Submission to the Productivity Commission Inquiry into Transitioning Regional Economies

Regional Policy and Analytics Branch

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Contents

Introduction

The NSW Government recognises the need to be more strategic and better coordinated in its regional development investments if it is to make a difference, particularly in addressing some of the serious issues facing regional NSW such as pockets of youth unemployment, social disadvantage, changing economic opportunities and increased competition.

As part of this approach, the Government recently released its Regional Development Framework[1], which provides a scaffold for better coordination, decision making and effort on the ground. A dedicated division, Regional NSW, within the Department of Premier and Cabinet has also been set up to ensure that regional issues are routinely taken into account in policy development and investment decision making. Regional NSW incorporates the NSW Centre for Economic and Regional Development (the Centre), which was established in 2016 and is located at the Department's Orange offices.

Regional Growth Enablers Project

The Centre was established to lead the economic and regional development policy discourse by providing an evidence base for policy decisions and debate. One of the Centre's first research outputs was the Regional Economic Growth Enablers (Enablers) project, which significantly influenced the Regional Development Framework.

The objective of the Enablers project was to inform regional public investment and policy decisions by combining contemporary economic principles, desktop analysis and community consultation to identify enablers of growth in regional NSW.

Care was taken to ensure that the report[2] was accessible to a wider audience, including academics, local government and business. The methods used are repeatable, transparent and intuitively understandable. The Enablers report not only provides a policy foundation for NSW Government initiatives aimed at delivering sustained economic growth in regional NSW but also a basis for action by other stakeholders with an interest in regional development.

The Enablers report's key finding are:

1. Just like the rest of the world, the industrial bases of **NSW's regions are becoming increasingly specialized** – their economic activities are 'narrowing and deepening', meaning that regions produce fewer types of goods and services for export outside of their region but employ a larger proportion of the workforce in their sectors of specialization.

2. These 'key sectors' are dependent on the regional economy's local endowments, which can be:
    - physical - such as agricultural land, attractive landscape, climate, proximity to transport routes or mineral resources, or
    - human - such as skilled labour, leadership or institutions like hospitals and universities.

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[1] https://www.industry.nsw.gov.au/invest-in-nsw/regional-opportunities/regional-development-framework

[2] Available at: www.cerd.dpc.nsw.gov.au.

3. **Market failures may hinder the growth** of existing key industry sectors and the emergence of new endowment-based industries.

4. **Government may have a role in addressing market failures that hinder growth** by adjusting policies and making appropriate investments – these actions are the 'growth enablers'.

5. The future of individual regional economies is strongly linked to their endowments, and efforts to retain or establish **industries that do not align with regional endowments are unlikely to achieve the best possible economic outcomes**.

6. A narrower industrial base in an individual regional economy implies a greater exposure to boom and bust cycles, with all its associated social costs. Hence, public interventions aimed at increasing regional development should **encourage a degree of industrial diversity in endowment-based sectors**, to foster community resilience and enable regions to capitalise on opportunities.

The research in the Enablers report is being used by the NSW Government to inform its investment decisions, as articulated in the NSW Regional Development Framework.

Regional Development Framework

The Framework is based around a model of investment in regional NSW that:

1. Provides quality services and infrastructure in regional NSW – ensuring a baseline set of services across regional NSW

2. Aligns efforts to support growing regional centers, acknowledging the needs of areas with strong growth in population, jobs or both, and

3. Identifies and activates economic potential by looking across regional NSW for opportunities to change the economic outlook and activate local economies.

The Regional Development Framework is being used to inform the allocation of major investments by the NSW Government in regional NSW, as set out in the following sections.

Regional Economic Development Strategies

The NSW Government is investing billions of dollars in regional development. To ensure that investment decisions maximise regional development, the Centre is working with regional communities to develop Regional Economic Development Strategies (REDs) for each of the State's Functional Economic Regions (FERs – see Attachments A and B). The objective is to produce a Regional Economic Development Strategy for each FER that:

• builds on existing strengths (endowments) in the region and enhances those strengths;

• identifies new opportunities to enhance the development, performance and competitiveness of the region; and

• sets the region on the path towards its sustainable development.

Every REDS will consistently follow this approach and identify bespoke enabling infrastructure and other interventions for each region, providing a clearly articulated and practical economic development strategy that can be used to inform and guide economic activity generally, as well as guide the allocation of public funding.

REDS are being rolled-out in stages across NSW, with the first potentially completed by September 2017. As this is a bottom up process which is reliant on Council participation, the completion date of REDS is dependent on the availability of stakeholders. Hence, the REDS process may extend into 2018.

NSW Regional Development Funding

The NSW Government is committed to supporting the growth and prosperity of regional NSW by investing in services and infrastructure. The NSW Government has committed the following funding to Regional NSW:

Infrastructure & Economy

- $6 billion under the 'Rebuilding NSW Plan' in regional infrastructure projects
- $1 billion for the 'Regional Growth: Economic Activation Fund' to unlock economic growth and deliver quality services in regional NSW
- Transport Corridors
    - $2 billion for the Regional Road Freight Corridors program
    - $1.0 billion for the Regional Growth Roads program
    - $500.0 million for the Fixing Country Roads program to improve local and regional roads managed by local governments
    - $400.0 million for the Fixing Country Rail program
    - $200.0 million for the Bridges for the Bush program to replace and upgrade bridges in regional NSW

Communities

- $200.0 million over three years for a Stronger Country Communities Fund to support public facilities such as swimming pools, health centres and community halls
- $100.0 million over four years for a Regional Cultural Fund to support cultural and artistic activities in regional and rural communities.
- $300 million reserved for Regional Multipurpose Services Facilities, which offer medical and allied health services
- $214.6 million over four years to enhance critical communication services used by frontline health, emergency and law enforcement officers to better protect our citizens
- $20.1 million to transform 24 motor registries in regional and rural communities into Service NSW centres.
- $46 million over four years to boost wireless access and internet capacity in regional schools

These commitments are in addition to increased levels of investment in core services provided by the NSW Government including investments to upgrade existing and to build new hospitals and schools.

Elements of the Productivity Commission inquiry into Transitioning Regional Economies

The Productivity Commission has invited comment on three elements of its initial report:

Adaptive Capacity Index

The Commission has developed the Adaptive Capacity Index described in Chapter 2 and is seeking feedback on:
- *the methodology that has been used to construct the index of adaptive capacity, including whether other methods might be superior for the purpose*
- *the factors (variables) that have been included in the index and whether there are other variables and data sources that could be used.*

While it is recognised that the Adaptive Capacity Index is a requirement of the inquiry's Terms of Reference, the purpose of the Relative Adaptive Capacity ranking needs to be clearly described. The concept appears to draw attention to potential disadvantage without providing a framework to improve each region's adaptive capacity. Without a clear and specific policy interpretation for the index, it will be difficult to manage public interpretation or expectations around the regional rankings. There is consequently a risk that ill-informed community pressure will force governments to target their scarce resources towards struggling regions with a low likelihood of sustainable economic improvement instead of allocating funding to maximize regional development outcomes.

The NSW Government recommends the use of the previously described Regional Economic Development Strategies based on Functional Economic Regions to identify regional core competencies, opportunities and risks to further regional development. Such strategies would include identification of barriers to adaptation but would be more broadly relevant than the index and hence more useful in informing investments in enabling services and infrastructure for each region.

Policy Framework

The Commission invites comment on the relevance and applicability of the policy framework set out in chapter 5. Where practicable, participants are asked to support their views with evidence of effective and/or ineffective approaches that have been used to facilitate transition and development following disruptive events or ongoing pressures in regional areas (in Australia or overseas).

The NSW Government agrees with the policy framework outlined in the initial report, as is demonstrated by the content of the NSW Regional Development Framework released late last year and described above. The rollout of Regional Economic Development Strategies on a Functional Economic Region basis is a key aspect to the application of the Framework to NSW Government decision making, as interventions should indeed "build on a region's strengths" and "be guided by an examination of each region's circumstances"[3].

Concept of Regulation Exemptions

The Commission invites comment on where a regional community could benefit from a trial exemption from regulations that are unnecessarily inhibiting transition or development.

The NSW Government is unaware of regulations that are unnecessarily inhibiting regional transition or development but is willing to consider regulatory reforms on their merits and therefore awaits the Commission's findings on this issue with interest.

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[3] Productivity Commission2017, *Transitioning Regional Economies*, Initial Report, Canberra, page 115.

Table showing the draft allocation[4] of Local Government Areas in each Functional Economic Region

LGAs	FER
Bathurst Regional Council	Bathurst
Oberon Council	
Bega Valley	Bega
Eurobodalla Shire Council	
Goulburn-Mulwaree	Goulburn
Wingecarribee (added)	
Upper Lachlan Shire	
Yass Valley	
Griffith City Council	Griffith
Leeton Shire Council	
Murrumbidgee Council	
Narrandera Shire Council	
Carrathool	
Parkes Shire Council	Parkes
Lachlan Shire Council	
Forbes Shire Council	
MidCoast Council	Taree
Albury City Council	Albury
Federation Council (formerly Corowa & Urana shires)	
Greater Hume Shire	
Wodonga Council (VIC)	
Indigo Shire Council (VIC)	
Armidale Regional	Armidale
Inverell (added)	
Walcha (added)	
Uralla Shire Council	
Coffs Harbour	Coffs Harbour
Nambucca	
Bellingen	
Dubbo Regional (formerly Dubbo & Wellington)	Dubbo
Narromine	

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[4] The composition of final FERs will be determined after community consultation.

Lismore	Lismore
Ballina	
Byron	
Kyogle	
Richmond Valley	
Mid-Western Regional	Mudgee
Orange	Orange
Blayney	
Cabonne	
Port Macquarie - Hastings	Port Macquarie
Kempsey	
Tamworth Regional	Tamworth
Gunnedah (added)	
Liverpool Plains	
Wagga Wagga	Wagga Wagga
Coolamon	
Snowy Valleys (added)	
Junee	
Lockhart	
Moree Plains	Moree
Gwydir	
Narrabri	
Cowra Shire Council	Cowra
Balranald Shire Council	Balranald
Hay Shire Council	
Wentworth Shire Council	
Gannawarra Shire (VIC)	
Mildura Rural City Council (VIC)	
Swan Hill Rural City Council VIC	
Broken Hill City Council	Broken Hill
Central Darling Shire Council	
Unincorporated NSW	
Queanbeyan-Palerang Regional Council	Capital Region
Unincorporated ACT	
Central Coast Council	Central Coast
Clarence Valley Council	Clarence

	Valley
Snowy Monaro Regional Council	Cooma
Gilgandra Shire Council	Coonabarabran
Warrumbungle Shire Council	
Glen Innes Severn Council	Glen Innes
Tenterfield Shire Council	
Southern Downs Regional Council QLD	
Cessnock City Council	Hunter
Dungog Shire Council	
Maitland City Council	
Muswellbrook Shire Council	
Port Stephens Council	
Singleton Council	
Upper Hunter Shire Council	
City of Lithgow Council	Lithgow
Berrigan Shire Council	Murray NSW
Edward River Council	
Murray River Council	
Campaspe Shire VIC	
Moira Shire VIC	
Shoalhaven City Council	Nowra
Tweed Shire Council	Tweed
Gold Coast QLD	
Bogan Shire Council	Walgett
Bourke Shire Council	
Brewarrina Shire Council	
Cobar Shire Council	
Coonamble Shire Council	
Walgett Shire Council	
Warren Shire Council	
Bland Shire Council	Young
Cootamundra-Gundagai Regional Council	
Hilltops Council	
Temora Shire Council	
Weddin Shire Council	

Attachment B: How the FERs were identified

The Centre for Economic and Regional Development (Centre) has developed a draft set of Functional Economic Regions (FERs) for the purposes of regional industrial analysis and strategic planning. FERs will be finalized following community consultation. Eighteen FERs were used in the Regional Growth Enablers project, and these FERs have subsequently been refined and extended to cover all of regional NSW.

A region can be defined on the basis of common similarities and linkages, including: historical, regional geography, natural resources, agricultural production, tourism and local administration, and the spatial definition (area) of the region captures these similarities. For economic modelling and analyses, a region is typically defined as an area that contains a cohesive network of trade and commerce; local commuting for jobs and shopping; common access to services; and association of community activities. The typical FER will have a dominant central place, such as a large town of city, with one or more satellite towns/cities.

> *"… a functional region is characterized by its agglomeration of activities and by its intra-regional transport infrastructure and established economic interaction networks, facilitating a large mobility of people, products and inputs within its borders. We can say that a functional region is an integrated economic system defined by the interaction which takes place in its networks, e.g. commuting, communication, decision making and distribution of goods and services. A functional region has a much higher frequency of all types of interactions within its borders than with other functional regions…".* Karlsson and Olsson (2015)[5]

Using the 2011 ABS Census of Population and Housing Data, the Centre was able to develop a 'travel matrix' that describes travel to work interactions across NSW. The following ratios were then examined to gain an understanding of spatial labour markets:

- **Jobs Housing Balance (JHB)** – the ratio of total jobs in the LGA/region over the number of workers who reside in the LGA/region (resident workers) and who work within or outside the LGA/region. A ratio greater than 1.0 indicates that the LGA/region has a greater number of jobs than local workers, and will be drawing in workers from other areas.

- **Employment Self Containment (ESC)** – ratio of resident workers who work within the LGA/region over the total number of resident workers working anywhere (i.e. within or outside the LGA/region). The maximum value for the ratio is 1.0, where all resident workers are in jobs within the LGA/region. Lower values indicate that a portion of the local workforce have jobs in other areas. For example, an ESC value of 0.60 indicates that 40% of resident workers have jobs in other areas. This may indicate an imbalance in local labour force skills and local job requirements.

- **Employment Self Sufficiency (ESS)** – ratio of resident workers working within the LGA/region over the total local jobs. This indicates the extent to which the local workforce covers the number of local jobs. It is another indicator of possible worker/job skills imbalance, but should be considered in conjunction with the other measures.

- **External Workforce ratios** – these provided a measure of an LGA's workforce working in another LGA. Two ratios were used:

  A) the portion (%) of an LGA's resident workers that travel to work in another LGA; and

  B) the portion (%) of the LGA total workforce that are from another LGA.

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[5] Karlsonn & Olson (2016) Functional Economic Regions, Accessibility and Regional Development, CESIS Electronic Working Paper Series, The Royal Institute of Technology, Denmark.

For example:
a) *20% of LGA-2's resident workers might work in LGA-1 (ratio = 0.20)*

b) *5% of the total workforce of LGA-1 are workers from LGA-2 (ratio = 0.05)*

- **Commute Index** - this measure was used to indicate the level of economic synergy between a group of LGAs ('the region') based on the number of workers travelling to jobs outside their home LGA but within the FER. Specifically, the Index is the ratio of total workers who live within the region and travel to work in another of the FER's LGAs, divided by the total region workers who work outside their home LGA anywhere (either within the region LGA group or to other areas of NSW). A Commute Index of 0.75 indicates that 75% of workers who travel to work outside their home LGA are working within the region, so there may be strong labour market and economic linkages between the LGA group. Conversely, a low Index value would indicate that workers are travelling to work in areas outside the LGA group.

The travel matrix was then used to define FERs using Local Government Areas (LGAs) as the basic building block via a relatively simple algorithm to ensure consistency:
1. 'Central' LGAs were identified as those with a Jobs Housing Balance greater or equal to one.
2. 'Regional groups' were then built by associating LGAs that were satellites to central LGAs on the basis of having a common border or more than 7.5% of resident workforce travelled to or from the central LGA. Satellite LGAs bordering two central LGAs were assessed for the relative strength of their relationships with each central LGA.
3. Additional potential satellite LGAs were then added on the basis that their addition to a regional group:
   i.   did not reduce combined Jobs Housing Balance;
   ii. increased combined Employment Self Containment; and
   iii. maintained or improved ESS and/or the Commute index.

34 potential regional FERS were thus defined in NSW, however, the composition of the final FERs will be ultimately determined by communities through a consultation process. See Attachment A for a map of the draft FERs and a table showing LGA allocation to the FER.