

Chapter 3

Australia's regional centres

Introduction

3.1 This chapter provides a snapshot of regional capitals across Australia in terms of assessing demographic trends, challenges and opportunities, while exploring the impact of a changing environment on regional capitals. Consideration is also given to the strategic importance of regional capitals to their local communities and Australia more generally.

Development of regional capitals in Australia

Trends in regional centres

3.2 Population in Australia has increased in cities and regional centres and declined in small rural inland towns.¹ Four key trends occurred between 1911 and 2006 in Australia:

- the settlement of Northern Australia;
- the growth of coastal towns and cities;
- the emergence of larger centres; and
- the disappearance of many smaller towns.²

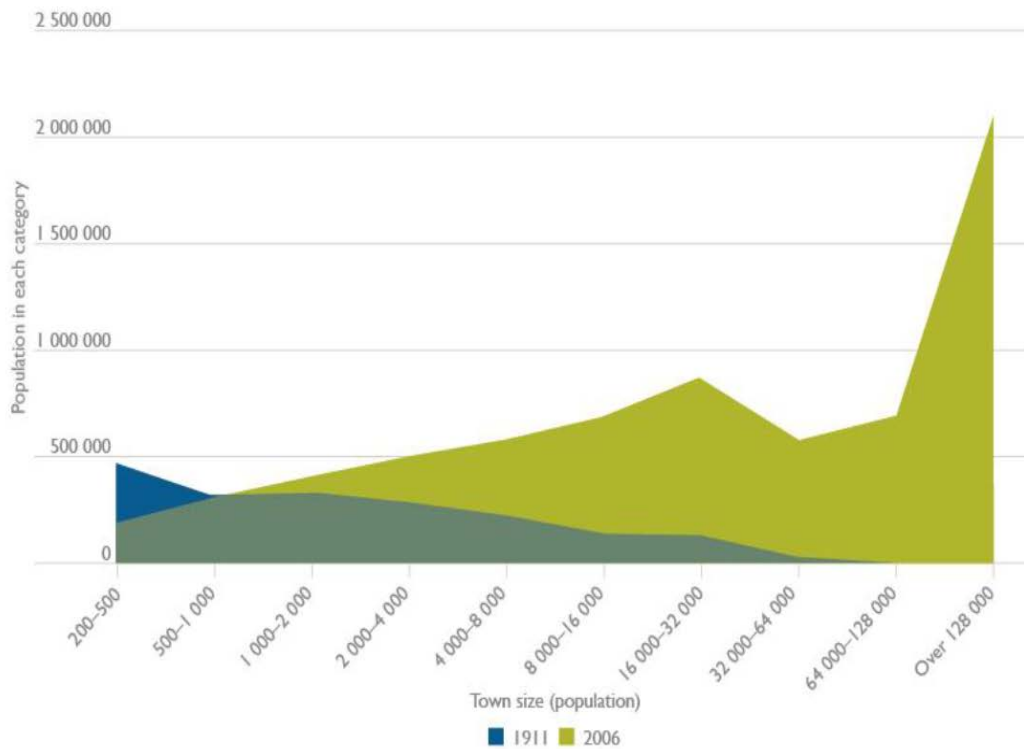
3.3 The graph overleaf illustrates these trends, described by the Department of Infrastructure and Regional Development (the department) in the following terms:

The blue area, which represents the size and distribution of the 1911 regional population, shows that at the beginning of the century the Australian population living outside the capital cities was spread among a large number of relatively small towns. In 1911, some 40 percent of this regional population lived in towns of between 200 and 1000 people. The green area, which represents the size and distribution of the 2006 population living outside the major capital cities, shows the reversal of this pattern, with a clear shift in the regional population to larger centres.³

1 See generally: Department of Infrastructure and Regional Development, *The evolution of Australian towns*, May 2014, https://bitre.gov.au/publications/2014/report_136.aspx (accessed 22 November 2017).

2 Department of Infrastructure and Regional Development, *Submission 76*, p. 5.

3 Department of Infrastructure and Regional Development, *Submission 76*, p. 4.



Note: Data does not include the mainland state capitals (Sydney, Melbourne, Brisbane, Adelaide and Perth).
 Source: BITRE (2014).

3.4 The growth of regional capitals can be attributed to a range of factors, including reduction in the cost of communications and transport and new technologies in agriculture.⁴ Rather than an urbanisation trend of people movement to capital cities, since the 1970s, Australians have been moving to regional cities and towns. The Regional Australia Institute explained that as a consequence of this trend:

There are now 4½ million people living in regional cities around Australia, which is a population of the same size as Sydney and Melbourne. If you include a broader suite of small places, which this inquiry does, then you go beyond that up towards five million people.⁵

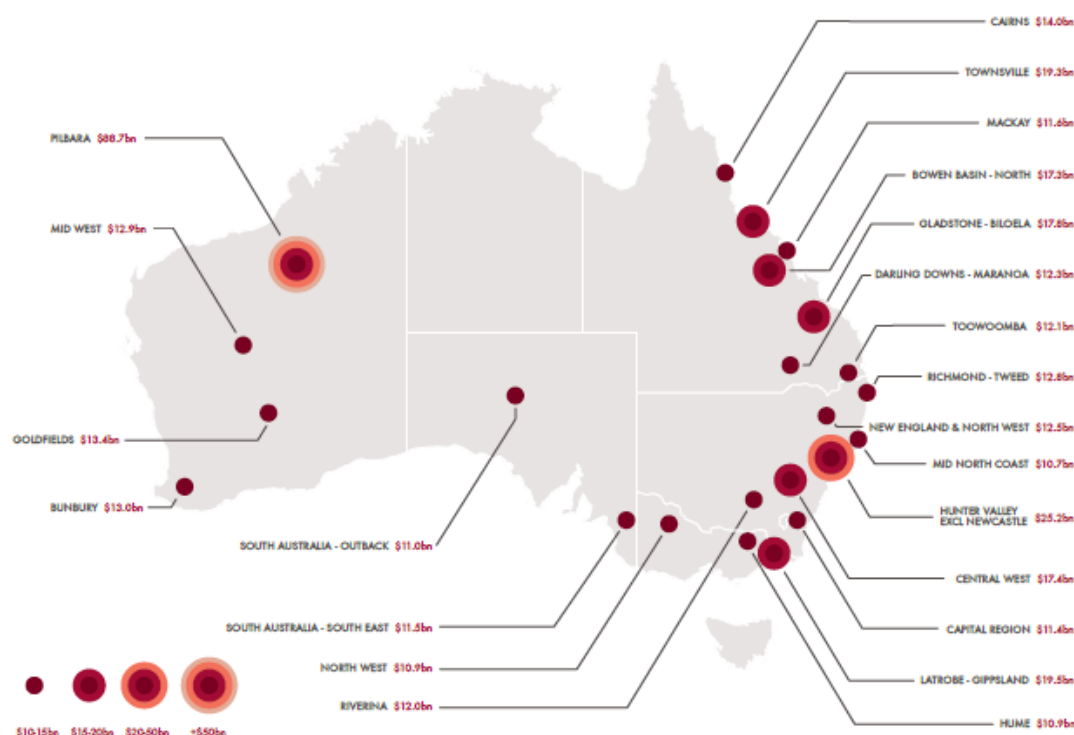
4 Regional Capitals Australia, *Submission 48*, p. 9.

5 Mr Jack Archer, Chief Executive Officer, Regional Australia Institute, *Committee Hansard*, 4 March 2016, p. 1.

3.5 Yet despite this reality, most urban policy discussions focus on capital cities. A large number of submitters to the inquiry called for a change in focus, away from capital cities and towards regional cities.⁶ Mr Jack Archer, Chief Executive Officer, Regional Australia Institute, stated that government policy should 'shy away from big grand national sweeps' and instead seek to 'understand the development pathways for different places and support those and support locals to pursue them'.⁷

Strategic importance of regional capitals

3.6 Regional capitals perform an important strategic function in their local communities. RCA reports that regional capitals contribute 15 per cent of Australia's Gross Regional Product and hold a labour force of more than 2 million people. Further, 40 per cent of Australia's exports are produced in regional Australia, and much of this output passes through regional capitals.⁸ Infrastructure Australia projected gross regional product for major regional centres in 2031, as illustrated below.⁹ In some regions such as the Pilbara and Gladstone the private sector has funded the bulk of the infrastructure. However in most regions government investment in economic infrastructure is required.



Source: Australian Infrastructure Audit 2015

6 See, for example, Regional Australia Institute, *Submission 69*; Regional Capitals Australia, *Submission 48*; Planning Institute Australia, *Submission 59*.

7 Mr Jack Archer, Chief Executive Officer, Regional Australia Institute, *Committee Hansard*, 4 March 2016, p. 1.

8 Regional Capitals Australia, *Submission 48*, p. 10.

9 Infrastructure Australia, *Australian Infrastructure Plan*, February 2016, p. 61, Figure 4.1.

3.7 Regional capitals also offer a number of non-economic benefits. RCA submits that these benefits include:

- a good alternative to congested and sprawling urban capital cities;
- a substantial base infrastructure that can be developed, as required;
- faster freight access to south east Asian countries (in northern Australia, compared to east coast capital cities);
- affordable house prices at 20-30 per cent lower than state capital land prices;
- land available for business and residential development;
- a model for efficient and sustainable growth; and
- diversification of the national economy.¹⁰

3.8 These claims were substantiated by a number of other submitters to the inquiry, many of which work to promote the benefits of living in the regions to residents of capital cities.¹¹

3.9 A primary case in point was that of Evocities. Evocities is a successful regional marketing campaign that was established to attract new residents to inland NSW. Seven councils are members of the campaign: Albury, Armidale, Bathurst, Dubbo, Orange, Tamworth and Wagga Wagga. A key tool is the Evocities website, alongside a job search website and investment website for small businesses.¹² Evocities reports that 2300 families from Sydney have relocated to its regional capitals since the campaign commenced.¹³ Evocities is funded by mixed sources, including \$2.4 million from councils, \$230,000 from the NSW state government, \$1.7 million from the federal government and corporate sponsorship of \$360,000. Government funding ceased in 2011-2012 and now the member councils provide most of the funds.¹⁴

Challenges facing regional capitals

3.10 Despite the many advantages of regional capitals, each has its own challenges. ABS research indicated that of the 55 Regional Development Australia Committee regions surveyed, all identified at least one threat to their economy. For the majority, reliance on a small number of concentrated industries was the greatest concern. Under such circumstances, and without diversification, the prospect of industry failure or

10 Regional Capitals Australia, *Submission 48*, p. 9.

11 See, for example: Cairns Regional Council, *Submission 44*; Mackay Regional Council, *Submission 55*; Wagga Wagga City Council, *Submission 57*; Albury City Council and City of Wodonga, *Submission 65*; Tasmanian Government, *Submission 74*; Councillor Mathew Dickerson, Chairman, Evocities, *Committee Hansard*, 4 March 2016, pp. 27–38.

12 Evocities, *Submission 56*, p. 3.

13 Evocities, *Submission 56*, p. 4.

14 Evocities, *Submission 56*, p. 5.

even downsizing would have serious repercussions on local communities.¹⁵ This section considers a range of challenges facing regional capitals across Australia.

Ageing population

3.11 Some regional capitals, particularly those on the coast, have ageing populations. RCA reported that 70 per cent of regional capitals have a senior dependency ratio of 21.2 per cent. Indeed, for some regional capitals this rate is higher than 30 per cent. This means that for every 10 people of working age (15 to 64 years), another three are over 65 years of age. However, as the examples below illustrate, it is not just coastal regional centres that are experiencing this trend.¹⁶

Population ageing: senior dependency ratios

Seniors (65+ years) as a per cent of the working age (15-64 years) population: 2012	Per cent
Port Macquarie-Hastings	43.7
Shoalhaven	39.9
Fraser Coast	37.1
Ballina	36.0
Bundaberg	33.1
Wangaratta	31.7
Gosford	31.2
Wyong	31.1
Devonport	31.0
Coffs Harbour	29.2
Horsham	28.7
Albany	28.4
Tamworth Regional	27.3
Greater Geelong	26.4
Mildura	26.1
Port Lincoln	25.6
Warrnambool	25.4
Wollongong	25.1
Mount Gambier	24.8
Greater Bendigo	24.7
Toowoomba	24.6
Latrobe	24.5
Launceston	24.2
Albury	23.8
Greater Shepparton	23.5
Ballarat	23.3
Bunbury	22.7
Newcastle	22.6
Lismore	22.5
Orange	22.5
Dubbo	22.4
Cessnock	21.9
Bathurst Regional	21.8
Rockhampton	21.5
Australia	21.2

Figure 6 Source: Regional Australia Institute, *Insight Database 2014*

3.12 Byron Shire Council reported two key trends in its population. First, a growing aged population and second, a significant out-migration of persons in the 19–35 years age group as young people seek jobs and higher education opportunities elsewhere. This trend is particularly apparent in the smaller towns in the Byron Shire such as Mullumbimby. At the same time, the largest population growth is occurring in

15 Australian Bureau of Statistics, *Submission 5*, p. 5.

16 Regional Capitals Australia, *Submission 48*, p. 14.

those over 59 years of age.¹⁷ The City of Launceston reported similar trends.¹⁸ The WA Local Government Association reported that Broome, Busselton, Esperance, Karratha and Northam have each experienced population growth amongst those over 65 years of age that exceeds the state average.¹⁹

3.13 An ageing population presents a number of challenges for regional centres, including lower productivity, increased health costs, and less return on land rates.²⁰ For example, as the cohort aged over 65 increases, the number of people who can claim a rate reduction under the *Local Government Act 1993* (NSW) will increase, and in turn reduce the revenue of NSW local governments.²¹

3.14 Aging populations, combined with a low skilled youth cohort, can also create skill shortages. Mr Mike Brindley, Regional Development Australia Tasmania identified the dairy industry in Tasmania as an example where there is:

...a profound lack of suitably qualified or job-ready young people wanting to enter into the industry. I notice a lot of people have been sourced from the mainland and from overseas to help in the dairy industry expansion. That has been one area where it has been critical to seek young people to work on farms, as we have an older generation exiting that industry. The main thing we are hearing is job-readiness, reliability and punctuality, and a willingness to work long hours is quite a significant inhibitor.²²

3.15 Yet not all regional centres are experiencing an ageing population. For example, Wagga Wagga attributes its larger percentage of persons aged 20-24 compared to the national average to its facilities (including universities and two defence bases).²³

Higher unemployment rates

3.16 A number of regional capitals reported higher unemployment rates than capitals cities, particularly youth unemployment.²⁴ The Hunter region, NSW, reported a high level of youth unemployment in particular.²⁵ Northern Tasmania's

17 Byron Shire Council, *Submission 43*, p. 1

18 City of Launceston, *Submission 80*, p. 8.

19 Western Australia Local Government Alliance, *Submission 46*, p. 10.

20 Regional Capitals Australia, *Submission 48*, p. 15. Byron Shire Council, *Submission 43*, p. 1; City of Busselton, *Submission 32*, p. 2.

21 Just over half the amount of lost revenue is refunded to the Council by the NSW Government and this reimbursement used to be funded by the federal government: Byron Shire Council, *Submission 43*, p. 1.

22 *Committee Hansard*, 25 September 2015, p. 9.

23 Wagga Wagga City Council, *Submission 57*, p. 5.

24 Regional Capitals Australia, *Submission 48*, p. 4; City of Launceston, *Submission 80*, p. 8.

25 Regional Development Australia: Hunter, *Submission 39*, p. 2.

unemployment rate is 8.2 per cent, higher than both the Tasmanian rate of 6.6 per cent and the Australian rate of 6.3 per cent.²⁶

3.17 Higher rates of unemployment are not the experience of all regional centres. For example, the City of Karratha had an unemployment rate of only 2.2 per cent in the 2011 Census.²⁷ Wagga Wagga had a relatively low unemployment rate of 4.9 per cent in September 2011.²⁸ Other regional centres, such as Lismore, reported a higher than average unemployment rate that has been progressively falling in the past decade.²⁹

Lower productivity compared to the national average

3.18 RCA describes productivity as a measure of:

...how efficiently people combine resources to produce goods and services. Productivity can be measured as goods and services produced per hour worked, per worker employed or per combination of labour inputs and capital inputs (this is known as multifactor productivity).³⁰

3.19 Regional capitals generally have lower productivity rates compared to the national average. Productivity was less than the Australian average for 33 of 50 regional capitals (and for a third of these, productivity fell during a three year period).³¹ Nevertheless, some regional capitals reported high productivity. The City of Karratha produces the sixth largest economic output of all Australian municipalities and worker productivity is greater than 6 times the national figure.³²

3.20 RCA referred the committee to drivers of population, participation and productivity that would increase the strategic importance of regional capitals and increase national output:

1. Effective cross-sectorial and intergovernmental partnerships and integrated regional planning
2. Human capital, particularly education and skills
3. Economic, environmental and socially sustainable communities and population growth
4. Access to international, national and regional markets

26 Northern Tasmania Development, *Submission 40*, Attachment 1, p. 3.

27 City of Karratha, *Submission 22*, p. 4.

28 Wagga Wagga City Council, *Submission 57*, p. 5.

29 Lismore City Council, *Submission 24*, pp. 7–8.

30 Regional Capitals Australia, *Submission 48*, p. 17.

31 Regional Capitals Australia, *Submission 48*, p. 17. RCA defines productivity as Gross Regional Product per a worker employed.

32 City of Karratha, *Submission 22*, p. 2, 4–5.

5. Comparative advantage and business competitiveness.³³

High school graduation and tertiary entrance rates

3.21 Regional capitals tend to have lower year 12 completion rates and their tertiary entrance rates are lower than the national average.³⁴ RCA provided the following graph to illustrate the difference between educational attainment and job type in regional capitals and across Australia.³⁵

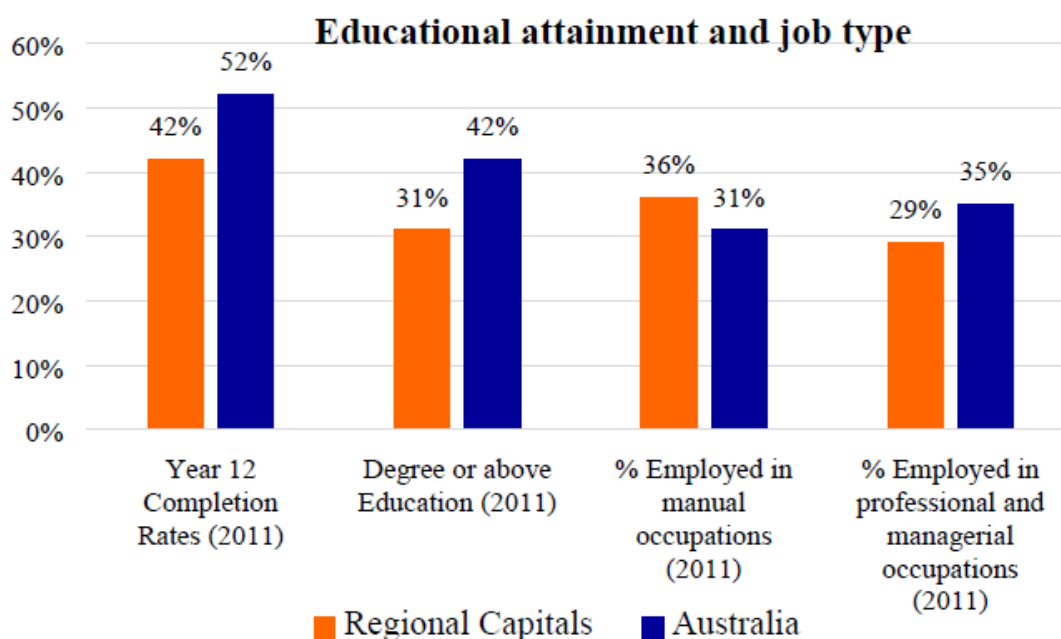


Figure 9 Source: Essential Economics 2014 RCA Issues and Positioning Paper (based on ABS data)

3.22 The City of Greater Shepparton reported high youth unemployment and only 32.9 per cent of residents completing year 12, while only 10 per cent continued to higher education.³⁶ The city attributed these rates to lack of aspiration, poor public transport and limited education options. Albury Wodonga Councils reported a lower level of year 12 attainment than the national average. As a consequence many of its residents 'lack basic employability skills, even for lower skilled vacancies and entry level positions such as apprenticeships and traineeships'.³⁷

3.23 Low educational attainment can impact the labour participation rate and hamper the ability of regional capitals to attract highly skilled workers. The Regional Universities Network noted that these low rates of education attainment in regional

33 Department of Regional Australia, Local Government, Arts and Sport, *Regional Economic Development Guide*, 2013 cited in Regional Capitals Australia, *Submission 48*, p. 18.

34 Regional Capitals Australia, *Submission 48*, p. 17.

35 Regional Capitals Australia, *Submission 48*, p. 15.

36 Greater Shepparton City Council, *Submission 8*, p. 2.

37 Albury Wodonga, *Submission 65*, p. 14.

areas are particularly problematic as most employment growth in Australia occurs in highly skilled jobs. For these reasons, education participation rates must increase to 'address a long standing equity issue, meet the needs of the future workforce, and enable regional industries to diversify and grow'.³⁸

Social infrastructure and support

3.24 Some regional capitals, and the towns surrounding them, accommodate some of the most entrenched disadvantaged communities in Australia.³⁹ The well regarded *Dropping off the Edge* report documented persistent communal disadvantage in Australia, much of which exists outside of Australia's capital cities.⁴⁰ Ms Elizabeth de Chastel, Catholic Social Services Australia (CSSA), told the committee during the Canberra hearing that:

Long-term unemployment is a common factor in these disadvantaged communities as well as associated indicators such as criminal convictions, poor access to internet, domestic violence and lack of qualifications. The research findings also show that the indicators of disadvantage were different in each community as well.⁴¹

3.25 Wagga Wagga reported relatively high levels of social disadvantage and high levels of welfare dependency.⁴² A range of initiatives are required to address the needs of these populations, including ensuring a mix of social housing throughout the community, support for youth focused activities and ensuring that funding programs are coordinated.⁴³

3.26 CSSA asked people in local communities for feedback on government funding. Recurrent themes in the feedback included a perception that funding often was not targeted to meet the needs of the local community, services were often poorly coordinated, there was competition between service providers for funding, and often no long term strategy for supporting the community.⁴⁴

3.27 Sister Mary Ryan, Director of Centacare Family Services, reminded the committee that economic development of regional capitals like Geraldton is not always accompanied by social benefits for the community. She suggested that 'the

38 Regional Universities Network, *Submission 11*, p. 4.

39 Ms Elizabeth de Chastel, Director, Social Policy, Catholic Social Services Australia, *Committee Hansard*, 4 March 2016, p. 11.

40 Tony Vinson and Margot Rawsthorne, *Dropping off the Edge*, Jesuit Social Services and Catholic Social Services Australia, 2015.

41 Ms Elizabeth de Chastel, Director, Social Policy, Catholic Social Services Australia, *Committee Hansard*, 4 March 2016, p. 11.

42 Wagga Wagga Council, *Submission 57*, p. 6.

43 Wagga Wagga Council, *Submission 57*, p. 14.

44 Ms Elizabeth de Chastel, Director, Social Policy, Catholic Social Services Australia, *Committee Hansard*, 4 March 2016, p. 11. See also Sister Mary Ryan, Director, Centacare Family Services, Geraldton, *Committee Hansard*, 28 October 2015, p. 56.

ordinary person in the street – not just Aboriginal people – has not gained anything at all' from the rise in prosperity in the city of Geraldton.⁴⁵

Higher costs associated with dealing with extreme weather events

3.28 Costs associated with dealing with the impact of drought and other extreme weather events are often higher in regional capitals.⁴⁶ Charles Sturt University (CSU) submitted that 'Australia's changing environment has had, and will continue to have a major impact and effect on regional capitals'.⁴⁷ Given its role as a leading university in agricultural research, the CSU has been closely involved in addressing the 'devastating effects of prolonged drought, as well as subsequent flooding and other associated natural catastrophes'.⁴⁸ CSU described the impact in the following terms:

These events continue to cause substantial economic pain, and community suffering across regional capitals in Australia, where previous fertile and productive land increasingly yields fewer and less predictable crop cycles, and is unable to sustain levels of livestock previously relied upon to support families and communities. Similarly, the changing timing of climatic temperatures and seasons has had a major impact on crop cycles, not only with traditional agricultural crops, but also in the production of grapes for wine, and other important growth sectors for regional economies. Moreover, such changes to water availability also pose a significant threat to the viability of growing regional capitals, and require investment in significant infrastructure.⁴⁹

3.29 For these reasons, CSU called for continuing investment in environmental research to address these challenges and to 'develop solutions that secure the future of Australia's regional capitals and industries'.⁵⁰

3.30 Many regional centres have incorporated climate change to their region's strategic plans. For example, the City of Ballarat observed that 'climate change is likely to impact on the Ballarat community over the coming decade'. The impacts include:

...expected changes in the intensity and frequency of extreme weather events, changes to the water cycle affecting agriculture and other key industries, and concerns about the ongoing threat of natural disasters such as bushfires and floods. In terms of a growing population, the impact of such changes can have increasingly significant impacts.⁵¹

45 Sister Mary Ryan, Director, Centacare Family Services, Geraldton, *Committee Hansard*, 28 October 2015, p. 56.

46 Regional Capitals Australia, *Submission 48*, p. 39.

47 Charles Sturt University, *Submission 36*, p. 14.

48 Charles Sturt University, *Submission 36*, p. 14.

49 Charles Sturt University, *Submission 36*, p. 14.

50 Charles Sturt University, *Submission 36*, p. 14.

51 City of Ballarat, *Submission 27*, Attachment, Ballarat Strategy, Summary, p. 18.

3.31 The City of Ballarat has ensured that its response to these threats is embedded in all parts of the Ballarat Strategy: both to minimise the city's contribution to climate change in terms of greenhouse gas emissions, but also to build resilience to climate change. These measures include policy responses to prepare for both flooding and drought, and, as a consequence, continued focus on the conservation of water.⁵²

3.32 The Tasmanian Government commissioned the Antarctic Climate and Ecosystems Cooperative Research Centre to conduct climate change modelling. Climate profiles were created for each local government area and a range of scenarios were detailed. As a consequence of this planning there have been policy responses across all areas of government.⁵³

3.33 The Coffs Harbour City Council noted that there are significant costs associated with maintaining a coastal port in the face of increased extreme weather events, describing it as an expensive infrastructure exercise:

...with nearly \$3 million spent recently to remedy slipway contamination, and nearly \$4 million to conduct extensive hydrology and feasibility studies into the viability of a boat maintenance facility (that would involve constructing additional breakwaters). The NSW State Government also recently spent \$20 million on refurbishing the southern breakwater, and will spend an additional \$15 million to reinforce the northern breakwater.⁵⁴

3.34 The increase in extreme weather events has had a significant financial impact on residents and businesses in Townsville. The Townsville City Council provided evidence to the committee that insurance premiums in Northern Queensland inhibit investment and increase the costs for businesses and residents. The table on the following page illustrates the range of premiums payable for a single level brick house built in 1990 and insured for \$350,000.⁵⁵

52 City of Ballarat, *Submission 27*, Attachment, Ballarat Strategy, section 5.

53 Regional Development Australia – Tasmania, *Submission 18*, p. 24.

54 Coffs Harbour City Council, *Submission 13*, pp. 5-6.

55 Townsville City Council, *Submission 19*, pp. 24-25.

Location	Cost (\$)
Brisbane (Ferny Hills)	1 957.16
Brisbane (Runcorn)	2 197.66
Mackay	3 882.50
Townsville (Annandale)	4 581.42
Innisfail	5 803.49
Ingham	7 304.52
Cairns	9 190.16
Weipa	10 861.92

Range of premiums payable for a single level brick house built in 1990 and insured for \$350,000.⁵⁶

3.35 The premium attached to insurance for homes in Northern Queensland is staggering. Townsville City Council noted that some insurers will not insure properties in this region because the risk of damage due to flood, cyclone or other natural disaster is deemed too high. Townsville City Council identified a range of measures to assist residents, including the creation of a Commonwealth owned insurance agency (similar to one offered in the Northern Territory), the removal of stamp duty from insurance premiums, the expansion of the role of the Australian Reinsurance Pool Corporation, or the creation of a National Disaster Insurance Pool.⁵⁷

3.36 The Queensland government has created a Community Resilience Fund specifically targeted at improving the resilience of local governments to natural disasters and has been working with insurance providers and residents to ensure that homes that are retrofitted to withstand extreme weather events enjoy lower premiums.⁵⁸

Costs associated with building and maintaining infrastructure from a low rate base

3.37 Many regional capitals struggle to fund the maintenance of infrastructure from a low rate base.

3.38 The City of Ballarat reported that 'rate capping' would have a severe impact on the capacity of local governments to invest in infrastructure to promote growth. The city described its discretion to increase rates as 'one of the few options the Council does have to provide funds to maintain existing infrastructures and service

56 Townsville City Council, *Submission 19*, pp. 24-25.

57 Townsville City Council, *Submission 19*, p. 25.

58 Mr Darren Cleland, Acting Deputy Director-General, Queensland Department of State Development, *Committee Hansard*, 16 February 2015, p. 9.

provision, while debt and grant facilities are used to fund new/growth infrastructures'.⁵⁹

3.39 The City of Launceston submitted that limits of local government boundaries present significant challenges for the city, arguing that it is inequitable when 67 000 residents are paying to maintain infrastructure also enjoyed by 40 000 others in the Greater Launceston area:

One of the significant challenges for Launceston is the constraints of local government boundaries. That significant numbers of the residents of the Greater Launceston region reside beyond the Launceston City Council municipal boundaries places a significant financial burden on the Launceston ratepayers. Regional facilities such as the Aurora Stadium football and surrounding sporting precinct, the Launceston Aquatic Centre, Princess Theatre and the Queen Victoria Museum and Art Gallery, are heavily subsidised by the Launceston ratepayers.

The Council has engaged in discussions with the State Government seeking a partnership approach that pursues a fairer funding model for these major regional facilities that shares the cost.⁶⁰

3.40 Tamworth Regional Council made a similar point, criticising the federal government for not taking into account the services provided by regional capitals to the surrounding region:

Federal Funding...is distributed on a range of factors including population and the relative —disability of a Council's demographic – but it does not take into account that Regional Centres provide a whole range of infrastructure, facilities and services to surrounding Councils where their ratepayers do not make any contribution – for example, sporting fields, regional playgrounds, swimming pools etc. are all paid for and subsidised by local ratepayers, but a visitor from a surrounding area does not make any substantial contribution toward the cost of providing that facility.⁶¹

3.41 These problems are exacerbated by the fact that large grants from the federal government for infrastructure are not usually accompanied with funds for maintenance. For example, the Mayor of Dubbo, Councillor Dickerson, gave the following example to the committee:

[We] got some money out of the federal government recently for an athletics facility, which is a fantastic facility—an international-class athletics facility. It was a \$5.7 million build, of which about \$3.5 million came from the federal government—fantastic. In terms of all of our long-term strategic planning, we put money aside because we know that track will be replaced in 20 years time. We have to be putting money aside now.

59 City of Ballarat, *Submission 27*, p. 9.

60 City of Launceston, *Submission 80*, p. 1.

61 Tamworth Regional Council, *Submission 60*, p. 13

That is costing us money every day, but it is a great facility for Dubbo. So those big pools of money sometimes are not great from the community.⁶²

3.42 A similar observation was made by Councillor Van Styn during the committee's Geraldton hearing. Federal funding usually is associated with establishment costs and not the 'operation, maintenance and renewal' of assets. This presents a 'real problem' for regional capitals.⁶³

Limitations on debt financing

3.43 A number of other factors can constrain the ability of regional capitals to raise capital. Some councils described difficulties that they had encountered when attempting to raise debt finance.⁶⁴

3.44 In Victoria, all local governments are required to manage debt levels at a cap of 60 per cent of rates. This can present challenges for regional centres like Ballarat where most growth must be accommodated in greenfield sites. The costs associated with this development include capital works and infrastructure spending to accommodate *new* residents – who are not yet paying rates.⁶⁵ The City of Ballarat explained in its submission that:

For Ballarat the effective level of the debt it can use to fund growth and development opportunities is 60% x \$74.9m = \$44.9m. In terms of context, in 2014 the City of Ballarat spent \$37.4m on developing new /growth infrastructures, on top of \$32.9m in 2013. Ballarat is currently spending around 83% of its borrowing capacity every year on new infrastructures. This is not sustainable. To support new infrastructure spending which will benefit residents over the long term, the City is increasingly required to spend revenues generated by current residents, creating intergenerational equity related issues.

The debt the City is able to incur equates to around 1.2 years' worth of new capital infrastructure spending. The City would be in a position to increase its spending on new infrastructures if it was able to access more debt funds and not be subject to the 60% revenue funding cap. With borrowings of \$34.2m, the City can only access an additional \$10.7m of borrowings before it reaches its borrowing limit.

This development, which will generate future rates revenue, must be funded under the borrowing limit, which is based on current rate levels. This timing difference is a major impediment to local government, particularly regional capital growth and development.⁶⁶

62 Councillor Mathew Dickerson, Chairman, Evocities, *Committee Hansard*, 4 March 2016, p. 38.

63 Councillor Shane Van Styn, Board Member, Western Australia Regional Capitals Alliance, *Committee Hansard*, 28 October 2015, p. 44.

64 See, for example, City of Ballarat, *Submission 27*, p. 10; Warrnambool City Council, *Submission 51*, p. 11.

65 City of Ballarat, *Submission 27*, p. 9.

66 City of Ballarat, *Submission 27*, p. 9.

Other funding constraints

3.45 Submitters identified a range of other constraints on funding, including poorly developed funding markets and the high cost of debt capital, and called for tailored funding and grant models.⁶⁷ During the committee's hearing in Geelong, Mr Schinck, City of Ballarat, described a range of responses that were necessary to address these constraints, including funding models that 'relieve the pressure on ratepayers and government funding'. Examples include:

Those investment streams can come from non-public and private sector organisations in terms of direct investment, investment in houses, superannuation funds...⁶⁸

[In relation to variable funding models] This can be everything from tax incentives for regionally targeted investment, to group funding models, social capital bonds, partnership funding models, treasury models—which Regional Cities Victoria has looked at—and even the use of defined superannuation benefits.⁶⁹

3.46 Funding is discussed in more detail in Chapter 4.

Urgent infrastructure needs

3.47 Nearly all regional capitals that submitted to the inquiry reported urgent infrastructure needs and observed that finding funding to address these needs presented a challenge.⁷⁰ Two examples follow.

3.48 Townsville is struggling to meet its future water and energy needs. During the committee's hearing in Townsville, the committee learned that a range of solutions were being pursued to address these needs and that applications for federal and state funding had been submitted. Mr Graeme Bolton explained the pressing needs of Townsville:

Some of them range from very small amounts like \$5 million or \$6 million for a couple of road intersection upgrades which would unlock the potential for a new abattoir and a new feedlot. The return on investment on that was that, from our calculations, you would get a return on it within two years in terms of the throughput and the value of that industry.

They also then go up to something like the Integrated Stadium and Entertainment Centre. The current facilities for the Cowboys are significantly under standard, and they are going to have to be upgraded. We are going to have to do something. They cannot continue on there past

67 City of Ballarat, *Submission 27*, pp. 9–11.

68 Mr Anthony Schinck, CEO, City of Ballarat, *Committee Hansard*, 21 August 2015, p. 33.

69 Mr Anthony Schinck, CEO, City of Ballarat, *Committee Hansard*, 21 August 2015, p. 33. Tax relief for investment in regional Australia was also briefly mentioned during the committee's hearing in Townsville: Mr Darren Cleland, Acting Deputy Director-General, Queensland Department of State Development, *Committee Hansard*, 16 February 2015, p. 9.

70 See generally, Regional Capitals Australia, *Submission 48*, p. 5.

couple of years. That is roughly \$270 million for a stadium plus entertainment centre.

Then you are looking at water security. One option is the Haughton duplication. That is somewhere about \$180 million. But there are other opportunities out there such as the Hell's Gate dam, which would be significantly higher, but that has the potential to open up new agricultural areas and new opportunities for other businesses.⁷¹

3.49 The City of Geraldton has urgent electricity supply needs. The current 132 kilovolt power supply limits the development of the region as a 330 kilovolt electricity supply which is 200km away, has not been extended to Geraldton due to financial constraints upon the state government. Geraldton explained the consequences of this limitation:

As a result, any potential industry that will require more than 1.5MW is required to install back-up generator capacity to continue operations whilst the power supply is being curtailed by the energy provider. This creates a significant barrier or disincentive to potential industries that could provide value added services to the mining industry and important economic growth. Because of the low 1.5MW threshold, the policy also impacts on other service industries including retail shopping centres.

In addition to the above, the lack of connectivity to the 330KV transmission lines prevents expansion of renewable energy production (such as wind farms and solar farms) within the region by preventing access to markets in the southern part of the state where demand is highest.

Geraldton's continued economic growth is and will continue to be thwarted whilst the current power supply arrangements are in place.⁷²

Access to communication technology

3.50 RCA reported that variable broadband quality is a particular problem for regional capitals. In some areas, broadband coverage is good in the city, but poor in residential areas and for others it is the opposite:

The majority of the regional cities surveyed classified their current broadband coverage and quality as poor to variable. A smaller group classified their current broadband coverage as satisfactory to good.⁷³

3.51 CSU observed that uneven distribution of communications technology has the potential to significantly distort regional markets. Some regional capitals will receive economic benefits and others will find it difficult to compete without adequate communications infrastructure. This has an impact on universities and also a range of industries and businesses:

71 Mr Graeme Bolton, Director, Planning and Development, Townsville City Council, *Committee Hansard*, p. 17.

72 City of Greater Geraldton, *Submission 31*, p. 8.

73 Regional Capitals Australia, *Submission 48*, p. 35.

With both the national and global economy increasingly reliant of a digital presence, and with business increasingly conducted online and utilising new technologies, the lack of even adequate, let alone state of the art, communications technology infrastructure applies a major handbrake to regional capital growth and economic expansion.⁷⁴

3.52 RCA noted that when the National Broadband Network (NBN) was initially announced it was welcomed as a way to close the economic and social inequity between residents in regional capitals and those in metropolitan areas.⁷⁵ Further, the NBN was viewed as a key piece of infrastructure to attract and retain students, residents, industries and businesses. Regional capitals that were the beneficiaries of an early rollout noted that the results are excellent. For example, Armidale attributed its recent growth, in part, to the rollout of fibre to the premises NBN.⁷⁶ Launceston has also benefited from the early roll out.⁷⁷

3.53 However, many regional capitals are concerned that the current policy decision to reprioritise the delivery timetable and the move from fibre to the premises to fibre to the node will result in some regional areas waiting longer for a service. They were concerned that in the end they may obtain a service that is inferior to that available in metropolitan areas.⁷⁸

3.54 Those that did not yet have the NBN felt the loss keenly and lamented the government's decision to no longer provide fibre to the premises, but fibre to the node. Mr Bolton, Townsville City Council, described the difference in the following terms:

[T]he analogy would be that it would be like creating a new town and putting the highway through to the middle of town but not putting in any of the connecting roads or driveways into the houses. You create access to part of the way but you cannot get that last crucial bit from the main road through to your front door.⁷⁹

74 Charles Sturt University, *Submission 36*, p. 12.

75 Regional Capitals Australia, *Submission 48*, p. 34.

76 Armidale Dumaresq Council, *Submission 38*, p. 2. Compare with Warrnambool City Council, *Submission 51*, p. 15.

77 Mr Charles Perkins, Chief Executive Officer, Regional Development Australia Tasmania, *Committee Hansard*, 25 September 2016, p. 4.

78 Regional Capitals Australia, *Submission 48*, p. 35.

79 Mr Graeme Bolton, Director, Planning and Development, Townsville City Council, *Committee Hansard*, p. 19.

Freeze on indexing for federal financial assistance grants

3.55 In the 2014–2015 budget the federal government announced a pause in the indexation of the Local Government Financial Assistance Grants.⁸⁰ All local governments who submitted to the inquiry were highly critical of the federal government's decision to freeze indexation.

3.56 The City of Greater Geelong submitted that this decision would disproportionately impact 'high growth regional capitals'.⁸¹ Albury and Wodonga Councils submitted that the freeze would result in a significant loss of revenue.⁸² The WA Local Government Association noted that the freeze, combined with reductions in state government grants, 'may result in rates increases and cuts to services and will therefore have an adverse impact on communities in regional capitals and the regions they serve'.⁸³ This decision is discussed in more detail in Chapter 4.

Conclusion

3.57 The challenges faced by regional capitals are particular to each region. Nevertheless some shared challenges have emerged and many of these challenges also contain opportunities for growth. Regional capitals themselves offered a range of solutions to the problems identified. Given the federal structure in Australia, state governments have a crucial role to perform, as do universities, local councils, local communities and businesses. The next chapter examines how the federal government is assisting regional centres to respond to challenges and harness opportunities.

80 Budget 2014-15, Budget Paper No. 2, Part 2: Expenses and Measures, Infrastructure and Regional Development, http://budget.gov.au/2014-15/content/bp2/html/bp2_expense-18.htm (accessed 7 November 2016).

81 City of Greater Geelong, *Submission 30*, p. 3.

82 Albury and Wodonga Councils, *Submission 65*, p. 12

83 WA Local Government Association, *Submission 46*, p. 4.