Regional investment and employment

- some first-hand insights

**A submission to the Senate Inquiry into
Regional Employment and Unemployment**

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April 1998

This submission addresses both terms of reference, but particularly 1c, 1e and 2. It focuses on factors influencing regional investment over the medium to long term, since sustainable employment growth is simply not possible without investment in productive capacity.

This submission draws on the findings of the Institutional Investor Information Service (IIIS) workshops conducted in regional Australia over the last 12 months.

Background

The stagnation of regional economies and the loss of jobs in small towns are everyday concerns for local MP's and their constituents. However, at a national policy level, the problem tends to be viewed as an unfortunate but natural outcome of market adjustments at work, and that any policy interventions to stimulate growth in particular regions are counter-productive. There also appears to be an acceptance at the Commonwealth level that its policy instruments are too blunt, and that regional development issues are essentially the preserve of the States and local government.

However, the reality at a regional level - particularly in respect of investment and employment growth - is that federal policies and expenditure can have a profound effect. It is important that these effects are better understood.

The main theme of this submission is that the Commonwealth Government could play a much more constructive role in addressing regional unemployment in Australia by driving, and then responding to, bottom-up processes built around each region's competitive advantages. There is substantial kudos for a national government that can achieve this, because it would directly deal with the haze in peoples' minds - a haze of promises, delays, unfulfilled and/or unrealistic expectations, and little idea of which level of government is responsible for what.

This submission urges the Senate Committee to pay particular attention to the notion of devolution of program delivery based on competitive advantage, since it is the seminal issue driving regional development in most other advanced countries.(See 'Remedial Strategies' section)

The report by **McKinsey & Co., 'Lead Local Compete Global'** (1994) came to similar conclusions in its authoritative study of the determinants of economic growth in regions. McKinsey observed that regions have been regarded as the poor relation in the mainstream economic debate, notwithstanding the fact that it is increasingly regions that compete - not countries. The study noted that business investment was the main driver in terms of regional job growth, despite the job shedding (capital deepening) that can accompany new investment. Their essential conclusion was that while a myriad of things influence the level of job-creating investment in regions, some common success factors stand out:

- Encouragement of local leadership
- A focus on the key issues - of which the investment environment, and the determinants of demand, are the starting points
- A search, and then replication, of 'best practice' investment initiatives.
- An understanding of the need to reduce investor uncertainty.

Why some investments do not happen - the IIIS findings

Over the last 12 months, the McKinsey-type issues (above) have surfaced continually in the context of the Institutional Investor Information Service (IIIS) workshops.

The IIIS initiative is about facilitating regional investment. It has involved the Commonwealth, the majority of State governments, and the major institutional investors working with regional project proponents to determine what specific actions might assist in bringing forward various regional projects. To date, 56 regional infrastructure projects have been examined at 15 workshops in venues ranging from Bunbury, to Townsville, to Traralgon, and Dubbo. Total attendance to date has been upwards of 800 people – local businesspeople, Mayors and councillors, tourism operators, local bank managers, water authority executives etc The projects examined have included ports, airports, water and sewerage, rail, pipelines, forestry, transport hubs, tourism facilities etc. See accompanying table. (Summaries of the workshop discussions are available.)

The participating investment groups have included the AMP, the CBA, Macquarie Bank, Infratil, Lend Lease and the ANZ - now the major custodians of the nation's savings. The workshop findings were reported to participating Ministers and the peak industry body, the Australian Council for Infrastructure Development (AusCID) in December. While the findings relate mainly to infrastructure investment, they apply to business investment as well. They are very instructive in respect of the Senate Enquiry's terms of reference, and are described below:

1. Regional markets often lack critical mass

The most important factor in attracting institutional investment to regional infrastructure projects is evidence of robust revenue streams. Due to the lack of sufficient critical mass (ie. enough business) in many regions, investor risk is affected. As one investor succinctly stated:

"Economies of scale are the key….the cities have it….but there seems to be a stigma on the rural sector which somehow must be overcome if the confidence of investors is to be gained" (Ballarat workshop, 16.9.97)

It was suggested that proponents need to continually consider how revenue streams can be generated to assist their projects, and that industry associations and governments be mindful that firms tender to cluster in areas where the hard and soft infrastructure exists.

2. The preponderance of 'public interest' in regional projects

The majority of the 56 projects have significant public interest aspects. This leads to wariness among private sector investors – why should they pay the government's way, and carry additional risk?

A good example is the Sydney-Canberra High Speed Train project, which has significant public benefits by way of reduced pollution and congestion for Sydney, increased road safety and urban amenity for the whole corridor, and potentially huge regional employment benefits. Since these benefits accrue to the public (they cannot be readily 'captured' by the private sector), there are doubts that this project can be 100% privately financed.

The notion of 'cocktail' funding (ie. pooling funds from different programs) was discussed, together with the need for tenderers, who are often local government authorities, to be more adept at identifying the respective public/private mix of a project. However to do this requires a good understanding of the myriad of government programs and how to access them.

3. The relevance of politics

Regional projects have a tendency to become political footballs, particularly in marginal electorates. Apart from raising doubts in the electorate as to the intrinsic worth of a project, it cuts across the efforts of the investment community to convince project proponents to spend money on feasibility studies, market analysis and the like. Local government is notoriously short-sighted in this regard.

The suggestion was made at the workshops that the Commonwealth and States must apply particular rigour in disbursing their own funds. To be fair, the current batch of Commonwealth and State programs of relevance to regions (eg. Federation Fund, Heritage Trust, Regional Telecommunications Infrastructure Fund, Community Development Fund in Victoria etc.) appears to be tightly administered - hence, the scope for pork barreling is limited. However this does not stop unsuccessful applicants calling foul when learning about other investments that have attracted government support. There is a role for governments to better explain why some projects win support and others do not.

Irrespective of this, institutional investors have emphasised the need for local government and regional development bodies to be active in undertaking feasibility studies, infrastructure audits etc. and in dealing with local political issues (eg.

planning approvals). The major investors are loathe to commit to seriously evaluating proposals if the local groundwork has not been completed, although some are willing to offer early advice on how a project might be structured.

4. **The Orphan Syndrome**

There is considerable evidence that infrastructure projects of less than $20 million in size will not attract the major institutional investors, unless they can be bundled into bigger projects. Some of the smaller water treatment, airport and tourism infrastructure projects do offer very good rates of return. However, the costs associated with tendering can often run to 10% of total costs on smaller projects, due to accountability/probity requirements associated with Compulsory Competitive Tendering etc. Until these hurdles are somehow lowered, the smaller projects will maintain their orphan status.

For non-infrastructure projects, the problem is not as acute. Nevertheless, venture capital and banking finance to the smaller projects would be enhanced by better project documentation (See 3 above).

5. Interdependence of Projects

Given the high level of interdependence between regional projects, a helicopter view is useful in seeing how various pieces of infrastructure and business projects can coalesce. An example is around Bunbury, where the economics of a container facility at the port of Bunbury, the expansion of Kemerton Industrial Park, the construction of the Kemerton gas-fired power station, and the progressing of a number of resource value adding projects are dependent on each other. Infrastructure audits are valuable, because they identify infrastructure gaps (in both a quantitative and qualitative sense) which are restricting the functioning of regional economies.

Government agencies without a facility to look at issues in a spatial context cannot fully recognise the interdependence between projects. Institutional investors do however appreciate the link, because infrastructure projects are funded by revenue streams (not by balance sheets) and are long-term, which means that investors think about 'what affects what' in terms of growing their customer base. Some of the overseas power and water utilities that have recently entered the Australian market have an impressive grasp of regional growth dynamics, and the marketing and commercial links back into Europe and the US. These organisations are thus an interesting new source of potential equity for energy-intensive regional projects – paper plants, milk factories, smelters, refineries etc.

6. The Need to Understand Risk

The IIIS workshops illustrated why regional (and urban) projects hit the proverbial 'brick wall'. The discussion on each project focused on the risk assessment categories used by institutional investors:

- **Construction risk** - the risks associated with design, cost overruns and construction delays can be substantial for capital-intensive infrastructure projects. There is evidence that these risks have diminished in recent years as a result of industry reforms implemented following various Royal Commissions and enquiries - however, major delays and cost overruns on projects such as BHP's DRI plant at Port Hedland provide a salutary reminder of construction risk.
- **Operating risk** - these stem from shortfalls in production and/or service, and in relation to managing staff, maintenance etc. It is difficult to quantify these risks - they may only become apparent once the project is fully underway.
- **Revenue/Demand risk** - this is the most important, judging by institutional investors' comments at the IIIS workshops. It concerns ensuring the existence of strong revenue flows in the out-years - the long-term decline in some regions make investors distinctly uneasy. Weaknesses in demand forecasting can also be costly due to the sunk costs involved.
- **Regulatory (policy) risk** - includes risks relating to planning and environmental requirements and competition policy (eg. aviation, water pricing). Notwithstanding the trend towards the privatisation of infrastructure assets, regulatory risk will remain due to the continuing role of government as a regulator in various forms.

The above types of risk feed into the operating cash flow of the project. There are also the qualitative aspects. The 'gut feel' of investors - in terms of political, social and environmental factors working against a project - can consign good cash flow projections to the rubbish bin. Judging from the workshop discussions, this is an area where governments do not fully appreciate the impact of their decisions (or lack of them) can have on investor confidence.
Project proponents – many of whom are local government bodies – are not fully appreciating these 'risk' elements. They need to think on a broader scale, in order to link agendas and address issues on a more concerted basis. In around half of the 56 cases examined, proponents did not appreciate the risk elements facing investors, and hence which issues to resolve and

in what sequence, until the workshops were held. On the other hand, there are examples where local and State governments have been proactive in addressing planning approvals, Native Title, hydrology tests, R&D support as indicated by the Tandou Lakes, Jervoise Bay marine precinct and Albury Wodonga Riverine Interpretive Centre projects.

7. Thinking Outside the Square

There is clear evidence of regional project proponents needing to think outside the square – relatively small impediments are closing down people's thinking much too early. The workshops highlighted examples where projects stall due to the misreading of signals/feedback from government agencies, loss of corporate memory due to the transfer of one person, inability to galvanise the interests of benefitting companies etc. The successful proponents seem to be more persistent, flexible and more adept at using project champions to tackle these problems. They tend to network better and think outside the square.

The role of local leaders was a cornerstone of McKinsey's recommendations, and there is subsequent anecdotal evidence of a positive correlation between 'the initiative, energy and attitudes of the region's community leaders' and a region's ability to cut through red tape, win broader industry support, and basically 'run an agenda' to generate investment and hence employment growth. A good example is in Gippsland where the efforts of Monash University, local companies and the 5-6 newly formed Councils to jointly address long-term job creation is being aided by an alliance between two former political leaders of opposing parties - Peter Nixon (National Party - Federal) and Robert Fordham (Labor - State). In this case, they are local leaders who also 'know the ropes' in dealing with governments, Ministers, and major investors.

Remedial Strategies

The second term of reference is an examination of remedial strategies that have or might contribute to reducing regional unemployment. Three core initiatives are recommended.

- **Focus on competitive advantage**

The Commonwealth and State governments need to send continual messages to regional communities that their long-term economic wealth depends on emphasising their respective competitive advantages. Every community is unique, with different resources to draw on. The experience worldwide, which is now confirmed by the OECD, is that cluster economies building on **local specialties or characteristics** - a soil type, a beach, a group of researchers, an ethnic group - are a common prerequisite for dynamic growth.

However, specialisation alone is not enough, according to Collaborative Economics, the California-based experts on the subject. They contend that the most successful regional economies in terms of wealth and employment creation are able to take specialisation to the next step - by developing a **distinctive culture**. Some local examples of this are Hahndorf (German culture, food etc.) and Torquay (surfwear), Scone (horse breeding), North Adelaide (defence electronics), processed foods (Goulburn Valley) and North Sydney (IT).

Overseas examples are Montebelluna, close to the Italian Alps (Caber, Lotto, Nordica, Salomon, Tecnica ski boots), Silicon Valley (forty years ago, known for its apricots), Modena in Italy (Ferrari, Lamborghini, Maserati), Newcastle-on-Tyne (Nissan, Sanyo, NSK, BASF). These overseas models
are well documented, and relevant to Australia in terms of general principles. Admittedly we lack the scale economies of the industrial powers - but niche markets built around distinctive capability are common characteristics of successes in big and small economies.

- **Commonwealth and State should systematically support local initiatives based on regional competitive advantage**

It is a big test for some Commonwealth and State agencies to coordinate their actions, and egos of various players and a preoccupation with 'process' are often the root causes. However, the IIIS workshops have identified excellent examples of joint Commonwealth and State funding (and sometimes simply actions) which have facilitated significant private sector investment.

We believe the single-most important initiative that Commonwealth and State governments could take in respect of regions with high unemployment is **to support those initiatives which are based on their competitive advantage** (and explain why) and to basically reject support for initiatives outside such a framework (and explain why). This will focus thinking on long-term capacity building, which then leads naturally to employment outcomes. Such an approach would arguably provide a balance to the employment growth in our leisure industry - casinos, fun parks, hotels/clubs and the like.

Some qualifying comments are required regarding 'support'. First, support in this context means the application of (i) existing program funds, or (ii) reasonably senior bureaucrats becoming involved in facilitating projects. While the latter may be difficult given the staff cutbacks at the Commonwealth level, 'action teams' of Commonwealth and State officials working with companies can be very effective because policy action can be so much quicker.

A stronger option is to extend the Centrelink 'one stop shop' initiative from social to economic programs. This would be a major step in addressing the program coordination problem. Numerous OECD countries have established autonomous regional offices, which co-locate various economic agencies. They are generally headed by a government official with people skills, knowledge of industry, high seniority in order to act as a broker between government agencies, and a sizeable budget to match. In the Australian context, it could for example involve major regional offices being established in 7-8 cities in Victoria, 2 in Tasmania, 4-5 in South Australia etc. This would require agreement with State governments, and it should include the co-location of State agencies with those of the Commonwealth. Previously agreed regional strategies would determine the broad parameters of both Commonwealth and State expenditure.

Coordination of government support can be important in 'crowding in' private sector investment - which is surely the point of the exercise. To illustrate this, projects which have prima facie evidence of some degree of public good have been highlighted (*) in ATTACHMENT A. A case for some form of government funding (category i above) can be made for these projects on the basis that it would deliver identified public benefits, and facilitate private sector investment to capture private benefits.

- **Commonwealth to reinvest some of the proceeds of infrastructure sales.**

McKinsey, the OECD et al have all emphasised that the quality of a region's hard and soft infrastructure is a major determinant of business investment, and hence employment.

While the private sector financing of certain types of infrastructure will increase over time, government must continue to invest in those areas where there is an identified public benefit. There are mixed funding models in existence, such as the Australian Industries Development Corporation (AIDC) at the federal level and the Queensland Investment Finance Facility (QIFF) at the State level.

It is therefore suggested that the Commonwealth should give serious consideration to the establishment of a Regional Infrastructure Investment Fund (or similar). In brief:

- Annual allocation of around $500-800m for possibly 4-5 years, drawn from the sales of Commonwealth infrastructure assets (a purity of logic)
- Funding to be mainly available via one-off grants, but could include the Commonwealth taking equity in respect of a limited number of projects.
- Eligibility to be restricted to projects where a specific public benefit can be identified ie. private sector business ventures would be ineligible.
- Criteria would include the need for the project to facilitate regional best practice, sustainable jobs and export development, and evidence of matching funding from other key parties.
- Recommendations would be developed by advisory machinery comprising a mix of government officials and eminent, recently retired industrialists or luminaries, and perhaps a cross-party representation of Senators or Members. The recommendations would go to a Committee of Ministers whose portfolios have relevance to regional economic development. This would provide an inclusive, transparent process.

The above approach has a weakness in that it would feed the perception among the regional population of a paternalistic and power-based hierarchy in Canberra. It is thus only a 'half way' house to a full devolution model where regions would have annual budgets - and senior regionally-based officials, local MPs and local leaders - would decide expenditure priorities. Such a model seems years away.

In conclusion

Efforts to generate employment growth in regional Australia must recognise the crucial role of investment - in infrastructure and in businesses.

In this regard, governments must continue to invest in hard and soft infrastructure where public benefits can be justified, and where the private sector is not willing to invest. In those areas where private sector investment is possible, there is considerable scope for Federal and state governments to play a more facilitative role.

Part of the problem is that government expenditure on infrastructure is not always in synch with market requirements. Governments traditionally concentrate on supply-side responses to a problem - but whether it matches the requirements of regional economies can be a hit or miss affair due to the lumpiness of the programs, the lack of knowledge/sophistication of the intended recipient, and the inability to link it with other initiatives.

A particular problem is that project proponents' seeking funding often fail to place the project in a strategic context. Many proposals are also undersold through a lack of marketing skills and confidence on the part of project proponents, and their inability to 'bring it all together'. The British and French understand this problem, and have established consultative machinery and funding packages in each of the regions - these funds are generally to fill identified gaps in regional infrastructure (ie. usually where the private sector cannot earn a commercial return) and to facilitate spin-off investments. This devolution of decision-making has been an important factor in rejuvenating local economies and facilitating local leadership. It should also be noted that local government is treated more as an equal partner in these two countries. The Commonwealth would do well to examine this overseas experience, since it indicates some success by government in nurturing the marketing skills and confidence of local communities.

Finally, our first-hand experience is that people in regional economies facing significant structural dislocation are concerned about becoming further 'dislocated'. They seem to intuitively understand that a reverse income multiplier effect (an economic El Nino?) is beckoning and that they are powerless to respond. The problem does not seem to be as acute in metropolitan areas (even with equivalent levels of plant closures or redundancies) because those affected presumably have more flexibility - in terms of finding alternative employment, housing and maintenance of lifestyles.

We are happy to expand on any of the issues raised above.

Australian Project Developments Pty Ltd
April 1998.

Australian Project Developments Pty Ltd. *specialises in strategic advice on industry and regional development, and the negotiation of funding 'cocktails' between public and private sources.*

The Managing Director, Rod Brown, formerly held SES positions with the Commonwealth Government between 1987-96 - with responsibilities including regional infrastructure, investment promotion, building and construction, government procurement policy, manufacturing industry policy. He also worked as a policy analyst at the OECD (1979-82), and is the author of "Industry Clusters: a new approach to economic development in regional Australia" (SES Fellowship, 1996)

He is currently organising the Institutional Investor Information Service (IIIS) workshops on behalf of the Australian Council for Infrastructure Development (AusCID). Other clients include Commonwealth, State and local government agencies, regional development organisations, and business groups.

Projects considered at the IIIS workshops, during 1997 and 1998

Water (20)	Project size ($m)
• Kalgoorlie – Esperance water pipeline*	315.0
• Kalgoorlie wastewater treatment plant*	2.4
• Kemerton Industrial Park – water supply (WA)	16.0
• Pokolbin water pipeline (NSW)	15.0
• Tandou/Menindee Lakes (NSW)*	8.1
• Tumut – Visy Paper mill - water requirements etc.	30.0
• Robinvale Irrigation & Drainage scheme*	100.0
• First Mildura Irrigation Trust (FMIT) Horticultural Expansion*	250.0
• Stanhope water treatment (Vic)	4.0
• Korumburra-Leongatha water works (Vic)	10.0
• Rosedale sewerage pre-treatment (Vic)	5.0
• Flinders Dam, Richmond, Qld*	80.0
• Lockyer Valley recycled water, SE Qld*	350.0
• Port Macquarie sewerage*	30.0
• Coffs Harbour/Clarence Valley water supply*	102.0
• Coffs Harbour sewerage*	112.0
• Upper Herbert Irrigation*	220.0
• FNQ Waste Management Facility*	200.0
• Dawson Dam (west of Gladstone)*	120.0
• Urannah Dam (near Mackay)*	152.0
Transport hubs (4)	
• Kalgoorlie – Boulder	n/a
• Maitland	n/a
• Dubbo rail freight*	18.2
• Wodonga freight centre	n/a
Energy & Minerals (9)	
• Kemerton gas-fired power station (WA)	117.5
• Oakagee Port - power station/port (WA)	1,000,000.0
• Western NSW gas-fired electricity generation	50.0
• Leongatha – natural gas reticulation (Vic)	10.0
• Energy Recovery from Biowaste (Queensland)*	n/a
• Derby Hydro Power (WA)	125.0
• Callide Power	800.0
• Marlborough Nickel (near Rockhampton)	630.0
• Gladstone Synthetic Rutile plant	112.0
Marine (5)	
• Jervoise Bay marine precinct (WA)*	180.0
• Bunbury Port container handling	8.0
• Twofold Bay port (NSW)*	12.0
• Port Welshpool Deepwater Port (Vic)	30.0
• Dampier Marine Services Industrial Estate	50.0

Tourism & Urban Development (16)	
• Port Kalbarri harbour/marina (WA)	25.0
• Honeysuckle (Newcastle) marina	10.9
• Ballarat Hotel/Convention Centre*	25.0
• Warrnambool Marine Centre*	n/a
• Mildura CBD & waterfront development	116.0
• Mildura marina	50.0
• Wodonga - Riverine Interpretative Centre*	73.0
• Panorama Cable Car, Townsville	6.5
• Spaceworld, Logan Shire, Qld	10.0
• North Ipswich rail precinct*	45.0
• Ipswich Rivercat	n/a
• City Hill, Coffs Harbour*	30.0
• Cairns Cityport (incl. marine)	380.0
• Fig Tree Health Resort (south of Cairns)	60.0
• Mungalli Falls (west of Innisfail)	3.8
• Keswick Island (near Mackay)	7.0
Airports (3)	
• Geraldton	7.5
• Learmonth	9.1
• Coffs Harbour	16.0
Rail (2)	
• Sydney – Canberra high speed train*	
• Ballarat-Geelong standard gauge rail*	9.0
Forestry (4)	
• Central Victoria Farm Plantations	n/a
• Plantations North East, Victoria	220.0
• Gippsland Plantations	n/a
• Softwood Sawmill, Ingham, Qld	15.0
Agriculture/Mariculture etc (3)	
• Kuruma Prawns, Abbott Point, Qld	12.0
• Killarney whiskey, SE Qld	5.0
• Bayview Seafoods, Taree	4.0
Other (2)	
• Murray River Crossings*	105.0
• Emmanuel Anglican School, Gladstone	1.3

*** Prima facie evidence of some public good element.**

Gateway Island project - Albury Wodonga

Proposed investment of $72 million.

Three key features:

- River Interpretive Centre, costed at $11.5 million.
  - strong case for **$5 million via the Commonwealth's Federation Fund**
  - balance of funding from private investors via a tendering arrangement.

- Aboriginal Culture Centre, costed at $5.2 million. It
  - outstanding potential as a best practice incubator of koori enterprises, employment and training, while also addressing cultural needs and stereotyped attitudes.
  - case for **$3 million of funding from a mix of government sources**, with remaining $2.2 million being met from corporate sponsors.

- Regional Produce Marketplace, costed at $6.0 million.
    - case for **government funding of $500,000** towards a Food Hall and associated facilities, with balance from private sector.

Other elements of the project - tourism/environmental facilities, restaurants, sports facilities, etc. The bulk of this would come from private investors.

Conclusion

Government support for public interest aspects - via a cocktail of $8.5 million - expected to:
- raise rate of return for private investors by 3 - 4 %
- deliver $64m of private sector investment
- create 75 jobs in construction, 100+ jobs in retail/tourism/cultural facilities on-site
- provide an investment 'icon' and 'distinctiveness' - to facilitate other projects

Government support then spurs seven action strategies:

1. Use of **environmental pressures and purchasing power** to drive industry performance.

2. **Announcement of a Water Precinct.**

3. Approaches to **certain multinationals**.

4. Development of a **network of commercially-driven research** in the region.

5. Identification of **champions and funding in the indigenous field**.

6. Actions to **push the Regional Produce agenda** - awareness-raising, market research etc.

7. Establishment of **Water Cluster Group**, to coordinate the various initiatives.

Points

1. Regional unemployment is not due to cyclical factors - but structural factors are main cause viz. changing product markets, energy privatisation
2. Government and financial community response could be to facilitate population wind down, and 'pick up the pieces' eg. Wimmera, Mallee, Gippsland, Spencer Gulf, western NSW.
3. But this misses two key points
    - that regions lack the flexibility and alternative employment opps of cities.
    - that critical mass is the key - and we should be scaling up regions where possible to facilitate achievement of economies of scale, and economies of location (industries do cluster eg. Melbourne film/TV, North Sydney IT, Scone hoseracing, Torquay surfwear.
4. Investment drives employment - nothing else does! But cannot be left to private sector alone because of externalities.
5. IIIS lessons - public interest can be identified (26/68 projects), politics, orphans, interdependence, need to understand 4 types of risk, thinking outside the square

6. Solution 1 - focus on competitive advantage, and support local initiatives on that basis, and do cocktails (See Gateway Is)
7. Solution 2 - Infrastructure Fund - across spectrum of infrastructure
8. Solution 3 - Devolve eg. UK model