SGS Economics & Planning

# AUSTRALIAN GOVERNMENT’S ROLE IN THE DEVELOPMENT OF CITIES

SUBMISSION
JULY 2017

Prepared for
House Standing Committee on Infrastructure, Transport and Cities

Independent insight.

Independent insight.



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# TABLE OF CONTENTS



## LIST OF FIGURES



## LIST OF TABLES

# EXECUTIVE SUMMARY

This submission, from SGS Economics and Planning Pty Ltd, addresses both of the Committee's terms of reference, taking each in turn.

Chapter 1 deals with the issue of the Commonwealth's role in the development of the metropolitan areas. It makes the following key points:

- There is an effective consensus amongst planners regarding the elements of a sustainable, prosperous and inclusive metropolis. These include; a compact footprint; a poly-nucleated structure, including the formation of major second and third cities within the metropolitan footprint as foci for employment and services; provision of advanced public transport to facilitate effective labour markets and to foster productivity boosting agglomeration economies; and provision of widely distributed and embedded affordable housing to further boost efficiency in labour markets and create more inclusive communities.
- Australia's problem lies not in making plans but in delivering better cities on the ground.
- A central issue in the failure to implement good plans is that State Governments cannot speak for their metropolitan communities, and Commonwealth Governments even less so, because they are not mandated by these constituencies.
- Moreover, State Governments and Commonwealth Governments seeking to manage the metropolises inevitably reach beyond their natural competencies. For as long as State Governments retain their constitutionally ordained role as managers of the metropolis, and for as long as the Commonwealth seeks an instrumental role in spatial planning by flexing its fiscal muscle, the current, unsatisfactory, trajectory of the cities is unlikely to shift significantly or reliably. Fundamental governance reform is required to devolve custody for key aspects of city developments to those communities best placed to make these decisions.
- The required governance reform would have two key themes:
    - Institution of metropolitan governments with democratic mandates and an appropriate degree of fiscal autonomy
    - The Commonwealth 'steering not rowing' in the delivery of better cities.
- The required governance reform would not require elimination of local governance. All four spheres of governance (including metro/regionals) have a part to play and full empowerment of the citizen requires that all four forums are available for them to express their shared goals and preferred futures.
- This submission proposes that the primary responsibilities for a metropolitan sphere of governance would commence with the planning, funding and delivery of higher order 'city shaping' infrastructures. The scope of metropolitan governance would also include policy making and regulatory activities that transcend local neighbourhoods but require a spatially integrated approach which, on the evidence, is beyond the capability of State Governments. Such functions include:
    - *Regional integrated planning*, including, for example:
        - Regional economic development planning
        - Metropolitan level spatial planning
        - Development assessment for defined projects with regional & metropolitan impact
    - *Transport system investment and management*, including, for example:
        - Intra-regional arterials
        - Line haul (commuter) bus services
        - Tramways
        - Metro rail systems

        - Line haul (commuter) rail services
    - ***Regional water sustainability***, including, for example:
        - High level water harvesting infrastructure
        - Waste water treatment plants - regional
        - Waste water treatment plants - local and sub-regional
    - ***Regional power grids***
    - ***Regional resource recovery*** (household waste recycling, industrial waste processing)
    - ***Regional arts and cultural institutions, programs and events***, and
    - ***Regional stadia.***
- Given that the overall tax burden on the community will need to be kept within bounds, the institution of genuine metropolitan government will involve some reallocation of existing tax revenues (for example GST), retirement or reduction of some distortive or otherwise unhelpful taxes (such as payroll taxes and several transaction taxes) and the introduction of market reforms which can simultaneously generate substantial revenues and play a part in optimising metropolitan economies and growth patterns. The latter could include the creation of metropolitan markets in development rights, as currently occurs in the ACT under that jurisdiction's leasehold system. This would make value capture a consistent, substantial, predictable and transparent source of base load funds, as distinct from its sporadic and opportunistic use in part funding individual infrastructure projects. Another important revenue source for (and made more possible by) metropolitan governments would be road congestion charges, the proceeds of which can be funnelled into sustainable transport infrastructures and programs.
- The reform agenda outlined above could be advanced via a ramped up version of City Deals, where the Commonwealth shares the productivity dividend from better cities with the States to nudge them towards fundamental changes in urban governance.

Chapter 2 of this submission deals with regional cities. Its principal points include:

- In large part, the future of regional Australia relies on gaining closer ties with the capital cities. Indeed, the creation of better cities is essential if regional Australia is to prosper and reach its full potential. With the acceleration of outsourcing, the proliferation of global supply chains, continuing improvements in communication technologies and rapid advances in international services trade, specialisation in cities has continued to escalate. Increasingly, the abstract, desk based or 'thinking' part of the value chain in any productive activity (conceptualisation, design, planning, brokerage, strategic management etc) is becoming uncoupled, in a corporate and geographic sense, from the 'making and distribution' part of the chain (growing, fabrication/processing, transport, storage etc). As a consequence, the regions are sourcing more and more of their crucial business inputs from the cities.
- While the value chain unbundling process has played a critical role in shoring up the competitiveness of Australia's regions, it has also relentlessly eroded the population 'carrying capacity' of non-metropolitan Australia as a whole.
- Those parts of regional Australia which are exhibiting significant growth are typically those which enjoy strong links to capital cities.
- To a degree, the drivers of growth in those regional areas outside of the gravitational pull of the metro areas will be fuelled by support services to local agricultural and resource production, that is, the localised aspects of 'off-farm' or 'off-mine' sourcing of business inputs. However, the heavy lifting in terms of population growth in these areas will most likely lie in providing services to the local population. Increasingly, this population will be demanding a broader and deeper range of services because of ageing.
- There appears to be four broad categories of non-metro region in Australia:
    - regions which are strongly linked to the nearest metropolis
    - regions beyond the convenient reach of the metros but offering strong lifestyle and tourism opportunities (for example, Port Macquarie/Hastings, Hervey Bay)

  - agricultural resource based regions, also beyond the convenient reach of the metros, and
  - mineral resource regions.
- A customised approach to regional development is required across these categories.
- For those regions within convenient 'face to face commerce' distance of metropolitan areas, a key objective should be to strengthen these ties. This is despite the (possibly) instinctive position in many such regions to view the nearest big city as a competitor for talent and investment.
- For agriculture and lifestyle based regions outside of the gravitational pull of the nearest metropolitan area, conservation of the resource base in the landscape and seascape, soils, water and micro-climatic conditions is paramount. A further challenge for these regions is to understand and manage the dynamic drivers of population carrying capacity, recognising that expansion of towns will increasingly be characterised by concentration into one or two centres, with much of the growth being powered by human services (see text box for further discussion).
- For mining regions, the challenge lies in meeting the infrastructure demands of urbanisation and mineral exploitation, knowing that such infrastructure may have a relatively short pay-back life. These regions will have even more dynamic populations, with temporary and redeployable investment expected to figure prominently in formation of settlement patterns.

# 1. SUSTAINABILITY TRANSITIONS – METROPOLITAN AREAS

## 1.1 We know what sustainable, prosperous and inclusive cities look like

There is an effective consensus amongst planners regarding the elements of a sustainable, prosperous and inclusive metropolis. This consensus is evidenced in the convergence and consistency amongst the metropolitan strategies developed across all Australian jurisdictions over the past 3 decades. These elements include; a compact footprint; a poly-nucleated structure, including the formation of major second and third cities within the metropolitan footprint as foci for employment and services; provision of advanced public transport to facilitate effective labour markets and to foster productivity boosting agglomeration economies; and provision of widely distributed and embedded affordable housing to further boost efficiency in labour markets and create more inclusive communities. More recently, the scope of this 'better cities' model has extended to include distributed power and water systems.

## 1.2 Implementing, not making, plans is the problem

There is no lack of insight or capacity in Australia to produce plans for sustainable, prosperous and inclusive cities. Indeed, Australian planners and kindred professionals have a global reputation for advanced thinking in this area.

The problem lies not in making plans but in delivering better cities on the ground. This inability to implement sound plans for our cities is due to three factors:

- There is no tier of government in Australia with clear and effective custody of the metropolises
- The States and the Commonwealth, which have greatest influence on urban outcomes, are silo based and incapable of the required urban innovation
- Vital sources of funding to support urban adjustment, notably value capture and road pricing, go untapped.

State Governments cannot speak for their metropolitan communities, and Commonwealth Governments even less so, because they are not mandated by these constituencies (Gleeson et al, 2012).

Viewed from the perspective of a State Government, the metropolitan constituency presents but one 'battleground' within a much broader electoral challenge. Differentiation on both the big picture and detail of urban planning is likely to be a default position of political parties aspiring to government. In the first 17 years of this century, State Governments in NSW and Victoria produced no fewer than 4 comprehensive metropolitan strategies each at seemingly ever decreasing intervals (for Sydney in 2005, 2010, 2014 and 2016 and for Melbourne 2002, 2008, 2014 and 2017). This bespeaks of political opportunism in contrast to the required consistency of vision in the reshaping of metropolitan settlement patterns, economies and communities.

State Governments and Commonwealth Governments seeking to manage the metropolises inevitably reach beyond their 'natural competencies'. Higher order levels of government tend to operate standardised programs at a scaled designed to achieve consistency of citizen outcomes across broad geographies and over time. This calls for volume efficiencies and consistent delivery mechanisms, including commercialisation, corporatisation and privatisation of services like employment placement, subsidised housing, hospitals, income support and transfer payments generally. The natural and mandated mode of operation for these spheres of government is in 'silos', albeit efficient ones. The corollary is a lack of aptitude and capability in delivery of granular services which are well co-ordinated at the level of place, including metropolitan areas.

State Governments must resort to all manner of institutional gymnastics to counter this innate tendency towards silos and realise their common mantra of 'connected up' services and policy. For example, there are dozens of State agencies and advisory bodies with a say in how metropolitan Melbourne develops, including several co-ordination forums (see Table 1). Occasionally, this results in counter-productive initiatives such as the formation of still more single purpose agencies which must apply a partial view of how cities develop. Examples include the creation of Infrastructure Victoria and Infrastructure NSW.

TABLE 1 STATE AGENCIES INVOLVED IN PLANNING METROPOLITAN MELBOURNE, JULY 2017

| Agency | Mandate / scope of role |
| --- | --- |
| Department of Environment, Land, Water and Planning | Prepare metropolitan strategy and other regional strategies<br>Monitor and improve the performance of the planning system |
| Victorian Planning Authority | Implement metropolitan and other regional strategies through planning scheme changes and co-ordination of relevant State agencies |
| Office of Suburban Development | Co-ordinate State agencies delivering services into suburban growth areas in Melbourne |
| Infrastructure Victoria | Advise State Government on infrastructure priorities taking into account metropolitan and other regional strategies |
| VicRoads | Plan, deliver and manage the State's network of higher order roads, including city shaping projects |
| Public Transport Victoria | Plan and manage the State's public transport services |
| Development Victoria | Undertake development on Government land to achieve planning objectives as well as a sound financial return |
| Partnerships Victoria (DTF) | Appraise solicited and unsolicited public private partnerships for the delivery of major urban infrastructure, amongst other things. |
| Infrastructure Planning & Major Projects DPC | Appraise solicited and unsolicited public private partnerships from a broad Government policy perspective |
| Special purpose agencies (e.g. Fishermans Bend Taskforce, Latrobe Valley Authority, Birrarung Council, Level Crossing Removal Authority etc) | Deliver projects or policy advice on specific urban development issues. |

For as long as State Governments retain their constitutionally ordained role as managers of the metropolis, and for as long as the Commonwealth seeks an instrumental role in spatial planning by flexing its fiscal muscle, the current, unsatisfactory, trajectory of the cities is unlikely to shift significantly or reliably. Fundamental governance reform is required to devolve custody for key aspects of city developments to those communities best placed to make these decisions.

## 1.3 Governance reform – in particular the formation of metropolitan governments – is essential

The required governance reform would have two key themes:

- Institution of metropolitan governments with democratic mandates and an appropriate degree of fiscal autonomy
- The Commonwealth 'steering not rowing' in the delivery of better cities.

To resolve the role and purpose of 'metropolitan government' in an Australian context, it is important to consult and apply the general principle of subsidiarity.

Note that the call for the institution of metropolitan governments in Australia ought not to be read as code for rationalisation or elimination of local governance, as some lobbyists have argued (see Committee for Melbourne, 2017). All four spheres of governance (including metro/regionals) have a part to play and full empowerment of the citizen requires that all four forums are available for them to express their shared goals and preferred futures.

Subsidiarity holds that nothing should be decided at a higher level of authority, if the matter in question can be resolved at a lower level competently and without compromise to the choices open to the higher order communities of interest.

Subsidiarity implies, firstly, that each sphere of governance within a federated system should be able to stand on its own two feet and enjoy a high degree of self-determination for those issues falling within its scope of competency. This, in turn, implies a relatively high degree of fiscal autonomy, including in revenue raising powers, although always with a strong hand in horizontal equalisation at the Commonwealth level. To have some spheres of governance dependent on, or beholden to, other spheres for the resources to fund decisions within their competency inevitably leads to obfuscation of accountability and inefficiency in service provision. This is a commonly cited problem in Australia's rather extreme version of vertical fiscal imbalance.

The subsidiarity principle also implies that non-central governments are seen as partners rather than the mere foot soldiers of a central government that may be providing funds to address horizontal fiscal imbalance or national priorities. In keeping with sound public finance practice, the central government is certainly entitled to be clear about what is to be achieved via any inter-jurisdictional funding program. Having said this, the means by which these outcomes are to be achieved with the resources on offer should be a matter for recipient, and more locally competent, governments to determine.

Against this background, what is it that a metropolitan government could do that local governments and State Governments (and Commonwealth Governments) could not do? There is no hard and fast 'province' for metropolitan governance (and its regional equivalent in non-metro areas). The appropriate locus for a particular urban service or regulatory function is both culturally specific and open to influence by technological change. For example, recent innovations in distributed approaches to water and power supply enable a more devolved method of infrastructure provision compared to the long distance poles, wires and pipe technologies of the past.

This submission proposes that the primary responsibilities for a metropolitan sphere of governance would commence with the planning, funding and delivery of higher order 'city shaping' infrastructures. The scope of metropolitan governance would also include policy making and regulatory activities that transcend local neighbourhoods but require a spatially integrated approach which, on the evidence, is beyond the capability of State Governments. Such functions include:

***Regional integrated planning***, including, for example:

- Regional economic development planning
- Metropolitan level spatial planning
- Development assessment for defined projects with regional & metropolitan impact

*Transport system investment and management*, including, for example:

- Intra-regional arterials
- Line haul (commuter) bus services
- Tramways
- Metro rail systems
- Line haul (commuter) rail services

*Regional water sustainability*, including, for example:

- High level water harvesting infrastructure
- Waste water treatment plants - regional
- Waste water treatment plants - local and sub-regional

*Regional power grids*
*Regional resource recovery* (household waste recycling, industrial waste processing)
*Regional arts and cultural institutions, programs and events*, and
*Regional stadia.*

This represents a relatively confined portfolio of strategic functions. It would leave local government in control of neighbourhood planning (within the framework of the metropolitan spatial plan), assessment for the vast majority of development proposals, local place making and small business development, provision of local roads and water cycle management infrastructure, open space provision and management and unfettered operation of a wide range of human services geared to the nuanced requirements of the local community. Meanwhile, State Governments would retain responsibility for jurisdiction wide services such as inter-regional transport, education, health and disability and policing. The latter functions currently account for more than two thirds of State Government outlays signifying a continuing senior role in Australian governance.

To properly fulfil the subsidiarity principle, a metropolitan government should be able to act autonomously on the matters within its jurisdiction. This means independent access to a sufficient tax base, and a process of democratic accountability for how this tax base is deployed in the service of the metropolitan constituency. Working on the presumption that the overall tax burden on the community will be kept within bounds, the institution of genuine metropolitan government would entail some reallocation of existing tax revenues (for example GST), retirement or reduction of some distortive or otherwise unhelpful taxes (such as payroll taxes and several transaction taxes) and the introduction of market reforms which can simultaneously generate substantial revenues and play a part in optimising metropolitan economies and growth patterns. The latter could include the creation of metropolitan markets in development rights, as currently occurs in the ACT under that jurisdiction's leasehold system. This would make value capture a consistent, substantial, predictable and transparent source of base load funds, as distinct from its sporadic and opportunistic use in part funding individual infrastructure projects. Spiller et al (2017) conservatively estimates that value capture through a system of development licence fees could generate upwards of half a billion dollars per annum in Victoria.

Another important revenue source for (and made more possible by) metropolitan governments would be road congestion charges, the proceeds of which can be funnelled into sustainable transport infrastructures and programs.

As noted, the third pre-requisite for genuine metropolitan governance, after clarity of functional mandate and fiscal autonomy, is democratic accountability. There are any number of electoral models that could be applied to this end. A minimalist approach in an Australian context would adopt an electoral college under which groups of constituent local governments covering logical segments of the metropolis select, by ballot, one or more of their pooled councillors to sit in the metropolitan governing body. This could operate with or without direct popular election of a metropolitan mayor.

## 1.4 The Commonwealth's role in facilitating better cities

The reform agenda outlined above could be advanced via a ramped up version of City Deals, where the Commonwealth shares the productivity dividend from better cities with the States to nudge them towards fundamental changes in urban governance.

Better functioning metropolitan areas is a vital national project. This is not to be confused with a call for the national government to directly solve the economic, social and environmental challenges of metropolitan development as it has been wont to do in its sporadic incursions into urban and infrastructure policy. As discussed, solving the problems of the cities is beyond the competence of the Commonwealth notwithstanding its fiscal might. At the same time, achievement of better metropolises is a national project because Australia is otherwise unlikely to fulfil its national shared aspirations for prosperity, social inclusion and sustainability.

On the arguments set out in this submission, the Commonwealth should facilitate the formation of metropolitan governments – a matter for which it has no constitutional authorisation.

However, the Commonwealth (in both its partisan stripes) pursued a reform program of similar ambition when it successfully prosecuted the case for National Competition Policy in the 90s and 00s. This represented a global best practice model whereby a federal government effected sweeping change in many areas outside its constitutional jurisdiction, without interfering in the local service delivery mandate of sub-national governments. This was achieved by offering to share the additional tax revenues yielded by the competition reforms with State Governments.

The Commonwealth could apply the same dividend sharing principle to advance better metropolitan governance. In fact, the federal government has, to some extent, proto-typed this model in urban policy. In the early 90s, the then Government's 'Building Better Cities' program offered State Governments untied Commonwealth transfers on the basis that the recipient government would commit to achieving a range of economic, social and environmental 'outcomes' defined in an 'Area Strategy'. The Area Strategies generally covered substantial sub-regions within metropolitan and non-metropolitan areas and called for co-ordinated investment across relevant State Government 'silos'. The Commonwealth used its financial power to cultivate a degree of behaviour change in a subsidiary sphere of governance without prescribing how States should go about their strategic planning and without 'picking winners' in terms of infrastructure projects. The Better Cities program was well received across State jurisdictions and the urban development industry but was discontinued by subsequent Commonwealth Governments.

More recently, the Turnbull (Coalition) Government has developed a 'City Deals' program based, it would seem, on similar performance principles.

A larger scale version of 'Better Cities' or 'City Deals' could prompt the reforms required at State level to initiate metropolitan governments. This could be couched within a 21st century version of national urban policy in which the Commonwealth sets national targets for more sustainable city development but leaves it to subsidiary governments to deliver these outcomes in ways which reflect local preferences and capabilities.

A national urban policy of this type would feature three key elements, starting with an ***urban adjustment fund*** linked to the productivity boost – that is improved tax revenues – generated by better cities.

Secondly, reflecting the successful experience with National Competition Policy, the Council of Australian Governments (COAG) would resolve national priorities of productivity, sustainability and liveability which would condition access to the urban adjustment fund. The would require the transformation of outcome statements into measurable and auditable performance requirements dealing with productivity enhancement at the firm level, human capital development, greenhouse gas emissions, water cycle management, transport mode share etc, for cities as a whole. While it would offend subsidiarity disciplines for the Commonwealth to prescribe the 'how tos' for these outcomes, metropolitan governance reform could be cited as a potential 'milestone' in a State Government led reform program aimed at achieving the national outcomes.

In 2011, the National Growth Areas Alliance endorsed a starting proposition for a national better cities agreement (Table 2, derived from SGS, 2011[1]). Undoubtedly, the devil is in the detail of these inter-jurisdictional agreements. Burton (2016) observes that reaching agreement on performance outcomes has generally proven to be a tortuous and drawn out process in the UK City Deals. Arguably, however, fixing performance requirements for relatively small areas (as in the Australian Government's first City Deal in Townsville, Queensland) is more challenging than the equivalent exercise for metropolitan areas (and other regions) as a whole, because more of the factors and forces influencing the outcomes in question are within the control of the parties to the agreement.

TABLE 2 FRAMEWORK FOR NATIONAL AGREEMENT ON BETTER CITIES

| National objectives | Outcomes to be achieved over funding period | |
|---|---|---|
| **Productivity**<br>1. Improve labour and capital productivity and workforce participation<br>2. Integrate land use and infrastructure<br>3. Improve the efficiency of urban infrastructure | ■ Road congestion costs across whole metro area reduced by x% versus base case projection<br>■ X% increase (versus base case projection) in the percentage of metropolitan jobs accessible via a 30 minute public transport ride from the 66th percentile census collector district, ranked by quality of public transport services<br>■ X% increase in high value added exports (inter-regional, interstate and international) from metro regions versus the base case projection<br>■ X% increase in the incidence of higher order skills within outer suburban regions compared to base case projections. | Contractual milestones for funding flows |
| **Sustainability**<br>4. Protect and sustain our natural and built environments<br>5. Reduce greenhouse gas emissions and improve air quality<br>6. Manage our resources sustainably<br>7. Increase resilience to climate change, emergency events and natural hazards | ■ X% reduction in energy consumption per capita in the metropolitan area versus base case projection<br>■ X% reduction in vehicle kilometres travelled per capita in the metropolitan area versus base case projection<br>■ X% reduction in vehicle kilometres travelled per capita in the metropolitan growth areas versus base case projection<br>■ X% reduction in water consumption per capita in the metropolitan area versus base case projection<br>■ Increase of X% in the share of public transport + cycling + walking in overall trip generation versus base case projection. | Contractual milestones for funding flows |
| **Liveability**<br>8. Facilitate the supply of appropriate mixed income housing<br>9. Support affordable living choices<br>10. Improve accessibility and reduce dependence on private vehicles<br>11. Support community wellbeing | ■ X% increase (versus a base case projection) in the proportion of growth area households within 400 metres of a quality public transport service<br>■ X% reduction (versus base case projection) in the level of divergence between constituent urban communities using the ABS SIEFA index<br>■ X% increase in accessible urban public domain per capita (parks, gardens, beaches, piazzas, cultural precincts etc), versus base case projection<br>■ X% reduction (versus base case projection) in the proportion of households below the 40th percentile in the income distribution suffering housing stress | Contractual milestones for funding flows |

Finally, an arm's length body would be required to audit State / Territory performance against the charter for the urban adjustment fund and to provide an 'umpire's decision' on whether payments should continue to be made as agreed, slowed down or withheld altogether.

[1] http://ngaa.org.au/media/1063/funding_growth_areas_in_a_national_urban_policy_-_background_paper.pdf

Preferably this would occur through a process of public enquiry, so responsibility for performance or lack thereof can be transparently sheeted home to the jurisdictions in question. The National Competition Council performed this independent audit role in the early (most successful) years of national competition policy.

# 2. REGIONAL CITIES AND TOWNS

## 2.1 The regions should not be seen as competing with the cities

Political rhetoric portraying city and country as ‘competitors’ is commonplace. However, the economic and demographic reality could not be further removed from this contrived depiction of the relationship between regional Australia and the metropolises.

To a large part, the future of regional Australia relies on gaining closer ties with the capital cities. Indeed, the creation of better cities is essential if regional Australia is to prosper and reach its full potential.

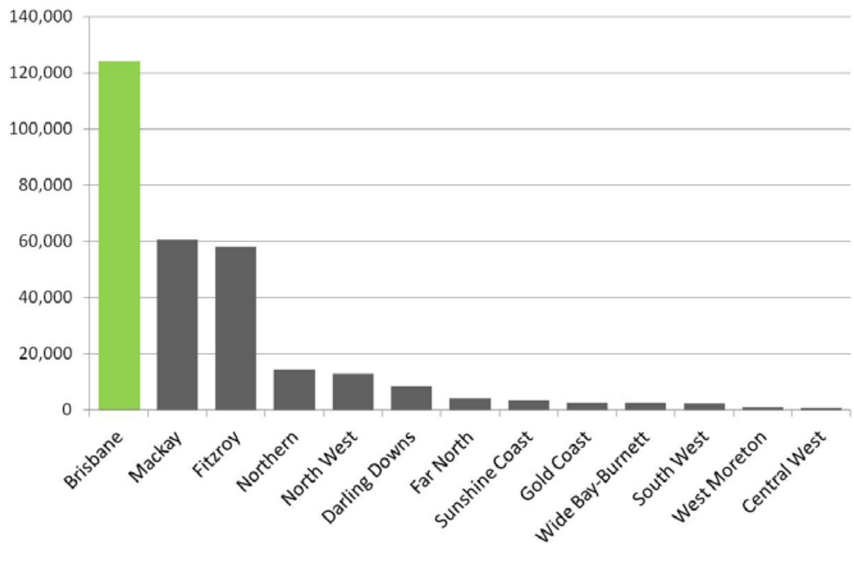
The forces that are driving convergence in the destinies of regional and urban Australia are as old as the process of urbanisation itself. The productivity of the regions depends on specialised services dispensed by cities.

With the acceleration of outsourcing, the proliferation of global supply chains, continuing improvements in communication technologies and rapid advances in international services trade, specialisation in cities has continued to escalate. Increasingly, the abstract, desk based or ‘thinking’ part of the value chain in any productive activity (conceptualisation, design, planning, brokerage, strategic management etc) is becoming uncoupled, in a corporate and geographic sense, from the ‘making and distribution’ part of the chain (growing, fabrication, transport, storage etc). As a consequence, the regions are sourcing more and more of their crucial business inputs from the cities.

This is sharply illustrated in Queensland’s resources sector – a quintessentially ‘regional’ industry. Although the information set out below relates to the ‘mining boom’ period, the insights it offers to the partnership between city and country remain valid.

Data collected by the Queensland Resources Council shows that the mining sector in that State generated more jobs in Brisbane than in any other single region during the boom. Whilst in aggregate, more jobs were created in the regions, the State capital, not Mackay, Rockhampton or Gladstone were at the epicentre of this industry.

FIGURE 1 RESOURCE SECTOR’S CONTRIBUTION TO EMPLOYMENT BY REGION

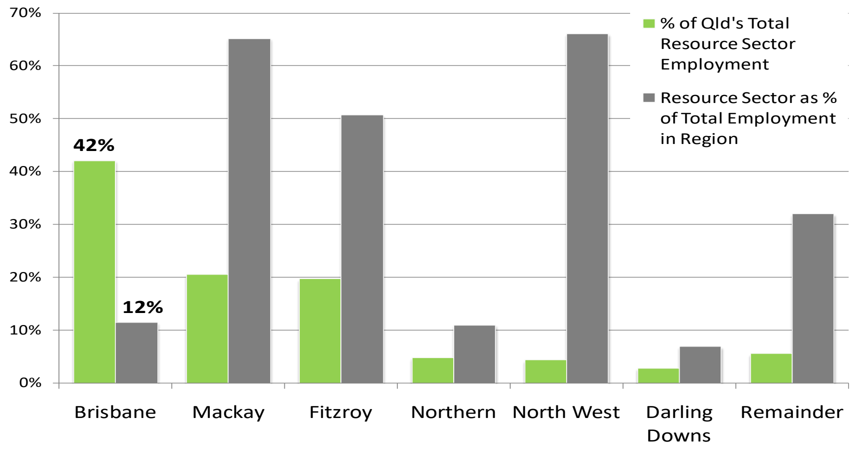



**Source:** Qld Resources Council with interpretations by SGS Economics and Planning Pty Ltd

The resource sector dominated employment in the Mackay, Fitzroy and North West regions of Queensland. Unsurprisingly, the sector in these regions had a very high media profile. However, Brisbane accounted for more than 40% of all mining sector employment, dwarfing the individual shares of these famous resource regions.

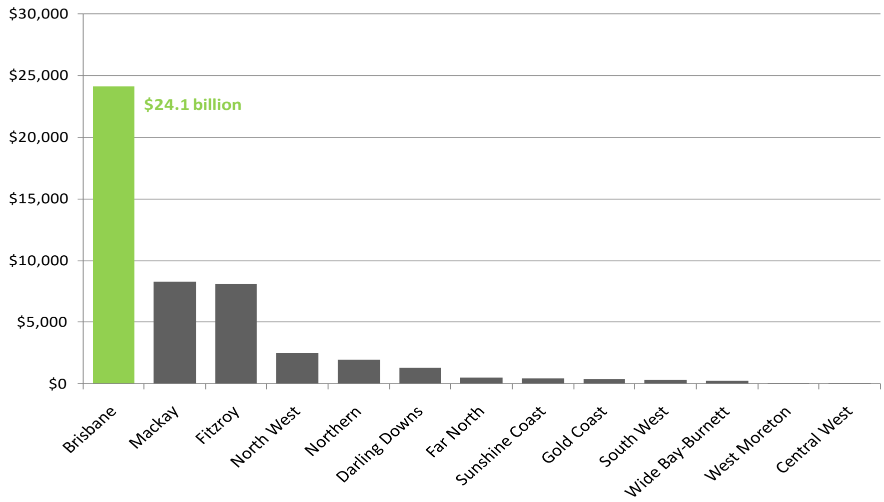
Even more telling is the fact that Brisbane commanded an out-size share of the high value added components of the mining value chain. Much of the money made out of mining – counted in wages and salaries and profits – accrued in Brisbane.

FIGURE 2 RESOURCE SECTOR'S CONTRIBUTION TO EMPLOYMENT BY REGION




Source: Qld Resources Council with interpretations by SGS Economics and Planning Pty Ltd

FIGURE 3 RESOURCE SECTOR'S CONTRIBUTION TO GSP BY REGION



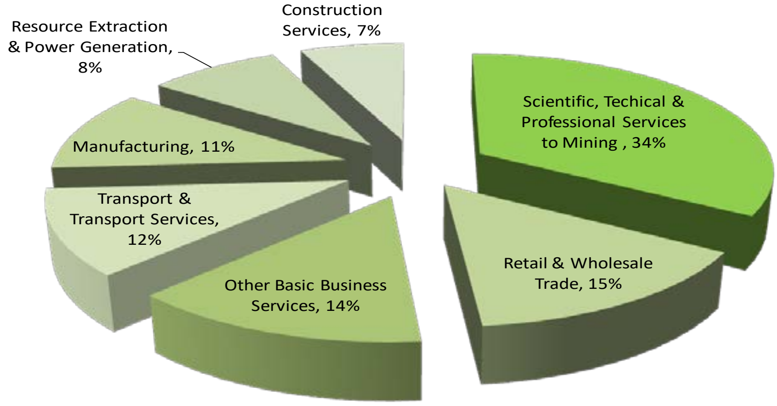

Source: Qld Resources Council with interpretations by SGS Economics and Planning Pty Ltd

The reasons for this domination of the mining sector by the Brisbane region are evident in the break-down of the industry's inputs. Scientific, Technical and Professional Services account for more than a third of the value chain by value. These services, particularly the specialised, higher value, activities are typically sourced in the Brisbane region and, indeed, in the other major cities including Melbourne and Sydney.

These figures do not imply that Brisbane is living 'off the back' of the mining activity in the regions. The regions would struggle to support the type of specialised services delivered by the city. The key policy issue arising from this analysis is that the regions need a well-functioning and competitive Brisbane if the mining industry is itself to remain competitive.

Infrastructure Australia and its equivalents at the State and Territory levels were, and continue to be, rightly concerned about export bottlenecks in the regions. However, efficiency in the production of mining related 'thinking services' in cities like Brisbane is likely to be just as important to the future of this regional 'powerhouse' industry. Looked at this way, urban congestion can be as big an enemy of mining competitiveness as deficiencies in regional infrastructure.

FIGURE 4 QUEENSLAND RESOURCE SECTOR'S VALUE CHAIN




**Source:** Qld Resources Council with interpretations by SGS Economics and Planning Pty Ltd

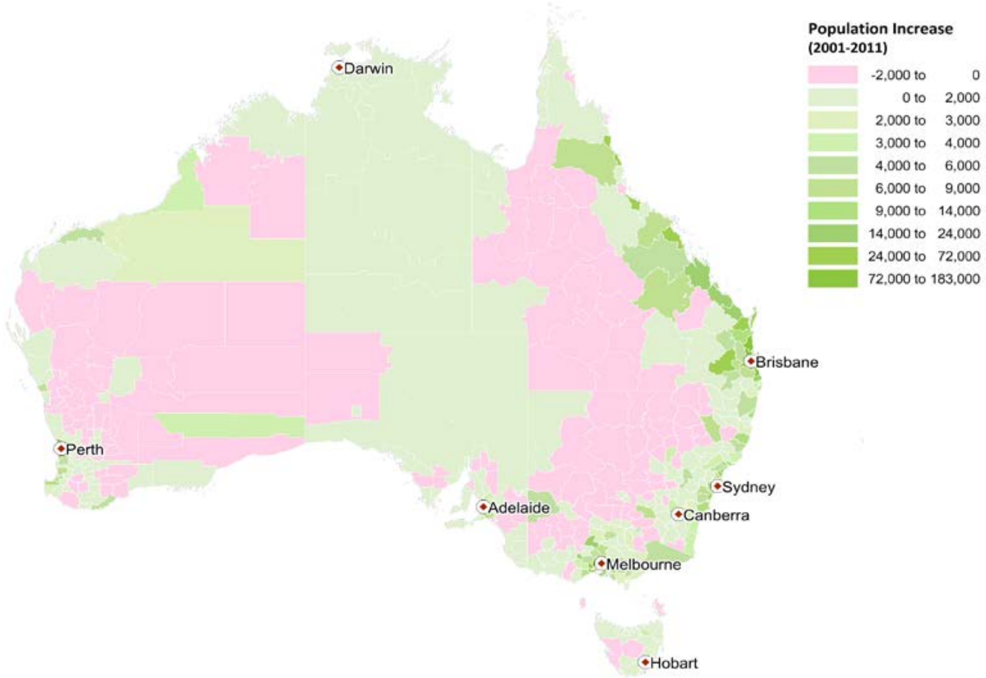
Other productive activities in regions based on a land or environmental resource are no less knowledge intensive than the mining sector. Farmers, graziers, horticulturalists and tourism operators need to be at the top of their game in managing and conserving their resources, in optimising production versus market demands, in arranging just in time logistics, in reaching new and more valuable markets etc. All this already requires, and will continue to require, city based specialised services.

While the value chain unbundling process has played a critical role in shoring up the competitiveness of Australia's regions, it has also relentlessly eroded the population 'carrying capacity' of non-metropolitan Australia as a whole.

Those parts of regional Australia which are exhibiting significant growth tend to be those which enjoy strong links to capital cities.

Figure 5 shows that large parts of regional Australia are facing static or declining populations. To gain a better understanding of the population shifts driven by value chain unbundling, it is important to drill down in particular jurisdictions. In this regard, we look at Victoria as a case study.

FIGURE 5 POPULATION CHANGE 2001 - 2011



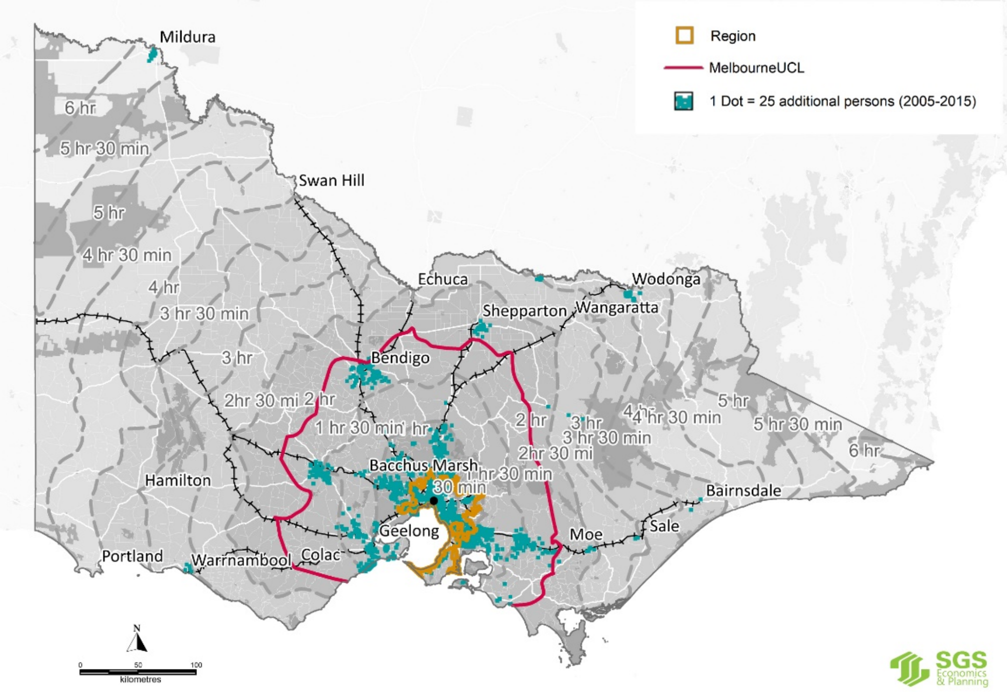

**Source:** ABS data and SGS Economics and Planning Pty Ltd

Total population growth in Victoria over the 2006 to 2016 period was 993,000, taking the population to 5.925 million. Only 20,000 of this growth occurred in those Victorian regions located outside the 2 hour drive to Melbourne cordon.

In fact, 90% of the growth which took place in those parts of Victoria officially classified as 'regional' occurred in areas within 2 hours drive of central Melbourne.

Figure 6 shows that there were notable growth nodes in Mildura, Bairnsdale and Wodonga in the more 'remote' parts of Victoria. But the key regional nodes which link the metropolis to the wider State hinterland, that is, places like Ballarat, Bendigo, Geelong and the Latrobe Valley experienced much more impressive growth. Still more striking is the growth which occurred in the peri-urban region, that is, country lifestyle areas offering a degree of integration with the metropolitan labour market.

FIGURE 6 ESTIMATED POPULATION CHANGE VICTORIA 2005 - 2015




**Source:** ABS data and SGS Economics and Planning Pty Ltd

If the capitals and their 150 km radius zones are set aside, Australia has only 5 cities with populations of more than 50,000. All but one of these (Launceston) is located in Queensland. This further underlines the role of the metropolises in hosting specialised business services and, ultimately, in powering regional population growth.

Another analysis of this phenomenon would be to group major regional centres according to the apparent strength of their integration with the nearest capital city. Under this approach, cities like Wollongong and Newcastle would be seen as tightly linked to metropolitan Sydney, Geelong to Melbourne, Mandurah to Perth, Gold Coast and Sunshine Coasts to Brisbane and so on. Table 3 shows fully that 80% of Australia's population growth in the decade to 2011 occurred in the capital cities plus these metro linked major urban centres. Melbourne and Sydney alone accounted for almost 40% of this growth.

TABLE 3 POPULATION GROWTH AUSTRALIA

| | Population change 2001 - 2011 | % share of growth |
|---|---|---|
| Melbourne & Sydney | 1,164,880 | 36.3% |
| Other Capital Cities | 948,809 | 29.6% |
| Other Major Cities (metro linked) | 446,650 | 13.9% |
| Other Major Cities (regional) | 313,273 | 9.8% |
| Rest of Australia | 331,442 | 10.3% |
| Total Australia | 3,205,054 | |

**Source:** ABS data and SGS Economics and Planning Pty Ltd

## 2.2 Growing regional economies and cities

The centripetal force exerted by the big cities on the distribution of population growth across Australia is evident. In this context it is important to investigate what is driving population growth in those relatively few growing centres which lie outside of the gravitational force of the metros?

To a degree, the drivers in non-metro areas will be fuelled by support services to local agricultural and resource production, that is, the localised aspects of 'off-farm' or 'off-mine' sourcing of business inputs.

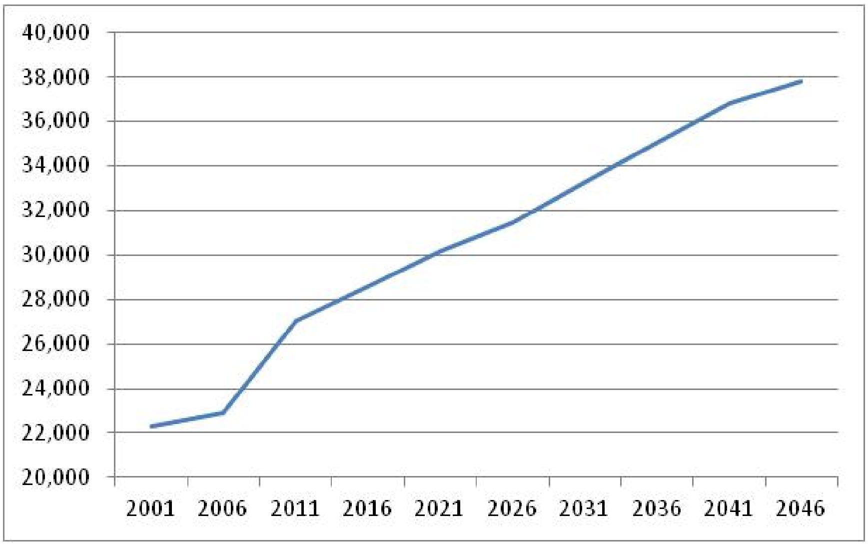
However, the heavy lifting in terms of population growth in these areas will most likely lie in providing services to the local population. Increasingly, this population will be demanding a broader and deeper range of services because of ageing.

Mildura in Victoria provides a good example of this effect. It is a resource dependent regional centre of some scale, it is clearly outside the (residential) gravitational pull of Melbourne and, as noted, it has enjoyed reasonably strong growth.

SGS's projections show that employment in Mildura will increase by about a third over the next 30 years, from around 27,000 jobs in 2011, to 38,000 jobs in 2046 (Figure 7). Despite this growth, engagement in agriculture itself will see an absolute decline in terms of jobs, though not in terms of value added. Health care alone is expected to account for a net increase of 5,000 jobs – about half of the total expected increase for Mildura (Figure 8).

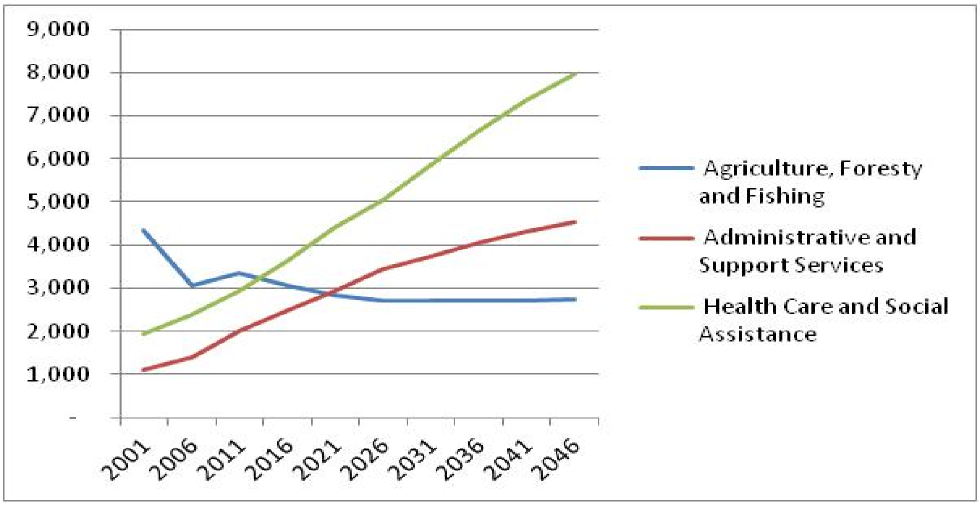
The second biggest contributor to net employment growth in Mildura is expected to be Administrative and support services, reflecting the localised aspects of value chain unbundling mentioned earlier.

FIGURE 7 PROJECTED EMPLOYMENT GROWTH IN MILDURA




**Source:** SGS Economics and Planning Pty Ltd

FIGURE 8 GROWTH IN EMPLOYMENT FOR SELECTED SECTORS - MILDURA




**Source:** SGS Economics and Planning Pty Ltd

Based on the foregoing discussion, there appears to be four broad categories of non-metro region in Australia:

- regions which are strongly **linked to the nearest metropolis**
- regions beyond the convenient reach of the metros but offering strong **lifestyle and tourism** opportunities (for example, Port Macquarie/Hastings, Hervey Bay)
- **agricultural resource based regions**, also beyond the convenient reach of the metros, and
- **mineral resource regions**.

Various sub-groups of regions within these categories will also have a major tourism string to their economic bow.

A customised approach to regional development is required across these categories.

For those regions within convenient 'face to face commerce' distance of metropolitan areas, a key objective should be to strengthen these ties. This is despite the (possibly) instinctive position in many such regions to view the nearest big city as a competitor for talent and investment.

Transport and, in particular, rail connectivity will be an important factor in further integrating regional and metropolitan economies for their mutual benefit.

For agriculture and lifestyle based regions outside of the gravitational pull of the nearest metropolitan area, conservation of the resource base in the landscape and seascape, soils, water and micro-climatic conditions is paramount. A further challenge for these regions is to understand and manage the dynamic drivers of population carrying capacity, recognising that expansion of towns will increasingly be characterised by concentration into one or two centres, with much of the growth being powered by human services (see text box for further discussion).

For mining regions, the challenge lies in meeting the infrastructure demands of urbanisation and mineral exploitation, knowing that such infrastructure may have a relatively short pay-back life. These regions will have even more dynamic populations, with temporary and redeployable investment expected to figure prominently in formation of settlement patterns.

**Economic development beyond the gravitational pull of the metros**

Economic development initiatives should be tailored to the local region. State and (prospectively) regional governments should consider the existing endowments and industries of specialisation within each of the regions and build on these through investment.

The strong nexus between the relative regional industry strengths and the capacity of the local labour force needs to be recognised.

For example, in locations where there is a significant ageing population, investing in health and well-being to underpin productivity and the contribution that human capital can make to the local economy, will be important. Prospects to deepen the economy of some of these 'lifestyle' regions may be limited so the effort should be focussed on developing excellence in the sectors which are population dependent such as health.

For regions which rely on nature-based tourism, protecting and indeed nurturing the natural environment will be important to the long term sustainability of the regional economy. Investment in environmental care and restoration shouldn't be seen as 'make work' schemes but rather as investment in the fundamental 'infrastructure' of regions (albeit natural rather than man-made infrastructure).

Transitioning labour into new opportunities such as renewable energy development and generation, and resource recovery and recycling, should also be a focus in regions affected by structural economic change.

In a future where technology will continue to disrupt and replace traditional employment, the need for such targeted government intervention to sustain the economic base and livelihood of regions will increase.

This discussion, more generally, raises the question of whether targeted subsidies to get households and businesses to move to non-metro locations would represent good policy, as opposed to good politics.

In part, the idea of decentralisation is premised on the assertion that the metropolitan areas have reached capacity constraints. That is, their productivity is being eroded by congestion, high housing prices and stretched human services infrastructure.

The evidence does not seem to support this position. On the contrary, it appears that the cities provide indispensible specialised services which the non-metro areas simply cannot provide. The level of specialisation in knowledge based services – which are critical to the productivity of all economic activity whether it occurs in the city or the country – is made possible by the scale and agglomeration economies offered by the major metros.

Congestion in metropolitan areas is indeed a problem. But it is also a sign of success. The fact that investment in specialised enterprises continues to occur in the major cities despite the congestion shows that these locations offer more than compensating benefits in access to skills, a diverse supply chain and a creative environment for business. It would assist city and country alike if these agglomeration benefits were better understood and supported in policy making.

## 2.3 Concluding remarks

This submission contends that the metropolitan areas are key drivers of regional prosperity, particularly for those towns and districts which are within a 2 hour drive of a major city. Infrastructure planning and investment in these 'metro linked regions' need to avoid a city versus country perspective. Rather they must take a genuinely integrated approach which envisages a cohesive mega economic region, centred on the metropolis in question.

Mining and agriculture based regions located in relatively remote parts of the country face a productivity driven squeeze on their population carrying capacity. This is likely to be characterised by continuing rationalisation of settlement patterns and the emergence of dominant 'sponge' cities. Economic development strategies and infrastructure investment in these regions need to focus on their particular competitive strengths.

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