

Submission to the Select Committee on Regional Development and Decentralisation

Regional Australia Institute

September 2017

Summary

The Regional Australia Institute is pleased to present its submission to this inquiry and commends the parliament for its renewed focus on this nationally important issue.

Promoting growth in all regions is crucial to optimising growth in the national economy and opportunity for all Australians. Promotion of growth in all regions is the clear goal for regional development and the reason it must be a core policy concern for the national government.

The time is right for taking our national regional policy approach to the next level. A perception of wasted money patching up widespread regional decline has held Australia back from making smart investments in development of the places that are home for 9 million people and 40% of our economy. Australia's regions are not in widespread decline and remain a foundational contributor to the national economy. The economic contribution of regions stabilises and diversifies Australia's economic performance as well as supporting the livelihoods of ~9 million Australians. Policy responses must better understand and reflect regional differences.

The evidence that we include in this submission about the current status of our regions and their future potential contribution to the nation clearly demonstrates how important a commitment to promoting growth in all regions is to the future of Australia.

In outlining the opportunities for the future of regional policy, it is important to acknowledge that in the last few years there have been significant gains in our regional policy approach at the national level. The Australian Government through its Regions 2030 policy has recognised that the scope of policy effort necessary to make an impact on regional futures goes beyond infrastructure investment and regional committees and supported this with a range of good initiatives targeting specific regional challenges. The government has also refined its regional investment approach through a move to several funding streams and is actively trialling deal and place based approaches that provide a pathway to a better practice approach to regional issues in the future.

This submission acknowledges this progress and encourages the Committee to consider how we can go further. Our work shows that three areas should be the focus for a next level national regional policy approach:

1. Establishing a mechanism for government to be flexible in its support for the development of rural and remote Australia. A lot of money is wasted and we are making limited progress in developing the capacity and population of our rural and remote areas because government investments are not fit for purpose for small communities and don't adequately support local jobs.
2. Developing our network of small regional cities and service centres to take the growth pressure off our big cities and bring new opportunities to the millions of regional people who live in or near these places.
3. Further refining our regional investment strategy to catalyse new growth in regions and increase the local return for taxpayer spend on regional development.

The evidence we have reviewed also supports the assertion that the effort to better decentralise government employment is something that can deliver real benefits for regions in the medium term. The RAI sees opportunities to expand the impact of this policy through deal making to enable corporate decentralisation and better procurement and contracting processes that increase local employment outcomes from government spend.

Below is a list of five recommendations that represent the practical steps we suggest that the Committee recommend to the government as the outcome of its work. The RAI looks forward to discussing the recommendations and other issues further with the Committee and the RAI is ready to support the Committee in its work in any way that it can.

Submission Recommendations

That the Committee recommend that the government:

- Adopt promoting growth in all regions as the objective of regional development policy supported by a set of clearly defined and bipartisan aspirations for regional policy outcomes.
- Utilise dedicated regional deal making, supported by flexible catalytic economic funding and decentralization strategies to facilitate the substantial future growth opportunities available in rural and remote regions
- Use deal making and decentralization to support local growth and development opportunities in regional cities.
- Building on the recent redesign of national regional investment programs, regional infrastructure funding should be further streamed into dedicated funding pools with specialist objectives.
- Establish a new mechanism to get better value from the diversity of government spend in regions. This would focus initially on rural and remote regions and provide:
 - a place within government for regions to go to resolve problems with national policy settings
 - powers to be flexible in regulation and service delivery in regions, and
 - powers to permit pooling of funding to support local services and employment across government silos.
- Embed decentralisation policy in government to increase the impact of government employment and expenditure in regions.

Introduction

The RAI is a not-for-profit organisation established as a public company limited by guarantee and we are an Approved Research Institute for tax purposes. The Institute was founded in 2012 with seed funding from the Australian Government. Our current operations depend upon a mix of Commonwealth and State government support, partnerships with a range of companies and projects working directly with regions.

The Regional Australia Institute (RAI) is a think tank devoted to issues concerning regional Australia.

- We gather and analyse the best information we can find on regions and make this readily accessible to people around the country.
- We work with regional leaders around the nation to understand their challenges and help them identify opportunities for future development that they can implement.
- We also talk to governments at all levels and provide independent, evidence based advice about the options they have to make regions even greater.

This submission draws on our work over the past six years and is presented in five sections:

1. An overview of what is best practice policy for Australia supported by Appendix 1 which details the RAI's analysis of recent regional economic performance and contribution to the national economy.
2. Opportunities to better direct discretionary regional economic development funding
3. An approach to providing more flexible policy and regulation in regions
4. A discussion of the role Deals can play in aligning investment and policies across government to pursue specific regional needs and priorities
5. Input to the decentralization strategy discussion

Appendix 1 provides an overview of the recent and likely future economic performance of regional Australia.

Appendix 2 provides a series of supporting documents that are referred to in the text and provide more detailed information on the issues discussed and recommendations made.

For further information or to discuss the submission please contact Jack Archer, CEO Regional Australia Institute via 02 6260 3733 or info@regionalaustralia.org.au.

For more information on the RAI please visit www.regionalaustralia.org.au.

1. Best Practice Regional Policy in Australia

- **Australia's regions are not in widespread decline and remain a foundational contributor to the national economy**
- **The economic contribution of regions stabilises and diversifies Australia's economic performance as well as supporting the livelihoods of ~9 million Australians**
- **Policy responses must better understand and reflect regional differences**
- **Promoting growth in all regions is the best practice foundation for Australian regional policy**
- **A set of clearly defined and bipartisan aspirations for regional policy outcomes would support a longer term regional development policy that can facilitate real change**

The aim of a best practice approach to regional development is to optimise national economic performance and well-being for all Australians by promoting growth and development in all regions¹.

As well as supporting the most productive regions to perform, a promoting growth in all regions approach seeks to enable lagging regions to 'catch up' to higher performing areas. This approach was developed by the OECD and recognises the outsized contribution that 'catch up' growth has made to growth in the developed world over the last decades.

This approach is particularly important in the Australian context where our economy leans very heavily on our highest productivity regions for growth. Australia's highest productivity regions are a combination of our northern mining regions and the inner cities of our largest metropolitan areas. These places have been responsible for leading the growth achieved by the economy over the last 15 years. If the reliance on these areas continues, economic outcomes will increasingly diverge between high productivity and lower productivity areas, undermining national economic performance and delivering widening inequality.

Promoting growth in all regions recognises the important role that governments have in setting the conditions for regional success and helping regional communities and industries achieve sustainable levels of growth over the economic cycle. It is based on a rigorous investment strategy and uses 'place-based' policy settings to deliver tailored policy to regions with different needs.

While best practice regional development strives to promote growth in all regions, it also recognizes that differences between places will persist. Best practice is not about propping up the economies of struggling regions or transferring wealth from one region to another through crude tax concessions or simple subsidies to achieve a welfare based balance. Nor is it about simply backing the regions with the highest productivity and creating incentives for population to move to these areas leaving other parts of the country decrepit and dependent on welfare. By optimising regional performance, successful regional development should effectively minimise the difference that where you live makes to your income, opportunity and well-being.

A commitment to promoting growth in all regions supported by clear goals for the future is an important next step forward in developing Australia’s approach to policy for its regions.

Promoting growth in all regions has been demonstrated as an effective foundation for regional policy internationally. Applying it in Australia means adapting it to Australian conditions and policy history. A framework for promoting growth in all Australian regions (Figure 1) is briefly described below.

Regional Development – Key Strategies

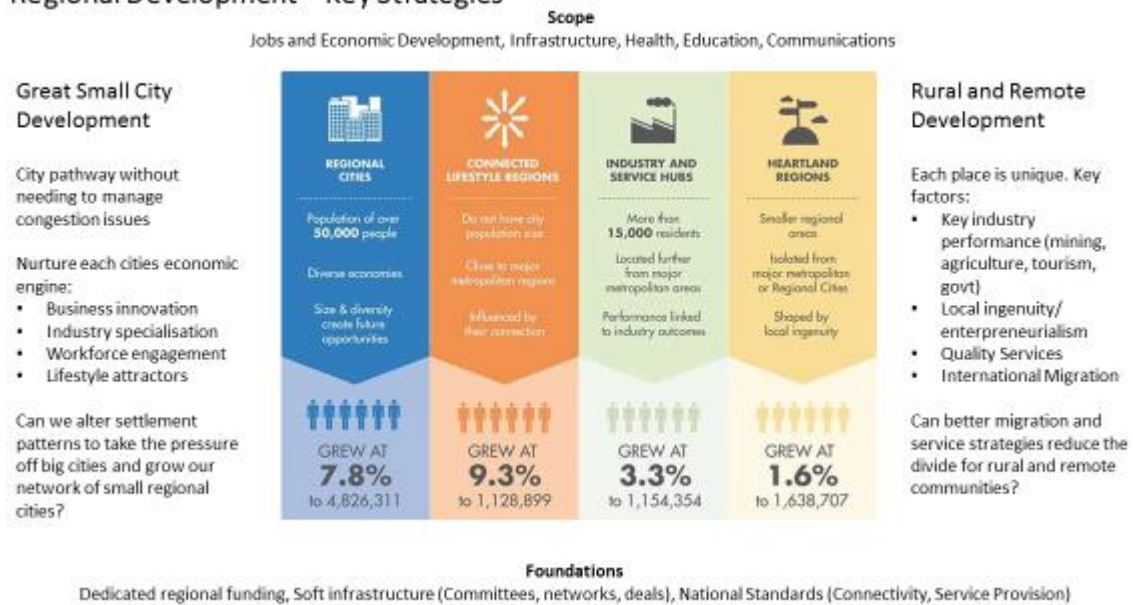


Figure 1: Australian Regional Development Policy Framework

Scope

The traditional regional policy effort in Australia has been overwhelmingly focused on infrastructure provision. A much wider scope of government policy and investment spanning economic development and jobs, health, education and communities is needed. If regional policy is to be genuinely influential at the national level it must have the scope and capability to play a stronger role across the silos of government as well as supporting new infrastructure. The recent Regions 2030 policy statement and Cabinet Level Taskforce made an important step forward by confirming a commitment to cross government regional policy effort.

Regional Types

The second important part of the framework is an understanding of the settlement pattern in regional Australia. The size, location and economic structure of a region and its local areas guides what is needed and what is possible. The RAI’s Foundations of Regional Australia (see Appendix 2) identifies four types of regions:

1. Heartlands which are the rural and remote areas of Australia. These areas are sparsely populated, and usually rely on one key industry for their economic opportunities.
2. Regional cities which are home to most regional Australians, have diverse economies and a wide range of services and can pursue city style development without the congestion of our largest metropolitan areas.
3. Industry and service hubs which are smaller than regional cities and more isolated than connected lifestyle areas but have populations over 15,000 and some economic diversity.
4. Connected lifestyle areas which surround our major cities and are subject to significant population growth pressures but benefit from their connectivity to metropolitan areas.

Two Priorities

This unique Australia regional settlement pattern and economy gives rise to two regional development challenges for Australia that need to be pursued using distinct but complementary strategies. These are rural and remote development and developing Australia's network of regional cities.

Rural and Remote Development

- **Improve local services in rural and remote Australia through greater flexibility in delivery approaches**
- **Increase international migration to rural and remote Australia through visa reforms and secondary migration support to stabilise population loss and facilitate business growth**
- **Utilise dedicated regional deal making, supported by flexible catalytic economic funding and decentralization strategies to facilitate the substantial future growth opportunities available in rural and remote regions**

The first goal is to more effectively develop our rural and remote heartlands. This involves delivering locally tailored services that can narrow the long term divides in health and education outcomes and ensuring that we have the local population and skills necessary to sustainably develop our vast natural resource endowments.

The RAI's work over the last six years, supported by the work of many others, concludes that development of Australia's rural and remote areas depends on more effective policy in the following areas:

- improving local service delivery to ensure government spend on services supports local jobs and to support population retention (see Section 3)
- effective international migration strategies to stabilise the population and meet skilled and unskilled workforce demand (see the RAI's Missing Migrants paper in Appendix 2 and also proposals by SACES for South Australia)
- effective industry and economic policies to maintain and improve the competitiveness of the key local industry (this relies on effective national mining, agriculture and tourism policies) and supporting local entrepreneurial initiatives to diversify or expand the local economy (see Section 2), and

- enhancing connectivity to urban areas and international markets via improved transport and telecommunications infrastructure (see Universal Service Obligation and Road User Pricing papers in Appendix 2).

A combination of the best practice regional policy approach outlined below and more effective policy settings for regional migration, transport, communications and key industries can create real progress on the social and economic divides between the city and the bush, enable greater population growth and secure the contribution of rural and remote Australia to the national economy.

Underpinning this assertion is the RAI's series of Pathfinder projects (for more information see www.regionalaustralia.org.au/pathfinder) with rural and remote regions. These projects use a combination of data analysis, forecasting and local business and leader engagement to identify the most important growth factors for a region and the local strategies that can capture these opportunities.

For example, the recently concluded RAPAD Pathfinder (see Appendix 2) undertaken in partnership with leaders in central west Queensland identified six economic development priorities could deliver a total of \$1.5 billion in additional economic activity. This is in a remote region currently home to only 12,000 people that has experienced significant drought and long term economic and social changes including population decline. Similarly, the Namoi Pathfinder (see Appendix 2) identified an additional \$900m of additional growth opportunity through a combination of agricultural innovation, international investment and better population strategies.

The implementation of the recommended best practice policy mix described below that includes flexibility in government investment and service delivery complemented by dedicated deal making and decentralization strategies can be used in rural and remote areas around Australia to enable these significant economic and social development opportunities to be realised.

Developing our Network of Regional Cities

- **Commit to growing our network of regional cities and centres as one strategy to take population and congestion pressure off the largest cities**
- **Use deal making and decentralization to support local growth and development opportunities in regional cities.**
- **Improve the performance of the 'hub and spoke' service delivery model that enables access to complex and specialist service delivery for all regional and rural people.**

Regional cities and large regional centres are home for the significant majority of regional Australian's.

The RAI's analysis of the economic performance of the 31 largest regional cities (*Misconceptions report* Appendix 2) shows that this network of small cities have delivered similar economic performance to the 5 metropolitan cities since the turn of the century. Contrary to popular belief, economic growth and productivity per person is on average the same across Australia's regional and metro cities. This size and economic performance alone demands that regional cities should be a priority for government.

The RAI see developing the network of regional cities, as well as individual cities themselves as a national economic priority. Internationally, it has been recognized that nations with a strong city network usually deliver stronger labour productivity and a more resilient economyⁱⁱ.

Currently our migration policies and urban development arrangements promote sprawling, high population growth major cities and low to moderate growth in surrounding regions. Infrastructure investment trails behind trying to maintain productivity in congested cities at increasing direct and opportunity cost.

The RAI estimates that for every 100,000 Australians who choose to live in growing regional cities rather than our big five cities, an additional \$50 billion will be released into the economy over 30 years in reduced congestion costs and increased consumption (see Deal or No Deal Appendix 2). Our paper *Missing Migrants* reveals that a proportional distribution of migration between urban and regional areas would rebalance population growth between regions and cities (see Appendix 2).

To substantially shift patterns of urbanisation in Australia will require coordinated policy change across land use planning and development, taxation arrangements, infrastructure investment and migration. This will also require concurrent action by state, federal and local governments.

Even without these substantial policy changes there are significant opportunities to improve growth and development of our small city network. To date regional cities have had strong economic performance (2001-2013 – see Appendix 1 for further evidence). But regional cities are slowing down, the years 2007-2013 have shown a widening gap between average metropolitan and regional city economic output.

Developing small cities is not about relieving congestion or increasing housing density, it's about developing what the RAI call the 'economic engine'. This engine is unique to each city but has four parts which contribute to or constrain sustainable growth in small cities:

- Specialised local industries that are nationally and ideally internationally competitive.
- A vibrant and capable of the business sector.
- Workforce engagement and growth.
- Lifestyle attributes which increase the desirability of a city as a place to live.

The RAI has advocated for the development of a regional City Deals program to support the development of each of Australia's small cities. The government has adopted this policy and concluded experimental deals in Launceston and Townsville. It has also committed to a longer term regional city deals agenda but the immediate next steps in bringing deals to new cities remain unclear.

Finally the RAI sees opportunities to strategically invest in the service delivery system in regional cities and centres around Australia. Australian regional cities have always worked in a network to deliver access and services to regions. For example Geraldton, WA is a small city (38,500 people) and delivers similar health services to its hinterland as Ballarat, Vic (101,500 people) a medium sized city.

If the government recognized that regional cities operate as part of a wider network of infrastructure and access of services to rural areas – then a more strategic national investment approach could be adopted that prioritizes national benefits and needs across the network. Forthcoming work will provide further assessment of the opportunities for this service enhancing and economically beneficial approach.

Policy Tools

Regional development shouldn't be pursued through ad hocery. Australia can lift the impact and rigour of its economic development approach if it puts in place and pursues a common set of policy tools over the next decade. These include:

- Flexible funding dedicated to progressing regional priority issues
- New mechanisms for flexible policy and regulations so that centralised governments can more easily respond to differences between regions
- Deal making to coordinate development effort across the three levels of government and with the private sector, and
- Active decentralisation of government employment, contracting and investment to support and enhance private sector led development in regions.

The following sections provide a discussion and recommendations for implementing this framework as Australia's unique approach to promoting growth in all regions.

2. Economic Development Investment Strategy

- **Building on the recent redesign of national regional investment programs, regional infrastructure funding should be further streamed into dedicated funding pools with specialist objectives.**
- **Ensure dedicated regional programs are not covering underspend on infrastructure in core budget for health, education, transport and other community infrastructure.**
- **Ensure that appropriate resources are available to support feasibility studies for significant infrastructure programs in less popular regions and that regions are not reliant on funding rounds for large multi-year programs of investment.**
- **Consider whether the quantum of investment matches the task of promoting growth in all regions and adjust allocations to match the goals and the returns from genuine economic development investments.**

Flexible investments in regional infrastructure are an important component of promoting growth in all regions. These investments can remove barriers to economic expansion and catalyse new investment by the private sector to promote growth.

Since 2011, Australian governments have collectively spent more than \$4.6 billion on flexible funding for regional infrastructure. About 20% of this investment was made by the Australian Government through the Regional Development Australia Fund and the National Stronger Regional Fund. The Building Better Region Fund is now in place. A range of State level programs such as the Royalties for Regions funds used in several jurisdictions also make up this funding resource for regions.

This discretionary regional infrastructure spend is distinct from the core spend by government on developing and maintaining hospitals, roads, schools and other basic community infrastructure. It is also separate from the National Infrastructure plan which provides for investment in the largest national projects. National infrastructure projects are overwhelmingly in major cities or provide connecting infrastructure between major cities. What also makes this regional development funding unique is that it responds to expressed regional needs rather than being invested via top down determined priorities and strategies.

These programs are the key instrument of current regional policy in Australia. Continuous improvement in the way these funds are invested and adjustment of the scale to need and opportunity is crucial to promoting growth in all regions.

A forthcoming RAI review of this national expenditure finds that while these national and state investments are headlined as regional economic development funding, in most cases the majority of funds (75%) go to a mixture of social infrastructure, upgrades to existing infrastructure and other investments. These are important projects and highly valued by regional communities but they have little direct economic impact beyond the stimulatory effect of any new investment in a region. Only 25% of State and National discretionary funding is invested in projects specifically designed to catalyse additional economic activity in regions. The review strongly indicates that specialist programs which have more tightly defined objectives are much more effective at targeting economic outcomes in

regions than generalist programs which can invest in a vast range of economic and non-economic projects.

Discretionary regional infrastructure spend has long been the target of criticisms. In response, the RAI review finds, governments have made major steps forward in the rigour that they apply to project level decision making.

The next major improvement involves upgrading the strategy underpinning these programs to create dedicated streams and better measurement of overall impact against the goal of promoting growth in all regions.

The recent redesign of Commonwealth programs has made an important step forward in the introduction of several streams of funding in addition to the generalist Building Better Regions Fund. The Community Stream provides dedicated investments in soft infrastructure and the Regional Transformation Fund is dedicated to supporting of larger investments in regions (although the scope of these has not been clarified by the Government as yet).

Further streaming of the generalist expenditure in BBRF would further the likelihood that it can substantially deliver on its regional economic development objectives and ensure it is not being used to cover for underspends by State or Commonwealth governments on core health, education, transport and community infrastructure. A dedicated economic stream that is distinct from community infrastructure would be an important first step.

Similarly, consideration of the Commonwealth support for feasibility studies, multi-stage investments and evaluation of projects is important. Assuming the regional growth fund is not going to be an ineffective one off set of projects, this future investment would be a worthwhile use of a proportion of the regional growth fund if its establishment represents. A long term commitment to making transformative investments in regional economies in addition to supporting small projects, is something the RAI sees as essential to a genuinely influential regional policy approach.

The government should also consider whether the scale of funding available in these discretionary funding buckets has the capacity to support the kinds of economic opportunities outlined in the RAI's Pathfinder projects and regional cities analysis. The RAI is not aware that this question has ever been properly considered in Australia.

3. Flexible Policy and Regulation for Regions

- **Establish a mechanism to get better value from the diversity of government spend in regions. This would focus initially on rural and remote regions and provide:**
 - **a place within government for regions to go to resolve problems with national policy settings**
 - **powers to be flexible in regulation and service delivery in regions, and**
 - **powers to permit pooling of funding to support local services and employment across government silos.**

It is too often assumed that any progress on regional policy requires additional dedicated expenditure. But better regional policy does not need to mean a commitment to new money. There is significant scope to get better value from existing investments in regions by establishing a dedicated mechanism in government that enables more flexible delivery of regulations, policy and programs in regions. This will have the added benefit of encouraging regional leadership on social and economic issues and demonstrating to a politically disengaged regional population that mainstream government is interested in their issues.

The reason flexibility on its own can be so useful is that regional Australia (particularly rural and remote Australia) is diverse. In comparison, Australian policies reflect a decades long prioritisation of consistency and economies of scale and, as a result, struggle to respond to this diversity of regional need.

Previous work by the RAI has identified that Australia has some of the most inflexible policy settings in the OECD (see Delivering Better Government for the Regions Appendix 2). Policies are mostly designed by central government based on limited information about regional differences that may lead to wasted money and poor outcomes. Given the dominance of cities, small and large, in Australia, most policies are designed by default to work well in urban areas.

Rigidity is also built into program delivery processes under the principles of conformity, probity and accountability. While these are all worthy principles of good governance, they do not facilitate the flexibility and tailoring required to maximise service efficiencies in regional areas.

This gives rise to significant issues. In forthcoming work, the RAI will document a range of practical issues where a flexibility mechanism from government could lead to much better outcomes for regions and for taxpayers.

A simple review of several pieces of recent literature and a series of conversations with community leaders from small communities has allowed the RAI to document a series of current examples of how government inflexibility restricts good outcomes small communities:

- Changes to the newly approved Certificate IV in Training and Assessment (TAE40116) mean that the course is now unlikely to be viable in regional areas. In Western NSW there are currently no VET providers offering this course, weakening the region's human capital as it is an

important 'train the trainer' course without which further skilling will be compromised. The changes that have precipitated the perception of unviability are the requirements for a minimum class size of 8 and for at least 1 face-to-face class per week. These requirements are unlikely to cause difficulties in cities, but are impediments when flexibility is needed to deliver the program in less densely populated regions (Box 1).

- Jobseeker mandatory activity requirements often place unreasonable burdens on jobseekers in regional areas. As a current example the Skills for Education program requires daily face-to-face interaction of job seekers, even in instances where job seekers have to travel approximately 100km with no access to public transport to attend meetings.
- Under the Education and Care Services National Regulations (2011) long day care childcare centres must be open for a minimum of 48 weeks per year. Without this criterion being met the childcare centre cannot offer the childcare rebate to families that use their services. While this may be a reasonable requirement for childcare provided in a high population density catchment, in a small town with seasonal work and population patterns it creates unnecessary rigidity and associated costs.
- Medicare has recently extended coverage to psychological services delivered by videolinks, which is a welcome change for providers and clients in regional Australia. Unfortunately the current draft guidelines mandate that at least 1 of the first 4 sessions must be face to face. This makes good sense from a clinical perspective, and is unlikely to be much of a concern in cities. But in regional areas, where there are high levels of need and low levels of service, it brings an unwelcome burden on the client when their clinician of choice may be located hundreds of kilometres away.
- A Council received a sizeable grant from State Government to install exercise equipment in parks across the LGA. But the capital works funding did not allow for any training in how to use the equipment, or running of any exercise programs that made use of the new equipment. As a result this program risked investing in expensive park ornaments or simply improving the experience of people already using the park for fitness, with the parts of the community not engaged in exercise already unlikely to use and benefit from the new resource.
- The same Council in the example above also obtained funding to support redevelopment of its regional arts centre, but was unable to find funding to engage the curatorial skills needed to make the centre function efficiently as a curated gallery with a medium term exhibition program and active community engagement.
- Wallaby exclusion fencing: A simple example of the inefficiency of a rigid and consistent approach comes from natural resource management. King Island has a major environmental problem with a very large population of wallabies. Landcare groups on King Island are able to access funding for replanting native vegetation along stream banks, but the grant guidelines specifically exclude funding for fencing to keep wallabies out. So any replanting is pointless as the new plants are immediately eaten by wallabies. KI Landcare would prefer funds for exclusion fencing which would result in native plants regrowing by themselves anyway – without a need for replanting. But the funding guidelines cannot be amended to make it work in this unique regional context.

- Newstart arrangements are reported to the RAI as making it risky for people to take up temporary work. In areas where there are few other options, people will choose to stay on Newstart rather than taking up work and experiencing a loss of income as benefits are restricted. States and regions have reported an interest in supporting the costs of a trial to transition the unemployed into temporary work. But there is no simple avenue to provide for an adjustment to Newstart rules on either a trial or temporary basis to see if flexibility and better local support would result in a lower unemployment rate in these places and a lower welfare bill.

These are just a few of the many examples of generic regulations and program rigidities which are leading to substandard outcomes for regional communities and wasted government resources. There are many more, and as the Medicare example demonstrates, more are being created all the time.

While these issues also exist in regional cities and metropolitan areas the potential impacts for small, isolated places is far greater. For example, requiring a mental health consultation face to face is at worst inconvenient in cities, it means no timely service access in remote areas and a very long trip for a short consultation).

This is why the Regional Australia Institute is recommending to governments that they establish a dedicated mechanism to provide flexibility for rural and remote Australia. The aims of this reform agenda for rural and remote Australia includes three components:

1. To respond to the decline of local service capability, governments should initiate reforms to create mechanisms that support economies of scope and pooling of resources in rural and remote Australia. This will seek an increase in the effective and sustainable local service presence primarily within existing resource allocations.
2. To rectify the inflexibility of program and regulatory design and delivery to rural and remote needs, a mechanism is needed to provide a place for regions to raise these issues which has the power to achieve genuine changes. This will reduce the barriers to government responding to place based issues and validate regional efforts to seek change.
3. To drive innovation and extend positive changes across government policymakers need a place to experiment and the capacity to spread the good of proven local innovations. This reform will develop over time set of systemic reforms that will provide widespread and enduring change for rural and remote Australia

The measure of success of these reforms will be the specific effects of changes on services and welfare as well the cumulative impact on the health, education and well-being outcomes in regions. Importantly in a time of constrained resources, the reforms will provide a pathway for governments to seek substantially better outcomes from their foundational investment and reduce the need for special funding of initiatives on top of systems that do not work well for regional people.

The Commission for Regional Matters

To deliver these elements it is proposed that governments establish a Commission for Regional Matters that is embedded alongside the normal operations of government. The Commission will better enable

local issues to be brought to government when they are identified and validated, and for solutions to be developed, tested and implemented in response.

The Commission would be a clearing house for flexibility in response to regional issues and experimentation and policy design for the regions. It would be an agent of change and generate both high quality evidence about how government programs can be improved and small scale working models of regional innovation that could be adapted more widely.

The Commission would have five main functions:

1. Assessment of and intervention in regulatory inefficiency
2. Regional regulation and services innovation fund
3. Regional policy lab
4. Monitoring and evaluation
5. Spreading good practice

Forthcoming work will provide further details on this proposition.

4. Deal Making

- **Embed and resource deal making as the key mechanism for promoting growth in all Australian regions.**
- **Utilise this deal making approach to enable more widespread private sector decentralisation as well as supporting internal regional growth opportunities.**

Regional policy has traditionally relied on competitive grants and comprehensive planning by regional committees. But grants are inflexible and unreliable as sources of regional development investment and committee led region wide plans are mostly not implemented even if they garner support from local leaders initially.

These 'deals' are utilising the leading edge thinking in how to deliver regional economic growthⁱⁱⁱ. These deals are in contrast to the traditional grant programs which are based on buyer to seller transactions, which are owned and delivered by federal and/or state governments within priority areas, with performance measures already defined. Grants have little space to reflect local issues and priorities or changing circumstances over the lifetime of the grant. They also provide no long term platform for resolving issues and promote short term and opportunistic behaviour.

In contrast, 'deals' done properly are owned by the partners, have collaboratively agreed outcomes and performance measures and can align to a mixture of national, state and locally defined priority areas. They are bespoke programs that respond to local issues and priorities with shared effort throughout design and implementation.

Internationally deal making is emerging as an alternative approach to traditional policy tools. The RAI see a policy approach based on rigorous and transparent deal making as a much stronger foundation for promoting growth in all regions.

The reason deal making is so important in Australia is emphasised in Figure 2 which shows the overlapping responsibilities for regional development between levels of government. Deal making where each level of government and the private sector participate has the potential to get the best from a complex and fragmented system of government.



Figure 2: Government responsibilities for regional issues

The Australian Government is already starting to implement place based ‘deal making’ programs for investment through the smart cities plan and the Regional Jobs and Investment Packages also bring some elements of deal making to the policy mix. This foundation and the learnings from its first implementation can be refined and extended in future policy arrangements which commit to deal making as a primary policy tool.

The RAI’s *Blueprint report* (Appendix 2) explicitly identifies the learnings from experience internationally with UK that can be leveraged to support successful deal making in Australia.

5. Decentralisation

- **Embed decentralisation policy in government to increase the impact of government employment and expenditure in regions**
- **Extend decentralisation policy to cover the approaches to government contracting and procurement activities in order extend the scope and impact of decentralisation policies.**

The Regional Australia Institute supports the development and implementation of a long term bi-partisan decentralisation policy for the Australian Government. The aim of this policy is to get a better spread of value across regions from Australian Government employment and investment in services and procurement. A smart, long term decentralisation strategy can achieve this without undue increase in costs, disruptions to the business of government or violation of international agreements.

RAI research (Appendix 2) shows that currently the Australian Public Service (APS) is highly centralised with 83 per cent of jobs located in Australia's largest cities. Most of the 17 per cent of APS jobs located outside Canberra and the big five cities are lower paid and have little influence in the decisions impacting how government policies are made and delivered.

The direct economic benefits of APS employment flow primarily to major cities. On a per capita basis, the APS spends four times more on wages in metropolitan areas than in regions (\$1001 vs \$281). For senior roles, the spend is 12 times higher per person (\$436 vs \$36) due to the concentration of senior roles in Canberra.

International and local evidence confirms that there are significant benefits to locating additional APS staff beyond Canberra and the five largest Australian cities. These include lower costs for the APS and our largest cities and more jobs, enhanced career pathways and specialist employment clusters in regional Australia.

The aims of a long term decentralisation policy should be to:

- a. Achieve a better balance in the spend on APS wages in metropolitan and regional economies;
- b. Provide a wider range of public sector career options for residents in regional areas;
- c. Enable local decision making and strengthen policy implementation for regional issues;
- d. Foster regional economic development by strategically locating APS agencies in regional areas in combination with related public or private sector activities; and
- e. Maintain decentralisation effort over the medium term to ensure benefits are realised.

As well as identifying relocation options and setting clear goals for relocations, the policy should embed the Scottish approach which requires the consideration of location whenever:

- a. The creation of a new unit, agency or organisation occurs;
- b. The merger or reorganisation of an existing organisation occurs; or
- c. A significant property break, such as the termination of an existing lease, occurs.

This would serve to embed the process of decentralisation within the regularly changing activities of government and support a long term effort for decentralisation to regions.

Decentralisation policy also needs to recognise that moving employment is only one strategy but there are also others. It is likely that most APS jobs will be moved to larger regional centres which can provide appropriate office space and a workforce that can support agencies over the medium term.

The RAI has recommended better procurement policies in areas such as Defence (Appendix 2) and consideration of the impact of contracting approaches on local services and employment within policies such as the NDIS or Job Services. These approaches can have an equally important or greater impact than moving APS roles. It will also extend the benefits of decentralisation to a wider group of regions.

APPENDIX 1 - Current Status of Regional Australia

- **Australia's regions are not in widespread decline and remain a foundational contributor to the national economy**
- **The economic contribution of regions stabilises and diversifies Australia's economic performance as well as supporting the livelihoods of 9 million Australians**
- **Policy responses must better understand and reflect regional differences**

Despite the persistent negative narrative about regions evidence shows that in many facets regions are performing strongly. They have held their own as contributors to the national economy, productivity remains high and their populations continue to grow.

The baseline scenario is one for overall sustained growth slightly below average economic and population growth of our largest metropolitan areas. The extent to which Australia's regions perform better or worse than this will depend on the responses to the range of trajectories in different places.

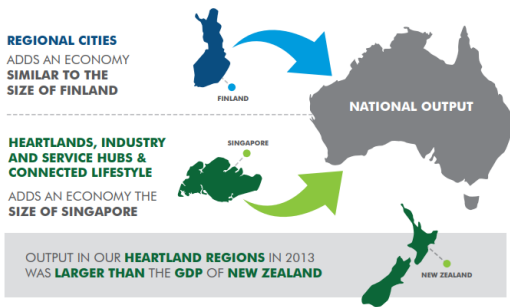
A snapshot of the status quo demonstrates both strengths and challenges facing regions. The test for regional Australia is not arresting a general or inevitable decline, but crafting more effective responses to the diverse social and economic challenges that reduce the quality of life and constrain opportunity in many regions. This is vital as regions face a raft of big changes likely to shape outcomes over the next decade and beyond.

Economic Contribution of Australia's Regions

Regional Australia's contribution to the national economy in recent years has been substantial and contrary to popular perceptions, diverse and highly productive.

Collectively, Australia's regions account for around 40 per cent of our total economic output. To put this into context, were it not for our regions, Australia's economy today would only be the size that it was in 1997 and Australia would no longer rank amongst the world's largest economies.

Regions also played a key role in supporting national growth in the aftermath of the Global Financial Crisis. While commodity production did play a significant role, it's not the whole story. Looking at the contribution of each of the four regional types it's clear that regional cities are important economic engines and our heartland regions exerted a stabilising effect on overall economic growth.



Source: PricewaterhouseCoopers GEM, IMF World Economic Outlook database, Reserve Bank of Australia, Regional Australia Institute.

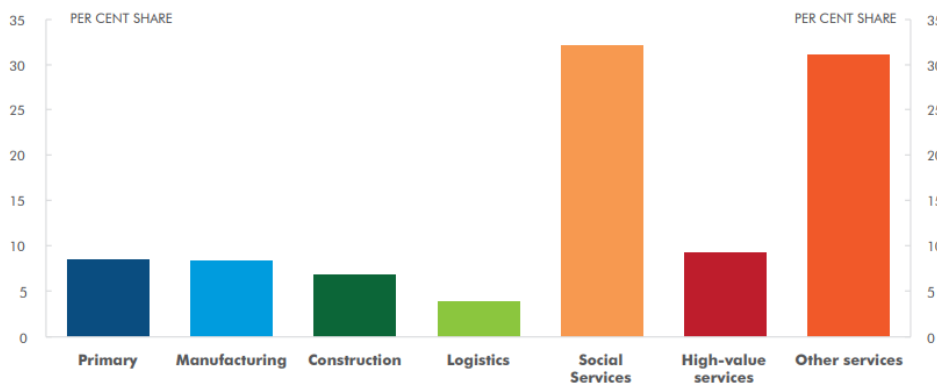
Chart 2: Regional types' contribution to national output growth



Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.

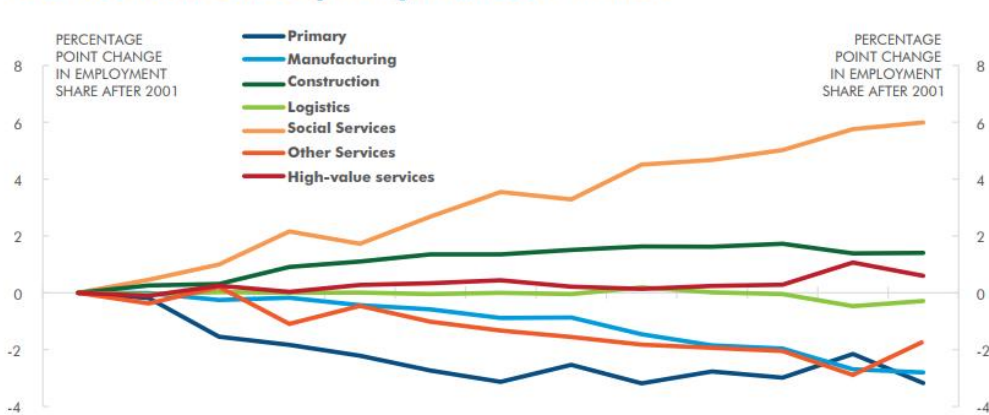
Although specific regions are driven by their exposure to major commodities like agriculture and mining, collectively regions demonstrate a diverse employment picture. When we look at what industries are important to regional Australia, we see that service industries form a relatively high share of employment. This presents a stark contrast to the stereotypical view of our regional communities focused solely on farming and mining. Since 2001, our regions have become increasingly service-diverse, even during the mining boom.

Chart 3: Regional employment shares (2013)



Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.

Chart 4: Services-diversity in regional labour markets



Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.

While regional Australia’s labour market has become increasingly diverse on aggregate, it remains subject to far more volatility than our major metropolitan areas. This is mostly driven by the smaller populations of some of these communities.

Nevertheless, the windfall from the mining boom has seen productivity in regional Australia exceed that of those in major metropolitan area. But even if the effect of mining is removed, output per worker is at the forefront of productivity in around a third of all industries in Australia. Moreover, its far from the case that productivity in regional Australia has somehow stagnated. Connected lifestyle areas account for as much economic activity as the average worker in the UK, while heartland regions and industry and service hubs are comparable to Luxembourg and Switzerland respectively.

In 2013, regional Australia was actually at the forefront of output per worker in seven of the 19 industry categories recorded by the ABS. Apart from being at the forefront of productivity in more than one third of Australia’s industries, regional Australia’s lead is not simply confined to primary production. Our regions are at the forefront of output per worker in industries like logistics and healthcare.

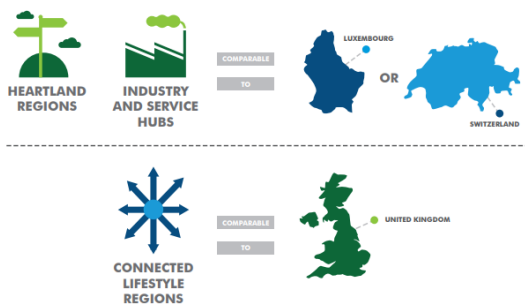
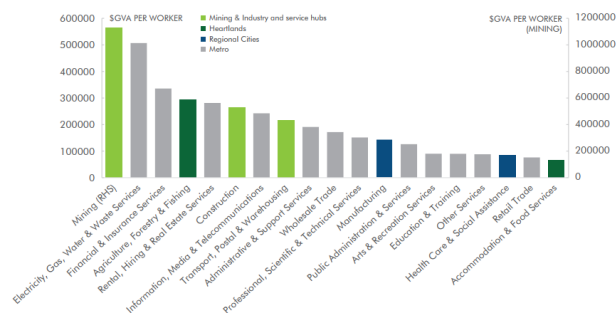


Figure 2: Foundations of Regional Australia and their productivity. Source: PricewaterhouseCoopers GEM, IMF World Economic Outlook database, Reserve Bank of Australia, Regional Australia Institute.

Chart 7: Frontiers of productivity in regional Australia



We know that regional Australia is important to national prosperity – each regional type adds economic activity to the nation that is comparable to entire, major economies. And the type of activity our regions bring to the picture has been an important stabilising influence for us in the past. Regions are also an important source of employment for many Australians and with increasingly diverse labour markets, there is potential to keep improving.

But what does it mean for the future? The unwinding of the mining boom will have an effect on regional output, reducing their overall share of national output. But this is not a foregone conclusion. This work has shown that regions are, in aggregate, economically dynamic.

But there are challenges to be faced as well. Promoting economic diversity in regional communities is going to be an important part of bracing against the vulnerability of many regional labour markets. Creating better jobs in our regions could go a long way to helping close the gaps in productivity between our cities and many regional communities.

If regions can get on the front foot in facing this adjustment, mitigating a reduction in regions' share of economic output is possible. The fact that regional Australia is at the forefront of output per worker in around a third of our industries shows that this is by no means unachievable.

Chart 8: Output projections to 2031

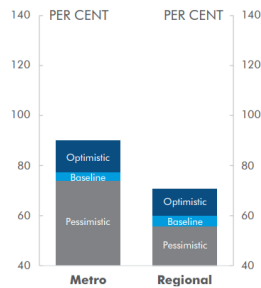
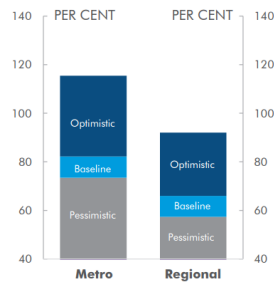


Chart 9: Employment projections to 2031

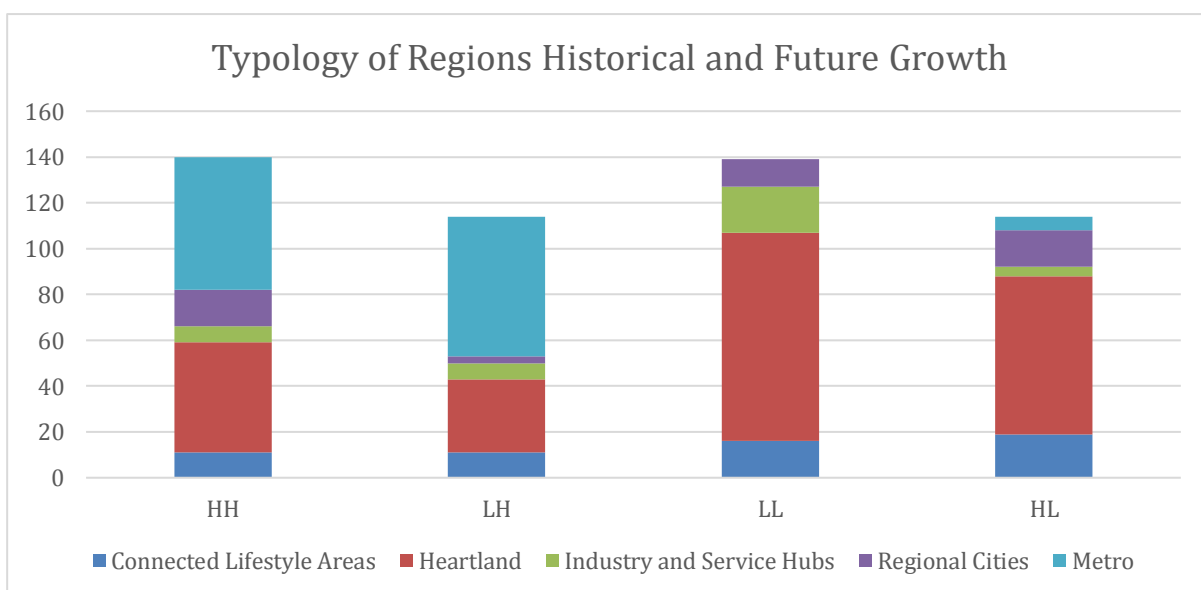


Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.

Future Regional Potential

Using median growth rate as a benchmark, a region's growth can be categorised as high or low depending upon whether sits above or below the median. Looking at both historical and forecast growth helps reveal interesting transition patterns across our regions. Based on regions' output growth rates in the historical period (2001-2013) and the forecast period (2013-2031), all regions are categorised into four distinct groups.

- High historical growth- High future growth
- Low historical growth- High future growth
- Low historical growth- Low future growth
- High historical growth- Low future growth



Having a higher rate of growth would ensure our regions' increasingly greater contribution to the national economy while improving the economic wellbeing of all Australians. The future prospects of our regions could vary substantially depending on their ability to become more agile, resilient against domestic and external shocks, and adaptive to structural change.

APPENDIX 2 - Supporting Documents

The Foundations of Regional Australia - <http://www.regionalaustralia.org.au/wp-content/uploads/2014/12/Foundations-of-regional-Australia-FINAL-.pdf>

The Missing Migrants - <http://www.regionalaustralia.org.au/home/wp-content/uploads/2016/07/FINAL-Talking-Point-The-missing-migrants.pdf>

Road User Pricing and Regions - <http://www.regionalaustralia.org.au/home/2016/02/what-about-petrol-at-70c-per-litre-and-no-rego-fees/>

Productivity Commission Inquiry Submission: Telecommunications Universal Service Obligation - <http://www.regionalaustralia.org.au/home/wp-content/uploads/2016/09/RAI-Submission-Telecommunications-Universal-Service-Obligation.pdf>

RAPAD Pathfinder - http://www.regionalaustralia.org.au/home/wp-content/uploads/2017/07/RAPAD_Fin_rpt_July06_2017.pdf

Namoi Pathfinder - <http://www.regionalaustralia.org.au/wp-content/uploads/Shaping-the-Future-in-the-Namoi-Report-FINAL-20150914.pdf>

Delivering Better Government for the Regions - <http://www.regionalaustralia.org.au/home/2015/11/delivering-better-government-for-the-regions/>

Deal or No Deal - <http://www.regionalaustralia.org.au/home/wp-content/uploads/2016/04/Great-Small-Cities-Agenda-Page-Banner.jpg>

Lighting Up our Great Small Cities: Challenging Misconceptions - http://www.regionalaustralia.org.au/home/wp-content/uploads/2017/06/Lighting-Up-our-Great-Small-Cities_Report.pdf

Blueprint for Investing in City Deals: Are You Ready to Deal? - http://www.regionalaustralia.org.au/home/wp-content/uploads/2017/06/Blueprint-for-Investing-in-City-Deals_Report.pdf

Submission to the “Inquiry into the operation, effectiveness, and consequences of the Public Governance, Performance and Accountability (Location of Corporate Commonwealth Entities) Order 2016 - <http://www.regionalaustralia.org.au/home/wp-content/uploads/2017/04/RAI-APS-Relocations-Inquiry-Submission.pdf>

Submission to the Senate Inquiry into the impact of Defence training activities and facilities on rural and regional communities - http://www.regionalaustralia.org.au/home/wp-content/uploads/2017/05/Regional-Australia-Institute_Submission-to-Senate-inquiry-into-Defence-impact.pdf

References and End Notes

ⁱ <http://www.oecd.org/cfe/regional-policy/promotinggrowthinallregions.htm>

ⁱⁱ Meijers, E. J., & Burger, M. J. (2010). Spatial structure and productivity in US metropolitan areas. *Environment and planning A*, 42(6), 1383-1402.

ⁱⁱⁱ Barca, F., McCann, P. and Rodríguez-Pose, A. (2012), *The Case For Regional Development Intervention: Place-Based Versus Place-Neutral Approaches**. *Journal of Regional Science*, 52: 134–152. doi:10.1111/j.1467-9787.2011.00756.x and Marsh, I., Crowley, K., Grube, D., & Eccleston, R. (2016). *Delivering Public Services: Locality, Learning and Reciprocity in Place Based Practice. Australian Journal of Public Administration*.