

UNDER EMBARGO UNTIL 12:00AM 3RD DECEMBER 2015

Regions and the New Economic Agenda: a conversation starter with the Regional Australia Institute

Speech by Jack Archer, CEO, Regional Australia Institute

Not Victims of Change

Contrary to popular belief, regions and regional Australians are not hapless victims of change.

However, for forty years we've seen the areas beyond our major cities as just that. Victims of change they can't control and don't possibly have the capacity to deal with. A group to be pitied and saved by those of us lucky enough to live in the big cities.

This negative narrative, fuelled by a relentless focus on stories of hardship, has infected the way we view 40 per cent of our economy and the home for 8.8 million Australians. A place which employs one third of the Australian workforce.

The result has been a self-fulfilling cycle of negative stories that have empowered rent seekers and driven a succession of reactionary, centrally designed policy 'solutions' that simply don't work for the diverse set of regional economic challenges we face.

Forty years of successive governments applying poorly informed, centralised solutions to diverse regional economic challenges.

And despite this policy failure, regional Australia has made a surprising and formidable contribution to the nation's economy. In fact, without its contribution, Australia's economy would contract to the size it was in 1997.

There is a considerable economic opportunity on the table for Australia's future, if we can get the policy and the governance right!

Regional success is built on a balance of local ingenuity and proactivity, and informed, consultative state and federal leadership.

It's time to get back to backing this capacity.

We need to lift expectations; about what our economy can do what government can do and what regional people can and are already doing.

It's time for a period of change on our own terms.

A Surprising Economic Story

To empower change on our own terms we need the nation's thought leaders to have a fresh look at our region's economic impact and potential story.

For such an important part of our economy, we have surprisingly little good information to base our ideas and assumptions. Perhaps this is one reason why the victims of change story has been so infectious.

In the paper we're releasing today, I see an economic story that is fundamentally a success - despite being different from our traditional ideas about regions. It's also one that smacks of future opportunity for regional areas and the nation's economy as a whole.

I want to draw out some key findings to illustrate why we have this view.

Firstly, it's the story of economic resilience for the nation.

Regions contributed half of our nation's growth post Global Financial Crisis, fulfilling their role as a source of resilience for the economy to a tee. If our regional areas had not performed well during this period then Australia would have shared the recession experience of Europe and the United States.

Surprisingly, the most resilient areas have proven to be those that are most disconnected – our rural and remote 'Heartland Regions'. These 'Heartland Regions' account for almost half of Australia's local government areas.

While much of our rhetoric is around the volatility of each individual region and their circumstance, collectively, these 'Heartland Regions' provide a diverse and a stable source of economic activity and growth. In fact, in 2013, the economic output of our Heartland Regions was larger than the GDP of New Zealand.

We also see a story of productivity - the great conundrum of our current policy debate.

Remarkably, regional Australia is at the forefront of productivity in over a third of our industries, including industries like healthcare and logistics. Our latest analysis demonstrates workers in Connected Lifestyle regions – which are the least productive parts of our regional economy – are responsible for as much economic activity as the average worker in the UK.

The rates of productivity growth in regions are also strong, with regional areas gaining on metropolitan areas in every industry except mining and agriculture, where we would expect to see performance. So what we're seeing in regional Australia is productivity growth and excellence in the very areas we would least expect.

Another aspect we think critically important is the growth in the services economy and in services jobs. There is strong evidence that the trends we see in metro areas are equally at work in our regions. In fact, employment in higher value services, like finance and insurance and professional and scientific services, have seen their shares of regional employment increase at the expense of 'traditional' regional strengths like primary production. This diversity of services employment has also increased throughout the mining boom.

Our data tells us that regional communities are smart, and are taking advantage of the growth opportunities available to them. The areas where regional Australia doesn't yet punch above its weight, in terms of industry contribution, are the very areas that are increasingly diversifying.

Overall the regional economy is resilient, highly productive, diverse and shifting, alongside the rest of the economy, to a services led future.

The question is no longer the decline in the regional economy, which is a mirage. Regions are absolutely part of the economic future of this nation. But do we have the intellectual and political maturity to facilitate the change in approach that this evidence demands?

So, with a clearer view, how do we best respond?

We see four priorities.

Great Small Cities

The first is the opportunity for us to build great small cities. Australia already has great big cities, but lying under the radar it now has the opportunity to build even greater small cities.

Our major urbanisation trend of the last 40 years has seen the rise of around 50 regional cities, not people moving to the big smoke. Wollongong, Ballarat, Toowoomba, Cairns, Bunbury and Launceston have emerged as centres of population growth.

Home to 4.5 million Australians, regional cities are our hidden metropolis with an economy equivalent to that of Finland's.

And our data shows this output is not due to mining activity – in fact, more economic output from mining activity has accrued to our major metropolitan areas than our Regional Cities. The

employment profile of our Regional Cities actually looks a lot like a major urban centre, with the top employing industries being retail, health and education services.

If successful, regional cities offer the best of both worlds - great jobs, urban amenity and a congestion-free, lower cost regional lifestyle. Of course this point is particularly poignant in contrast with the increasing housing costs and decreasing liveability of our major metropolitan areas.

Regional cities present many Australians with a chance to maintain real incomes and a high quality of life in the coming decades.

There's a huge economic opportunity on the table and it's going unnoticed.

At the Regional Australia Institute, we see three key areas of focus to harness this opportunity:

1. We must incentivise collaboration between all levels of government and local institutions to guide smart development.
2. We must offer competitive funding to support the development of globally connected innovation districts in our regional cities.
3. And thirdly, we must focus on future planning to foster strong CBD economies, which will produce dynamic, liveable and productive small cities.

There are many great small cities around the world that can help to inspire our regional city leaders to embrace this next phase of development.

Ambition and Success in Business

Aspiration and ambition in the private sector is the second priority for regions.

For far too long we have steadfastly focussed on responding to failure in regional policy and we've actively talked down the prospects of regional success.

We propose to turn that around with a focus on identifying and supporting high growth small and medium enterprises in regions.

This small percentage of businesses creates half the new jobs in our economy. They occur across all sectors of regional economies and many are missed by policy that focuses only on a small number of industry sectors.

One great example is the Cooma-based Birdsnest. Jane Cay, the founder of this high growth women's online fashion store, moved her bricks and mortar business online in 2009. Birdsnest now employs more than 100 staff in their peak periods. Its annual turnover is about \$20 million. Birdsnest was lucky to have a self-starting, driven and innovative founder in Jane, to whom the company owes its success. But just think how many more Birdsnests could be contributing this kind of success to the local and national economy, if potential high growth regional business had the necessary backing and support. This doesn't mean subsidies it means smart initiatives designed to create stronger business ecosystems in regional areas and it means ensuring motivated CEOs like Jane, have access to the growth and mentoring opportunities they need to succeed.

Research tells us that a diverse set of successful smaller businesses correlates with stronger regional economic performance.

In the regions we visit, we see the innovation and potential needed but not the networks and high quality support required for greater success. If this can be changed, we will all benefit.

Driving Engagement with the World

The third area of opportunity is in regional engagement with the world.

Regions, like our economy as a whole, need investment and partnerships with international markets.

One of the biggest risks to growth in many regions is that we don't grasp this opportunity and we're driven to make poor decisions by those who seek to create fear around this issue.

A dedicated international investment and engagement program focussed on regionally led effort coupled with the better trade arrangements coming through the Free Trade Agreements, with Japan, Korea and China can deliver new growth opportunities in many regions.

In recent research, the Institute uncovered a path to \$900 million of additional economic growth over the next 15 years for the Namoi region of New South Wales. Of course, commodity cycles and urbanisation trends will play a role in whether this upside can be achieved. But success will also rely upon the ability for local leaders to seek international investment on the right terms, and engage in major overseas markets to create meaningful trade relationships.

Col Murray, Mayor of Tamworth and Chair of the Joint Organisation of Councils for the Namoi region. He's just one great example of a leader who can see the opportunity to create lasting positive change for his community by leading this local engagement with the world. He's determined to make an impact and we should help him and others like him to achieve that goal.

More and more we see leaders in regions wanting to drive this engagement for their areas but they are without the skills or resources to identify and leverage international opportunities.

The successes we are seeing now in investment in tourism and agriculture can be better facilitated to support regional economic growth if we get this right.

Locally Led Solutions

The final piece to this puzzle is improving regional services by harnessing new technology and allowing the development of localised solutions.

Regional Australia traditionally fares poorly in access to quality services. The real-life result is lower educational achievement, lower incomes, higher rates of unemployment in some regions, proportionately less innovation, poorer health and lower levels of overall wellbeing.

We can easily fall into the trap of believing this is the way things are and always will be but this will only be the case if we don't change our approach.

Australia's predominantly centralised system of government concentrates both power and public sector finances in metropolitan centres. Decisions made by central governments suffer from the tyranny of averages and are often poorly informed. This frequently leads to outcomes that are unable to respond to regional differences. Australia has created some of the most inflexible policy and program settings in the world and imposed these on an incredibly diverse situation.

And like a hamster on a wheel running ever faster to get off, when we have recognised this in the past we've sought to do more of the same rather than changing our approach.

We consistently take the most important decisions affecting regions, both geographically and politically, out of local hands, cutting off the opportunity for local input and local innovation.

We can do two things to change this.

Firstly, on the back of the National Broadband Network, we should accelerate rollout of online services. Simone Dudley, one of the founders of Therapy Connect, and one of the ten finalists in our Regional Online Heroes initiative which we conducted in partnership with Google, and wrapped up last month.

Therapy Connect uses video-conferencing and cloud management software to provide occupational and other therapy services to families living in remote regions of Australia, and overseas.

The 18 month old business has bases in Deniliquin in New South Wales, and Casterton in Victoria, allowing regionally-based therapists to service their clients anywhere in the world, from their home town.

With the rollout of the National Disability Insurance Scheme and with the NBN coming, regional and remote Australians have increasing choice and control over the therapy service they choose. But there are significant economic and policy issues holding the industry back.

'Telehealth' cannot be claimed on Medicare, meaning many regional families are still forced to pay substantial travel costs and take annual leave to make it to metro areas for face-to-face therapy. This also often means substantial delays in diagnostic and some intervention programs for regional people, particularly for issues like autism and mental health.

Simone is just one example of regional service providers pushing against the tide to grow a more robust local economy and service her clients. She provides viable local employment and delivers an important service, which allows for low-cost maintenance of health in regional areas, nationwide. Yet, she is not supported by the local or national policy or infrastructure she needs to succeed.

The second thing we can do to encourage local leadership is to create the opportunity for local people to develop solutions to their own problems.

This is about freeing up places and people to innovate and make change.

We can do this by extending to regional communities the innovation methods already being trialled within the public service by most governments in Australia.

One great example is South Australia's 90 day initiative. Run internally for the public service, this initiative recognises that people lower down in the system often see problems and identify ways to do things better. It empowers them to try a new approach for 90 days. If their initiative works it's implemented, if not we learn and move on. The Premiers Innovation initiative in NSW is another example that could be extended to regional communities.

Applying this approach to small isolated communities would fundamentally change things. From a situation where services are imposed on them to one where local people have the opportunity to create something better. The situation in each of these communities is different and only the people living in these communities can truly understand what can work in their circumstances.

If we do make these changes, together, we can create meaningful and lasting improvements in the regional services situation.

Finally – I believe all of these changes – encouraging services growth in regional areas, building great small cities, supporting SME innovation and so on can all be implemented without additional funding but instead through redirecting the existing funding that governments have applied to these issues. In stark contrast to the traditional proposals for regional development – this is not about finding massive buckets of new funding it’s about re-purposing existing funding to be more efficient and effective in the future.

Conclusion

Regional Australia can increase its contribution to national innovation and growth and provide improved quality of life for its 8.8 million residents.

But we must stop seeing our regions as victims of change and we must stop misunderstanding this part of our economy.

The question remains. With the evidence at hand do we now have the intellectual and political maturity to do this?

After working on these issues for four years and visiting nearly every part of the country we see a need and an opportunity to do better.

Our Institute has built a substantial body of evidence, including several of the reports we referenced today, which clearly demonstrate what’s not working, and how we can move forward.

Now it’s time for some ambition about where we can take this part of the economy in the next 10 years. We believe its time to focus and act on the evidence at hand and we will continue to lead this conversation.

We would sincerely appreciate your interest and support in realising and telling this story of opportunity and building the case for change.

Thank you.