

8.1 BRIEFING ON THE PRODUCTIVITY COMMISSIONS INQUIRY INTO TRANSITIONING REGIONAL ECONOMIES (PUBLIC DRAFT).

Responsible Officer:	Chief Executive Officer
Action Officer:	Chief Executive Officer
Disclosure of Interest:	Nil
Attachment(s):	8.1 - Briefing on the Productivity Commission's Transitioning Regional Economies Initial Report - Council May OCM - v20170503 Final

Purpose

To inform Council on the progress of the Productivity Commission inquiry as it pertains to regional development and diversification of the Pilbara.

Background

At the direction of the Treasurer, The Hon Scott Morrison MP, the Productivity Commission is currently studying the transition of regional economies from the mining investment boom to more sustainable economic bases.

In the process of advocating for the region according to these issues, the Pilbara Regional Council drafted and submitted a document to the Productivity Commission's inquiry into transitioning regional economies from investment boom's to more sustainable economic bases.

The Pilbara Regional Council submission was based on the endorsed advocacy initiatives, including strong emphasis on the importance of critical infrastructure, and reforms such as:

- Modification of the FIFO FBT exemption to improve regional flight affordability
- Support for a Designated Area Migration Agreement
- A Pilbara Enterprise Zone around Lumsden Point
- A Minister for Northern Australia in the WA Cabinet
- The importance of investment in the pastoral industry (world-class abattoir around Lumsden Point)
- Investment into water investigations to support a 'Water for Investment' prospectus
- Sealing of key strategic roads based on importance not population (Tom Price - Karratha Road, Marble Bar - Newman Road)
- Sub-sea cable capacity increase and a review of the NBN to ensure appropriate investment into telecommunications

As such, this agenda provides Council with an attachment summarising the Initial Report released by the Productivity Commission on this inquiry as it pertains to the Pilbara and our initiatives specifically, and to the overall topic of regional development strategies and reform.

The Pilbara Regional Council's submission to the Productivity Commission is also attached to this agenda item, and based on the feedback from Councillors and member CEOs, the Pilbara Regional Council plans to respond to the Commission's initial report.

Comments/Discussion

Comments contained within attached report.

Policy Implications

Nil

Consultation

This agenda item is the first external messaging in relation to the Productivity Commission's initial report, which was released this April.

Legislative Implications

Nil

Procurement Implications

Nil

Financial Implications

Nil

Strategic Implications

This item is relevant to the PRC's approved Strategic Community Plan and Corporate Business Plan.

Key Focus Area: *A Voice for the Pilbara*

Strategic Outcome: *We are a relevant, innovative organisation responsive to stakeholders*

Strategy: *We will identify critical issues and provide comment to our member councils to facilitate a regional discussion and response.*

Risk Management considerations

Nil

Impact on capacity

Nil.

Relevant precedents

Nil.

Options

For noting only.

Notes to the Minutes

The Chairperson, on behalf of Council, commended Mr Scott Stirling (PRC Project Officer) on a very well drafted briefing report.



Briefing on the Productivity Commission's Transitioning Regional Economies Initial Report

Responsible Officer	Tony Friday, Chief Executive Officer
Authorisation	Tony Friday, Chief Executive Officer
Enquiries	Tony Friday,
Version control	v20170503 Final
Review & Approvals	
Review cycle	NA
Reviewed / Modified	20170503

Background

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In the process of advocating for the region according to these issues, the Pilbara Regional Council drafted and submitted a document to the Productivity Commission's inquiry into transitioning regional economies from investment boom's to more sustainable economic bases.

The Pilbara Regional Council submission focused on the endorsed PRC advocacy initiatives, including strong emphasis on the importance of critical infrastructure, and reforms such as:

- Modification of the FIFO FBT exemption to improve regional flight affordability,
- Support for a Designated Area Migration Agreement,
- A Pilbara Enterprise Zone around and approved Lumsden Point,
- Minister for Northern Australia in the WA Cabinet,
- Importance of investment in the pastoral industry (world-class abattoir around Lumsden Point),
- Investment into water investigations to support a 'Water for Investment' prospectus,
- Sealing of key strategic roads based on importance not population (Tom Price - Karratha Road, Marble Bar - Newman Road), and
- Sub-Sea cable capacity increase and review of NBN to ensure appropriate investment into telecommunications

The Pilbara Regional Council provided a submission, however due to technical difficulties with the Productivity Commission's website, the submission (along with others, presumably) was not received in time to be considered in the drafting of the Initial Report phase. The Productivity Commission has committed to rectifying the issue with haste, uploading the Pilbara Regional Council's submission to its website and considering our recommendations in its final report.

This briefing note has been prepared to inform Councillors of the key findings so far in the Commission's initial report, including areas of agreement, areas of potential disagreement, areas of interest or the provision of warnings from the Commission's view, and how the Pilbara Regional Council intends to engage in the study further through feedback requested by the Commission.

The Pilbara Regional Council does so in its capacity as a 'voice for the Pilbara', with a mandate to 'identify critical issues and provide comment to our member councils to facilitate a regional discussion and response'.

Areas of Agreement and Statements of Fact

There are many points of interest in the report that the Pilbara Regional Council either agrees fully with or are simply statements of fact. The Commission recommends that all regions would benefit from universal or 'no regrets' policy changes, including:

- Removal of obstacles/barriers to opportunities,
- Unnecessarily complex and costly regulatory processes and regulations that restrict what business owners can do with their land,
- Costly delays to new opportunities including tourism-related developments, and (diversification/Karjini)
- Environmental regulations, limiting farmer's ability to adapt and improve productivity.

The Pilbara Regional Council would agree with this assessment, especially given its endorsed 'Pastoral Water and Diversification Permits' position statement, which calls for the State Government to:

- Expedite the processing of pastoral water and diversification permits in order to accelerate and de-risk investment decisions within the pastoral industry, and
- Work proactively across agencies to clarify water availability for investment purposes (e.g. centre pivots) and to extend the scope of permitted purposes for diversification permits.

The Pilbara Regional Council's endorsed 'Karjini Deconstraint' position also calls for the removal of 'roadblocks and impediments to the development of an investment opportunity through support for approvals and deconstraining initiatives under a lead agency State Government framework'.

The Commission also recommends strategies to support transition, such as:

- Strategies should play to a region's strengths,
- Coordination between governments should always be explored,
- Investment should be focused on developing capacity of community and connectivity of the region with domestic and international markets, investing in:
 - inadequate skill levels,
 - labour force, and
 - physical infrastructure,
- Reforms should be locally-driven through effective and coherent partnerships between communities and levels of Government

These guidelines for regional development align well to the efforts of the region through its advocacy, especially in calling for the sealing of strategically important roads, the approval of a multi-user port facility at Lumsden Point and the use of the Pilbara Regional Council as an effective advocacy body representing partnerships between communities and different levels of government.

There is strong agreement with the concept that Government has no place 'picking winners', but that it should focus its attention on the ultimate goal of investing in a region's strengths as defined by and in partnership with the community.

The Commission also makes the case that many assumed wrongly that the investment phase would stay stronger and longer, and were unprepared for the winding down. This is arguably the case in the Pilbara, which is rightly classified as remote or very remote and as - for the most part - 'least adaptive' by the Commission.

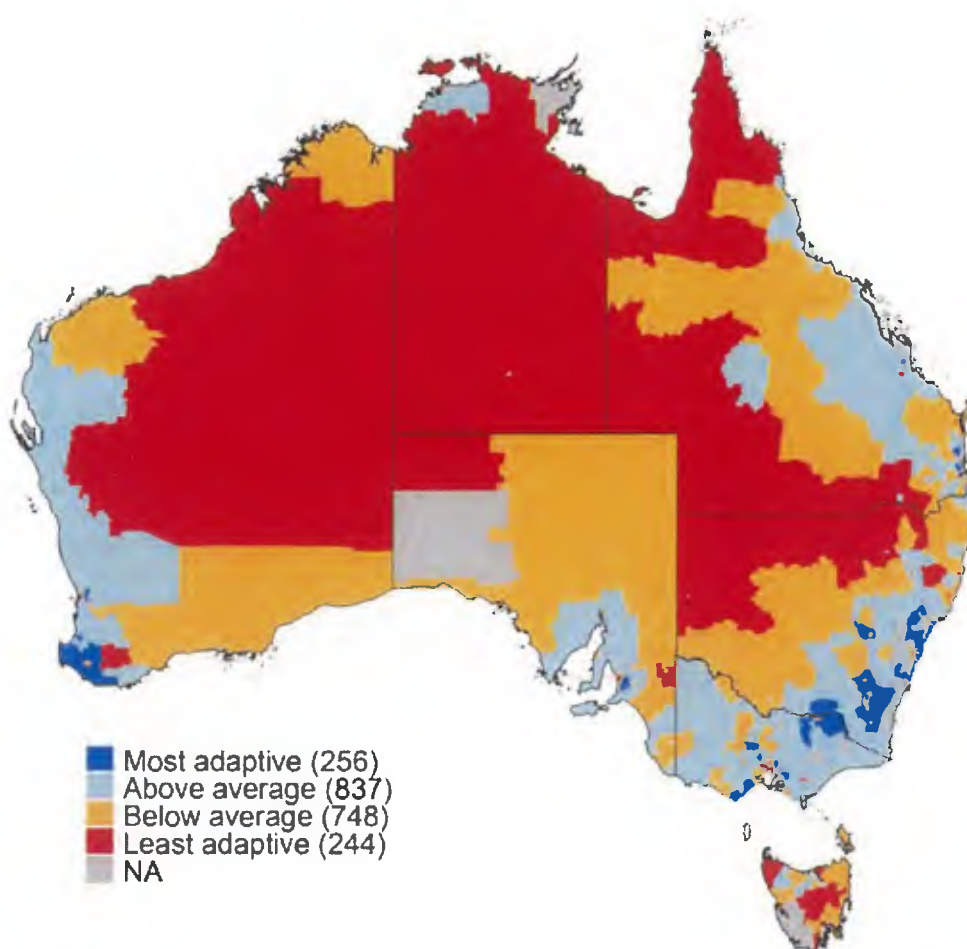
According to the Commission's 'adaptive capacity' measure, the City of Karratha, Town of Port Hedland and Shire of East Pilbara are all categorised as 'least adaptive', with the Shire of Ashburton being classified as 'below

average'. The 'relative adaptive capacity' index is described as being the measurement of a combination of complex factors such as:

- Skills and education,
- Access to infrastructure and services,
- Availability of natural resources,
- Financial resources available to businesses and individuals, and
- Diversity of industries.

Although Karratha, Port Hedland and Newman as SA2 areas (Statistical Area 2) are not least adaptive, the LGA areas averaged out are. The Commission states that all of the regions that were assessed as least adaptive were also identified as remote.

Figure 3 The adaptive capacity of Australia's regions



The Commission also argues that broadband is a fundamental enabler of distant trade in goods and services, allowing non-urban (very remote) communities to find new markets in Australia and overseas, and in the State Government's DRD submission, they make the case that social and community infrastructure are the true enablers of long term population growth.

This aligns strongly with the views of the Pilbara Regional Council, and the Commission's call for 'developing the capacity of the community and connectivity of the region with domestic and international markets' is consistent with the Pilbara Regional Council's 'Regional Roads', 'Regional Flights' and 'Release of Strategic Land' position

ATTACHMENT 8.1

statements. That change should be locally-driven with effective coherent partnerships between community and government is also one of the core functions of the Pilbara Regional Council.

Areas of Disagreement

There are several key arguments made in the Commission's report that the Pilbara Regional Council does not agree with. These mostly stem from a rejection of the centrality of diversification and support for FIFO practices.

The Commission states that that overarching goals of regional development should be to support:

- Efficiency: investment in activities that generate the highest value or wellbeing
- Equity: creating fairer distribution of the benefits of growth
- Sustainability: make communities viable long-term

Diversification is Support for Lesser-Value Activities

On the point of efficiency, the Pilbara Regional Council understands the imperative for governments to ensure appropriate return on their investment in the form of economic development.

However this is not the only metric governments should use, and is a short-term view of the benefits of diversification. Diversification of a region's economy is essential to protecting it from commodity price shocks, and as the Commission's report itself states, leaves communities exposed to loss of mining activity. The Commission's report warns of 'narrow economic bases', whilst at the same time advocating a focus on current strengths, in some places specifically mentioning 'mining over tourism'.

FIFO Spreads Wealth from Regions to Capitals

The Commission's view of equity is different to that of the Pilbara Regional Council, in that they make that case that FIFO arrangements spread the benefits of mining booms to places such as Perth and Peel.

The Commission's report views 'fly-in-fly-out' arrangements (FIFO) very positively, stating that this spreads the benefit of a boom across the state and alleviated transition pressures on the way up, whilst also spreading the effect of any downturn on one particular region. The report states that FIFO arrangements allow one partner to travel to a remote region for work, leaving the other partner in their current employment and retaining their access to an 'urban lifestyle'.

For the Pilbara, the Commission estimates the total FIFO during the boom at 50,000 workers (compared to a 66,000 population size), two-thirds of which were understood to have come from either the Perth or Peel regions. As such, the Commission is of the view that FIFO workforces during both construction and production are a positive influence.

Housing skyrocketed from median of \$200k in 2001 to \$800k in Karratha and \$1m in PH by 2012. Rapid re-adjustment has occurred, and rates are now back at pre-boom. Despite the influx of FIFO workers being attributed as the cause of this housing affordability crisis, the Commission describes the scenario only as having creating 'winners and losers', the latter including 'local residents' and investors.

FIFO workers are said to have brought with them high incomes causing multiplier effects in the demand for goods and services in regional centres. Given the mining encampment structure and limited ability for workers to move out of camp during rotations, further investigation is required to understand the accuracy or otherwise of this position.

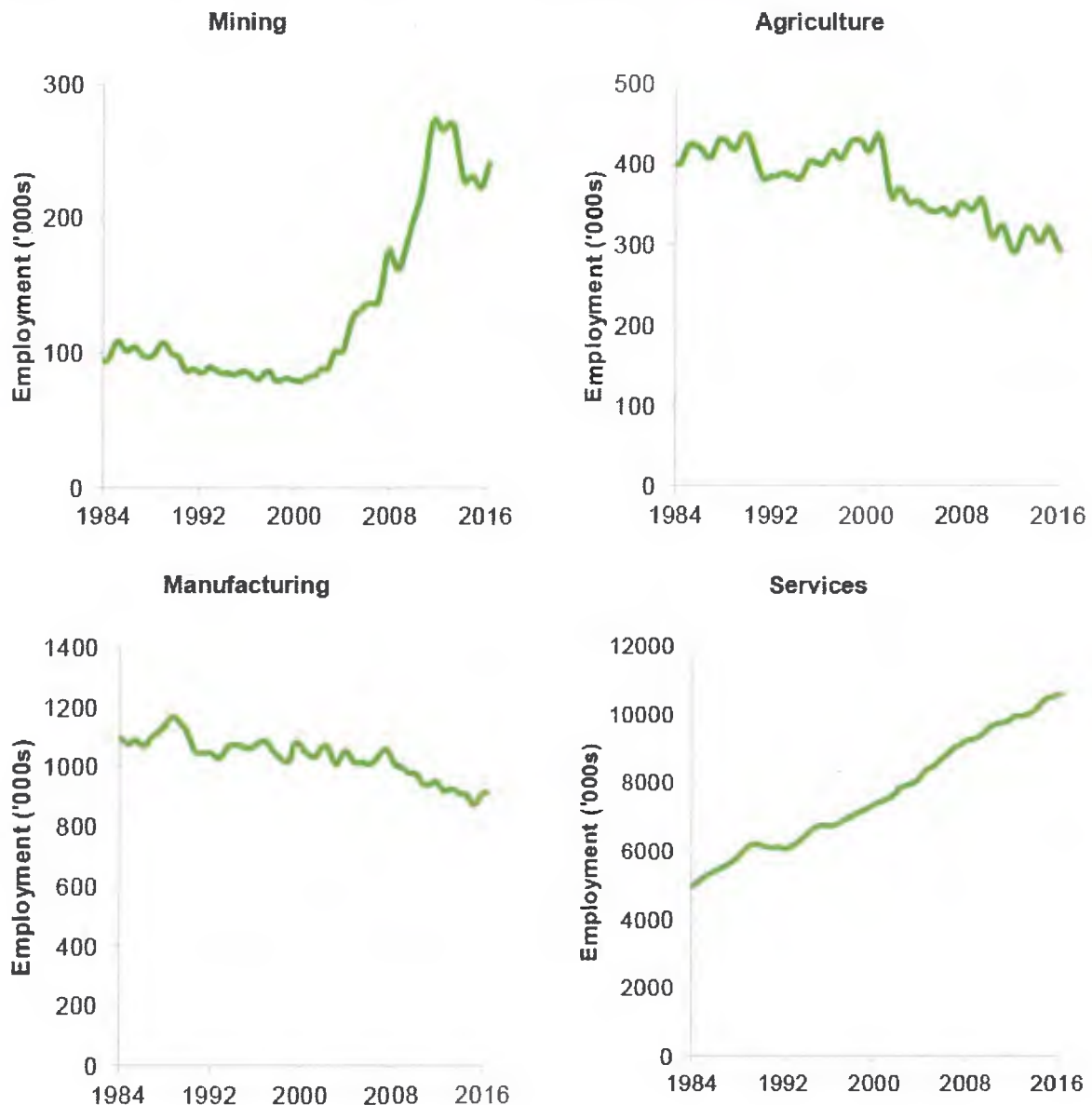
Areas of Interest and Caution

There are several key arguments made in the Commission's report that the Pilbara Regional Council does not agree nor disagree on, but nevertheless represent cautionary warnings for the region that are of material importance to Councillors' decisions with regards advocacy.

Agriculture Not a Path to Greater Employment

National trends based on industry shows mining employment growth is prone to large spikes and overall long-term growth, and that the services sector in consistent and strong growth. Agriculture and manufacturing on the other hand are shown in steady decline, and this declining employment growth is explained by technological innovation and efficiencies within the sector. It is worth considering this in our efforts to support agricultural development in the Pilbara, and our assumptions of what employment this may generate.

Figure 5 National trends in employment by industry



Tourism Not the Right Fit for All Regions

Whilst not mentioning tourism specifically, the Commission also makes strong recommendations to Government's to not engage in subsidising or artificially supporting industries that are not built on the natural strengths of a region. This could be seen as a caution against expanding the tourism industry in the Pilbara beyond what is reasonable, given some of the real challenges in the region's sector.

In both the above point on agriculture and this comment on tourism, the diversification approach would dictate that a wide variety of options and industries are the key to a region's sustainability, and the Pilbara Regional Council very much supports this approach, which is fundamental to the Pilbara Investment Blueprint. These warnings seem to provide worthy notes of caution however on seeking to expand industries beyond their natural strengths with intervention.

Here the fine line is between 'enabling an industry with potential to flourish' and 'propping up something that would otherwise fail'. This is a fine line that all governments tread and view in their own way, and through the Pilbara Regional Council endorsed advocacy initiatives, the Pilbara as a collection of local government leaders have shown a desire to engage in healthy enabling of industry through a focus on infrastructure and sustainability (roads, strategic land, water and diversification permits, Karijini deconstraint).

Where direct intervention is advocated (colocation of services, ANWT restructure, regional flights) it is most often to address identified imbalances or inequities, rather than artificially supporting industries that would fail otherwise. Although with regards the colocation of services and call for more senior government officials to live and work in the region, the argument is made that this is part of empowering local communities to make decisions that benefit their region, since the injection of expert knowledge and government leadership improves the connection between leaders and their constituents.

Further Engagement with the Study

The Pilbara Regional Council engaged with the process by producing a submission to the Commission, however once the initial report was released, it was clear the Pilbara Regional Council's submission had not been considered. It was discovered that technology issues experienced by the Commission had prevented the Pilbara Regional Council's submission from being received, and that has now been rectified for the final report.

The Pilbara Regional Council intends to report back to the Commission with a response to the initial report, and will include the below remarks.

Clarity on the Tiered Model for Support and Regional Classifications

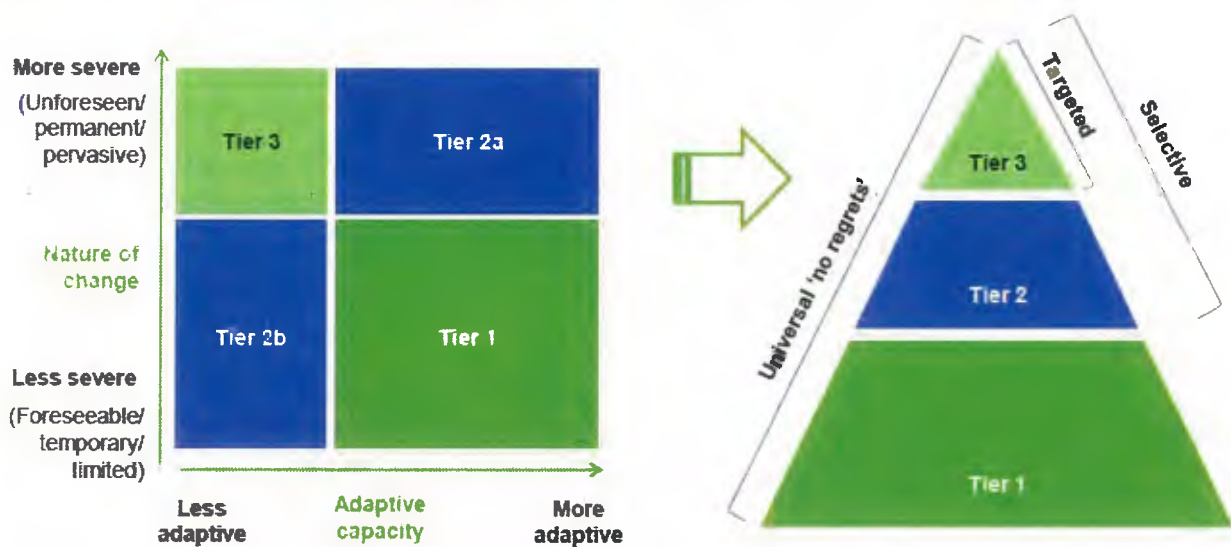
From the Commission's initial report it is not immediately clear what tier the Pilbara would be considered a part of. The tier model process ranks regions on their 'relative adaptive capacity' in relation to the severity of the changes and transition issues that they face.

The Commission is unlikely to publish in its final report a definitely list of regions and their tier, as it would likely be perceived poorly by the State governments, and would be in somewhat of a contradiction to the Commission's advice that locally-driven decision making is a core principle of regional development.

However, the clear identification of region's in need of support seems to the Pilbara Regional Council to be of the upmost importance as it pertains not only to the terms of reference but also to the potential funding implications. The Commission, by pursuing a 'relative' model to compare regions, has given certain regions the 'ammunition' they need to advocate for more funding and support; to prove their need.

However the Commission makes the case that, at least for this initial report, both the measures of severity of transition and the adaptive capacity itself are not sophisticated enough to give a definite answer for this.

Figure 8 A tiered model of policy support for regional communities



At this high level, the Pilbara Regional Council would most likely make the case that the Pilbara Regional Council is on the whole less adaptive, and thus within either Tier 2b or Tier 3, requiring targeted and selective support.

The Commission makes the case that regions undergoing substantial change with limited capacity have the greatest need for support. Certain locations within the Pilbara (Karratha, Newman and Port Hedland) have below average adaptive capacity but the severity of the effects of transition would be categorised a closer to foreseeable than unforeseen, closer to temporary than permanent, and closer to limited than pervasive. However when the average capacity of the whole region is taken into account to include those not living in the region's largest centres, all Local Government Authorities save for Ashburton are classified as 'least adaptive'.

A Closer Look at the Pilbara

The Commission's report makes the case that many mining regions have experienced high employment growth and have high adaptive capacity. Some have experienced decline in employment and low adaptive capacity, however these are usually in areas where mining operations are small scale, economically marginal or approaching the end of their productive life.

The Pilbara Regional Council will make the case that the Pilbara is an exception to this general rule, and thus requires more analysis and more support. Mining operations are high and long term, yet employment and population has shown signs of declining, and according to this report the region is mostly contained in the least adaptive category. It would seem that the Pilbara does not conform to the majority trend in its 'class' of mining regions, and this deserves further study for the specifics of why this is the case.

Feedback on the Adaptive Capacity Index

The Commission's initial report requests specific feedback in relation to what other factors should be included in the Commission's comparative analysis of regions. The Pilbara Regional Council will make the case that proximity, cost or limitations to access to other centres or capital cities, and well as the effect of inconsistency or otherwise between State and Commonwealth Government priorities is a delineator of both an region's ability to get funding

for important infrastructure to overcome challenges such as tyranny of distances and the effect of collaboration or lack thereof between levels of government.

Feedback on the Policy Framework

The Commission's report in 'Initial Finding 5.1' states that there is no single approach to facilitate adaption and sustainable regional development. Citing an almost complete lack of evaluation of regional development programs for their effectiveness across Australia, the Commission recommends an overall policy of focusing on people, exemplified by:

- Strategies that are identified and led by the community itself with partnerships,
- The removal of barriers to people or businesses relocating both within or to regions,
- Alignment with the region's relative strengths and inherent advantages,
- Targeted investments in the capacity of people to deal with adjustment and the connectivity of the region,
- Facilitation of private economic activity that is sustainable beyond government support.

The Pilbara Regional Council will make that case that this is a sound policy framework that would also benefit from the inclusion of 'strategic and enabling infrastructure' that is measured on its capacity to deliver improvements to the region's adaptive capacity, and the extent to which it supports the creation of new industry whilst at the same time offering high quality service delivery commensurate with metropolitan centres.