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PARLIAMENT OF AUSTRALIA
HOUSE OF REPRESENTATIVES
REGIONAL DEVELOPMENT AND DECENTRALISATION COMMITTEE

Submission by Bundaberg Regional Council

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Response to the Inquiry into Regional Development and Decentralisation

Bundaberg Regional Council is pleased to provide a submission to the Inquiry into Regional Development and Decentralisation currently being undertaken by the Regional Development and Decentralisation Committee. Council is generally in favour of decentralisation of Federal Government agencies and services given they align with recognized industry clusters in the destination region, which provides strong incentive to grow local economies and provide positive employment outcomes.

The Bundaberg Region has established business and industry strengths – including a traditional agricultural base and value adding manufacturing sector – that provide the region with comparative advantage and provide an ideal platform for innovation and export-oriented growth. Conversely, the Region also suffers from a comparatively high degree of disadvantage due to high levels of unemployment and under-utilised infrastructure and capacity in existing assets such as the Port of Bundaberg. Regional development initiatives such as cluster development, driven by joint planning and investment by both government and industry, are key to improving the economic conditions in Bundaberg and increasing employment and standard of living.

Best Practice in Regional Development

In recent decades, innovation-related initiatives have comprised the centre of regional and local development efforts in Australia, featuring initiatives such as the upgrading of university research infrastructure, the promotion of systematic and professionalized university-industry technology transfer, the fostering of start-ups, and the development of research and innovation-based industrial clusters.

Local and state governments justify their involvement as facilitators of the technology-transfer process on the basis that their priorities lie in the development of innovations to be developed commercially, transactions that will ultimately enhance the local economy. It follows that local and state governments have a greater capacity to tailor programs to local conditions. In the development of technology pioneering firms, local and state support has played a key role in pooling multiple external public and private funding sources, including federal funds and venture capital, and directing them to private firms.



In Australia, states and regions have primarily driven the widespread and growing practice of fostering innovation clusters as an economic development tool. Regional “clusters” of related industries—not individual companies or sectors—are the primary source of competitiveness, export growth and rising employment and income levels. Clusters are geographically localised concentrations of firms in related sectors that do business with each other and have common needs for trained workers, infrastructure and technology. (Krugman, *Increasing Returns and Economic Geography*; Porter, *Clusters and the New Economics of Competition*)

The local benefits that clusters can deliver include (US National Research Council, *Best Practice in State and Regional Innovation Initiatives*; NorTech, *Why Clusters Matter*):

- Transition from unemployment to high-skill employment;
- Create new higher-wage job opportunities;
- Develop local businesses less susceptible to offshoring;
- Stabilize communities by repurposing idle assets and people; and
- Manufacture products in the region for export, restoring value to the region.

Geographic concentrations of specialized industries develop through agglomeration forces that include reduced transportation costs with respect to inputs, availability of a skilled labour pool, the desire to capture ‘tacit knowledge’ through local presence, enhanced likelihood of innovation, and sharing resources that entail substantial fixed costs. Local clusters ease the management of modern value chains, in which companies outsource various elements of design production, assembly, testing, and system management.

Regional innovation clusters cannot be legislated, but instead are organic with champions at the local, private sector and state levels. States and local councils can use policy levers with greater precision and effectiveness than the federal government as they control factors of production such as land use and availability, infrastructure, power and water, and waste disposal. Federal government agencies can act as partners and customize the deployment of federal resources to amplify and accelerate a particular cluster.

The persistence of clusters in the global era is closely associated with tacit knowledge, which confers a competitive edge on geographic localities where knowledge creation and transmission are occurring. The need and desire to capture tacit knowledge has long been recognized as a key factor underlying the location of research and development activity. This fact favours locations with existing manufacturing, testing, and research and development operations that are all potential sources of tacit knowledge. Tesla Motors chose Michigan as the site of a 2007 technical centre, in part, on the basis of Michigan’s existing infrastructure, utilizing existing test tracks, validation equipment and wind tunnels, rather than duplicating these costly investments.

Studies of successful innovation clusters in the United States reveal that they emerged from an existing local industrial context that favoured the emergence of new high technology industries:

- Boston's high technology cluster known as Route 128 emerged from an industrial milieu characterized by thriving electrical manufacturing companies that had benefitted from federal military research expenditures during World War II organized around Harvard and MIT. (Lumpe, *Lessons from Boston's High Tech Community*)
- The San Francisco Peninsula was the home of numerous radio and electronic companies in the decades prior to the War, one of the factors credited with fostering the post-war emergence of an information technology industry in the region. (Sturgeon, *How Silicon Valley Came to Be*)
- Ohio's historical competencies derived from production of glass, polymers, and machinery are facilitating the emergence of clusters concentrating on photovoltaic, flexible electronics, and medical instruments, respectively.

Examples of industry clusters that developed in Australia during the period of post-World War Two industrialisation include whitegoods and automobile industries in Melbourne and Adelaide, textiles and garment manufacturing in Melbourne and chemicals in Sydney and Melbourne (Roberts & Enright, *Industry Clusters in Australia: Recent Trends and Prospects*). In terms of small regional clusters, notable examples include the high-speed catamaran industry in Cairns, Hobart and Fremantle, the equine cluster at Scone, New South Wales, HunterNet; a cooperative of 160 manufacturing firms in the Hunter, Newcastle and Central Coast regions, Global Info Links; an Information Technology and Telecommunications cluster development in Ipswich, Queensland as well as a series of marine industry and other clusters developed in Far North Queensland. One of the key factors identified in the relative success of this latter cluster was the entrepreneurial nature and buy-in of the local business community.

National Context

The approach of the Australian Government to regional development is built on the understanding that Australia's regions are vital to the national economy as drivers of key industries which generate the bulk of export earnings. Expertise from local governments, businesses and community groups helps to ensure that government actions align with the needs of local communities. (*Regional Development Australia*)

Partnerships are integral to making the most of a region's strengths as no one level of government alone can effectively respond to regional priorities and needs. They ensure that regional development efforts are coordinated, complementary and aligned to the needs of local communities.

The Australian Government uses a regional economic development framework facilitated by 55 Regional Development Australia (RDA) Committees to promote long-term regional economic growth and provide a practical focus for strengthening Australia's regions. The framework can be grouped into five broad themes:

- People and skills—human capital, particularly the education and skills required to take advantage of a region's comparative and competitive advantages;

- Sustainable regional communities—the combination of policies, and investment in services and social infrastructure that help deliver economically, environmentally and socially sustainable communities and population growth;
- Connecting to markets—access to international, national and regional markets, whether by road, rail, air, sea and the internet;
- Comparative advantage and business competitiveness—helping regions to make the most of their strengths or comparative advantages, including through economic diversification, to foster their national and international competitiveness; and
- Partnerships and planning—effective partnerships that span sectors and the three levels of government, including integrated regional planning which aligns the objectives of government, business and the community to coordinate development efforts at different levels.

A focus on these themes is supporting the Government's regional approach, backed by investments in regional communities and delivered in partnership with other levels of government, RDA Committees and local communities.

Local Context

Bundaberg as a region has a long tradition of informal co-operation and mutual assistance. The region's business networks and flexible labour market is suitable for experimentation and entrepreneurship. Companies compete while at the same time learning from one another about changing markets and technologies through informal communication and collaborative practices. Bundaberg would benefit significantly from decentralisation, which would encourage the pursuit of multiple technical opportunities through spontaneous regroupings of skill technology and capital.

Bundaberg is an innovative and entrepreneurial community geared for a prosperous and sustainable future. The strengths of the region include:

- Close proximity by road, rail and air to the capital city of Queensland, Brisbane;
- Established university campus offering a range of study specialties and career options;
- Quality of life through an equable climate, affordable housing, lower cost of living and a range of health, sporting, cultural, leisure, arts and recreational facilities and opportunities;
- Proximity to the southernmost regions of the Great Barrier Reef;
- Port and marina facilities for large and small vessels;
- Variety of tourism activities supported by a range of high-quality accommodation; and

- Education services:
 - High quality range of public and private primary and secondary education;
 - Well established institute of TAFE specialising in courses to build on the local industries.

The Bundaberg region enjoys a strong economy with gross regional product of approximately \$4.2 billion. The major industry contributions to GRP include Agriculture (\$557 million), Health Care (\$488 million), Construction (\$349 million) and Manufacturing (\$329 million). Further, the region has a high industry concentration and consequent comparative advantage in the Agriculture, Retail, Health, Education and Accommodation sectors.

Despite the economic strengths, the capacity to facilitate greater regional development through industry cluster initiatives and coordinated support through State and Federal government agencies cannot be overstated given the relatively high levels of socio-economic disadvantage experienced across the Bundaberg region and the subsequent constraints currently placed on economic growth across the region. The Bundaberg Region compares poorly to averages for Queensland and Australia across a range of socio-economic indicators used to define the level of disadvantage in the region, specifically:

- Socio-economic indexes for areas (SEIFA)

The Bundaberg region is significantly more disadvantaged than the majority of other areas across Australia with regards to socio-economic indicators and opportunities. The Bundaberg Region recorded SEIFA index scores below the national average (i.e. 1,000) and the weighted average for Queensland, meaning it is relatively more disadvantaged than the majority of other areas and local government areas (LGAs) across Queensland – where it ranks in the lower 40% of LGAs across all four indicators – and Australia.

- Per capita income

The Bundaberg Region has significantly lower per capita and wage and salary income levels than both Queensland and Australia. Per capita income in the region was \$22,702 in 2014/15, which was approximately 28% lower than Queensland (\$31,704) and 33% below Australia (\$33,634). Similarly, average wage and salary income in the region (\$45,116) was lower by 19% and 22%, respectively, than the averages for Queensland (\$55,972) and Australia (\$58,011).

- Gross regional product (GRP) per capita

The Bundaberg Region recorded real GRP per capita of \$42,993 in 2015/16, significantly lower by approximately 35% and 38%, respectively, than the averages for Queensland (\$65,825) and Australia (\$69,886).

- Unemployment rate and employment ratio

Labour market conditions in the Bundaberg Region are significantly weaker than other areas, with the unemployment rate recording a level of 9.4% in the March Quarter 2017, which was substantially higher than the levels for Queensland (6.2%) and Australia (5.7%). Further, the State of the Regions Report 2017/18 released by the Australian Local Government Association (ALGA) indicated that the Wide Bay-Burnett region recorded the highest adjusted unemployment rate (16.7%) of all regions across Australia.

The employment ratio – i.e. the number of employment persons as a percentage of the total working age population (15-64 years) – in the Bundaberg Region is 66.4%, which is lower than the averages for Queensland (73.7%) and Australia (73.4%). This ratio is important as it is used to evaluate the ability of the local economy to create jobs and therefore is used in conjunction with the unemployment rate for a general evaluation of the labour market. Having a high ratio means that an important proportion of the population in working age is employed, which in general will have positive effects on the GDP per capita.

- Employment capacity

The participation rate (i.e. the proportion of the resident population aged 15 and over in the labour force) in the Bundaberg Region is 53.3%, having declined by 4.0 percentage points over the past five years, whilst also being significantly lower than the averages for Queensland (64.7%) and Australia (63.7%).

The dependency ratio in the Bundaberg Region is 66.8%, which is significantly higher than the averages for Queensland (51.0%) and Australia (50.5%). Over the past five years, the dependency ratio for the Bundaberg Region increased by 6.3 percentage points, which was higher than the average rise for Queensland (up 2.8 percentage points) and Australia (up 2.3 percentage points).

Benefits of Decentralisation

One of the strongest arguments for decentralisation is that it makes governments more accountable and responsive to the electorate. Apart from creating opportunities for greater participation of local people, it also enhances the management of local resources and promotes regional development. Economic reasons proposed for decentralisation, exemplified in three main areas, include allocative efficiency, willingness of people to pay for local services and improving the “competitiveness” of governments. (*SGS Economics*)

The major objectives of decentralised government services are to:

- Create an institutional framework for public and community participation in regional development to ensure optimal use of resource mobilisation, allocation and utilization;
- Provide opportunities for greater participation of local people in development planning and efficient management of resources; and

- Establish effective channels of communication between the Federal Government and local communities.

Furthermore, the decongestion and distribution of workload the spatial decentralization of government agencies enhances efficiency and the application of local knowledge and resources. Other benefits to the destination region of an incoming government office include:

- Construction activity required to accommodate incoming government offices;
- Ongoing employment opportunities within the public service, and
- Heightened level of consumption spending in the regional economy due to incoming government employees (and their relocated families).

Public investment in a regional area can also act as a catalyst for private investment, with the private sector attracted by the improvement to the region's image and the uplift in confidence given the long-term public commitment to that region. The establishment of a major government office may also be accompanied by public infrastructure spending and/or public realm improvements, with associated improvements to accessibility and amenity. From an agency perspective, strong drawcards for relocation to a regional area are the purported savings in accommodation and labour costs.

Research conducted by the Australian Farm Institute identified that successful regional development or decentralisation strategies require an "all levels of government" approach, because efforts by one level of government to stimulate regional growth (for example the relocation of a government agency to a regional centre) can be derailed if other levels of government do not ensure that necessary services, such as transport, education and health, are upgraded, or if the relevant local planning authorities do not move quickly enough to ensure an adequate stock of new housing is available.

There are a number of successful examples of government decentralisation in Australia, including:

- New South Wales Department of Primary Industries and Rural Assistance Authority to Orange;
- Grains Research and Development Corporation (GRDC) and NSW State Water Corporation to Dubbo;
- Centrelink and Australian Securities and Investments Commission (ASIC) call-centres to Traralgon; and
- Transport Accident Commission to Geelong.

Beyond solely government decentralisation, there have also been notable examples of major companies relocating part or all of their operations to regional areas in Australia. These include Mars Australia establishing corporate headquarters in Albury-Wodonga and

Ballarat and Macquarie Bank moving its agricultural branch to Orange and Albury-Wodonga. Types of direct and supporting incentives that might successfully attract businesses to regional areas include skilled regional relocation grants, infrastructure funding, taxation incentives, and creation of special economic zones and establishment of priority development areas, such as the Port of Bundaberg precinct.

International experience with successful decentralisation policies highlights several lessons relevant to Australia. Whereas in the past the availability of manufacturing jobs was often seen as a key requirement in order to sustain a rapidly growing regional population, more recently it has been recognised that service sector employment is a key contributor to regional growth. Factors like the availability of employment opportunities in service sectors such as health and education are more likely to generate regional population growth, and the presence of strong tertiary education institutes in a region has also been identified as a key factor in successful long-term regional growth strategies.

Summary

In conclusion, Bundaberg Regional Council wholly supports efforts to decentralise federal government agencies and facilitate attraction of symbiotic businesses and companies to the Bundaberg region to stimulate the local economy and build on existing industry and structural advantages. Our support is based on the following key factors:

- State and local governments and regional organisations are in a strong position to lead local innovation-based economic development, reflecting their control over local factors of production and influence over the education and research infrastructure, and knowledge of local innovation culture.
- State and local governments are pursuing the establishment of innovation clusters as their major development policy tool.
- Most of the state and regional developmental efforts seek to build on existing local advantages arising out of their geography, industrial legacy, and culture, rather than seek to establish entirely new competencies.
- Regional culture and attitudes toward innovation, collaboration, and entrepreneurialism are a key determinant of success as failure in innovation-based development.

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