natural resources

Infrastructure investment should be directed towards creating the preconditions for business to do business. Investment also breeds confidence in communities and that in turn is an investment trigger for the private sector. Where people have jobs there will be population stability. However, the big salary, resource-rich regions of North West WA prove that without a broad spectrum of health, education and lifestyle features then workers will fly in and fly out of communities that do not meet family needs.

This more readily proves that wellbeing and amenity are critical factors in regional development and in creating sustainable communities.

Investment challenges – culture, history and politics

The greatest challenge to attracting investment is overcoming cultural attitudes from both government and the private sector.

The political reality is that voter influence and the number of representatives in metropolitan areas dominates the Australian electoral landscape.

⁵ BITRE (2014) *Research Report 136: The evolution of Australian towns*, Bureau of Infrastructure, Transport and Regional Economics, Australian Government, Canberra

The big business reality is that major cities are preferred for corporate headquarters. There are good historical reasons for this focus and while they are less relevant in an age of broadband connectivity, business decision-makers tend to be those who possess the financial capacity to live in prime metropolitan locations and can enjoy the best that major cities have to offer.

Anecdotally, businesspeople indicate that it is easier to get a loan for a metropolitan investment than for a regional investment as banks see a greater risk in a regional area.

Investment opportunities through distance neutral infrastructure

High speed broadband makes distance irrelevant and in a country as isolated as Australia, transport is crucial.

If we are going to encourage the location of processing offices, IT support, administrative support, call centres and the like to regional capitals where costs will be lower and labour plentiful, then connectivity (access to markets) is absolutely vital. While there might be a need for corporate heads to have a headquarters in Sydney CBD, there is no need for headquarters to house support staff in a place where rents are among the highest in the world.

The telecoms issue has become increasingly relevant with the advent of globalisation and the need to be competitive in a world market and a social environment that no longer requires that workers live where they earn.

Rolling out telecoms infrastructure points to an issue with existing metropolitan areas: retrofitting is costly and inefficient. The smaller and less developed the regional capital, the greater the opportunities for futurist thinking in terms of urban form, environment and infrastructure efficiencies.

Our regional capitals can grow to be better than our metropolitan centres and can include features of 21st century cities that should stimulate private investment to generate momentum and deliver value for money.

It must also be considered that the majority of Australians are metropolitan based and therefore have expectations of high speed connectivity even when they visit the regions. Failing to meet expectations is damaging for the tourism sector in a place like the South West which is the sixth most tourism-dependent region in Australia.⁶

⁶ Tourism Research Australia (2011) *The Economic Importance of Tourism in Australia's Regions – Phase 2: Large Tourism Dependent Regions*, DRET, Canberra, ACT

5) Incentives and policy measures that would support sustainable growth in regional capitals

Incentives

Cash incentives to business (or “smokestack chasing” activities) are not sustainable.⁷ If business cannot exist without aid then it follows that those industries will move on when incentives are turned off.

It is better to support sustainable growth with infrastructure that facilitates access to markets and expect the economic growth to come from within. The clear message is that government spending should focus on creating the preconditions for business to compete in the best possible commercial environments through the provision of road, rail, port and aviation access, digital technologies, power and water, and, a finance/banking/legal environment that inspires confidence.

Economic growth can also be supported by policies that encourage the growth of the country’s largest employers – small business. While a great deal is done in this regard, governments could support business incubators or industry hubs which link with regional educational institutions.

Policy measure: Further and higher education

Regional capitals in WA are home to outreach campuses from mainstream universities although the benefits from these institutions are not fully realised due to a paucity of regionally-weighted funding, lack of quality internet connections and course limitations which relate to the first two points.

Trade training and tertiary education could be incentivised, cutting skills training costs to students many of whom travel further for their studies, have little or no access to public transport and whose family incomes are 21% lower than the average in major cities.⁸

Policy measure: Public service

There have been long-held debates about de-centralising government and given the physical scale of Australia there are strong arguments to suggest that regional authority should be devolved so decisions and priorities can be established in those places most impacted.

Best practice economic development includes forms of devolved authority to the regions to expend funding on their own choice of projects for example. However, the political appetite

⁷ Beer A, Maude A & Pritchard W (2003) *Developing Australia’s Regions: Theory and Practice*, UNSW Press

⁸ ABS (2013) *6523.0 Household income and Income Distribution, Australia 2011-12*. Available from <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6523.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6523.0&issue=2011-12&num=&view=>

to relinquish control simply does not exist in Australia, particularly compared to other OECD nations. That is unlikely to change in the foreseeable future. The issue is also considerably more complex than populist regional idealism might suggest.

Some propose that the way forward is to decentralise the bureaucracy if it's not possible to devolve decision-making. Again, the issue is more complex than it first appears and any large scale movement of a government department is extremely unlikely to occur.

What is fundamentally required is for senior members of the bureaucracy to understand the regions and that could be achieved through a posting to a regional capital. Such experience could be regarded as a critical factor in advancing careers. In such circumstances public service employees would actively seek deployment out of Canberra and during that time would learn more about the regions, their issues and opportunities.

Policy discussion

From a policy perspective, the ideal way ahead is neither a paternalist top down nor bottom up but needs to be a combined approach of citizen and state interaction.⁹ The Regional Development Australia network provides informed grassroots connectivity within its own area of Commonwealth links, ie the Department of Infrastructure and Regional Development, but is otherwise under-utilised by other parts of government. Despite this, the benefit is an overall strategic approach to communities that is not always covered by local government.

Governance is a key part of policy framework. The World Bank sees governance as “the manner in which public officials and institutions acquire and exercise authority to shape public policy¹⁰”. Governance arrangements vary from government to government and even within government, but regional development best practice does not. Why then do we fail to produce institutionalised policy – a broad, long term and agreed approach to developing Australia’s regions?

The purpose of the regional discussion is to highlight the role of regional capitals: They are commercial and administrative hubs that sit outside our state capitals. More could be done over the long term to encourage their development, boost understanding of their needs and acknowledge their importance to a nation that is so vast and cannot progress based on a half-dozen major cities alone.

⁹ Verspaandonk R (2001) Good governance in Australia, *Research Note 11 2002-10*. Available from www.aph.gov.au/library/pubs/rn/200102/02RN11.htm

¹⁰ Kaufmann D & Kraay A (2007) Governance Indicators” Where We Are, Where We Should Be Going *Policy Research Paper 4370*, World Bank

6) The impact the changing environment will have on regional capitals

Investment should be mindful of environmental change and the current rate of climatic shifts which will impact on coastal settlements and on agriculture. It will be important to find out which areas are the most vulnerable and which regional capitals are the most likely to be called upon to support their regions.

Given the modelling, water supplies to Canberra will be threatened¹¹ and there will be further stresses due to population growth. It may be timely to see a policy shift towards risk management by encouraging the dispersal of parts of government and encouraging population dispersal away from areas at risk of extreme weather events, bushfires and so on?

It should be noted that this part of the discussion may be a little premature without there being a vulnerability assessment undertaken around the country.

7) Any related matters

It is useful to note the COAG key determinants of long term regional economic growth:

- Human capital, particularly education and skills
 - Sustainable (economically, environmentally and socially) communities and population change
 - Access to international, national and regional markets
 - Comparative advantage and business competitiveness
 - Effective cross-sectoral and intergovernmental partnerships (including through place-based approaches) and integrated regional planning
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¹¹ DoE (2015) Climate change impacts in the Australian Capital Territory, Department of Environment, Australian Government