



Productivity Commission: Transitioning Regional Economies

Response prepared by the Illawarra Business Chamber
and Illawarra First



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1. Summary of Productivity Commission Inquiry

On 15 December 2016, the Australian Government commissioned the Productivity Commission to undertake a 12-month study into the geographic impacts of the transition of the Australian economy following the resources investment boom.

The purpose of this study is to examine the regional geography of Australia's economic transition, since the mining investment boom, to identify those regions and localities that face significant challenges in successfully transitioning to a more sustainable economic base and the factors which will influence their capacity to adapt to changes in economic circumstances.

This Inquiry provides an opportunity to highlight the importance and value of regional development, particularly in a post-resources boom environment. The Illawarra Business Chamber and Illawarra First maintain that regional economies present an opportunity to improve national productivity and address a number of key socio-economic challenges including housing affordability, youth unemployment, urban congestion and labour force participation.

We note that the scope of this report aims to identify regions which are less likely to make a successful transition from the resources boom than other parts of the country. As such, this Inquiry should consider the role that all transitioning regional economies, successful or otherwise, play in their contribution to the future growth and productivity of Australia.

We note the Productivity Commission is seeking initial submission at this time and we have provided a summary of some of the key issues we believe are worth of further consideration through this review.

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2. Overview of the Illawarra

The Illawarra, as defined by the four Local Government Areas (LGAs) of Wollongong, Shellharbour, Kiama and Shoalhaven, is New South Wales' third most populous area, being the home to over 380,000 people and an expected population of about 500,000 people by 2050.¹ The region is also the State's third largest economy, contributing \$16.2 billion to the State's economy in 2013 and is the third largest urban area in New South Wales totalling 5,620 square kilometres.²

The region is home to one of Australia's top 10 universities, Australia's third largest international trading port and comprises a landscape of significant biodiversity value making it a region of national significance.

The region's unique natural and built environments are powerful sources of attraction for businesses wanting to make long term investments in sustainable enterprises, and for an increasing number of visitors who want to enjoy the pleasures of our beautiful beaches, rainforests and modern urban settings, and the rich cultural calendar.

The region has four major economic centres – Wollongong, Shellharbour, Kiama and Nowra – Wollongong being the largest centre, supporting over 80,000 jobs. The region benefits from its close proximity to both Sydney and Canberra as well as its global connections through the rapidly expanding port of Port Kembla which supports over 3,500 jobs and is estimated to contribute around \$418 million annually to the regional economy.³ The Shoalhaven Defence base (HMAS Albatross) also supports over 2,500 jobs and contributes some \$295 million annually to the regional economy.⁴

3. Illawarra Business Chamber and Illawarra First

The Illawarra Business Chamber is the Illawarra Region's peak business organisation. As an independent non-for-profit, the organisation is dedicated to helping business of all sizes maximise their potential. Through initiatives such as Illawarra First, the Chamber is promoting the economic development of the region through new policies and targeted advocacy.

4. Competitive advantages of the Illawarra

The transition of the Illawarra economy presents an important opportunity for the New South Wales and Australian economies. The region is the home to strategic infrastructure including Port Kembla home to New South Wales' largest motor vehicle import hub and grain export terminal and the second largest coal export port in New South Wales.

¹ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 3

² Ibid.

³ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 20

⁴ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 25

The region has a strong record of providing innovative defence technology and services to the Australian and global defence industries. Importantly, the region is also endowed with skilled advanced manufacturing labour force, supported by the research and education activity of the University of Wollongong.

The continuance of this economic transition, however, is largely dependent on investment that provides improved connections between the Illawarra region, Sydney and Greater Sydney. As the development of Sydney (and in particular Western Sydney) continues, many industry sectors will be incentivised to relocate. This is especially relevant for manufacturing and logistics businesses.

Increased operating costs, increased land values and congestion pressures will require many businesses to look at relocation options if their operations are to continue. The Illawarra, located just 80 kilometres from Sydney CBD provides an ideal relocation option for many of these businesses. To realise the potential of the region and in particular its capacity to provide the productivity uplift and lower cost base sought by businesses, it is vital that improved transport connectivity in the form of road and rail be delivered.

5. Economic Diversification

It is important that in transitioning to a post-resources boom, regions like the Illawarra have a diversified economy enabling it to better adapt to changes to the national and international economy over time. In the past two years, average employment growth in the Illawarra has been twice that in New South Wales and Australia. It should be noted that the monthly unemployment rate in the Illawarra fluctuates more than the New South Wales and Australian averages due, in part, to the fact that regional economies are more susceptible to external shocks and more prone to the adverse impacts of slowing national economic growth.

While lower unemployment rates generally imply labour market improvements, it should be noted that falling unemployment rates can also be a product of discouraged job-seekers dropping out of the labour force completely. This trend is more likely to occur in a region like the Illawarra where manufacturers and miners who have recently lost their jobs, and whose skills are not immediately transferable to other sectors, may simply leave the labour force.

In 2013 manufacturing was the largest contributor to regional output, contributing \$1.9 billion (11.5 per cent) and employing nearly 10 per cent of local jobs.⁵ Over the next 20 years, the manufacturing sector is expected to shed around 4,000 jobs, the equivalent of 3% of the Illawarra's current workforce. Despite this, it is likely that there will be some niche areas within manufacturing where employment growth is seen over time. To support this growth, we recommend new government initiatives to enhance the manufacturing sector's capacity to adapt to changing economic times, and support for 'advanced manufactures' or manufacturing services.

⁵ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 15

The fastest growing sector over the next 20 years in the Illawarra is expected to be health care, driven primarily by an ageing population, with the sector's workforce expected to grow by the equivalent of nearly 4% of the region's total employment base over the next twenty years. Education and training is also expected to grow strongly, by around 3,000 workers over the next 20 years, driven primarily by continuing strength of the region's vocational and tertiary education offerings. This growth is likely to be dependent on linkages between health and medical research, primary care, acute care and institutions like the University of Wollongong.

The Illawarra's proximity to Sydney and Canberra also provide substantial opportunities for tourism growth in the region. The visitor economy is currently worth almost \$1.3 billion per year to the Illawarra-Shoalhaven, and brings in over 6.7 million visitors each year to the region. A common view among stakeholders is that the Illawarra region has considerable potential to increase tourism, but a lack of infrastructure is restricting this potential.

For the region to benefit from these growth areas and opportunities, we need improved transport connectivity to and from the region.

6. Illawarra as an 'extension' of Sydney

The Illawarra region is becoming increasingly integrated with the Sydney CBD and the Greater Sydney area:

- An average of 42,300 passenger and freight vehicles per day travel between the Illawarra and the Sydney CBD and metropolitan area on the M1 Princes Motorway, the main road corridor between the Illawarra and Sydney.⁶ This makes this corridor one of Australia's busiest inter-city road corridors.⁷ In addition, another 3,000 people per day travel between the Illawarra and Sydney by rail.
- Among these travellers about 20,850 (or 15% of our workforce) commute to Sydney and its southern and western suburbs to go to work, and 10,000 people living in Sydney make the trip from these areas to work in our region.⁸
- Sydney is an important market for our university and a diverse range of professional and technical service providers that are based in the Illawarra.
- The Illawarra's proximity to the current Sydney airport, and planned second Western Sydney airport, enables connectivity to opportunities domestically and internationally.

⁶ NSW Roads and Maritime Services, Average Daily Traffic Volumes, V1.0, updated 25/3/2014, <http://www.rms.New South Wales.gov.au/publicationsstatisticsforms/trafficvolumes/map/>, accessed 5 September, 2014

⁷ BITRE, Australian transport statistics Yearbook 2009 http://www.bitre.gov.au/publications/2009/stats_001.aspx

⁸ Illawarra Business Chamber, Linking the Illawarra: Improving the region's transport connectivity, August 2014, page 8

A similar theme reverberates through the State Infrastructure Strategy:

*'The Illawarra and the Hunter Regions are increasingly becoming integrated with the economy of the Greater Sydney Region. Many residents commute by rail and many more make the journey by road to work in Sydney every day. As Newcastle and Wollongong grow in size and importance to the New South Wales economy, they need faster and more efficient links to Sydney'*⁹

7. Importance of transport infrastructure to regional economies

The lower cost base and tangible competitive benefits of regions offer important competitive advantages that can provide enduring economic and employment outcomes for decades to come if the investment is made in appropriate connecting infrastructure. Just as the Australian resources boom would not have been possible without the billions of dollars invested in infrastructure, a regional economic boom requires similar levels of investment.

The Illawarra region has been traditionally known for steel manufacturing and mining. The region experienced strong economic growth during the resources boom as businesses in the region, particularly in the engineering and advanced manufacturing sectors, supplied goods and services to support the resources boom. The decline in resources activity necessitated a transition. In recent years, new and diversified industries are emerging and employment growth has been seen in a number of areas including: health; tourism; education and training; research; knowledge services; financial services; and construction.

8. Assessment of Illawarra transport connectivity

According to the recent assessment of transport connectivity within the Illawarra and between the region and Sydney, the Illawarra has the lowest overall transport connectivity score by comparison with three other Australian regional cities and areas: Central Coast (New South Wales), Geelong (Victoria) and Gold Coast (Queensland). Each of these comparator locations are a similar distance from a major metropolitan city, and have similar population numbers and socio demographic characteristics.

The Illawarra's score is 25-30% lower than the scores in the other Australian benchmark regions – and nearly 50% lower than the international comparator, Lille, France that was also included in the benchmark study. The key factors contributing to this performance is that the region has the lowest overall network coverage due to a poor freight rail connection, and comparatively poor road speed for both passenger and freight transport, and public transport (some bus services but mainly the South Coast railway).

⁹ Infrastructure NSW, State Infrastructure Strategy, 2012, page 69

The 20,850 workers that rely on these road and rail corridors to travel to work, incur about \$450 million per year in time and out of pocket costs or about \$27,200 per person travelling by road and \$17,100 per person travelling by rail. These costs are estimated to increase to about \$690 million by 2031.¹⁰

The F6 Freeway / Mt Ousley Road (both recently renamed the M1 Princes Motorway) and the A1 (Princes Highway) at its northern extension beyond Waterfall is the primary entry and exit point for passenger traffic, and essentially the only entry and exit point for freight traffic moving between Wollongong and Sydney.¹¹ In 2007, this stretch of road was identified as Australia's busiest inter-urban road corridor, and at the time its most significant challenge was that it was highly congested.¹² Today, traffic volumes are higher, congestion is worse and the journey time takes increasingly longer. And at the southern end near Wollongong, where freight vehicles account for about 15% of the traffic, and the road is steep and winding, the corridor is prone to traffic accidents and other incidents that can cause lengthy delays.

Traffic growth on infrastructure providing for inter-regional linkages, including the Illawarra Line, Appin Road, Picton Road and the M1 will need to be catered for through incremental improvements such as additional lanes and improved intersections.

Major changes, including a reduction in travel times to Sydney, such as through the construction of the M1 north of Waterfall and incremental improvements in rail travel times, are likely to accelerate existing trends, as regional industry responds to improved connectivity, and people respond to reduced travel times to areas offering affordable and low cost housing.

Other supporting strategies include fast-tracking of broadband rollout to support small and micro business growth and increased telecommuting, a robust Centres Strategy, as discussed below, and support for affordable and diverse accommodation in key service and transport nodes.

9. Need for decentralisation of government administration

Through a more ambitious commitment to regional growth at all levels of government, regions like the Illawarra can contribute to a more productive Australia as we transition from the resources boom. Regional centres should continue to be considered for the relocation of government administration functions and activities. The relocation of government administration to regional areas over time may

¹⁰ Transport Affordability Index, Australian Automobile Association, 2016

¹¹ The Southern Freeway and Mount Ousley Road, commonly known as the F6, from Waterfall to Albion Park Rail will be formally renamed the M1 Princes Motorway; Roads and Maritime Services; <http://www.rms.New South Wales.gov.au/newsevents/news/2013/130809-next-round-of-alphanumeric-road-number.html>. However, 'F6' is still the more commonly used name for the section of the motorway that stretches between Bulli Tops and Waterfall and Mt Ousley Road is still commonly used to describe the section that runs between Gwynneville and Bulli Tops.

¹² Auslink, Sydney –Wollongong Corridor Strategy, 2007

provide substantial cost savings for government and improve labour force participation and unemployment in regional centres.

The relocation of government administrative services also presents an opportunity to assist in ameliorating cost of living pressures faced by government employees living in major urban centres.

10. Global experience

Global and structural changes also favour regions that are well-connected internally, and to an increasingly globalised international economy. Linkages to a major international city or economic hub are particularly important.

A fundamental principle in regional economic development is that of spatial integration among regions through the movement of goods, services and people. The proximity to Sydney provides the Illawarra with a real competitive advantage. The importance of cities has long been understood in urban studies. Put simply, 'cities are the powerhouse of growth throughout the world'.¹³

The role of government in economic development has also changed since at least the 1990s, as policy has moved away from the highly interventionist and protectionist strategies of the past, to one based on strategic planning and collaboration between government, business and the community.¹⁴

Nonetheless, the support of government in the development of *hard* infrastructure (roads, ports, fibre-optics, etc.), and *soft* (sometimes termed 'smart') infrastructure (related, for example, to skills development, R&D, education, health, or environmental improvements) remains critical, particularly where regions are facing structural adjustment to external forces beyond their control.¹⁵

11. Regional priorities

To provide continued and sustainable growth for the Illawarra post the resources boom, the Illawarra Business Chamber and Illawarra First have called for a greater focus from the New South Wales and Australian Governments on regional development and transport connectivity.

It is essential that all levels of government seize the potential of regional Australia to drive state and national productivity. To propel continued economic development within the region, the Illawarra Business Chamber has identified the following regional priorities:

¹³ Smith, P. D. 2012. *City: A Guidebook for the Urban Age*. Bloomsbury.

¹⁴ Stimson, R.J., Stough, R.R. and Roberts, I.H. 2006. *Regional Economic Development: Analysis and Planning Strategy*, Springer, New York, p.16.

¹⁵ Ibid.

1. **Investment in inter/intra-region road and rail infrastructure**
Enhanced transport connectivity will boost productivity, reduce freight costs, improve safety, reduce congestion and maximise the potential of Port Kembla.
2. **Decentralisation of state and federal government administration**
Reduced cost of living for employees, lifestyle and reduced operating costs for government agencies makes the Illawarra an ideal location for decentralised operations.
3. **More opportunities for local businesses to deliver government projects and initiatives**
Greater focus on local procurement and content to deliver New South Wales Government programs and services.
4. **Investment in regional health care and support services**
To maintain quality health care for the region's growing population it is essential that health infrastructure across the region be upgraded.
5. **Education and Research**
Expanded and innovative trades training opportunities and investment in advanced research to provide more youth employment opportunities and build on the competitive advantages of the region.
6. **Infrastructure to support growth of tourism/business events**
Growing popularity of the region as a sought after tourist destination including business events requires a substantial investment to support growth and to build capacity.

The Illawarra Business Chamber and Illawarra First urge the Productivity Commission through this inquiry to consider the capacity of investment in regional transport connectivity to assist regions, such as the Illawarra, to contribute to the continued economic development of Australia post the resources boom. The capacity of regions to provide substantial productivity gains, a reduced cost base, access to a skilled labour force, improved social equity outcomes and the capacity to alleviate many of the congestion pressures faced by major urban centres are worthy and appropriate areas of focus for this inquiry.

We note that the Productivity Commission is only seeking initial submissions at this time and we look forward to providing assistance more detailed response following the release of the Productivity Commission's initial report in April 2017.

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