



Andrew Barr MLA

Chief Minister

Member for Kurrajong

Treasurer

Minister for Economic Development

Minister for Tourism and Major Events

Ms Julia Agostino

Committee Secretary

Select Committee on Regional Development and Decentralisation

PO Box 6021

Parliament House

CANBERRA ACT 2600

Dear Ms Augustino

Thank you for your letter of 26 July 2017 inviting an ACT Government submission to the Select Committee on Regional Development and Decentralisation's Inquiry into Regional Development and Decentralisation.

Public Service decentralisation is an issue that goes to the heart of Canberra's continued prosperity; the Federal Government's ongoing commitment to the relocation of Canberran jobs is an abrogation of the Commonwealth's responsibility to support a strong public service in Canberra and is strongly opposed by the ACT Government. Further, decentralisation of the federal public service is not effective regional development policy and is unlikely to deliver the desired regional benefits.

The ACT Government's submission is attached to this letter. Should you require any further information, please contact:

Ms Leesa Croke

Deputy Director General, Policy and Cabinet

Chief Minister, Treasury and Economic Development Directorate

Leesa.Croke@act.gov.au

Thank you for the opportunity to make a submission.

Yours sincerely

Andrew Barr MLA

Chief Minister

22 SEP 2017

AUSTRALIAN CAPITAL TERRITORY LEGISLATIVE ASSEMBLY

London Circuit, Canberra ACT 2601, Australia GPO Box 1020, Canberra ACT 2601, Australia
Phone +61 2 6205 0011 Fax +61 2 6205 0157 Email barr@act.gov.au



ACT Government Submission

Commonwealth House of Representatives Select Committee on Regional Development and Decentralisation: Inquiry into Regional Development and Decentralisation

Introduction

The ACT Government has consistently opposed the Federal Government's policy of relocation of Commonwealth agencies away from Canberra. While the ACT Government is a strong supporter of effective regional development policy to build the prosperity and adaptive capacity of Australia's regional communities, it is difficult not to view the Australian Government's belligerent commitment to public sector decentralisation as both reckless and cynical. The Federal Government's decentralisation policy is another instance of Commonwealth employment decisions made without regard for the consequences for the ACT economy or indeed for the workers and businesses in the Canberra Region that significantly rely on the economic activity underpinned by public sector employment in the nation's capital. Beyond this, even if the impact of foolhardy decentralisation were not so deleterious to the Canberra Region, there is scant evidence to support indiscriminate relocation as effective, sustainable regional economic development policy. In fact, for both the agencies forced to relocate and the communities into which they transplanted – and therefore for Australia as a whole – the impact is often a net negative.

This submission will seek to outline Canberra's role as the significant regional centre of South East NSW; the impact of Australian Public Service employment on the Canberra Region and finally the broader issue of decentralisation of the public service as both public governance and regional development policy.

The ACT Government's position reflects three principal concerns: the negative impact of decentralisation on regional southern NSW, the negative impacts on Canberra residents, and the negative impact of relocation on the ability of Commonwealth agencies to conduct their work and deliver services effectively—including to clients and constituents in regional communities.

This submission seeks to bring to the Select Committee's attention the crucial role Canberra plays as a regional hub for southern NSW regional communities, both in terms of economic opportunities and social services. While decentralisation from major urban cities such as Sydney or Melbourne might deliver benefits to heavily congested cities and regional communities, relocating agencies from the Canberra Region to other regional areas is in effect seeking to redistribute economic benefits from one regional community to another.

The economy of the Canberra Region is significantly reliant on Canberra's role as the National Capital and home of the Federal Public Service. The ACT Government continues to deliver a strong strategy to diversify the Canberra economy in order to decouple the fortunes of our community from the caprice of Federal public service cuts. However, such relocations or cuts will always have a strong negative impact on Canberra and vitally, on the broader Canberra Region of southern NSW.

The Canberra Context

The Australian Capital Territory was established on the traditional land of the Ngunnawal people on 1 January 1911, as a political, regional and geographic compromise between Sydney and Melbourne. Unable to accept the political and economic power of the national capital being concentrated in either state's capital city, NSW and Victoria agreed to decentralise the national capital from its temporary home in metropolitan Melbourne to a sparsely populated regional area north of the Murray River. Canberra's unofficial title as 'the bush capital' for many decades reflects this important dynamic: Canberra's very establishment and continued existence constituted—and continues to constitute—an act of regional decentralisation from major metropolitan coastal cities.

Canberra itself is the single greatest example of a successful decentralisation model, unparalleled anywhere in the world. The Commonwealth has a major responsibility to ensure the functionality of the ACT and to work closely with the ACT Government to ensure the principles which underpin it remain intact. It is through strength of commitment to Canberra as the home of the federal public service that this decentralisation to Canberra was successful; piecemeal fracturing of the public service however will only dilute the effectiveness of the public service, without transplanting the benefits.

The ACT, while an independent territory of the Federation, still has many different characteristics to the other States and the Northern Territory. The ACT is home to 400,000 Territorians with a different demographic profile to most other jurisdictions, with consequential implications for service delivery. Its city-state legislature, combining responsibility for State and local government has no counterpart in the Federation. Its unique role as the National Capital, Seat of Government and home to the Australian Public Service brings unique economic and financial consequences for the ACT. The ACT has a markedly different economic base, reliant on the public sector and lacking in substantial manufacturing, primary industries and resources. Further, as a land-locked island within NSW, the ACT has a markedly different geographical and physical locality compared to other jurisdictions and cities. There are natural limits imposed on the city's size and development by the Territory's natural features. All land in the ACT is owned by the Commonwealth, with planning shared between the Commonwealth and ACT Governments.

This unique setting has been overlaid with a raft of compensatory financial mechanisms to ensure the sustainable existence of the ACT as a fully functioning member of the Federation. The ACT does have the capacity to raise its own revenues and does receive federal funding commensurate with its State and NT counterparts while also receiving funding in recognition for its unique circumstances. Importantly, however, this co-existence is highly dependent on the Commonwealth Government of the day upholding its responsibilities for the unique pillars underpinning the National Capital. Any apparent undermining of one of these foundations has a flow-on impact, and corrupts the ACT Government's ability to map a sustainable path forward to fund the requirements of future generations in the Territory.

The Canberra Region

The ACT Government is supportive of policy that will effectively assist Australia's regional communities, especially the communities that make up the diverse Canberra Region. A map of the Canberra Region, as aligns with the Canberra Region Joint Organisation, is at [Attachment A](#).

Canberra and the South Eastern NSW region are intrinsically linked, as recognised by the NSW *South East and Tablelands Regional Plan's* vision for the region: "A borderless region in Australia's most geographically diverse natural environment with the nation's capital at its heart". Canberra provides the Canberra Region with a hub for employment, and an array of services, including high-quality health and education. In return, the region offers diverse housing, experiences and opportunities for Canberra residents.

The ACT and NSW state and local Governments recognise that the people who live in the Canberra Region do not see a border, and so the ACT Government is committed to a borderless approach. A number of highly collaborative frameworks are in place to promote the growth and prosperity of the ACT and NSW surrounding region, increasingly in a 'borderless' environment.

There has been strong commitment by both State and local Governments to collaborate with the ACT to address key regional issues around economic growth, urban planning, public transport and service planning. Several frameworks are in place to facilitate this work, key ones being:

- [*The ACT-NSW Memorandum of Understanding for Regional Collaboration*](#) which underpins shared jurisdictional planning in the region. Initially signed in 2011 and re-committed to in November 2016, the Memorandum identifies joint action in key priority areas of economic development, the built and natural environment and integrated service development. This Memorandum allows both governments to:
 - Develop and implement shared proposals for policy change, planning and service delivery initiatives;
 - Consult with communities, business and industry groups, relevant parliamentarians, local government, government agencies and regional organisations; and
 - Identify key regional issues that impede efficient and consistent service delivery to communities, where attempts to resolve such issues at a local level have been unsuccessful or where a strategic government-to-government approach is required.
- [*Canberra Region Joint Organisation*](#) (CBRJO) comprised of ACT Government and local government areas in the Canberra Region (Bega Valley, Eurobodalla, Goulburn Mulwaree, Hilltops, Queanbeyan-Palerang, Snowy Monaro, Upper Lachlan, Yass Valley). The CBRJO provides a forum for collaboration on regional economic and social priorities, recognising the deeply interconnected relationship between the ACT and regional southern NSW economies and communities.
- ACT - Queanbeyan Palerang Regional Council (QPRC) [*Letter of Intent*](#); as our closest neighbour, an effective and productive relationship between the ACT Government and QPRC is paramount. This Letter signals the intention of the ACT Government and QPRC to formalise a relationship, and outlines the principles and priority areas to be progressed between the ACT and Queanbeyan. The principles for engagement include:
 - optimising best of region outcomes;
 - pursuing a borderless approach to key infrastructure; and

- sharing information and data to inform planning and policy development and initiatives.
- Regional Leadership Executive (Lead by NSW Premier and Cabinet and involving NSW agencies from across the SE region, and the ACT Government).

The ACT and NSW Government have recently collaborated on the NSW Government's [*South East and Tablelands Regional Plan*](#) (2017). The Plan takes a strategic approach to employment location, identifying a hierarchy of centres across Canberra and the region, together with strategic regional transport corridors. It identifies priority areas for growth and investment, promotes business activities in urban centres and discourages 'out of centre' locations for employment unless there is a clear social and economic benefit. This Plan represents a new approach to regional planning.

This Plan is a strong example of both jurisdictions' cross-border approach to economic investment, infrastructure delivery, service provision and housing development. In so doing, it seeks to facilitate sustainable growth and optimise economic outcomes, and provides a unique and compelling model for effective, collaborative and sustainable regional development planning.

Impact of Federal Job Cuts in Canberra and the Canberra Region

The Canberra Region has a population of 616,063¹ persons and Gross Regional Product of around \$46 billion² in 2015-16. In July 2017, 325,800 persons³ were employed in the Canberra Region. Of these, around 20 per cent⁴ of NSW residents from within the Canberra region are employed in the ACT.

The key driver of growth in the ACT and Canberra region is the Commonwealth Government.

The ACT economy is based on public administration and defence/ security. In 2015-16, this sector represented approximately 31% of gross state product (GSP), the largest of any sector in the ACT, and was worth approximately \$11.225 billion (source ABS, Cat 5220.0).

Growth in the public administration and security sector in the period 1991 – 2011 has also supported growth in other employment sectors, including education and training; retail trade; and professional, scientific and technical services.

The ACT forms around 80 per cent of the Canberra Region's economy. In 2015-16, the ACT economy grew by 3.4 per cent, making it one of the strongest economies in the country, and it is expected to grow by 3.25 per cent in 2016-17.

However, any decision to reduce the number of Australian Public Service staff currently based in Canberra, will hurt both the ACT economy and the Canberra Region. It is estimated that Gross State Product in the ACT would reduce by \$110 million per annum for every 1,000 APS jobs cut.⁵

¹ 2016 Population Census. Since the 2016 Census, the ACT's population has grown by 9,006 persons.

² State Accounts, 2015-16 (ABS cat no 5220.0) and National Institute of Economic and Industry Research (NIESR) modelling

³ Labour Force, Australia, Detailed – Electronic delivery (ABS cat no 6291.0.55.001), original data.

⁴ 2011 Census. The majority of these are from the Queanbeyan-Palerang region. Journey to work data from the 2016 Census are expected to be released in October 2017.

⁵ 'Should they stay or should they go? Relocation and the Australian Public Service', Mark Evans et al, University of Canberra (p 37). Estimate is for 2014.

History has shown that job cuts hurt the ACT. The cuts to the Australian Public Service (APS) in both 2013-14 and 2014-15 saw the size of the APS fall by around 10 per cent in the ACT. The unemployment rate, which was 4.0 per cent in July 2013 hit a peak of 4.9 per cent in October 2014, before falling to 4.5 per cent in June 2015. As job opportunities became scarce and job security deteriorated, ACT residents became discouraged and migrated interstate to look for new opportunities, with over 1,900 Canberrans leaving the ACT over this period. And the ACT economy grew by just 0.8 per cent in 2013-14 and by 1.3 per cent in 2014-15.

As at 31 December 2016, there were 57,549 Canberra based Public Servants, out of a total of 152,007 across Australia. That means 62 per cent of the APS work outside of the ACT. That provides plenty of scope to move more jobs to an important regional centre such as Canberra, rather than shifting them away.

Decentralisation policies targeting the public administration and security sector in Canberra therefore have a significant impact on the ACT economy and the livelihoods of residents of the ACT and region. From a planning perspective, there would be impact on employment precincts and centres within the ACT, affecting daily consumer spend, office vacancy rates, and investor confidence in centres.

Decentralisation has the potential to disrupt broader employment land use patterns which have taken years to evolve. In Canberra, high value employment sectors have emerged in 'clusters' or agglomerations. These comprise three or more workplace locations and at least two separate, but related 'industries'. Industries cluster spatially to take advantage of critical mass. Co-location maximises infrastructure, decreases supply chain costs, increases economies of scale and attracts further investment.

In Canberra, five clusters have emerged or are in the process of emerging in the areas of: higher education and research (predominantly in the City and environs); public administration (City and Parliamentary Triangle); Defence (city east and Majura); scientific research (a number of precincts); IT design and services (a number of precincts); and transport and logistics (Fyshwick, Airport, city east).

These agglomerations also generate multiplier effects in the growth of related support services, facilities and retail uses.

Decentralisation of a key Government or private entity from an agglomeration to a new location does not usually transfer the agglomeration benefits to the new location and may permanently impact its continuation at the original location.

In addition, relocating major employment uses away from existing agglomerations or major city or town centres into regional areas can lead to unsustainable settlement and travel patterns. This has environmental, economic and social consequences for Governments, communities and individuals.

In addition to spatial agglomerations, in Canberra close synergies exist between public administration and other sectors, such as the tertiary education sector. For example, businesses and Government have benefitted from, and built upon, the significant role of the Australian National University in renewable energy innovation and research.

Decentralisation therefore has the potential to disrupt existing agglomerations and synergies that have taken some time to evolve and are critical to economic growth and prosperity in Canberra and the Region.

Decentralisation and effective government planning

Consideration of decentralisation proposals should take account of existing government planning policy for cities and regions. Such policy is the result of extensive community and agency consultation and detailed analysis of the benefits, limitations and impacts of growth in particular areas.

Strategic planning policies identify locations for employment and housing growth to ensure sustainable development. These locations are balanced against the need to protect the environment and to ensure optimum infrastructure servicing.

The following planning policies are relevant to Canberra and the surrounding region of NSW:

- ACT Government (2012) 'ACT Planning Strategy: Planning for a sustainable city'.
- Australian Government (2016) – National Capital Authority 'National Capital Plan'.
- NSW Government (2017) 'South East and Tablelands Regional Plan'.

Government produces urban planning policy to guide the location of employment and housing growth and avoid ad hoc development occurring in inappropriate locations. The ACT Planning Strategy (2012) establishes Canberra's economic, social and environmental aspirations. The Strategy focuses on intensifying urban development in and around existing centres and corridors, and on improving transport connections, including to the region.

The NSW *South East and Tablelands Regional Plan* seeks to promote the south east and tablelands as a suitable place for business to relocate to (including as an affordable and accessible location for Western Sydney industries seeking to expand). It seeks to maintain an adequate supply of employment land to create opportunities for new industrial development and encourages the co-location of supportive industries eg: renewable energy projects in locations with good access to the electricity network. The Plan also has actions around targeted service planning for health and education.

In summary, the *South East and Tablelands Regional Plan* takes a considered approach to economic development, focussing employment and housing growth in distinct areas. Decentralisation of employment without due regard for such strategic planning policy can lead to poor planning outcomes, high infrastructure costs and unsustainable regional development.

Decentralisation of employment and services from Canberra would affect regional southern NSW in a number of ways.

Canberra is a city whose influence extends well beyond the ACT borders, despite its small size. It is the primary source of regional employment for surrounding local government areas. In 2011, 27,800 people indicated that they worked in the ACT but lived elsewhere. Some 22,665 people or 82% of these were resident in the NSW part of the Canberra region. Queanbeyan (13,229 people) was the

largest source area for commuters to the ACT, accounting for 58% of those coming from the NSW LGAs in the region. Palerang (3,916 or 17%) and Yass Valley (3,678 or 16%) were the next two largest source areas.

In addition to employment, Canberra provides a hub for higher order goods and services including health, education, employment, cultural, sporting, recreational and retail opportunities. Many of these result from the multiplier effect of Commonwealth and other higher order employment entities being based in Canberra. Proximity of NSW to these facilities and services has also been a key driver of growth in neighbouring areas of NSW.

The region surrounding Canberra offers a wealth of opportunity in fresh produce, renewable energy, tourism and other areas. Stimulating growth and economic development should be focussed on 'playing to the strengths' of the region and supporting it to reach its full potential. This is preferable to pursuing decentralisation policies that can have a range of externalities.

Canberra International Airport: South East NSW's gateway to the world

The NSW *South-East and Tablelands Regional Plan 2017* notes the importance of international flights into Canberra in bringing an expected increase in visitors to the Canberra region, which is pivotal for small businesses and local communities reliant upon tourists to keep industries from hospitality to viticulture open and thriving.

In the first 10 months of international flights from Singapore to Canberra, a total of 5,044 travellers took advantage of the opening of a new international route. Passengers' second most common purpose-of-visit was holidays, at 1,603 passengers.

Indeed, the NSW Government highlights the "special connection to the ACT... requiring a close relationship with the ACT Government to seamlessly manage cross-border servicing, infrastructure provision, transport, freight networks and housing."⁶

It is worth noting that the NSW Government nominates local regional access to Canberra International Airport as the first direction of its plan for the south-east regional NSW economy. Any Commonwealth policy measures that result in an undermining the population growth of Canberra, and with it, the commercial viability of international flights from its airport, run directly counter to a bipartisan regional development strategy developed by local communities to benefit local communities.

Impact on Effective Government

The performance of the public service is critical to the success and longevity of the government of the day. Mistakes, unforced errors and indeed any level of customer or community dissatisfaction in the delivery of public services inevitably effects not only the community at large, but the public standing of appointed officials and the elected representatives to which they report as well.

Dramatically relocating large numbers of staff in any organisation, private or public, has an unavoidable impact on the performance of said organisation.

⁶ NSW Government, *South-East and Tableland Regional Plan*, 2017, p. 2.

Modelling by consultancy SGS illustrates that CBD locations “are by far the most productive regions in Australia” in terms of labour productivity, due to their ability to pool and concentrate labour talent and specialist skills in the one localised labour market, strengthen agencies’ abilities to rejuvenate and innovate by increasing the flow of workers and talent between agencies, share infrastructure to keep costs low, and the “less tangible benefits of inter-organisation networks and knowledge spillovers”.⁷ In other words, organisations within an industry which are geographically grouped together tend to be more productive, more innovative, and better performing.

The same logic of grouping organisations in the same region to improve the flow of people and talent across an industry—and thus improve the entire industry’s performance—can be found in the private sector, with Silicon Valley constituting the best example in the IT industry.

It is important to note that the ACT combines the performance and productivity advantages of a CBD with the direct local job creation and down-stream economic opportunities of an inland regional hub.

Decentralisation can be an inefficient outcome in terms of infrastructure servicing as it may not achieve the ‘critical mass’ necessary to support new or improved service provision. It has the potential to increase the infrastructure costs associated with the provision of Government services (particularly if the new location is deficient in terms of roads, transport, utilities, waste and emergency services and other key infrastructure items).

The Australian Pesticides and Veterinary Medicines Authority Relocation

The highest profile result of the Federal Government’s policy of decentralisation following the enactment of the *Public Governance, Performance and Accountability (Location of Corporate Commonwealth Entities) Order 2016* was relocation of the Australian Pesticides and Veterinary Medicines Authority (APVMA) from Canberra to Armidale, NSW.⁸ The failures of this highly disruptive and problem-beset exercise in public governance are well documented.⁹

Some of the most compelling arguments against the relocation of the APVMA are provided by the Productivity Commission in its *Transitioning Regional Economies Initial Report*, which noted that “Government approaches to regional development have not always been clearly aligned with a region’s strengths. This can be seen, for example, in policies that seek to promote the development of regional communities through the relocation of public sector jobs to regional centres”.¹⁰ The Productivity Commission goes on:

In the case of the APVMA, an independent analysis of the relocation found that it would impose a net economic cost of \$23 million (which includes the costs and benefits to all stakeholders, not only to the Australian Government), and that it would involve significant

⁷ SGS, ‘Decentralising public agencies: regional benefits with agency risks?’, 20 September 2016, accessed at <https://www.sgsep.com.au/publications/decentralising-public-agencies-regional-benefits-agency-risks>

⁸ The ACT Government’s submission to the Inquiry on this order can be found at : http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/PublicGovernance/Submissions

⁹ See, for example, <http://www.canberratimes.com.au/national/public-service/staff-exodus-smashes-pesticides-approvals-as-apvma-uproots-to-armidale-20170511-gw2lwa.html>

¹⁰ Productivity Commission 2017, *Transitioning Regional Economies, Initial Report*, Canberra, p.139.

risks (Ernst & Young 2016). Chief among these assessed risks was that the regulator would be unable to relocate or replace key executive, managerial and technical staff (Ernst & Young 2016, p. 4). This was echoed by the Community and Public Sector Union (2016, p. 6), which expressed concerns that the regulator would lose a large proportion of its scientists, as most of them would be unwilling to relocate from Canberra to Armidale. [...] There is an increased risk that the move to Armidale will weaken the APVMA, increasing the costs borne by the Australian Government and taxpayers, and hampering the organisation's work."¹¹

The soundness of relocating agencies to regional centres as a regional development initiative is contested. Workforce engineering of this kind is a complicated prospect: the better working conditions and wages of a relocated government office can negatively impact local small businesses and entrepreneurs that suddenly have to compete for staff in a distorted labour market. The argument that regional relocation can deliver lower wage and operating costs for an agency is not easily made; existing industrial arrangements persist and large scale single tenancies can distort rental rates to well above regional averages. The Committee is advised to consider the arguments made by the Productivity Commission on this very issue:

[..A]lthough public sector agencies can operate effectively in regional centres, attempts to relocate employment as a form of regional assistance can have unintended consequences, and each instance needs to be considered in its own right. The nature of the skills required in relocation proposals is critical. Where the skill requirements are highly technical and specific, relocation to a region might diminish the organisation's effectiveness.¹²

The Regional Australian Institute has noted that, while simply moving agencies out of Canberra may deliver short-term, place-based benefits, the real challenge is how the public service can more effectively deliver regional policy solutions. The Institute has suggested that a decentralisation strategy that focuses more on improving the way in which public servants understand and work for Australia's diverse regional communities, and less on just moving them to different parts of the country, would be a better approach.¹³

Better regional outcomes would be achieved by focussing the Australian Public Service's considerable ability to deal with complex issues more effectively on regional Australia. The challenge is one of joined-up policy making, and fragmenting the public service will only exacerbate the challenge faced by regional development policy. Investment in more effective regional policy and service will far outweigh inequitably distributed benefits derived from relocating single agencies. The very founding of Canberra was itself an historical act of inland decentralisation from our major coastal cities. The ACT supports an approach to decentralisation that strengthens, rather than weakens, the regional economy of south-east NSW and the wider Canberra Region.

.

¹¹ Productivity Commission 2017, *Transitioning Regional Economies, Initial Report*, Canberra, pp.139-140.

¹² Productivity Commission 2017, *Transitioning Regional Economies, Initial Report*, Canberra, p.140.

¹³ <http://www.regionalaustralia.org.au/home/2012/11/effective-government-a-higher-priority-for-regional-australia-than-decentralisation/>

Attachment A – Map of the Canberra Region

