

Transitioning Regional Economies

Submission by the Parliamentary National Party of Western Australia

9 August 2017

Terms of Reference

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.

The study should also draw on analyses of previous transitions that have occurred in the Australian economy and policy responses as a reference and guide to analysing our current transition. The Commission should consult with statistical agencies and other experts.

In undertaking the study, the Commission should:

- 1. Identify regions which are likely, from an examination of economic and social data, to make a less successful transition from the resources boom than other parts of the country at a time when our economy is reconciling the impacts of globalization, technological and environmental change.*
- 2. For each such region, identify the primary factors contributing to this performance. Identify distributional impacts as part of this analysis.*
- 3. Establish an economic metric, combining a series of indicators to assess the degree of economic dislocation/engagement, transitional friction and local economic sustainability for regions across Australia and rank those regions to identify those most at risk of failing to adjust.*
- 4. Devise an analytical framework for assessing the scope for economic and social development in regions which share similar economic characteristics, including dependency on interrelationships between regions.*
- 5. Consider the relevance of geographic labour mobility including Fly-In/Fly-Out, Drive-In/Drive-Out and temporary migrant labour.*
- 6. Examine the prospects for change to the structure of each region's economy and factors that may inhibit this or otherwise prevent a broad sharing of opportunity, consistent with the national growth outlook*

1. Overview

The Nationals WA are dedicated to the interests of regional Western Australia (WA), and have a long and extensive history in advocating for the creation of sustainable regional communities in WA.

Our Parliamentary Members represent the breadth and depth of regional WA, including the Legislative Council districts of Agricultural Region, Mining and Pastoral Region and South West Region as well as the Legislative Assembly districts of Central Wheatbelt, Moore, North West Central, Warren-Blackwood and Roe.

These regions vary considerably in terms of their economic profile, industry sectors, employment opportunities, socio-economic status and environmental factors. Many regions in WA tend to have strengths in one or two key industry sectors, for example, in mining, agriculture, tourism or forestry, and hold considerable unrealised potential for economic diversification in other areas.

Over the past 10 years, WA has transitioned through an economic boom almost unparalleled in Australian history. As the mining construction phase has softened, the State has been actively seeking new opportunities for growth and diversification across all regions.

It is in this context that this submission will speak to reference terms 2 and 5. In this discussion, we will provide a summary of each of the nine regions in WA, and summarise the key drivers of successful regional transitioning.

2. Background and Context

Prior to 2008, there was little strategic effort to plan for growth or economic diversification in WA. Regional Development Commission's had been starved of funds and there was no over-arching regional development strategy. This meant that any decision to fund projects or build infrastructure was opportunistic or politically motivated.

The mining construction boom had widespread effects on WA, most notably on the regions. There was an urgent need for the State Government to intervene and normalise mining towns, which were experiencing extreme house and rental prices as well as inadequate community, health and education facilities. There was also a need to future-proof the regions with a strong dependence on mining, a fact that is even more evident now with the softening of the sector and the way technological advancement is delivering a shift toward driver-less trucks and computer-controlled drilling.

At the same time, broad-acre farming in the Wheatbelt is changing, with technology making the process of farming more efficient and less labour intensive. As a result, two of WA's most important industries, which underpin the livelihoods of many of those who live in WA's regional towns, are substantially changing in structure and operations.

In 2008, The Nationals identified the need for a coordinated strategy to drive investment to sustain the regions over the longer term, as well as stimulate investment and economic diversification in other industries to drive national, state and regional economic growth and productivity. It was in this context that *Royalties for Regions* was born, the previous State Government's principle mechanism for building sustainability and advancing adaption among regional communities.

Between 2008 and 2017, the previous State Government invested \$7.2 billion through *Royalties for Regions* seeking to enhance the adaptive capacity of regional WA. This bold and transformative policy aimed to drive regional development by providing the services and infrastructure necessary to allow economic expansion, job creation and population growth; build social development by creating liveable, vibrant and sustainable regional communities; and address market failures by providing improved health facilities and quality education in regional areas. These are regarded as hallmarks of sustainable regional communities.

After a period in which key market failures were addressed, there was a concerted effort by The Nationals in Government to drive regional growth and development by creating industry diversification and job opportunities.

As a result, in 2015, Regional Investment Blueprints were established to coordinate investment around locally defined strengths and growth opportunities. Investment blueprints were created for the nine regions in WA – Kimberley, Pilbara, Gascoyne, Mid-West, Wheatbelt, Peel, South West, Great Southern and Goldfields-Esperance – as a mechanism to coordinate their future economic, business and social development. These blueprints map out a plan for future investment in each region, identifying aspirational visions, priority actions, challenges, key measures of success and investment opportunities that capitalise on each region's core strengths. Future State and Commonwealth funding would then be aligned and justified in the context of the region's investment blueprint.

3. Regional Investment Blueprints

a. Gascoyne

The Gascoyne, located on WA's central coast, has a combination of natural beauty, ideal climatic conditions for intensive agriculture and is strategically located for the resources sector (energy). This is an economically important region to WA, but requires continued private and government investment in a range of key areas including: water security for the expansion of horticultural production; the development of new tourism products, experiences and infrastructure; increased resource sector contracting; ensuring affordable and available air services; enhancing secondary and tertiary education; increasing Aboriginal enterprises; providing quality aged care services for the aging population; and the delivery of high quality culture and arts experiences and employment.

The success of the region's transition as a sustainable and diverse community will be dependent on how effective the region leverages its key strengths with the "megatrends" of Asian population growth, the global demand for food, mineral resource and energy investment, international tourism, aging population and national defence. In particular, water security will underpin the region's capacity to meet global food export opportunities. It was in this context that the previous State Government developed the *Gascoyne Food Bowl* initiative, which sought to increase horticultural production in the area by an additional 400 hectares, matched with bore field development.

b. Pilbara

The Pilbara region, the resources capital of Australia, is heavily dependent on the growth of the resources sector. While it is envisaged that this sector will continue to underpin the region's economy, the Pilbara will need to dramatically diversify its economy to be sustainable longer term.

The *Pilbara Regional Investment Blueprint* identifies innovation and technological change as the greatest drivers of productivity and sources of inspiration for Pilbara's future.

The former State Government's *Pilbara Cities* initiative, which was a \$1.7 billion transformational investment, provided a strong foundation for future growth, investment and continued revitalisation. Key enabling factors were identified to transition the economy beyond mining into agriculture and aquaculture, energy and tourism. Sustained and substantial capital investment is a fundamental input to economic activity in the Pilbara and underpins its transitioning. In the future, the local workforce in the Pilbara will also need to have the necessary skills and training to service the changing use of technology in the mining sector. This focus on building human capital will underpin development of a sophisticated and diverse economy in the Pilbara.

c. Mid-West

The Mid-West is considered one of the most resilient and adaptive regions in Western Australia. It has a broad economic base with mining, agriculture and fishing, as well as tourism, manufacturing, retail, construction, logistics and population sectors. The Mid-West has considerable potential to build upon the region's strengths in natural resources and Geraldton as a strategic coastal location. However, one of the major barriers to growth and development currently lies in its lack of strategic infrastructure, specifically port, power, roads, rail and communications.

Major capital investment in this critical infrastructure will underpin its success as a modern and vibrant regional economy, as well as provide the foundations to capitalise on other opportunities present in education, defence and the digital economy. A key target for the region is to become a highly desirable community with a population of 80,000 people and major regional employment centre. By investing in health care and support services, the region will provide adequate support services for its aging population, which is expected to drive employment in this sector as well as increase the region's appeal as a retirement destination.

d. South West

More people are calling towns in the South West their home, and in line with this increased population, productivity and jobs growth will underpin its future. It is critical that the South West transitions from a primary industry-driven economy to a dynamic export orientated economy. At present, a lack of investment in key strategic infrastructure – transport gateways, high capacity broadband and water security – continues to undermine the region's economic potential. Similarly, increased understanding and engagement with Asian markets will be necessary to take advantage of export and capital investment opportunities.

The Southern Forests Irrigation Scheme is a key example of the way targeted government investment, in conjunction with the private sector, can assist a region to capitalise on its key strengths and promote economic development. The previous State Government invested \$19 million through its *Water for Food* initiative to transform agriculture growth and promote investment in one of the most significant horticultural areas in the South West. Modelled off a successful project in Tasmania which received Commonwealth funding, this joint State Government and local industry-driven project sought to create an additional 12 gigalitres of sustainable irrigation water per annum for existing commercial producers as well as underpin the expansion of new irrigated areas and encourage further investment.

e. Wheatbelt

At present, the backbone of the Wheatbelt's economy is agriculture, and there is considerable opportunity to expand its agricultural production in the areas of broad-acre, horticulture and livestock production and increasing supply chain value through food processing activities. However, with the nature of farming practices being continually innovated through technological advancement, broad-acre farming is becoming less labour intensive and not regarded a major stimulus for future employment growth in the region.

Without economic diversification, the changing nature of farming practices will have a major impact on towns and communities in the Wheatbelt in the future. As such, maximising the Wheatbelt's economic and social potential will depend on job-intensive industry development and building upon its strengths in the following areas:

- 1) Producing and processing - in the form of commodity and niche foods through dry land broad-acre agriculture, horticulture and aquaculture as well as commodity and niche natural resources.
- 2) Focus on building industries that service the population and improve the amenity of the region such as aged care, aviation, renewable energy, tourism, culture and the arts, education and training services, health, retail and well-being and leisure.
- 3) Strengthen the region's knowledge economy by being leaders in the research and development of these sectors.
- 4) Focus on transport network infrastructure to strengthen logistics and transport capacity.

f. Goldfields-Esperance

In Goldfields-Esperance, the region's economy is dominated by mining, followed by livestock, grains and other agriculture, construction and transport exports. As mining and agriculture dominates the region's economic base, it is highly susceptible to fluctuating global commodity prices, employment and population changes. While there is considerable room for expansion in these sectors, driven by increased efficiency and export activity, there is also an evident need to drive innovation and investment in downstream and upstream supply chains as a mechanism to diversify the economy.

Of the five top industries for export potential in Australia - information media and telecommunications, mining, wholesale trade, manufacturing and professional services - the region is dominated by mining and mining-related manufacturing. The *Goldfields-Esperance Regional Investment Blueprint* identified the need to prioritise initiatives aimed at expanding business access to global markets to achieve diversification and therefore resilience. In particular, there is a need for more physical infrastructure to connect with other regions, greater attention to the services that encourage new business development and enhanced support and know-how for existing businesses to undertake local downstream processing opportunities.

While innovation and the advancement and uptake of digital technologies will increasingly underpin the success of the industries in Goldfield-Esperance, the region has poor internet connectivity and low-levels of employment in technology-related industries. This is a considerable challenge and investment in building capacity in these areas will underpin the region's capacity to transition successfully.

g. Kimberley

The success of a vibrant and diversified economy is dependent on leveraging its core strengths in cultural and wilderness assets, mineral and energy resource potential and agriculture and food production with the megatrends of international and domestic tourism, global demand for food and mineral and energy and resources. By providing the necessary infrastructure and support for industry development and expansion, the region hopes to stimulate labour market participation by creating an additional 34,000 jobs of which 18,000 jobs are for Aboriginal people.

The *Kimberley Regional Investment Blueprint* identified several key ingredients to facilitate the development of its industries and ensure labour market participation, including:

- 1) The existence of a strong local leadership to drive engagement and development-readiness.
- 2) Ensuring government and key service delivery bodies drive policy innovation in the key areas of health, education, housing and workforce development.
- 3) Ensuring Aboriginal people are at the centre of regional development outcomes, having the capabilities, opportunities and incentives to advance from welfare dependence to engagement with the real economy.
- 4) Driving industry and resource development, by allowing land and water resources to be developed for agriculture uses, strengthening the tourism sector by focusing on visitor access and improved visitor experiences and facilitating the productive use of rangelands to stimulate alternative sectors.
- 5) Developing regional centres, focusing on Broome and Kununurra as the hubs with connections to other inland towns and communities.
- 6) Ensuring a proactive approach to delivering key infrastructure (eg. Tanami Road) as a catalyst for development, by for example, identifying approaches to infrastructure funding, finance and management.

The Mowanjum Irrigation Trial near Derby is a key example of how the State Government and a local Aboriginal corporation can work together toward meeting the joint goals of economic diversification, job creation and export opportunity in the pastoral sector. The intensive grazing trial will use local groundwater for an initial 38-hectare centre pivot to support the community's aspiration to establish itself as a cattle fattening and beef breeding centre. The arrangement has resulted in the delivery of a field training facility for Derby TAFE's Pastoral Management Studies program for both Mowanjum and Derby students and has provided opportunities for vocational training for Derby High School students. Recently, Mowanjum delivered 200 head into the Indonesian live export trade, the community's first shipment since 1982. It is hoped that this trial project will serve as a demonstration for other Aboriginal pastoral stations in the Kimberley, where water is available, and assist the transition away from a model of welfare dependency.

h. Great Southern

The vision for the Great Southern region is to be a strong and highly diversified economy, with tourism, horticulture, aquaculture and mineral exports dominating the economic landscape. Expanding the economic base through a greater range and diversity of industry activity and improved efficiencies is considered critical. Securing water sources and energy will be especially important.

This region is considered particularly resilient, built from a well-developed small business sector, rather than being dependant on a few large employers. However, it faces some structural challenges, including for example, the seasonal and generally lower income potential of the agriculture and tourism/hospitality sectors; its trend as a lifestyle and retirement destination for older residents (fixed incomes); and a lack of local mining employment opportunities. As a result, the socio-economic status of Great Southern residents tends to be lower than that of the national average. Housing affordability and the availability of services present ongoing challenges to building population and economic growth, and achieving the desired level of critical mass required to undertake further expansion.

i. Peel

The Peel region has a diverse economic base, built on industry activity in mining, health care and aged care services, metals and manufacturing, building and construction, retail, accommodation, food services and tourism and agriculture, forestry and fishing. While driving continued competitiveness in these sectors is essential, there are three key areas of economic opportunity, where the region is seen to hold distinct advantages. For example, with the region's close proximity to Perth, the establishment of a food zone focusing on innovative food production is considered a key area of future investment. Similarly, the region's natural environment, close proximity to Perth and existing road infrastructure to access natural experiences is seen to demonstrate a key opportunity for international and domestic tourism. Lastly, building on the already established equine industry is also considered a prime opportunity for further investment.

Peel is set to be one of the most populated regions outside of Perth. To sustain forecast population growth, it is suggested its mix of industries and businesses needs to transform to increase the number of mid-tier to large companies and therefore provide job and career opportunities. Capital investment into strategic infrastructure and industrial land developments, for example, will underpin investor interest and lead to the stimulation of new enterprises and job opportunities. Building a highly skilled workforce is considered one of the central pillars of success, where investment in the region's schools, training and universities will need to be linked with job-creating and emerging industries in the region.

4. Identified Key Drivers

WA's nine regional investment blueprints have mapped out key opportunities and drivers of economic resilience and adaptive capacity. Some of the key factors have been summarised below:

Evident Pathways/Opportunities Mapped Out

Defining regional development strategy is essential for regional transitioning, where the respective region's strengths are leveraged to take advantage of global opportunities. By mapping out the future direction in WA's nine Regional Investment Blueprints, future investment in the regions is targeted toward job creation, community optimisation and industry enhancement and diversification.

Local, State and Commonwealth Investment

Developing sustainable and diverse regional economies requires commitment from not only the local and State Government, but also the Commonwealth. Regional development is of national interest, and to create enduring value, sustained commitment from all tiers of government in key job creating-industry infrastructure is fundamental.

In addition, it is evident that a sound policy framework must actively drive and embrace regional transitioning. The Nationals' \$350 million *Seizing the Opportunity Agriculture* policy is a key example of the former State Government's priorities. It is envisaged that this policy will underpin the development of the agricultural sector throughout regional WA through investment in a range of initiatives including industry profiling, infrastructure development, science and innovation, biosecurity and training.

In particular, the *Water for Food* initiative is highly regarded for unlocking irrigated agriculture and horticulture potential. There are currently 15 projects underway from the Kimberley to the Great Southern and there is considerable need for more investment in this space.

Transport, logistics and manufacturing sectors are currently underdeveloped in regional towns in WA and could be further advanced with Commonwealth and State Government investment. In addition, a common theme among many regions is the need to invest in value-adding by focusing on deriving value from down-stream processing and supply chains. Greater investment and support in developing the skills and capacity to build innovation into the business operations and processes in this regard will be critical into the future.

Investment in Critical Infrastructure

A common theme among many of WA's nine regions is investment in key industry infrastructure, namely roads, rail, port and airport facilities. Optimising infrastructure underpins economic development. WA is a large, sparse state where access to roads, rail, ports and airports is often limited to the major centres. The ability to connect regional centres with major port access will greatly facilitate trade and export opportunity.

Local Community Taking Ownership

There is a clear and evident need for local communities to take part and own the transition process. Local stakeholders need to be engaged and support the vision for diversification and work with various tiers of government to deliver change and transition.

Regional Connectivity

To embrace the digital age, many regions pointed to the need for enhanced telecommunications infrastructure. Telecommunications not only supports existing business opportunities, for example, by allowing farmers to connect with global markets and access innovative app-based technology, it also underpins the delivery of education. The delivery of quality education is essential in maintaining and growing regional population centres, and underpins the development of new opportunities in education, such as providing regional universities and online learning.

The former State Government recognised the lack of regional connectivity as a major barrier to economic activity. As a result, *Royalties for Regions* funded the *Regional Mobile Communications Project*, which successfully delivered 113 towers across nine regions.

This investment boosted mobile coverage and internet reception across 95,000 square kilometres, ensuring continuous highway and town-to-town coverage and improved coverage in the State by above 31 per cent.

As a result of the success of that project, the Commonwealth joined the State contributing funding to the *Regional Telecommunications Project*, which delivered a further 80 telecommunication towers in identified mobile black spot areas. This particular example highlights how the Commonwealth and State Governments can work together and focus funding on targeted growth opportunities that enhance the productive and adaptive capacity of regions.

Building Critical Mass

Many regions have identified value and future employment growth from expanded population service sectors. The provision of aged care facilities, for example, create opportunities for encouraging retirees to settle as well as employment creation. The provision of quality tertiary and training providers is especially dependent on having the required critical mass to justify its provision.

While FIFO business models are necessary in accessing very remote and remote mine sites, in areas where there is an established township, it is important to normalise communities by encouraging and building a residential workforce. The continued reliance and acceptance of FIFO camps is a considerable barrier to building the required critical mass to justify future expansion and stronger communities.

Human capital

A common theme among all regions is the need for a well-educated, diverse and highly skilled workforce to sustain transitioning and build value in other industries, such as the digital economy. Investment in regional training and education that is linked with job-creating future industries will be essential.

5. Conclusion

This submission provides an overview of the WA's nine key regions, and outlines some challenges that limit adaptive capacity, as well as the key drivers that build regional resilience. There is an evident need to establish a clear plan forward that identifies key strengths and opportunities for economic diversification and growth. Targeted funding by the Commonwealth and State Government in key job-creating industry sectors appears to underpin the capacity of a region to adapt to changing contexts.

Each of the nine regions in WA face a range of economic challenges and have unrealised potential for economic diversification. Irrigated agriculture, horticulture, tourism and education sectors appear to be key sectors of socio-economic importance for WA, and therefore, it's imperative that future investment reduces key barriers (via land tenure and water security) and opens up opportunities (via transport gateways and Asian export and trade).