

Transitioning Regional Economies
Australian Productivity Commission
LB2 Collins Street
East MELBOURNE, VIC 8003

Dear Commissioner,

Townsville Enterprise Limited welcomes the opportunity to provide a submission in response to the Australian Productivity Commission enquiry into transitioning regional economies.

Townsville Enterprise is the principal economic peak body and regional tourism organisation (RTO) representing Townsville North Queensland, which includes the five local government areas of Townsville, Charters Towers, Hinchinbrook, the Burdekin and Palm Island, and is one of Australia's true regional powerhouses. Townsville Enterprise is the primary engine for economic development, charged with leveraging the region's assets and strengths to drive jobs, growth, and infrastructure investment and improve quality of life.

Townsville Enterprise's formal response to this commissioned study will focus upon the following key points:

- Establishment of Enabling Infrastructure;
- Industry Diversification;
- Regional Migration; and
- Investment in Regional Technology Based Education and Promotion of STEM Literacy.

Townsville employment (*not including the broader NQ region*) peaked in December of 2010 at 125,500 (*Aust Bureau of Statistics, 2016*), which was 82% of the total working age population during that period. Townsville, including the broader North Queensland region, is currently facing significant challenges associated with unemployment and job creation which has resulted in downward pressure upon housing and commercial property values, nominal wage growth, business registrations and contributed to a regional population decrease. These unfavourable trends are attributed to a number of economic factors including soaring energy costs across North Queensland, stagnant business confidence and investment and continued systemic challenges associated with the resource sector downturn.

Establishment of Enabling Infrastructure

The Townsville region is in a state of economic recovery and transition. Positive population growth experienced during the resource sector boom has been stifled and is subsiding due to a downturn in employment and a lack of sustainable regionally based opportunities. Townsville's general unemployment stands at 9.9% at the end of the second quarter of 2017, with youth unemployment recorded at 24.6% (*Aust Bureau of Statistics, June 2017*).

The 'Transitioning Regional Economies Initial Report' explores policies that would benefit a region post-economic boom but somewhat contradicts this agenda in recommending caution 'when considering the use of scarce taxpayer funds to support investment'. Despite agreement that investment into a region

should align with the 'region's inherent strengths and constraints', the Transitioning Regional Economies Initial Report did not see targeted public investment is an essential enabling catalyst that works to stimulate economies and local business confidence or attract private investment.

The Federal Government's White Paper on Developing Northern Australia resulted in a number of key findings that supported government invest in targeted enabling projects that would drive down operating costs and maximise efficiency of existing regional infrastructure. This paper was a welcomed initiative that promised to invest and strengthen the industry of Northern Australia and build toward the region's ambitions of re-establishing Australia's proud agricultural heritage and become the nation's gateway to key ASEAN markets. Findings within the 'Transitioning Regional Economies Initial Report' tend to distance the Federal Government from the key recommendations defined within the White Paper. It would be beneficial if the nation building agenda defined under the White Paper were reiterated and endorsed by the Productivity Commission's Initial Report into Transitioning Regional Economies.

Decreased commodity prices have had a significant impact upon manufacturing, however the most significant influence associated with the deterioration of the manufacturing industry across Northern Queensland is the lack of competitively priced energy. North Queensland is in vital need of additional investment in 'base load' generation in the north and the need for a review of the existing energy sector's regulatory environment supportive of existing and future industry accessing competitively priced energy. If government does not facilitate and support the development of this vital enabling infrastructure, how can any region or industry reach its full potential? Energy prices in the north are not only acting as a direct impediment to new and future industry investment; it is also a major consideration for existing industry when contemplating long-term sustainability. The impact of high energy prices upon regional communities, small business and industry must be embedded within the Commission's report in order to sharpen the Federal Government's focus upon developing strong policies supportive of competitively priced energy for North Queensland. Adaptive capacity of a region is significantly affected by industry's ability to access affordable energy and though this report has alluded to this capacity, it does not identify the importance of Federal Government's influence in the establishment of competitively priced energy infrastructure, regulatory environments and policy.

Industry Diversification

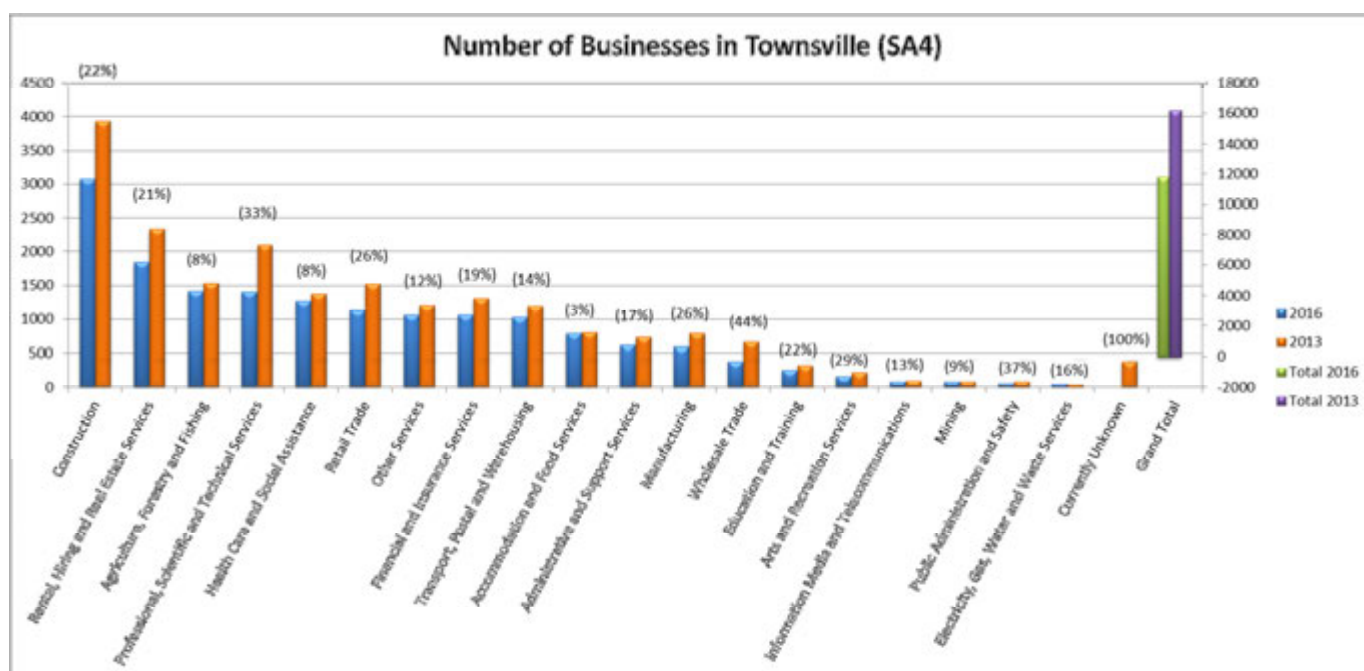
A key outcome resultant of the Federal Government's White Paper on Developing Northern Australia was the establishment of Australia's first 'City Deal' in Townsville. This critical agreement brings all three levels of government together with the purpose of defining a plan to maximise the city's potential through smart investment, smart policy and smart technology. A key catalyst acknowledged under Townsville's City Deal is requirement for targeted federal, state and local government investment in key enabling infrastructure and employment creation initiatives. Targeted investment includes consideration of the regions vital rail, road and port infrastructure. Defined under the City Deal collective plan is the region's key economic pillars that will be leveraged in order to stimulate economic growth. The City Deal acknowledges the transitioning economy occurring in Townsville and commits to building catalytic infrastructure that will support existing and emerging economic development.

Clarification is sought regarding the 'Transitioning Regional Economies Interim Report's' contrasting position of 'caution being exercised before encouraging industry diversification across regions' to that of the proactive approach taken under the 'City Deal' agenda. The key industry development initiatives and

agenda defined under Townsville's City Deal aim at positively influencing business confidence and attracting investment, however there must be legitimate commitment by all levels of government to this agenda in order to create the positive momentum Townsville's recovering economy will require.

In February 2016, Infrastructure Australia released the *Australian Infrastructure Plan*, which predicts that by 2031, Townsville North Queensland will be the most prosperous regional economy in Northern Australia. The plan seeks to identify critical infrastructure gaps necessary to support the economic growth of Townsville - yet another Federal Government report claiming public infrastructure investment will unlock the development potential of North Queensland.

Townsville is still realising the repercussions from the mining downturn, with 4,331 businesses having exited the economy since 2013 (See graph 1) (ABS, 2017).



Townsville Enterprise is actively seeking to leverage and build upon the region's strengths. This includes exploring opportunities in large-scale agricultural development, such as the facilitation of the Hells Gates Dam Feasibility Study which will seek to determine the viability of large-scale irrigated agriculture development north west of Townsville. This project is evidence that Townsville is seeking to fortify its existing strengths which are derived from a collection of diverse industries.

Tourism is another key emerging industry sector for Townsville North Queensland. Townsville has been hit hard by the downturn of the resource sector and is therefore seeking to define its unique tourism offerings. As a matter of necessity, Townsville has needed to consider its specific points of difference and this has involved exploration into Edu-tourism initiatives, event attraction, including necessary infrastructure to support events and rejuvenation of the city's image through strategic placement and investment in the sector.

The North Queensland Stadium has recently become a significant facilitating project delivered through commitments in the City Deal. The Stadium build will commence this year and will act as a catalyst to the city's urban renewal agenda and provide flow on supportive of the Waterfront Priority Development Area (PDA). This enabling infrastructure was proposed and driven by the Townsville City Council and other local stakeholders and demonstrates the resilience of the North Queensland region following the

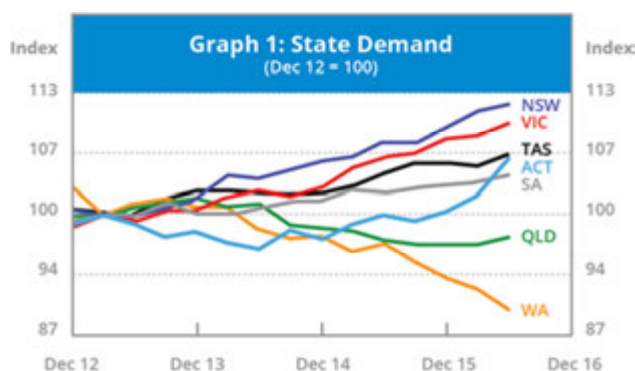
severe economic impacts felt following the downturn of the mining industry. Townsville is acutely aware of the effects this downturn has had on local business and is in the process of identifying enabling projects that can promote economic growth. However, community support is not enough to bring these projects to fruition. Initial seed investment from State and Federal Governments is essential to attracting the vital private funding needed to secure these types of developments.

Regional Migration

Unless governments establish conscious policy that supports equitable distribution of wealth and employment, nations run the risk of economic instability or the establishment of a “two speed” economy. In the Australian post mining boom era our country finds itself yet again in the midst of a two-speed economy, this time comprising:

- (i) NSW and Victoria (driven largely by Sydney and Melbourne); and
- (ii) The rest of Australia (ROA).

The size and relative strength of the NSW and Victorian economies means that economic data presented at the national level is masking weakness throughout the rest of Australia, particularly that of regional centres. Capacity utilisation is high in Australia’s two largest cities and demand growth is strong, courtesy of incredibly low interest rates and burgeoning property prices (*see, Graph 1*). Without an interventionist approach by government to regional development stimulus the economic divide between southern capitals and regional communities will continue to widen.

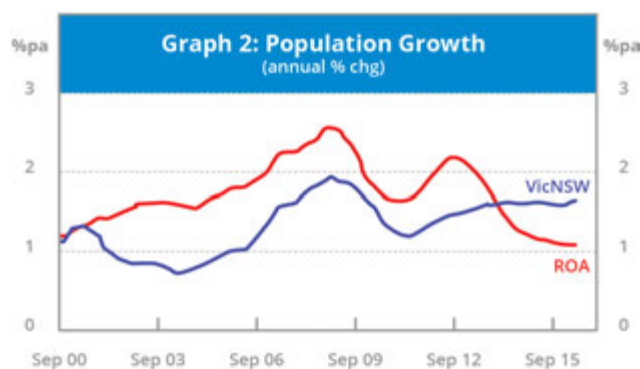


A committed Federal Government mitigation policy that directly sought to address regional migration would assist regional economic decline that is impacting local business and communities. Townsville Enterprise is in agreement with the *Initial Findings 5*, notably, to ‘remove barriers to people or businesses relocating, both within or to other regions’.

However; it is suggested that this policy expands to involve a Federal Government development agenda that consciously looks beyond the country’s centralised populations and targets regional sustainability. Economic prosperity is a key catalyst for population growth and stability, which in itself is an economic stimulant to industry sectors including retail and construction, and assists in defraying the costs of infrastructure development.

Population stability is a key contributor to the long term viability of regional communities in terms of economic, environmental and social sustainability. An economy’s population heavily influences aggregate growth rates like output and employment.

Recent figures provided by MarcoBusiness (Aird, 2016) indicate that in the year to Q1 2016, population growth in Vic/NSW was running at 1.6 per cent while it was growing at 1.1 per cent for the ROA (see, Graph 2).



This is a material difference. It largely reflects two forces:

- (i) Interstate migration; in particular from a weakening resource sector, which has converted economies to south eastern capitals due to a lack of job opportunities; and
- (ii) A significant proportion of overseas migrants settling in either Sydney or Melbourne.

Unless as a nation we are prepared to make a strong commitment to address factors that support the sustainability of regional communities, we will continue to see the exodus of educated and skilled labour to capital cities in pursuit of opportunity and employment. Regional universities are proactive in skilling the work force, however, a lack of job opportunity often results in graduates needing to move to state and territory capitals. The Commonwealth needs to lead by example, investing in a legitimate regional development agenda that not only delivers sustainable public sector employment opportunities and career paths for locals but also prompts existing city dwellers to consider the positive quality of life alternative these communities offer.

Investment in Regional Technology Based Education and Promotion of STEM Literacy

Australia's future will rely on Science, Technology, Engineering and Mathematics (STEM)—disciplines at the core of innovation. An emphasis upon innovation and technological advancement will also heavily influence the sustainability and role of Australia's regional economies moving forward. Our businesses will rely on STEM to compete in the emerging sectors that new technologies will create, as well as existing and traditional sectors which new technologies will transform. Future regional workforces will require specialised skills in STEM as well as high STEM literacy across the board to sustain economic growth and remain competitive within a transitioning global economy.

This challenge is not unique to Australia – the impact of digital disruption is being felt across the world – but the challenge can be met head-on if Australia's education system, from the earliest years through to further education, embraces an innovation mindset. Innovation is the best way to keep pace with change. Price-Waterhouse Coopers warns that without a culture of innovation, underpinned by investment in STEM subjects, Australia could drop out of the top 20 economies by 2050.

The relationship between STEM skills, innovation and competitiveness is well documented. Businesses that report using these skills are 33 per cent more productive than those that do not (Palangkaraya, Spurling, & Webster, 2014). Innovative businesses and exporters have significantly higher use of STEM

skills than non-innovators (Office of the Chief Economist, 2014). It is estimated that labour productivity in the advanced physical and mathematical sciences sector is 75 per cent higher than productivity in other parts of the economy (Australian Academy of Science, 2015).

The issue of STEM skills development faces even further challenges when contemplating 'regional' sustainability and supporting developmental policy. In today's digital age, it has become a fundamental requirement that our children must not only be able to access new technologies, but are able to apply STEM disciplines to take full advantage of the opportunities they represent. If we are unable to equip our children with the basic tools that allow our nation to leverage technology in the future we run the very real risk of establishing a national legacy of unskilled labour.

Strong, vibrant, innovative and sustainable rural industries and communities are in Australia's national interest. As the mining construction boom moderates and regional economies transition back toward more traditional/ agricultural based economic subsistence, these communities will need to apply innovation in order to and adapt and prosper. Further, if regional communities are to support the development of and retain the next generation of business owners, researchers, innovators, politicians and community leaders they must be able to provide the necessary education system and career opportunities that will guarantee their future.

Therefore the direct promotion and emphasis upon STEM curriculum, and access to technology based learning within regional communities must become a specific agenda under the Federal Government's 'National Innovation and Science Agenda' and be acknowledged as a key recommendation within the Productivity Commission's 'Transitioning Regional Economies Report'.

In summary, Townsville Enterprise acknowledges the significance of targeted Federal Government investment in critical enabling infrastructure as an important catalyst to growth and private investment attraction. Further, industry diversification is understood to be a necessary strategy adopted by communities when other sectors fail. Economies can and will transition when there is opportunity to develop an area of strategic economic advantage. Finally, support for the adoption of a proactive regional migration mitigation strategy should be considered, through the adoption of 'equitable employment' and the potential for 'government departmental relocation strategies' to be endorsed and incorporated into chapter 5 findings.

ABS 2017, Labour Force, Australia, cat n. 6291.0.55.001.

ABS 2016, Counts of Australian Businesses, including Entries and Exits, Jun 2011 to Jun 2015, cat no. 81650.

Aird, G. (2016). Australia's new two-speed economy, Unconventional Economist.