



Government of **Western Australia**
Department of **Regional Development**

Portfolio Submission to the 'Transitioning Regional Economies' study

February 2017

The Western Australian Regional Development Portfolio (Portfolio) welcomes the opportunity to provide input on the Productivity Commission's study on Transitioning Regional Economies.

Summary

- The State economy has benefited from the sustained growth in the resources industry over the last two decades.
- The impact of the rise and fall in resource industry investment has had a far reaching effect outside the mining centres.
- The Regional Development Portfolio takes a strategic approach while working at the local level to promote vibrant regions with strong economies.

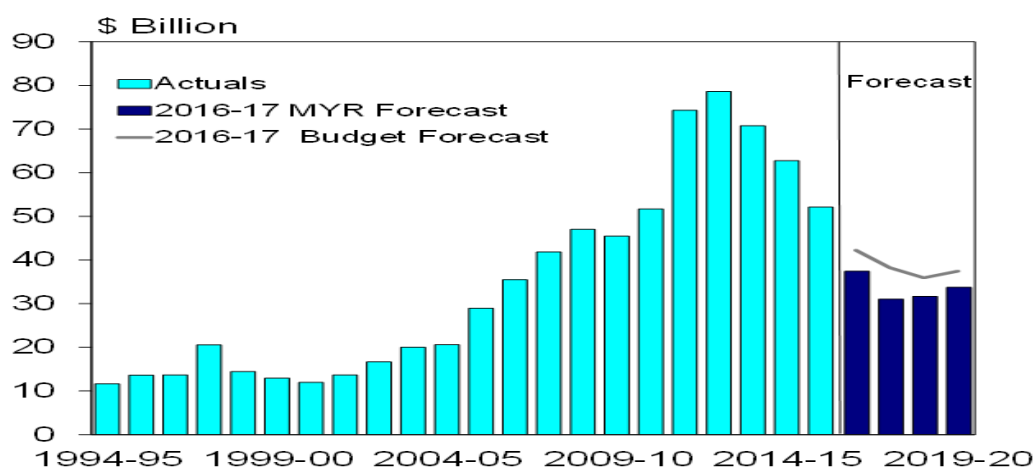
The Transitioning Regional Economies study is particularly relevant to the Western Australian economy and the nine regions that sit outside the Perth metropolitan area (Appendix 2). On behalf of the Portfolio, this submission draws attention to the Western Australian economic context and its existing strong, local focus for regional development and investment (Portfolio agencies listed at Appendix 1).

The State economy has long been dependent on the resources sector and is familiar with the cyclical nature of this industry: For example, the spike in business investment in 2012-13 (Fig 1.1) provided a significant boost to mining and related industries, and changed the profile of communities in mining regions. The impact was felt across a range of industries and the labour market as competition for labour and wages increased. Communities far from mine sites provided labour to mining construction and the impact of high wage expectations became visible in these dormitory locations as mortgage stress increased with job losses in recent years.

It is important for the Portfolio that this study consider the state-wide impact of the changing fortunes in the resources industry, rather than focusing only on mining centres: The interconnections and dependencies between regions are important drivers of economic growth in Western Australia.



Fig 1.1 Business Investment: WA Annual Growthⁱ



Economic transition

The Western Australian economy experienced sustained growth during the 2000's as global demand fuelled the resources industry and migration led to an unprecedented growth in the State's population.ⁱⁱ The growth in mining, particularly in the iron ore industry, culminated with Western Australia's annual gross state product (GSP) growth rate reaching 9 per cent in 2011-12 and business investment as a share of GSP peaking at over 34 per cent in 2012-13. This compares to an average rate of around 12 per cent between 1989-90 and 2004-05.ⁱ

The decline in investment since 2012-13 (seen in Fig 1.1) can be attributed to major iron ore and LNG projects moving into production and winding down capital expenditure. The Western Australian Department of Treasury expects investment to turn around from 2018-19, in addition, there is the potential for strategic investment, in anticipation of the iron ore market re-balancing. This forecast return to growth in business investment may be delayed if prospective major projects do not emerge over the next two years.ⁱⁱⁱ

Despite the fall in investment over recent years, the resources industry remains a significant contributor to the State and the national economy. Western Australia accounts for the majority of new national private capital expenditure on mining: 65.9 per cent in 2015-16ⁱⁱⁱ. In addition, iron ore exports are driving an increase in State net exports, which are forecast to grow by 19.25 per cent in 2016-17. Strong export growth is expected over the forward estimates as LNG production ramps up.ⁱⁱⁱ

While the mining industry has a large impact on the State economy as a whole, the region by region effect is diverse. The Pilbara has been the resource engine-house for the State and country. Recognising the huge disruption to the economy and community from the surge in mining construction activity, the Pilbara has generally

worn the economic transition well. The transition from mining construction to production has assisted the normalisation of housing and business rents, and other costs. Government intervention in Pilbara centres – Karratha, Port Hedland and South Hedland – was focused on responding to acute pressures during the construction phase, particularly in the housing market.

Fly-in-Fly-out (FIFO) employment has spread the impact of both the increase and reduction in mining investment across several regions. Redundancies at mine sites in the Pilbara affected FIFO employees based in other regions such as the Mid West, South West and Peel regions. This fall in private income led to reductions in retail spending and increased unemployment in the southern regions. In addition, the allied enterprises and mine servicing industries, including those based in the Mid West, that supported the Pilbara through the construction phase have seen contracts dry up and opportunities for growth disappear. The cyclical element to this unemployment – certain skills and professions being in demand at particular points in the resource industry economic cycle – does not diminish the impact of the job losses for those who expected ongoing employment.

Regional Development Portfolio

The Portfolio is committed to planning, coordinating and delivering the State Government's regional development agenda, guided by the *Regional Development Strategy 2016-2025*. The Strategy acknowledges changes in the State's economy and commits to building vibrant regions with strong economies through jobs growth, economic growth and capable people.

Underpinning the Strategy are the nine Regional Investment Blueprints, providing a framework for each regions' growth and development. As the dedicated 'front door' for development in the regions, each of the nine Regional Development Commissions (RDCs) own their Blueprint and use it to facilitate the economic potential of a region. RDCs are statutory authorities, providing local advice, context and liaison to business, community and government stakeholders.

Together, the Strategy and the Regional Investment Blueprints provide a framework for prioritising and progressing opportunities with the most potential for a positive impact in one or more regions. The structure of the Portfolio and the framework provided by these strategic documents facilitates a coordinated approach to regional development. Locally owned strategies address sustainable development and human wellbeing, drawing on strong local institutions and industries to attract investment.

While targeted to jobs, economic growth and capable people, the Portfolio's activities and investments also serve to improve economic and social resilience. Resilience is



an important component of regional development as resilient areas are better able to benefit from opportunities and manage adversity through cycles in the State, national and international economies. Without government investment in the Pilbara over the past five years, the impact of slowing private investment would have been more severe. The Pilbara, particularly Karratha and Port Hedland, now have greatly improved social and community infrastructure which is encouraging people to stay in town, educate their children locally and plan a future in the region. Creating a liveable community with locally run businesses is positioning the Pilbara to benefit from the next stage of the cycle in the resource led economy.

Through the *Regional Centres Development Plan (RDCP)*^{iv}, the Portfolio is exploring the benefits of clustering and the potential to improve economic resilience and revenue for regionally based businesses. The RCDP aims to support the economic development and growth of the 20 regional centres (listed in table 1.1) identified as having the greatest strategic importance to the State's economy and regional communities. Appendix 2 shows a map of regions, centres and industry clusters. Regional centres are vital economic and community hubs, providing global gateways and high concentrations of regional people and businesses. The RCDP will build the capability of these regional centres to drive their economic development and growth. Growth Plans will continue to be developed at the local level which build partnerships between government, academic, business and community stakeholders in order to shape their economic future.

Royalties for Regions

Royalties for Regions was established in 2008 to address infrastructure and service gaps in regional Western Australia by providing a dedicated regional development investment fund, facilitating economic, business and social development. The Department of Regional Development, on behalf of the State Government, is responsible for administering the Royalties for Regions program. RDCs have access to considerable investment dollars through the Royalties for Regions Fund, which has invested over \$6.9 billion since it was established in 2008. This has been leveraged against other investment capital to deliver more than 3,700 projects, improving infrastructure and services across regional Western Australia.

The Department of Regional Development has adopted the following five strategic programs areas to deliver the greatest outcomes for regional investment and achieve the priorities set in the *Regional Development Strategy*.

- Agribusiness – Agriculture and Food
- Aboriginal Development
- Regional Centres



- Tourism
- Economic Infrastructure

The Portfolio will continue to work on leveraging State Government regional investment with local and Commonwealth agencies, and with investment from the private sector.

Regional Boundaries

In addressing this study, the Productivity Commission will be using economic and social data to identify regional trends in resilience and development. While the boundaries for the nine regions outside the metropolitan area are clearly defined in the *Regional Development Commissions Act 1993* within Western Australia, there is some mismatch between the Commonwealth's Regional Development Australia (RDA) boundaries and the ABS's Statistical Area Levels. The RDA in Western Australia has nine regions including the Perth metropolitan area, meaning that caution is required when comparing analysis between the Commonwealth and the State. The Portfolio's submission to the Independent Review of the Regional Development Australia Programme raised this matter: A final report was expected from this Review by the end of 2016.

It would be useful for the Portfolio and its stakeholders, if the Productivity Commission's Initial Report provided data consistent with State regional divisions.

Regional Profile

Fig 1.2 shows the increased contribution to the traded economy made by the regions over the past ten years: The regions have a growing role in driving state growth.

Gross regional product is the partitioning of Western Australia's gross state product into its regional contributions. The total regional product represented in Fig 1.2 is 34 per cent of the State's total (with the Perth metro area providing the remaining 66 per cent). The graph shows the pronounced variation in gross regional product in the State's two most mining-intensive regions, the Pilbara and Goldfields-Esperance. In 2012-13, approximately 76 per cent of the output of the Pilbara and approximately 63 per cent of the output of the Goldfields-Esperance, is attributable to mining⁹. Fig 1.2 shows the negative growth in gross regional product of these two regions from 2013-14, following the decline in business investment across the State.

Table 1.1 provides a brief overview of the nine regions including population, employment, investment and the list of regional centres.

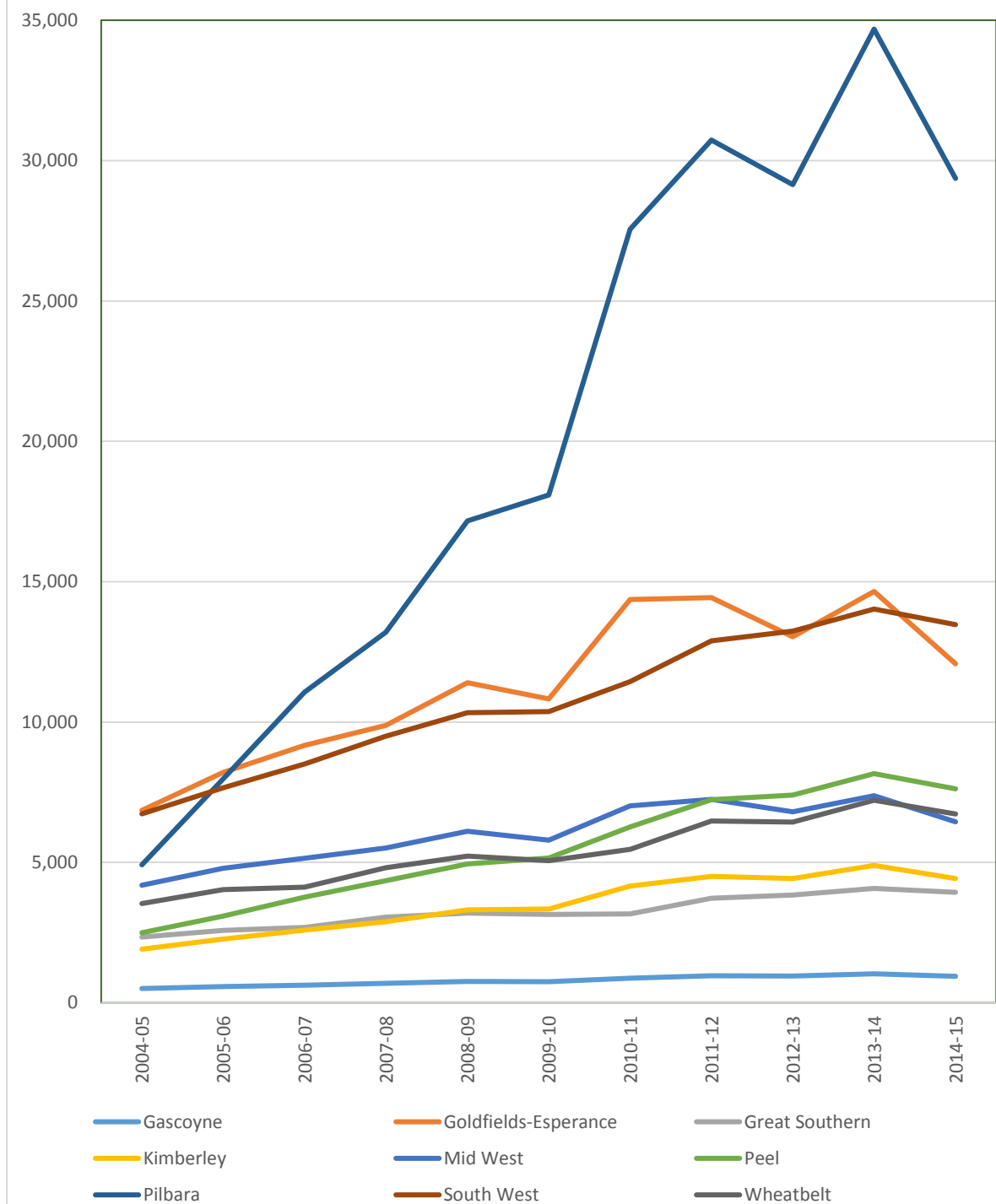


Future work

The Portfolio is interested in continuing to work with the Productivity Commission on this study ahead of the final report being released in December 2017. There is an opportunity for the Portfolio to contribute to the body of knowledge around economic transitions and to learn from other regions and stakeholders on improving outcomes for regional communities. The Portfolio can add value to a national conversation about how the Commonwealth can best assist regional communities to be economically and socially resilient. To support the *Regional Development Strategy*, the current focus of the Portfolio is; jobs growth, economic growth and capable people.



Fig 1.2 Western Australia Gross Regional Product (\$m)



Source: Department of Regional Development and ABS State Accounts.



Table 1.1 Regional Profile

Region	Population ¹	Employment ²	Unemployment rate ²	Project Investment \$m ³	Regional Centres ⁴
Gascoyne	9,904	5,008	10.2%	193	Carnarvon
Goldfields-Esperance	60,532	34,231	6.7%	2,446	Kalgoorlie, Esperance
Kimberley	38,801	16,536	16.7%	13,162	Kununurra, Broome
Mid West	57,974	28,896	8.6%	2,898	Geraldton, Morawa
Peel	131,893	57,487	8.2%	427	Mandurah, Boddington
Pilbara	65,859	48,234	3.1%	122,382	Port Hedland, Karratha
South West	175,949	87,229	4.5%	2,139	Bunbury, Busselton, Collie, Manjimup, Margaret River
Wheatbelt	74,473	32,715	5.8%	1,980	Jurien Bay, Northam
Great Southern	60,169	25,037	5.9%	450	Albany, Katanning

¹ 2014/15 ABS Estimated Resident Population

² At March 2016: Commonwealth Department of Employment and Department of Regional Development WA

³ As at June 2016: Deloitte Access Economics Investment Monitor

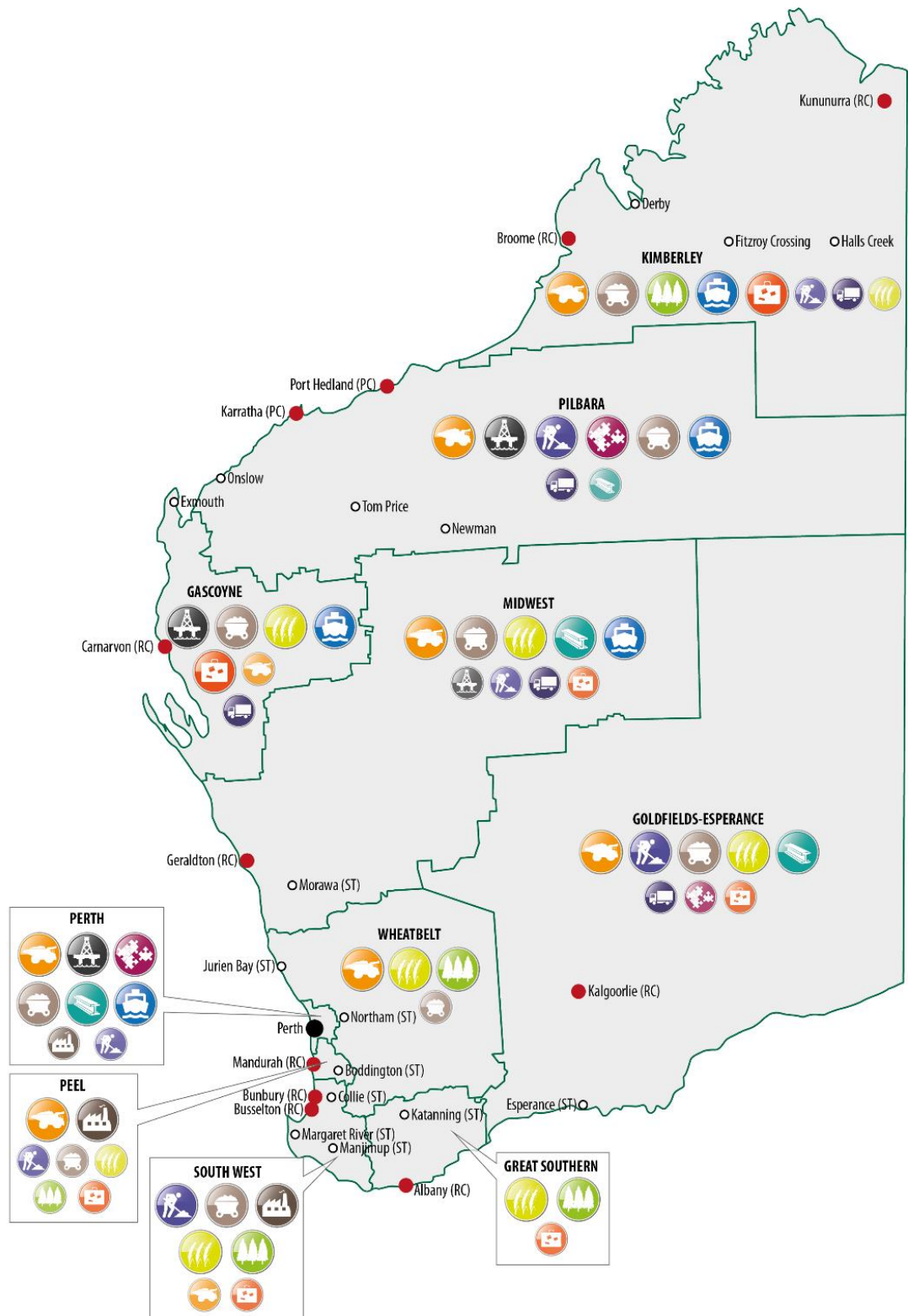
⁴ [Regional Centres Development Plan](#) Department of Regional Development website



Regional Development Portfolio

- Department of Regional Development
- Regional Development Commissions
 - Gascoyne Development Commission
 - Goldfields-Esperance Development Commission
 - Great Southern Development Commission
 - Kimberley Development Commission
 - Mid West Development Commission
 - Peel Development Commission
 - Pilbara Development Commission
 - South West Development Commission
 - Wheatbelt Development Commission
- Western Australian Regional Development Trust
- Regional Development Council

Appendix 2: Regional Specialisations and Employment Concentrations and Western Australia's nine statutory regions



Legend overleaf

Legend

● Regional Centre

○ Sub-regional Centre

RCDP Program:

(RC) Regional Centres

(PC) Pilbara Cities

(ST) SuperTowns

Size of icon:

● Concentration of employment in this cluster

● Significant concentration of employment in this cluster



Metal Mining



Oil & Gas Production and Transportation



Construction Products and Services



Transportation and Logistics



Business Services



Non-metal Mining



Upstream Metal Manufacturing



Agricultural Inputs and Services



Forestry



Downstream Metal Products



Water Transportation



Hospitality and Tourism

Media enquiries 0409 565 604

ⁱ Western Australian Treasury, [Mid-Year Review 2016-17](#) page 52 and 53

ⁱⁱ Bankwest Curtin Economics Centre, [Back to the Future: Western Australia's economic future after the boom](#), October 2016, page 2

ⁱⁱⁱ Western Australian Treasury, [Pre-Election Financial Projections Statement 2016-17](#) page 28, 29

^{iv} Department of Regional Development, [Regional Centres Development Plan](#)

^v Department of Regional Development statistics, *Estimated Gross Regional Product: Regional Snapshot 2014*