

# **Inquiry into Regional Development and Decentralisation**

Australian Government Select Committee

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**Regional Development Australia – South West**

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## Feedback

This feedback is provided at the request of the Australian Government. This document will follow the structure as outlined in the terms of reference and will have a bias towards local experience with any references presented as footnotes.

It is noted that this inquiry will investigate and report on best practice approaches to regional development, examine Commonwealth decentralisation, and look at strategies to attract business to the regions.

**Economic development is the development of the wealth of countries or regions for the well-being of their inhabitants. From a policy perspective, economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs.**

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### **Introductory comments**

An inquiry into regional development is met with a mix of welcome and a degree of frustration that the same questions are asked but we are no nearer attaining the fundamentals of best practice because the culture of Government is command and control despite a wealth of studies that point to notions of ‘localism’, ‘regionalism’ or what we plainly might call empowerment of regional institutions.

Academics argue at the value of regional interventions. There are those who consider the political philosophy of “being seen to do something” is wasteful at any level, and others who advocate full regional engagement. The best approach is doubtless somewhere in the middle and good policy is generally a combination of bottom up and top down<sup>1</sup>.

Intervention for the sake of political expediency is unhelpful and free-for-all handouts are arguably worse. That said, Australia’s continued desire to centrally control its regions from Canberra will continue to fail in delivering outcomes as activities by regionally-based actors are dumbed down so the worst performing economic development practitioners expose ministers to the least criticism.

Regional funding programmes are a common investment portal for the Commonwealth but those in the regions continue to see poor decisions on project funding, not least because those with regional, on-the-ground knowledge have been excised from providing any form of advice.

This opening is not intended to foreshadow a negative approach to the inquiry but to show the level of exasperation that regional developers feel about their management and sense of being talked at, rather than engaged with.

Successive governments each endeavour to tackle ‘the regional problem’ but this discontinuity is damaging. It is hoped that this inquiry will reveal the value of moving towards bi-partisan, long-term approaches to regional Australia, and producing broadly accepted policies that acknowledge regional disparities, empowering regional institutions to make a difference.

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<sup>1</sup> Althaus C, Bridgman P & Davis G (2007): The Australian Policy Handbook 4<sup>th</sup> Edition, Allen & Unwin, NSW

## Regional Development Australia – South West

Delivering regional services on behalf of the Australian Government, specifically the Department of Infrastructure and Regional Development, the RDA programme comprises more than 50 regionally-based offices in a network covering the whole country.

The network recently underwent a review and has been given a new charter which provides a focus for its work. RDAs have been given more to do but with no more resourcing and a budget that has not increased since 2013-14.

A positive outcome is that RDA-SW has become skilled at developing partnerships, since it does not have the funding to do anything independently. For example, RDA-SW is a significant contributor to funding the South West (WA) China Business Office (with five other partners); an independent NBN Advisor service (with three other partners); and, a sub-regional tourism strategy (with 10 other partners).

RDA-SW has also worked to secure project funding at a community level and for larger infrastructure investment including a major road and airport expansion. Further, RDA-SW has sought to build capacity in Local Government by delivering a series of economic development sessions for CEOs.

Regional services in some states are a co-operation between the Commonwealth and State Government, but in Western Australia RDAs stand apart from the WA Development Commissions. To rectify the problem, RDA-SW and SWDC have jointly prioritised and worked together to produce an investment blueprint that has yielded more than \$300m in infrastructure funding over the past three years.

A great deal of the successes that have been achieved have been down to what has occurred at the grassroots level – goodwill, significant trust, a common vision, full collaboration and parked egos.

We certainly need more of this but a few cracks are appearing as a new WA Government seeks to cut the public service which is promoting a culture of fear and more defensive positioning as players wish to retain their relevance, and, therefore jobs.

Funding cuts and spending restraint is also adversely impacting on regional activities which will inevitably affect those working in the regional development space.



Regional co-operation on the Busselton Margaret River Airport expansion which will be operational in 2018.

## Executive summary

This summary raises key points and messages that are typically more fully developed within this inquiry feedback:

### Best practice regional development

- One size doesn't fit all – place-based approaches clearly demonstrate this fact
- COAG determinants of regional development provide an excellent reference point
- Economic growth is more important than population growth
- Investment should be apolitically staged over time to produce long term gains
- Policy frameworks should enable the distribution of allocated local level, base investment with an additional pool which is accessed through competitive applications
- There must be some form of devolved authority and respect to local knowledge so those on the ground are empowered to make decisions
- Best practice is reflected by partnership approaches and mutual obligation
- Outcomes must take precedence over both economic rationalism and process
- Policy should support entrepreneurship culture in business – business networking, support, clustering and incubator opportunities
- Quality infrastructure is essential in providing access to markets
- Capitalising on endogenous drivers and comparative advantage will deliver better outcomes than trying to fabricate economic diversity
- Creating places where people want to live is essential
- Regional centres are particularly important – consider growth, infrastructure and services in terms of waves emanating from these hierarchical nodes
- Connected communities achieve more because strong local leadership provides for working partnerships, trust, sharing and collaboration
- In terms of private investment, dollars follow the data which can underpin business cases and confidence
- The provision of good infrastructure and stable, local governance is the best form of incentivisation
- Well planned incubators do work
- Investment in regional projects must represent good value for money
- Globalisation is a fact – regions must accept that competition is international and not local so pricing and efficiencies must be judged against competitive benchmarks
- Risk aversity is holding us back – risks sometimes have to be taken because intuitively good ideas cannot always be plugged into a forecasting model

## Government decentralisation

- Better connections with the regions will mean a better understanding of the regions and will therefore improve policy
- While it would be impossible to relocate major Commonwealth Departments, smaller agencies could be located in the regions
- Key targets could be those agencies with a specialisation that is applicable to a particular region
- The easiest way to have a regional presence is for the Commonwealth to locate any new agencies in the regions as an alternative to relocating established agencies
- Even a small agency would have a positive economic impact on a regional centre which might go unnoticed in Canberra
- Regionally-located agencies would give confidence to the private sector and sets a good example
- In addition to discussing the relocation of agencies, a key part of the agenda should be the placement of the bureaucracy in respect of an essential element in career progression
- Any target location should provide quality lifestyle options for agency staff and their families
- The reach of government can be extended by using existing regional assets such as Regional Development Australia which is the government 'brand' for regional engagement and could host some functions of government
- Departments do not necessarily need to relocate entire functions, but could look at dispersing some tasks

## Corporate decentralisation

- It is easier to site a new office in the regions than shift one that has its roots firmly planted
- Businesses will make locational decisions based on profit and if good financial reasons exist to relocate then the dollars will follow the data
- Key considerations will be infrastructure, establishment costs, available and suitably skilled labour force, and recurrent costs
- Government can play a role in providing the right environment to do business ie in place (infrastructure and land) and labour (skills)
- The best mechanisms to support corporate decentralisation are to create the conditions and environment for business
- Financial incentivisation initiatives have limited potential, generally because government programmes are 'too hard'

## 1. Best practice approaches to regional development

### 1.1 One size doesn't fit all

There is a body of literature surrounding the questions of why regions grow or fail. Is the fate of a town, a district or population dependent on policy? On intervention? Money? All the above or none of the above?

Some of these matters strike at the heart of regional development interventions and what, if anything, makes a difference.

It is a certainty that doing nothing is not always the answer, but in some cases doing nothing may be the sensible option. For example, there is a great deal of debate over smokestack chasing ie providing incentives to industry to locate in a particular place. Does it work and is it fair?

Incentivisation does not always work because a locational choice should be based on a rational business decision over the long term, not, for example, a tax break for a few years. However, business attraction to a technology park for example can work if the very best fibre is laid on and there are early years breaks for targeted start up entrepreneurs.

Before any further discussion, it should be made clear that the first principle in all of this is what some call place-based regional development, but is more typically the truism that **there is absolutely no place for a one-size-fits-all approach to the regions.**

### 1.2 COAG determinants

The Council of Australian Governments identified five broad determinants that are important for regional economic development. These determinants are consistent with the findings of a recent empirical analysis by the OECD and with the long-term drivers of economic growth identified by the Treasury.

The list is not exhaustive but represents factors that are considered most common to regional economic development are:

- Comparative advantage and business competitiveness
- Access to markets
- Human capital, particularly education and skills
- Sustainable communities and population growth
- Effective cross-sectoral and intergovernmental partnerships and integrated regional planning

If we work backwards, these five points are the levers that need to be addressed to deliver regional development outcomes.

Policy can support all areas, though for some areas the investment required may not justify the investment required. The people best placed to know this are those on the ground who must recognise that particular regional investment will deliver actual outcomes.

Investment should not be made because it is someone's "turn". There must be a rationale, albeit with a greater per capita cost than would be expected in a capital city.

### 1.3 Growing and sustaining the rural and regional population base

It is a common cry that regional people don't want their children to leave. The evidence is that most young people want to leave to have other experiences as a part of their personal growth. The challenge then is not to stop them leaving, but how to attract the return of people who have lived away and have learned new things.

One study<sup>2</sup> found that the largest section of inbound regional people comprises those who had left and returned to have their families. The keys then are to offer the kind of communities that are attractive ie where they can be engaged socially and where children can get a good education and where health facilities are reasonable.

The sustainable population challenge is complex. In the case of the South West, some areas are increasing population faster than capital cities while others are static or gently declining.

The greatest rates of growth are along the coastline and particularly in the two largest regional centres – Greater Bunbury and Busselton – which have populations of about 76,000 and 35,000 respectively. The importance of regional centres cannot be under-estimated from a policy perspective: if regional centres are weak and struggling then the hinterland will have even greater difficulties.

Regional centres also act as anchor points for higher education services, healthcare specialities, arts, sports and act as centres of administration.

Given that most inland towns are based on primary industries, immigration and resettlement policies could be helpful, particularly in agriculture where there are often labour shortages. A bid by the region's important agricultural activity hub in Manjimup failed to gain an influx of Syrian refugees who were all placed in Perth. It was explained that support services existed in Perth. Perhaps actions should be focused on outcomes for all, not what's convenient for administrators.

A summary remark is that while sustainable population is a measure of long term growth, any real progress is *economic*. It is the state of a local economy that will support employment prospects and it is that which drives locational choice.

A note of caution on population statistics: Any downward movement can become a self-fulfilling prophecy. Communities that show any statistical decline will fail to attract investment and so a domino-effect is triggered.

### 1.4 Sharing economic growth and opportunity cross Australia

All regional growth is good for Australia and the movement of people from metropolitan centres to regional areas eases the pressure on infrastructure, city land and planning difficulties. Nevertheless, there is a risk that quick fix investment can have unforeseen consequences and can be undermined by the global economy.

In the case of WA, it is fair to judge that policy spending on previously neglected Pilbara towns was overdue given the economic benefits that flowed out of them during the recent mining boom. However, a global commodity price readjustment showed that best efforts of

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<sup>2</sup> RAI (2015) Returning to Regional Australia, Regional Australia Institute. Available from <http://www.regionalaustralia.org.au/home/2015/09/returning-to-regional-australia/>

government can be derailed almost overnight. This is not unique to regional Australia, but larger centres enjoy greater economic diversification to better manage sectoral downturns.

In providing a solution, it is suggested that investment should not in itself represent a boom-bust cycle but should be appropriately staged to reflect trends and near-term gains.

Ideally, policy frameworks could provide allocated local level, base investment with an additional pool which is accessed through competitive applications. The advantage would be to support locally prioritised and apolitical regional investment while additionally providing access for higher level, competitive investment.

Directed policy is just that. It does not gain buy-in. This approach empowers those on the ground and supports the kind of action that is understood and sought by those on the ground.



### **1.5 Developing the capabilities of regional Australians and diversified economies**

There is a clear correlation between educational achievement levels and location in the South West. The more rural the location, the lower the educational attainment.

Human capital is one of the pillars that determine regional economic growth, but from a regional development practitioner perspective this area of work generally falls within the purvey of the education system although the promotion of an entrepreneurial culture is more broadly the responsibility of a number of stakeholders.

In respect of new technologies, distance is becoming less of a barrier, and yet it remains that regional communities experience a less effective NBN experience than their city counterparts.

The more we look at the issues the more they integrate through regional development determinants. Internet experience relates strongly to 'access to markets' while comparative advantage identifies the speciality of a region.

The reality is that it is very difficult to effectively diversify an economy and the best that can be hoped is for new industries to develop off the back of those sectors that are already doing well.

The South West is very fortunate in having a greatly diversified economy. It was not artificially created but relates to the availability of sought-after and typically uncommon resources – lithium, titanium, tantalum, zircon and other mineral sands as well as a historic manufacturing sector, processing bauxite to become the supplier of more than 20% of the world's alumina. The region also has a significant agriculture sector, timber and tourism industries all benefiting from its climate.

It is fair to acknowledge that much of the diversity is based on natural comparative advantage and is not contrived. The South West has enjoyed endogenous growth because it has practiced economic gardening ie it has focused in areas where it excels and not tried to become what it is not.

The South West region's geographical beauty has also proved a benefit. An emerging body of economic contributors is the creative industries sector. There has been regional development support for the creatives (film, music, digital, video, marketing etc) although the main driver has been the sector itself. What is important, however, is bandwidth and access to what is essentially distance neutral infrastructure.

Whatever the investment, policy or action, it must work with existing regional strength and opportunity.

### **1.6 Quality of life and engagement**

The previous example provides a good segue into what regional development recognises as the importance of wellbeing and quality of life for communities.

City living has many advantages in employment prospects, access to major cultural and sporting events, telecommunications, healthcare, costs and consumer choice etc. There are therefore trade-offs to be made for those in regional Australia.

Key advantages to regional lifestyles include open spaces, larger gardens, closer community ties, reduced commuting times and a cleaner environment. An earlier part of the discussion referred to sustainable populations. Without the advantage of an improved quality of life then the regions would be sprinkled with ghost towns as more people would flood to the cities. It is accepted that not every town can have a hospital, pool, sports centre etc, but some access is needed to support wellbeing.

Governments don't like to pick winners and losers but either tough decisions are made in selecting those communities that are identified as having the potential to become lifestyle hubs, or allow regionally-based mechanisms to make those decisions. Whichever path is chosen, the consolidation of regional services and facilities are a preferred reality to having no services at all.

Enabling local decision-making is facilitating engagement. Partnerships are key to buy-in, collective action marshalling leadership.

### **1.7 Private investment**

Dollars follow the data. Investment will flow where the private sector has confidence. In a world of volatile markets and where competition is not between towns or states but between nations, significant private investment requires significant conviction in gaining returns.

Government can facilitate private investment by providing the appropriate conditions. For example, the WA Government is investing in Bunbury's waterfront, creating a first class attraction and marina facilities. While work has started it will be several years before it has progressed to the point where commercial interests will take over and yet we are already getting inquiries from the private sector.

It should be noted that this government investment is State Government investment. The Commonwealth does not typically improve state assets, but this is the perfect example of why the Australian Government should be supporting such developments. Projects like Bunbury Waterfront stimulate genuine business interests and demonstrate how to make a difference in the regions, how to generate employment over the long term.

Another good local example is the development of Busselton Margaret River Airport which has the benefit of being surrounded by greenfield industrial land. This compares very favourably to Perth Airport in terms of price, space and the absence of commercial constraints.

### 1.8 Place-based approaches

This subject has been extensively discussed and highlights the need for empowered regions which base growth on identified advantage, understanding drivers and building the strength of regional centres. In the final analysis, all approaches are place-based because place is what determines comparative advantage and the choice of investment.



## **2. Decentralisation of Commonwealth entities or functions, as a mechanism to increase growth and prosperity in regional areas**

### **2.1 A case to selectively decentralise**

As the history of centralised Canberra stretches to third generation public servants, those in the regions often wonder at the first-hand exposure of a bureaucracy to regional Australia and its issues. This is particularly the case for Western Australians who, rightly or wrongly, have a sense of national neglect and irrelevance.

We will have a more effective bureaucracy when that bureaucracy understands the people it aims to serve. For example, any career progression could have a ceiling imposed for those public servants who have no regional experience. So far from there being a perceived problem in respect of attracting skilled staff, this would incentivise workers to seek regional postings.

It is unlikely that any significantly-sized agency would be relocated to a regional area, but even an agency that provided 200 jobs would have a major positive impact in Bunbury for example, while in Canberra or Sydney it would go largely unnoticed.

However, the real issue is less about population numbers and more about promoting a greater understanding of regional Australia among those who make decisions about regional Australia. This would be particularly pertinent where a region might have specialist knowledge areas.

Spending is also a consideration. It is expected that office space in the regions would be lower and any government spending increase would be welcome in the regions. A reasonable forecast would also be that investment in a region might spark private investment and greater confidence.

A major question is whether government wishes to change the culture of the public service so it is more engaged in its regions and promotes a better understanding of the nation as a whole, not just its leafy capital?

It is not suggested that the government sends its public servants 'bush', but looks seriously at opportunities in regional centres where services can support agencies, where lifestyle options for families are excellent and where high speed internet services would be available to support connectivity.

### **2.2 Targets**

There is unlikely to be a wholesale move of agencies or functions from Canberra, but more likely a trickle of relocations or start-up agencies placed in regional Australia.

Regulators and statutory authorities would appear the most easily relocated functions given their limited links with other Departments and Ministers, and other stand alone functions such as the ABS, Veteran's Affairs, GeoScience Australia, IP Australia and National Measurement Institute.

It would also appear rational that those agencies dealing with regional people and issues should be located outside of metropolitan centres.

## 2.3 Issues

It is expected that there would be a bureaucratic fear of being overlooked from a career perspective if located in a region, and bureaucracies would be very concerned that being away from the centre of government would mean a decline in influence.

A relocated agency may also suffer staffing impacts as not all workers would be prepared to move. In the case of many public servants, the skill is working within government and not having any particular knowledge of a sector so most could comfortably move to another Department regardless of its task.

However, the political nature of decision-making in government naturally sees any proposal met with criticism. It would be more useful to have a bi-partisan approach to the issue and completely apolitical assessment of the advantages or disadvantages of relocating an agency.

Overall, the path of least resistance is to look at regional locations for agencies that are new, rather than moving existing agencies.

## 2.4 Extend reach by utilising the existing asset

Regional Development Australia is the government 'brand' for its regional engagement. RDAs often stand as very small and poorly-funded operations, but could be a key to Commonwealth visibility in the regions if used to provide knowledge and a broad range of information back into Canberra.

It is therefore suggested that RDAs could host the sprinkling of regionally-based Australian Government employees in a single location. This would provide some gravitas and demonstrate the potential for Departments to better engage in regional Australia through extending their reach.

Departments do not necessarily need to relocate entire functions, but could look at dispersing some tasks – particularly those affecting the regions. This would additionally create a path of career progression discussed under 2.1.

It should be further noted that the blanket coverage of RDAs creates opportunities in all parts of the nation and these offices are in locations that enjoy good computer connectivity and support services.



### 3. Actions of the Commonwealth that would encourage greater corporate decentralisation and what can be learned

#### 3.1 Encouraging corporate decentralisation

The discussion on relocating established Commonwealth agencies is akin to relocating established corporate entities – it is easier to site a new office in the regions than shift one that has its roots firmly planted.

However, businesses will make locational decisions based on profit and if good financial reasons exist to relocate then the dollars will follow the data.

While government may invest in the regions as a mechanism to better connect, support regions and consider regional equity, business has no such motivation. Key considerations will be infrastructure, establishment costs, available and suitably skilled labour force, and recurrent costs.

Government can play a role in providing the right environment to do business ie in place (infrastructure and land) and labour (skills).

Issues around business incentives for early stage equity, debt finance, access to capital and related support all look good on paper, but the feedback from businesses in the South West is that dealing with government business support is extremely time-consuming and difficult. It is for this reason that the best support mechanisms are to create the conditions and environment for business is probably more useful than applying to programmes. Tax breaks are also useful owing to the simplicity.

The government could pay some attention to mitigating against call centres being off-shored. It costs Australia both jobs and tax income

#### 3.2 What can be learned

The South West recently saw a 24,000 tonnes lithium processing opportunity go to Kwinana, Perth. While a number of factors influenced the decision, not least the proximity of nearby companies that will provide material inputs, one factor was approvals processes. It is accepted that environmental approvals are generally required, but when a heavy industrial estate is already gazetted then approvals should be expeditious and undemanding.



## Parting shots and alternative facts

It is important that we challenge both the prevalence of manipulated statistics that show Australia's cities are the nation's sole economic powerhouses, and documents featuring pictures of country people holding home-made jars of jam. This nonsense approach underpins continued city investment at the expense of the regions where the majority of the nations' traded export wealth is actually generated.

The inquiry's accompanying reference paper quotes Jane-Frances Kelly and Paul Donegan observing that "the cities are still the main centres of economic activity: 80% of the dollar value of all goods and services in Australia is produced on just 0.2% of the nation's land mass, nearly all of it in cities."

That claim should be compared with figures from the Department of Foreign Affairs and Trade<sup>3</sup> which show resources account for 42.2% of export value, followed by education (6.7%) and beef and wheat (3.7%). Professional services produced 1.4%.

South West Western Australia contains WA's largest regional city (76,000) and 176,000 people in total. This population produces a collective GDP of \$15.2bn and has huge export value to the nation with products including 31% of the global supply of lithium and 21% of the global supply of alumina. It is a major producer of tantalum, titanium dioxide and produces the world's finest grade silicon. It is ranked in the top six tourism regions in Australia and has an agriculture sector worth \$630mpa, including the export of 30% of Australia's fine wines.

Those who live and work in the regions understand the value of the regions and the paucity of government investment per capita. That is why decentralisation is important in increasing the understanding of those who make decisions.



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<sup>3</sup> DFAT (2016) Australia's Trade at a Glance: Top 10 goods and services exports and imports. Available from <http://dfat.gov.au/trade/resources/trade-at-a-glance/pages/top-goods-services.aspx>