



Australian Government
Productivity Commission

Transitioning Regional Economies

Productivity Commission
Study Report
Overview & Recommendations

December 2017

© Commonwealth of Australia 2017

ISBN 978-1-74037-652-5 (PDF)

ISBN 978-1-74037-651-8 (Print)



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An appropriate reference for this publication is:

Productivity Commission 2017, *Transitioning Regional Economies*, Study Report, Canberra.

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Foreword

Over recent years, the mining investment boom provided substantial economic benefits to individuals, businesses and governments across Australia. As the investment phase has wound down, regional economies have generally transitioned well.

A large amount of discretionary spending is directed towards regional areas, by all levels of government. Much of this expenditure generally does little to facilitate adjustment and long term development. There remains ample opportunity for governments to coordinate better and evaluate this expenditure to improve its effectiveness in supporting development, improving living standards, and generating better value for money.

In conducting this study, I was assisted by Commissioner Ken Baxter, and the Commission's Special Adviser, Sean Innis. I was supported by a research team in the Commission's Melbourne and Canberra offices, led by John Salerian.

The Commission is grateful to everyone who has been involved in this study. Specific thanks are given to those people and organisations that provided written submissions, or who met with the Commission around the country to discuss this study.

Thanks are also given to experts who attended the Commission's technical workshop in Canberra on 11 July to discuss approaches to measuring regional adaptive capacity.

This study would not have been possible without the assistance of the Australian Bureau of Statistics, who provided timely access to high quality data from the 2016 Census of Population and Housing. This Census, which was collected after the end of the mining investment boom, provides a highly detailed picture of the people that live around Australia and was essential for measuring regional adaptive capacity. The Commission is particularly grateful to the Australian Bureau of Statistics and its staff for their strong support of this study.

Paul Lindwall
Presiding Commissioner

December 2017

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The full report is available from www.pc.gov.au

OVERVIEW

Key points

- Overall, the Australian economy has shown considerable flexibility and resilience over the past 30 years, with a large majority of regions (77 per cent) experiencing positive employment growth over the past five years. Employment in mining remains more than double pre-boom levels.
- While the mining boom has caused transitional pressures, it has also made Australians substantially better off in the short term and over the long term.
 - A mobile workforce (including fly-in, fly-out) has spread the benefits of the boom across workers living in other regions, as well as reduced the cost of both the investment phase and the ongoing production phase.
 - Adjustment from the mining boom is generally not a source of significant disadvantage and does not justify special intervention from governments.
- Even though overall employment growth has been positive, all regions have variable growth in employment over time, with most experiencing falls at times.
 - Over the past five years, reductions in employment and population are more evident in some agricultural regions and a number of marginal mining regions.
 - Despite this, there is emerging evidence of rising incomes in agricultural regions.
- As requested, the Commission has constructed an index of relative adaptive capacity. This metric does not, by itself, provide a basis for policy making. There is unavoidable uncertainty about its estimated value for each region, and transitions in the real world also depend on the specific nature of the shock, the options available to people and the decisions they make.
- Using this metric, most major cities have relatively higher adaptive capacity, while some remote regions (including Indigenous communities) and many outer regional areas tend to have relatively lower adaptive capacity.
- Governments should avoid providing ad hoc financial assistance to regions because it is rarely effective. It does little to facilitate transition and long-term development. Governments should also better coordinate and evaluate their activities that affect Australia's regions.
- Specific adjustment assistance to individual regions should be reserved for extreme events that are likely to result in high levels of permanent disadvantage in a community. Even then it should be targeted at assisting the most vulnerable families and individuals, in particular to help them secure employment.
- There is unnecessary overlap in the regional development roles of all three tiers of government, contributing to concerns about the effectiveness and value for money from the large outlays on regional development programs.
- Central responsibility for regional development resides with State and Territory governments, supported by local governments. They should:
 - remove unnecessary planning and zoning regulations that are obstacles to regional development
 - adopt more rigorous and transparent assessment and implementation of their regional development planning strategies to improve the effectiveness and value for money from the large expenditures on regional development. This requires strong and effective local leadership
 - direct discretionary funding to priorities identified in regional strategic plans.

Overview

The recent mining investment boom (which ended around 2013) was a confluence of high commodity prices, increased demand, substantial construction of new mining capacity and a sustained increase in production levels. Although mining is naturally cyclical, the amplitude and duration of this commodity cycle was relatively large (box 1). It presented both opportunities and challenges for workers, businesses, communities and governments.

Box 1 **The mining commodity and investment cycle was large**

Western Australia

Annual economic growth peaked at 9.4 per cent in 2011-12 and business investment accounted for a significant share of the growth. Following the end of the investment phase, economic growth slowed, and gross state product declined by 2.7 per cent in 2016-17. Unemployment has also been trending up. There were 86 000 people unemployed (on average) in the year to October 2017 compared to about 37 000 people in 2008. The unemployment rate rose from about 3 per cent in 2008 to about 6 per cent in the year to October 2017.

Queensland

Construction expenditure in Queensland rose to unprecedented levels during the boom, peaking in 2013-14 at \$36.6 billion, and subsequently fell by about 70 per cent. Unemployment in Queensland also fell to about 80 000 people in 2008, but has since almost doubled, reaching about 156 000 people in the year to September 2017.

Overall, Australia has benefited substantially (and will continue to benefit) from the resources boom. It has led to higher average incomes for individuals, larger profits, and increased revenues for the Australian, State and Territory governments. The slowing of the investment phase has caused transitional pressures. Perhaps because of the unusual duration of this resources cycle, many Australians and some governments assumed that the investment phase would stay stronger for longer and were unprepared for its winding down. Yet the winding down was inevitable, and Australia as a whole is better off because of the boom.

It is against this backdrop that the Australian Government asked the Commission to undertake a study into the geographic impacts of the transition of the Australian economy following the resources investment boom.

At the same time, there are other long-term transitions taking place in regions. There is increasing urbanisation driven partly by the long-term trend of productivity improvements in the agriculture sector and associated consolidation and growth of regional towns and

centres. The trend to urbanisation and the relative growth in services is not confined to Australia, with many OECD countries having a similar experience. In part, the trend reflects an increased preference by Australians and recent migrants to live in urban environments, which offer a broader and deeper range of services and employment opportunities compared with non-urban environments.

Australia's regions have enjoyed overall employment growth and improved social connections as technology is helping to bring people closer together (virtually if not physically) — this will only improve further in the future. This has provided new opportunities for many regional towns and helped to cement their long-term viability and vitality. However, some regions have been more directly affected by the pressures of changing economic circumstances and face substantial and perhaps insurmountable challenges in forging a sustainable future. Additionally, many smaller towns have seen falling population as people move to larger towns where there are a greater range of economic, cultural and social services.

What the Commission has been asked to do

The core tasks for this study are to:

- identify regions that face significant challenges in successfully transitioning to a more sustainable economic base
- establish a single economic metric to highlight regions most at risk of failing to adjust
- for regions considered at risk of failing to adjust, identify factors that influence their capacity to adapt to changes in economic circumstances
- devise an analytical framework for assessing the scope for economic and social development in regions, and examine prospects for, and inhibitors to, change to the structure of regional economies.

Approach to assessing adaptation and development

All regions are considered

All regions of Australia (both urban and non-urban) are considered in this study, not just those directly affected by mining. The mining investment boom (and its end) has had widespread effects on regions and to exclude capital cities would have skewed the analysis. As the Commission's work shows, some of the more seriously affected regions were capital cities (and adjacent regions), notably Perth. There are also regions that are subject to transitional pressures from other sources, such as environmental, energy, and trade policies. Assessment of their interests was consistent with the Commission's charter of taking a national perspective.

For this report, the Commission has chosen to use functional economic regions (FERs), which capture economic linkages and interdependencies between neighbouring areas (box 2). In practice, other factors such as community consultation are also important to take into account social and cultural dimensions that affect whether communities consider themselves more closely aligned with one region or another. As such, the definition used in this report is not the final word, but is fit-for-purpose. And common use of FERs would improve regional comparative analysis. Governments should use FERs as a standard for future regional analyses, such as assessing the scope for economic and social development in regions.

Box 2 **What is a region?**

‘Regions’ can be defined in many ways. For this study, regions are defined using functional economic regions (FERs). The design of FERs recognises that:

- people often travel between areas for work or to access services
- businesses hire workers, purchase services, and sell products and services across areas
- governments and people interact economically, socially and culturally across areas.

There is a higher degree of interaction between people and businesses within FERs and these are generally based around centres (such as relatively large towns and cities).

For policy purposes, FERs are preferred to local government areas or small statistical areas because they facilitate better evaluation and implementation of regional strategic plans and development policies. The use of FERs was advocated by some study participants, and FERs are increasingly being used by governments, albeit inconsistently.

Comparing FERs with ABS SA4 and SA2 regions

The FER regions are aggregations of ABS Statistical Area Level 2 (SA2) regions. However, the FERs are different to ABS Statistical Area Level 4 (SA4) regions (which are also aggregations of SA2 regions). In some cases (more remote regions) ABS SA4 regions are larger than FERs. In other regions (capital cities) FERs are larger than SA4s. Overall, the numbers of SA4s and FERs are similar.

	<i>Greater capital city regions</i>	<i>Regions outside greater capital cities</i>	<i>Total</i>
Functional economic regions	7	82	89
ABS Statistical Area Level 4 regions	45	43	88

Key elements of the approach

The study of the economic resilience and the adaptive capacity of regional economies has gained momentum since the 2007-08 global financial crisis. Despite this, there is no generally accepted way to measure economic resilience and adaptive capacity (or even common definitions of these terms). The Commission has constructed a metric of adaptive capacity which brings together a range of indicators using a widely accepted and robust

methodology. As with any metric that combines multiple indicators, there are limitations and caution is needed in interpreting the metric and applying it to policy questions.

The Commission's approach has three parts.

1. Assess regional economic performance over time.
2. Create a single economic metric of relative adaptive capacity.
3. Develop a framework for assessing the scope for economic and social development in regions.

Economic performance over time

Observing the economic performance of regions over time can yield insights about how regions have transitioned or are transitioning from economic disruptions (box 3).

In principle, examining economic growth over time could make it possible to identify regions that have experienced a significant disruptive event, and to determine whether they recovered (were resilient) or whether their growth path stagnated or deteriorated (were non-resilient). This could reveal factors associated with observed resilience, which could help in identifying policies that might facilitate resilience.

In practice, operationalising this concept has proved challenging with the data available. It has been difficult to observe events at a regional level that are out of the ordinary (using criteria such as the amplitude and duration of regional employment). This is not to say that at a personal level, workers and businesses have not experienced significant challenges from the relentless pressures of dynamic market forces.

Perhaps unsurprisingly, the analysis of employment data suggests that regions are continually experiencing ups and downs. There are also longer-term trends across classes of regions, including those that are predominantly based on mining or agriculture, or that are regional population centres (towns and cities). These observations help to paint a picture of changes taking place across classes of regions and to examine the common and differential factors shaping their development path.

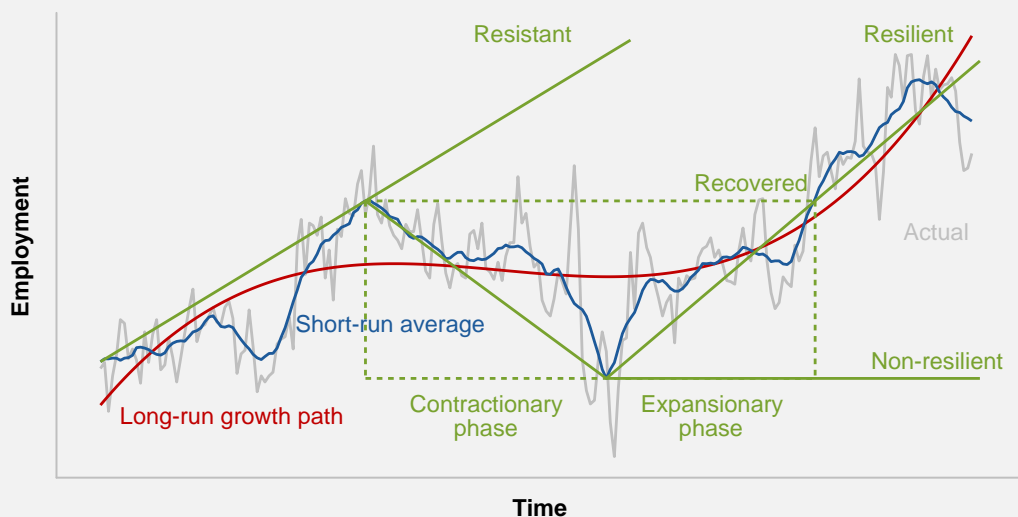
Box 3

An illustration of the concept of economic resilience

The goal is to identify 'disruptive events' in regional economies by examining the path of economic growth over time. If a disruptive event is identified, then the growth experience following the event can be used to categorise the region as:

- resistant, whereby the event does not disrupt the growth path. The identification of this type of region is problematic unless the event is identified externally by means other than observing growth in the region
- resilient, whereby following the disruption the regional economy recovers and returns to a positive growth path
- non-resilient, whereby the region is unable to recover from the disruption.

It is challenging to distinguish genuine 'disruptive events' from the normal cycle of ups and downs and variability in performance. The stylised example here is for a disruptive event that has a negative impact on the growth path. It is also possible to have a short-term disruptive event that is positive, such as an investment boom.



Single economic metric of relative adaptive capacity

As discussed above, the Commission developed a single economic metric that can be used to identify regions most at risk of failing to adjust successfully to economic disruptions. This is achieved by creating an index of the relative adaptive capacity (box 4) for each FER using data from the 2016 Census of Population and Housing, as well as other data sources.

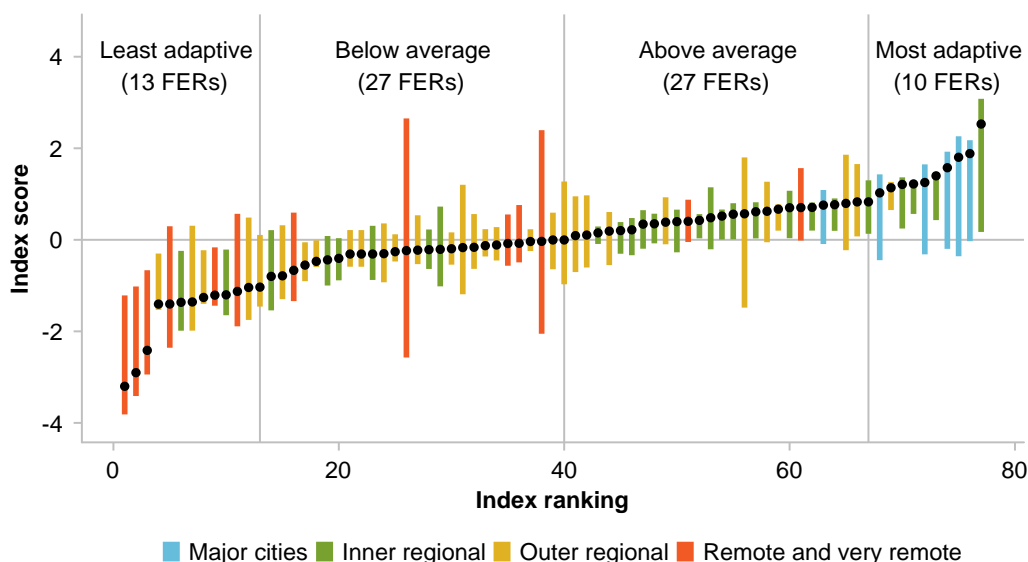
Box 4 **Relative adaptive capacity**

Relative adaptive capacity is an unobservable attribute of a region. It is not a guarantee of resilience to disruptive events. Rather, it is a summary of the complex set of factors considered to influence the capacity of regions to be resilient. These factors include the skills and education of regional workforces, access to infrastructure and services, availability of natural resources, financial resources available to businesses and individuals, and industry diversity. For this report, a relative measure of adaptive capacity has been derived from these factors across all regions, principally using Census data. Principal component analysis was used to construct the metric. This is a method applied to develop similar metrics, such as the ABS Socio-Economic Indexes for Areas (SEIFA). In general, regions with higher adaptive capacity have attributes that are likely to increase the potential to transition successfully following an economic disruption.

Obtaining consistent data for all factors and regions was not possible. Proxies have been used to measure some of the factors thought to shape adaptive capacity, particularly social factors and natural resources. Sensitivity analysis provides insights into the uncertainty about the estimated value of the index score for each region (and therefore its relative ranking). There are many regions where the value of the index would change substantially if different variables were included in the analysis, resulting in large ranges in the scores for some regions (figure 1).

Figure 1 **High uncertainty about the index scores of adaptive capacity**

Index values and their 90 per cent confidence intervals for each FER, sorted from lowest to highest



On its own, adaptive capacity does not identify whether regions would be successful in transitioning to a more sustainable economic base following a disruption. Realised outcomes depend on the sensitivity of a region to a particular disruption, the predictability, type and

magnitude of a shock (or shocks), the opportunities available to people in regional communities, and the decisions they make. This limits the suitability of the metric, by itself, as a guide for policy decisions. Nevertheless, the metric can be used to explore broad patterns of adaptive capacity across regions and as a ‘litmus test’ to identify regions that might be at risk of successfully transitioning if the region were exposed to a fundamental shock.

Assessing the scope for economic and social development

Within the Australian federation, the principal responsibility for developing any particular region lies with the State and Territory governments. The Commission has developed a framework to guide these governments (and also the Australian Government) in assessing the scope for economic and social development in regions.

Assessments should focus on enabling people in regional communities to adjust to changing economic circumstances. Governments should focus on the people who reside in regions, rather than the geographical areas themselves. The movement of people across regions can be important for their individual wellbeing, as well as for the performance of the Australian economy, especially if it reduces long-term unemployment. The assessments should be led by regional communities, be based on robust evidence and transparent processes and take into account:

- the views and local knowledge of regional communities
- the relative strengths (comparative advantage) of regions
- whether existing programs and strategies targeting economic and social development are effective and delivering value for money.

A snapshot of regional employment growth and adaptive capacity

Insights into the performance and adaptive capacity of Australia’s regions have been gained using the first two elements of the Commission’s approach, namely regions’ employment growth over time and the single metric of relative adaptive capacity.

Recent trends in regional growth

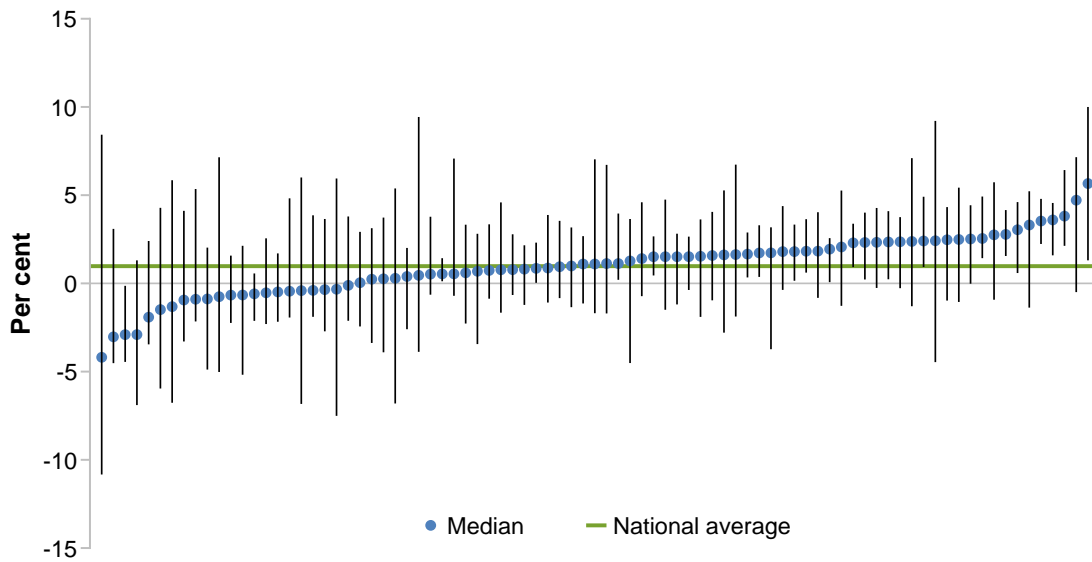
The Commission attempted to identify regions that had experienced an out-of-the-ordinary economic disruption (cycles that are larger than usually observed) using time series data for employment at the Statistical Area Level 4 (SA4) level. Employment data is not disaggregated sufficiently to allow analysis at the FER level.

Most regions (about 77 per cent at the SA4 level) have experienced overall positive growth in employment over the past five years (figure 2). However, almost all regions have

displayed significant variability in growth rates and at times most have experienced negative growth rates.

Incomes in most regions are increasing, including in agricultural regions. Between 2012-13 and 2014-15, income growth in many agricultural regions in New South Wales and Victoria exceeded the Australian average rate. Income growth in the Wheatbelt region of Western Australia was even higher.

Figure 2 Most regions have experienced positive employment growth
Median employment growth and interquartile ranges for SA4 regions, October 2012 to October 2017, 12 month average data

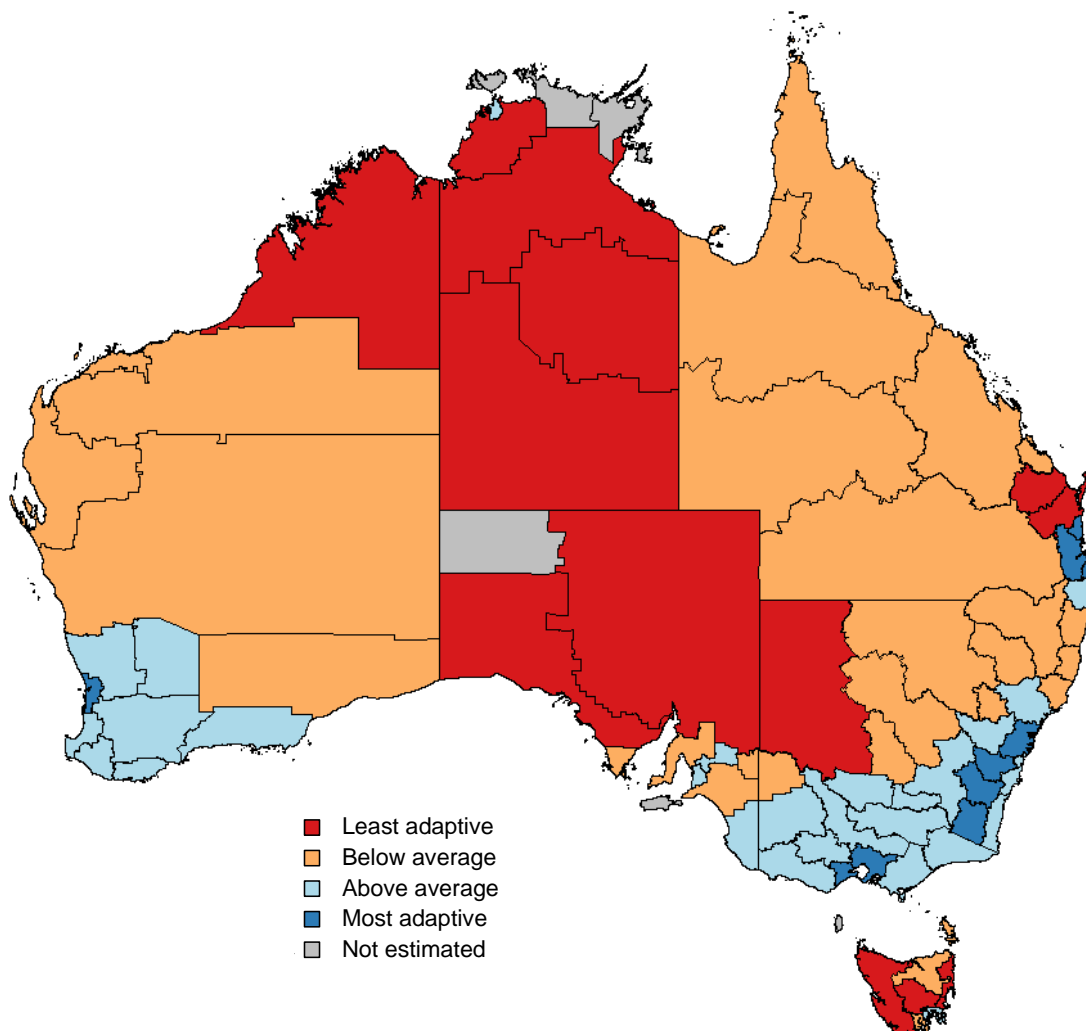


An overview of the adaptive capacity of Australia's regions

Unsurprisingly, Australia's regions vary in their adaptive capacity. Regions with the lowest relative adaptive capacity¹ (about 17 per cent of all FERs) are concentrated in outer regional and remote/very remote areas of Australia (figure 3). There is an association between lower adaptive capacity and remoteness (figure 4, top panel).

¹ Those regions classified as 'least adaptive' are those with a relative adaptive capacity value that is more than one standard deviation below the mean relative adaptive capacity for all regions. There are 13 regions in this category.

Figure 3 The relative adaptive capacity of functional economic regions

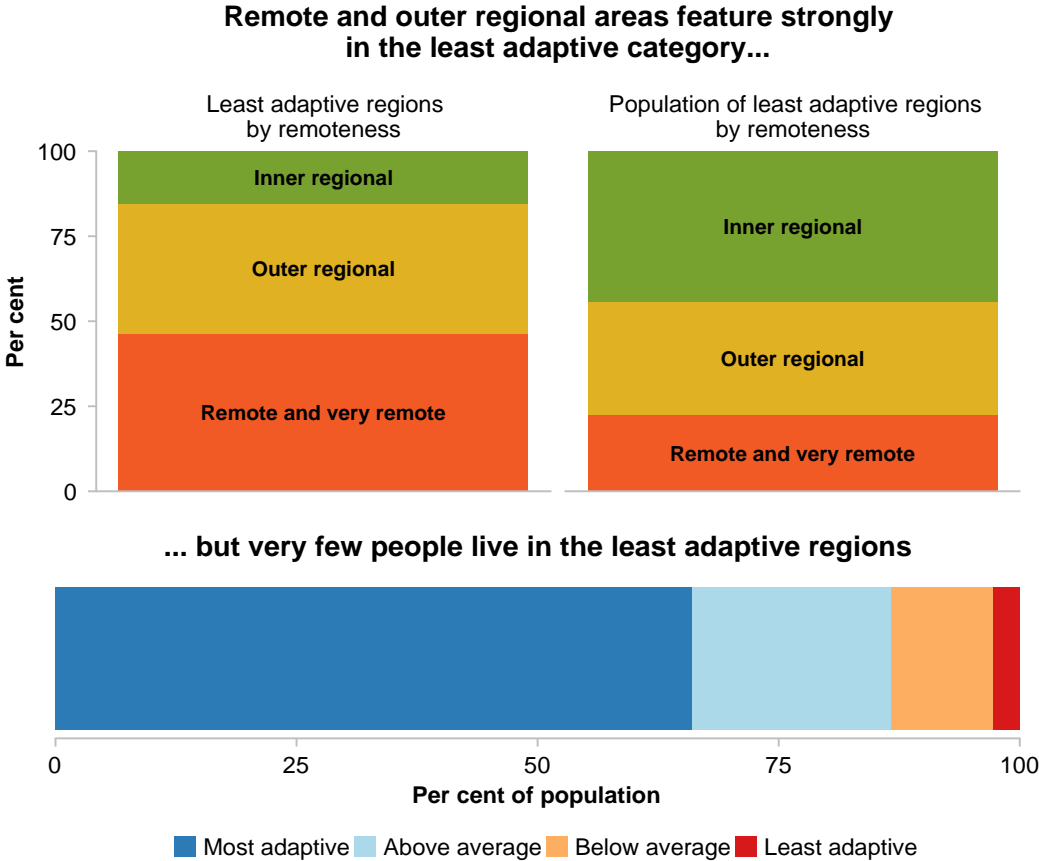


Although the regions with the lowest adaptive capacity cover large areas of Australia, they represent a small proportion of the total population (figure 4, bottom panel). About 659 000 Australians live in the regions with the lowest adaptive capacity, representing 3 per cent of the total population. In contrast, nearly 16 million people live in regions with the highest adaptive capacity, representing 66 per cent of the total population.

Overall, all major greater capital city FERs have relatively high adaptive capacity. However, this does not mean that these cities do not have clusters of disadvantaged people living within them that struggle to adapt to changing circumstances. These areas within cities often have similar challenges to those faced in more remote areas of Australia. Notwithstanding this, greater capital cities have a higher adaptive capacity to transition and develop relative to other regions, with greater employment opportunities found in proximity to large urban centres.

The values of the index of relative adaptive capacity are driven by differences between regions' levels of each factor used to construct the index (skills, incomes, access to infrastructure and services, natural resources and so on) and the different weights estimated for these factors. Factors relating to people (education, skills, employment and health) strongly influence adaptive capacity, particularly for communities in urban areas. For communities in remote areas, these and other factors associated with remoteness, such as accessibility to services and infrastructure, have the strongest influence on index results. It is unsurprising that the regions with the least adaptive capacity frequently have high levels of disadvantage.

Figure 4 Regions and population by adaptive capacity and remoteness



Themes of regional growth and adaptive capacity

Australia's regions are diverse, reflecting differences in their endowments of natural resources, economic geography, their history of settlement and development, and the mix and relative size of economic activities undertaken. Although this diversity has made it

difficult to classify regions based on either the trends in performance or the index of relative adaptive capacity, a number of general observations can be made.

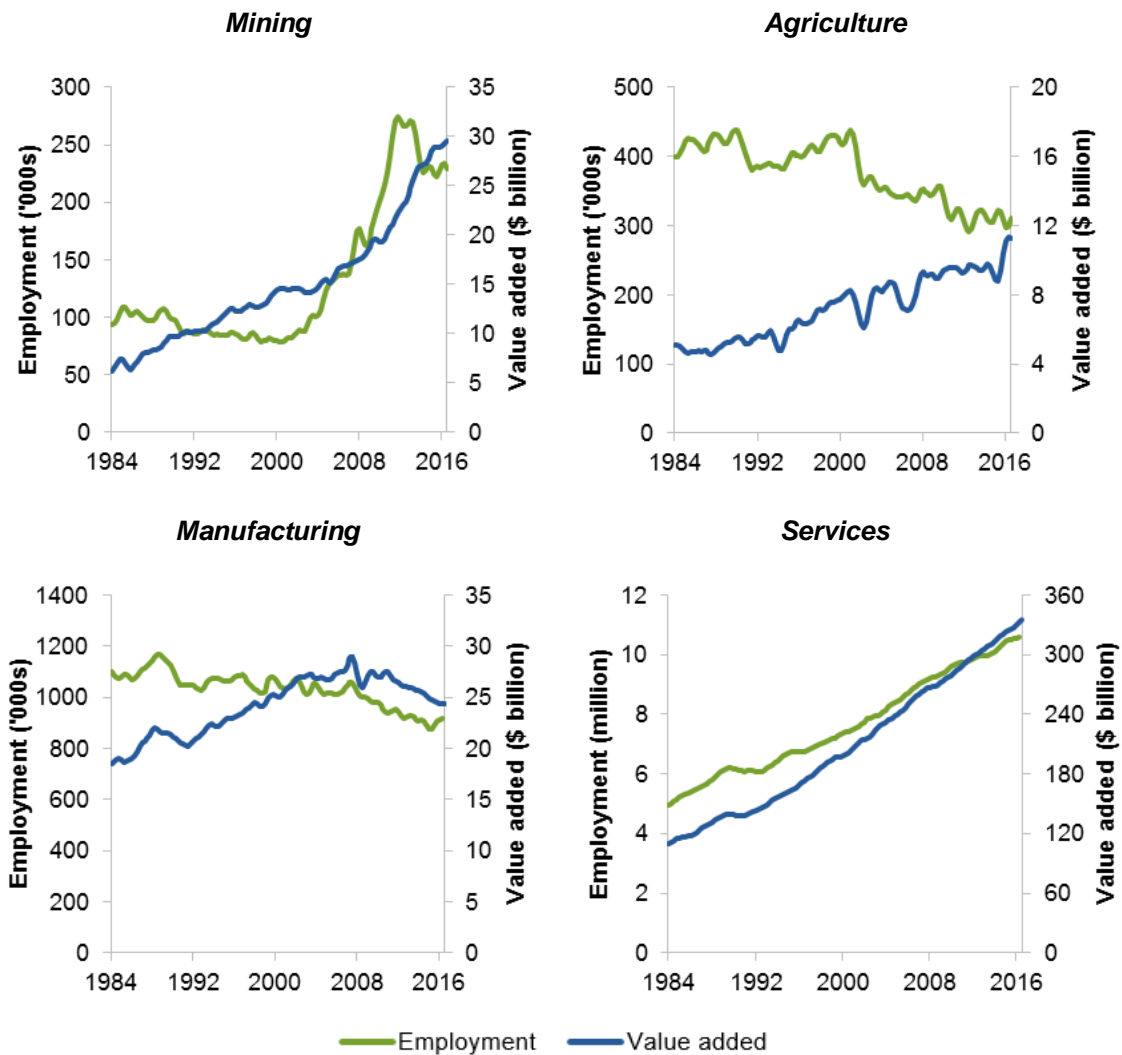
- Regions with an economic base that is large-scale mining have generally had the highest rates of growth in employment since 2005, notwithstanding the end of the investment boom. But, not all mining areas are prospering and some are in decline. Incomes in mining regions are generally much higher than the national average, but growth in incomes were more subdued immediately following the end of the investment boom.
- Regions that are predominantly based on the agricultural and pastoral sectors, particularly broadacre cropping, tend to have lower rates of employment growth. Long-term improvements in the productivity of agriculture have enabled increased production with fewer workers. There is emerging evidence that incomes in some agricultural regions (particularly in the Wheatbelt of Western Australia) have increased faster than the national average following the end of the investment boom. Agricultural regions have also experienced consolidation of small towns into larger regional towns.
- Regions based predominantly around manufacturing tend to have relatively low rates of growth in manufacturing employment and low incomes, but these areas are mainly located in smaller sub-regions within FERs, particularly in greater capital cities.
- Regions with an economy predominantly based on services (cities, large regional centres) tend to have higher rates of growth.

These observations (elaborated on below) reflect longer-term trends in employment and the move away from manufacturing and agriculture towards services (a trend observed in other advanced economies) and resource industries (figure 5). The extent to which regions are affected depends on their industry mix and the concentration of employment in particular industries.

Trends in mining regions

Although commodity cycles are a common feature of the resources sector, the recent resources investment boom was one of the largest for Australia in recent generations. Its effects were widespread and felt to varying degrees across regions in Australia. The transition to the production phase has also had disparate effects, including on workers whose skills were highly valuable during the construction phase (and who therefore had high levels of pay) but who are no longer needed in the mining production phase. Regions where mines are no longer viable in the current environment of lower commodity prices have also had to adjust.

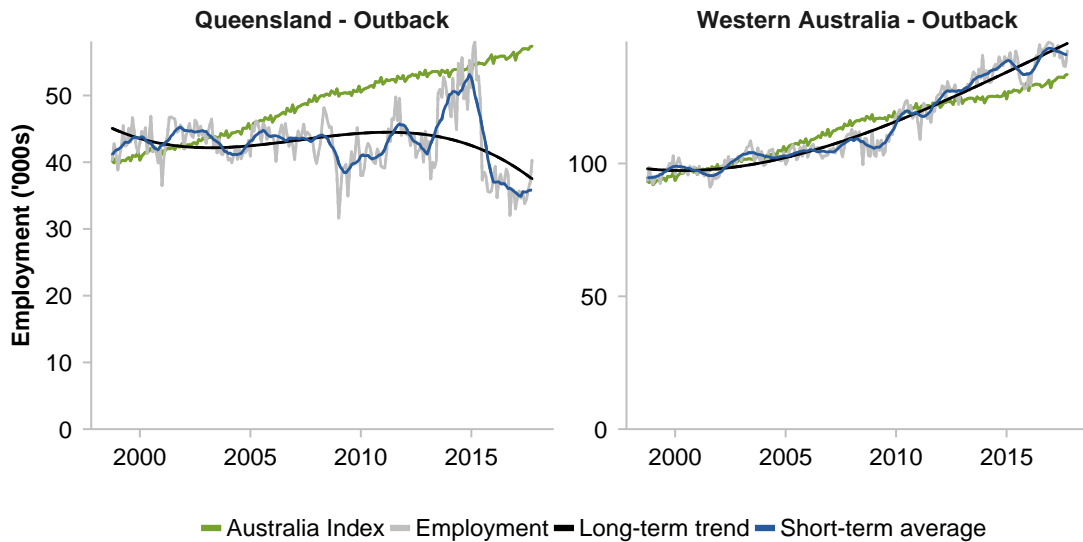
Figure 5 National trends in employment and value added by industry



Most resource regions are continuing to grow

At the SA4 level, Mackay (Queensland) and the Western Australian Outback (right panel, figure 6) have a strong upward trend in employment, growing by about 8 per cent and 12 per cent respectively, in the past five years.

Figure 6 **Illustrative trends in employment in mining regions**



The resources boom was particularly transformative for the Pilbara region. High commodity prices and demand for the Pilbara’s resources spurred many iron ore and gas investment projects aimed at a major expansion in the capacity of mining operations. Many people moved to the area to take advantage of lucrative employment opportunities, and income growth in the region was well above the national average (8.4 per cent per year compared with 5.4 per cent between 2005-06 and 2010-11). The benefits of the investment boom spread beyond the regions where mining activity was occurring. There was strong growth in mining-related employment in other areas, including in Perth and in the south-west regions of Western Australia (box 5). The rest of Australia benefited through additional taxation revenue, which in some cases was used to fund permanent increases in welfare payments or reductions in some taxes.

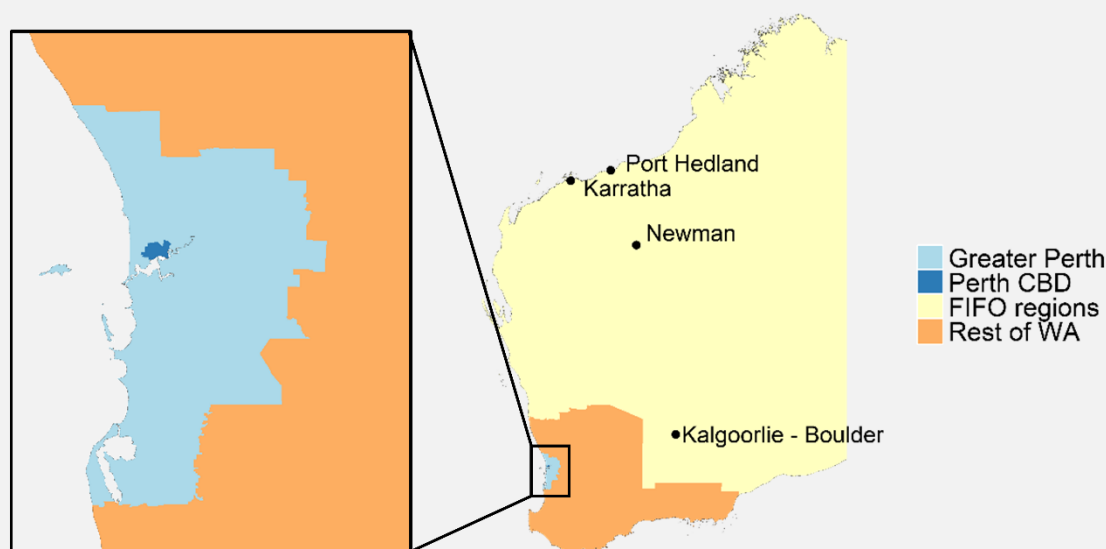
The influx of fly-in, fly-out workers using chartered flights and rapid population growth of a highly-paid workforce had a large impact on demand for goods and services in the Pilbara region, and widespread price increases occurred.

Box 5 The geographic spread across regional labour markets

During the height of the resources boom (in 2011), an estimated 50 000 people worked under fly-in, fly-out (FIFO) arrangements in the Pilbara. This was significant given the Pilbara's residential population of only 66 000 people. FIFO workers in the resources sector included those also working in construction (during the investment phase) and delivering other services to mining communities (for example, chefs, cleaners, personal trainers, and health professionals). Over two-thirds of FIFO workers in Western Australia were sourced from the Greater Perth region, with the remainder from elsewhere in Western Australia, interstate and overseas.

Employment of FIFO workers spread the impacts of the Pilbara's investment boom more widely throughout Western Australia. High incomes of many workers brought benefits to the local regions. FIFO arrangements also enabled families to avoid relocating to areas where local labour markets were temporary, allowing their partners to continue accessing the broader employment market and their families to access services and lifestyles in urban regions. The end of the investment phase saw a decrease in FIFO workers (particularly in construction) and a resulting increase in the unemployment rate in some regions, including Mandurah and Rockingham.

Not all mining sector workers in the Greater Perth region were employed in a FIFO capacity. A relatively large proportion of mining workers lived and worked in the Greater Perth region and the Perth CBD, a long way from the major mining activity in the Pilbara.



Employment in Western Australia in 2011, by location and industry

Location of work		All industries	Mining industry	Construction industry
Greater Perth	%	96.6	65.9	92.7
(Perth CBD)	%	(23.4)	(43.1)	(11.5)
FIFO regions	%	2.5	29.8	5.1
Rest of WA	%	0.9	4.3	2.2
Number	no.	759 702	34 766	60 058

Adjustment from the mining boom presents challenges for some regions

Just as the investment phase of the mining boom was large and fast, so too has been the transition to the production phase. Greater labour mobility means that both source and host regions for mining labour are subject to transitional forces. The cyclical nature of employment (demand for certain skills at particular points in time) does not diminish the effects of job loss (or lower wages) for people who expected continued employment and high wages.

During the boom, housing prices skyrocketed from a median of \$200 000 in 2001 to \$800 000 in Karratha and over \$1 million in Port Hedland in 2012. The housing market then experienced a rapid re-adjustment following the end of the resources boom, falling significantly in a number of areas. Prices have returned to pre-boom levels, creating winners and losers in the process. Some people were provided finance to buy properties at peak prices with no deposit required. Mortgagee sales in regional centres have been large and some property investment groups have entered into liquidation.

Many mining regions are experiencing transition due to a re-adjustment to the production phase following the resources investment boom. But their large resource base and the expansion of capacity generated during the boom are likely to provide sound economic and employment opportunities for decades to come.

Some resource regions are in decline and many have below average adaptive capacity

A number of other mining areas are experiencing significant decline following the resources investment boom. For example, the Queensland Outback region (left panel, figure 6), which includes Mount Isa, has been adversely affected by lower metals prices, the closure of depleted mines, and declining ore quality. Current employment levels are significantly below those of the past. Mount Isa is one of Australia's largest mining towns, and is a significant regional centre for Queensland's vast north west. At the same time, other disruptions, such as drought, have had adverse impacts on agriculture (particularly cattle grazing) in the region. The future outlook for the region is likely to be significantly dependent on the identification of new commercial resource projects.

Most of Australia's mining regions were found to have below average adaptive capacity. Some common factors have been identified that have a negative impact on the adaptive capacity of mining regions. These relate primarily to natural assets, and the characteristics of the communities in the region as well as concentration of employers and activities.

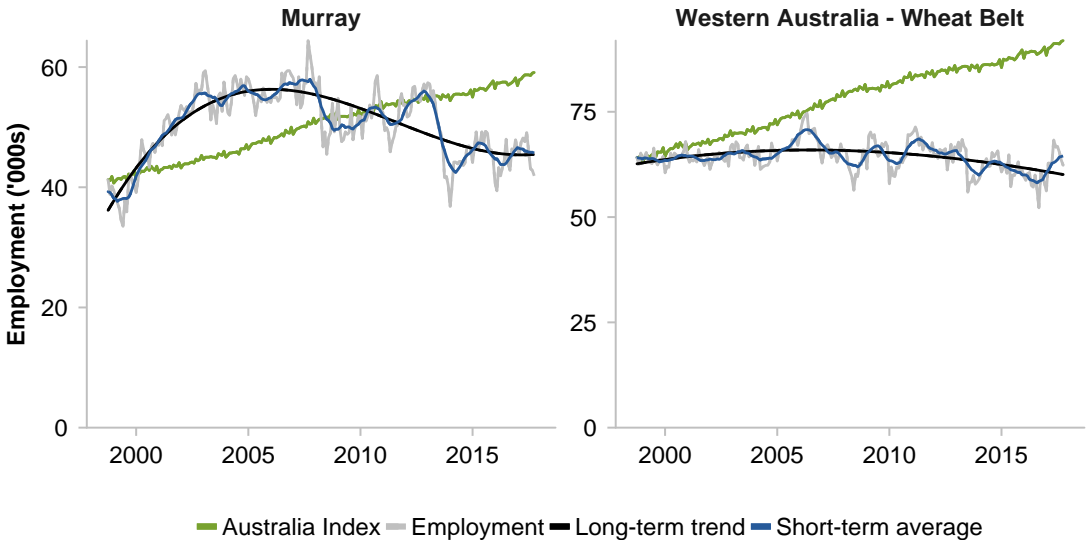
Regions where mines have high cost structures that are only economically viable during periods of relatively high commodity prices also face challenges during cyclical downturns. For example, in the Kimberley region of Western Australia, three mines that previously accounted for 30 per cent of gross regional product are now in care and maintenance.

The availability of mineral resources in these regions presents both challenges and opportunities. It provides a source of employment. Indeed, some towns were developed solely to service the mining industry (such as Leinster and Goldsworthy) and are unlikely to have existed were it not for the natural mineral endowments in the area. At the same time, this lack of industry diversity leaves communities exposed to a loss of mining activity. This is reflected in the estimation of the metric — as a region’s share of mining employment increased it had a larger negative effect on the index score. Notwithstanding the lack of industry diversity, many of the mining regions are not suited to other activities which at any rate would come at a cost to the principal mining activities.

Trends in agricultural regions

Falling employment in many agricultural regions (figure 7) does not necessarily equate to a decrease in the value or quantity of production or a fall in incomes. Employment is growing more slowly (or even decreasing) due to innovation and improvements in productivity. There are several sources of productivity growth, discussed below.

Figure 7 Illustrative trends in employment in agricultural regions



On-farm productivity improvements

Many agricultural products are sold on competitive international markets. The prices that primary producers have received for these products have often not kept pace with the increase in prices for the inputs used. These include wages paid to workers and the price and availability of water, fertiliser, seeds and chemicals. Partly in response to these pressures,

primary producers have lowered their cost of production through productivity and technological innovation. Farm sizes have increased significantly over time and more technologically advanced machinery and farm practices are being used.² These changes mean that over time, there are fewer farm owners, farm families and workers. Those remaining in the sector are operating larger-scale properties and more intensive operations to supply agricultural produce. Additionally, farmers are avid adopters of new technologies, including the use of drones and autonomous farm vehicles and sensors that can precisely measure the quantity of water and fertiliser that need to be applied.

Supply chain productivity improvements

Improvements in productivity have also taken place in the transport supply chain, from the farm gate to market. For example, larger trucks are used to move grain from farms to fewer and larger receival sites (or even direct to port), which are often located closer to main rail lines. This means more produce is moved using fewer workers, although, as recommended in the Commission's recently released *Regulation of Australian Agriculture* inquiry report, there remains much that governments could do to reduce the burden of transport regulations.

Trends in manufacturing impact on cities and towns

In 2016, the regions with the largest number of people employed in manufacturing were greater capital city regions, particularly Melbourne and Sydney. Over 160 000 people work in manufacturing in the Greater Melbourne region, representing 8.1 per cent of total employment. Manufacturing is also heavily concentrated within certain parts of capital cities, which tend to be outer-suburban areas which have more affordable land as well as significant pools of labour. At the SA4 level, Melbourne – South East, Sydney – South West, Adelaide – North, Logan – Beaudesert and Ipswich (Greater Brisbane) all have a high share of manufacturing employment (over 10 per cent).

The trends in manufacturing employment can have a significant impact on these areas, posing transitional challenges. Manufacturing pockets within cities are characterised by lower incomes relative to other locations of the city. However, overall, capital cities have a high relative adaptive capacity.

Consolidation of services from small towns to regional centres

The services provided by smaller towns, such as retail, banking and finance, machinery repairs, professional services, education, health, and cultural activities, have consolidated to larger regional towns and centres. Wagga Wagga in the Riverina (New South Wales) is an example of these changes (box 6). Again, these trends are driven by productivity, technological change,

² Although, as noted in the Commission's *Regulation of Australian Agriculture* report, the sugar industry has not followed this trend to increased economies of scale.

demography, personal choices and increasingly connected regions through trade in services. The ease of transport and the capacity to undertake transactions using the internet, mobile phones and satellite-based communications systems has facilitated this trend. There is also greater amenity associated with larger regional centres as well as access to a wider range of services (including schools, aged care services, hospitals and universities).

Box 6 Wagga Wagga and the Riverina region (New South Wales)

The Riverina is primarily a cropping region, with wheat (the major crop) grown along with rice, canola and barley. Over time, the region's population has increasingly centred on Wagga Wagga. The population of the region grew by about 11 500 people between 1991 and 2016, with Wagga Wagga growing by about 9500 (about 85 per cent of the Riverina's growth). Much of the remaining increase was in the next largest town (Griffith), while smaller towns remained stable or declined.

When initially settled, the population of the Riverina was more widely spread. A large number of small towns sprang up as service hubs to the surrounding farms. Wagga Wagga provided specialised services, and smaller towns offered machinery, fertiliser suppliers and marketing services for farm products.

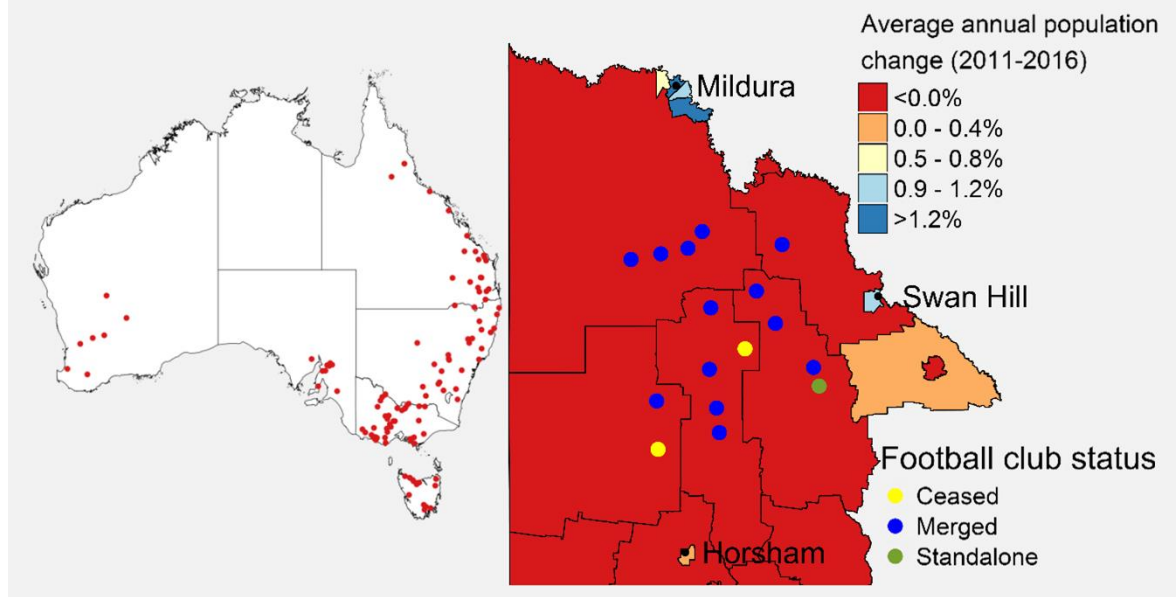
The advent of better personal transport (and roads) increased competition and trade between service providers in previously less commercially-connected towns. Such providers had to 'get big or get out', creating pressure to consolidate into fewer, larger centres.

As a result of centralisation, many nearby smaller towns have experienced population decline. For example, in Boree Creek the population has steadily declined in recent times to 199 people in 2016. That said, the experience of towns in the Riverina has not been uniform. For example, Junee has a correctional centre, providing an alternative employment base from traditional agricultural activities, and has staved off population decline.

There are now fewer people living in some smaller regional towns — a familiar story in the history of Australia's regions. Over the past century, many previously thriving regional towns have shrunk (box 7). When people and businesses leave a regional community to take up opportunities elsewhere, this often generates greater value and so increases the overall wellbeing of the Australian population. However, such changes can have adverse effects on the people left behind, who are likely to be older. Individuals who depart the region are often those who played key roles in the community, such as leading local sporting clubs and similar organisations. A shrinking of the population can harm a community's social and cultural life, and reduce local leadership expertise and skills. However, this is not a uniquely Australian phenomenon, with many OECD countries experiencing similar trends. It is a trend that cannot (and should not) be thwarted.

Box 7 Shrinking Australian towns

The ebb and flow of towns has been a feature in the history of Australia's regions. Numerous localities that were classed as towns in both the 1911 and 1961 Censuses, with a population of at least 500 in either Census, had populations of less than 200 by the 2006 Census. Population decline impacts on the social fabric of regions. This is exemplified by the closure and merging of football teams in the Mallee region of Victoria between 1997 and 2015.



Strategies for successful transition and development

A framework is set out here to guide governments – especially State and Territory governments – in assessing the scope for economic and social development in regions in the face of changing circumstances.

Governments can (and in most cases do) seek to modify the circumstances of a region so that members of the community can have a higher standard of wellbeing than otherwise. For example, Australian Government Financial Assistance Grants are provided to local governing bodies, taking into account their financial capacity to provide residents with an equitable level of services. On a per-capita basis, local governments in regional and remote areas receive substantially more than those in capital cities. In 2014-15, the range was from about \$21 per capita for some urban developed councils to about \$3350 for extra small rural remote councils.

All levels of government support people living in regions through the provision of services such as health, education, and community services, as well as infrastructure services (including transport and the National Broadband Network).

In assessing the scope for economic and social development in regions, three points should be borne in mind. First, a regional community does not collectively ‘decide’ to develop or

transition but does so organically. Most people in communities make decisions in their best interests, given the circumstances and opportunities they face, both in the region and elsewhere.

Second, regional economies are continually transitioning and adapting to pressures for change and new opportunities, not just those arising from large disruptions. Intervening to shift development from one region to another risks depriving one, as it favours the other.

Finally, governments have a finite capacity to facilitate local growth, and must balance this with promoting conditions for transition and development among all regions. It is expensive and generally futile for governments to try to artificially create and maintain an advantage for a regional community where such an advantage does not inherently exist. Time and again, grand scale interventions, or even less grand but persistent favouring of perennial candidates for support, have not delivered measurable benefits. In addition, government support *always* comes at a cost to people in Australia, as taxpayers must find the money.

In the absence of a rigorous assessment framework there is a great risk that policies and programs targeting economic and social development of particular regions will be ineffective, costly, and reduce national prosperity. Policies should instead focus on creating a general environment that supports growth across all regions. These policies should enable people and businesses in regional communities to make the most of available economic opportunities and to adjust to changing circumstances.

Principles for guiding the assessment of the scope for economic and social development in regions are set out in box 8.

Box 8 Principles for assessing the scope for economic and social development in regions

Assessing the scope for development in regions should involve:

- incorporating the views and knowledge of regional communities
- identifying and supporting a region's relative strengths (comparative advantage)
- identifying any unnecessary regulatory impediments to people or businesses taking up economic opportunities, or relocating (either within, or to other regions)
- considering the capabilities of people in regional communities and the region's connections with other regions and markets
- evaluating whether existing programs and strategies aimed at regional development (or adjustment) are effective and provide value for money
- embedding robust evaluation and transparent processes for policy/project proposals, which include clear objectives, identification and assessment of options, and monitoring and evaluation of outcomes
- considering the scope for private economic activity that is not dependent on ongoing government financial support (other than payments made under general taxation, social security and welfare policies).

Improving the scope for economic and social development in regions

The Commission has identified a number of reforms that would facilitate the transition and development of regions. These are set out below.

Removing unnecessary impediments to doing business

All governments can facilitate regional transition and development by removing regulatory obstacles that reduce flexibility and discourage people and business owners from taking up opportunities. Doing so creates an environment conducive to employment and growth, and facilitates the movement of labour and other resources between regions.

Impediments include unnecessarily complex and costly regulatory processes and regulations that restrict what people and businesses can do. The Commission has previously made recommendations to reform regulations affecting regional communities, including in relation to planning, zoning and development processes, environmental regulations, and occupational licensing arrangements (box 9). Removing unnecessary regulatory barriers is a ‘win-win’ policy option — these reforms are justifiable in their own right and also open up opportunities for people in regional communities to adapt to change. They should be pursued by all governments as a matter of priority. Failure to do so will unnecessarily increase the pressures faced by regional communities and constrain their prospects.

Removing unnecessary impediments to pursuing new opportunities

There are many reasons why people might not take up job opportunities that require them to change occupations or locations. These include personal and social reasons, such as family commitments, lifestyle preferences, a region’s social infrastructure and the costs of relocating. Changing occupations may also require workers to undertake education or training.

But there are also regulatory arrangements that can make it more difficult for people in regional communities to pursue employment or training opportunities and reduce the mobility of workers and their families, including:

- occupational licensing requirements
- land use planning restrictions (contributing to a lack of affordable housing)
- stamp duty (which contributes to the higher cost of buying homes).

Governments should carefully audit their programs to remove disincentives to mobility and/or the acquisition of new skills.

Box 9 **Removing unnecessary regulations to support regional development**

Regulatory impediments that prevent businesses from operating efficiently and taking up potentially profitable opportunities include:

- *planning, zoning and development processes* — complex and excessively prescriptive arrangements impose costs and delays on businesses seeking to expand or take up new opportunities in regions, including tourism-related developments. These problems were found in the Commission’s study on the *Relative Costs of Doing Business in Australia: Retail Trade*, its review of *Australia’s International Tourism Industry* and its inquiries into *Business Set-up, Transfer and Closure* and *Regulation of Australian Agriculture*, and were highlighted in the recent report, *Shifting the Dial: 5 Year Productivity Review*. Planning and zoning regulations also often fail to meet their objectives because they are not sufficiently adaptable for managing changing agricultural land uses. The quarantining of land for coal mining in the Latrobe Valley is another example of where planning regulation may be impeding development and adaptation in regional Victoria.
- *environmental regulations* — while essential to protect the environment, they can be unnecessarily onerous and complex, imposing excessive costs and discouraging regional development. In its inquiry into the *Regulation of Australian Agriculture*, the Commission found that native vegetation and biodiversity conservation regulations can have unnecessary costs on farm businesses and limit farmers’ capacity to adapt and to improve productivity.

There are other regulatory impediments that act to reduce mobility, making it difficult for people in regional communities to pursue employment or training opportunities. These include occupational licensing requirements, particularly where there are different arrangements across jurisdictions. Inefficient land use planning (including delayed release of land for development) and stamp duty on property also contribute to distorted housing costs. These may impede people moving between regions to take up new job opportunities.

Improving the effectiveness of planning and expenditure

Discretionary expenditure in regions is often ill-targeted

At the aggregate level, governments have spent, and continue to spend, very large amounts of money on regional programs (box 10). The Commission has not assessed the benefits of, and is not endorsing, the overall amount of regional spending. However, there is evidence that raises questions about whether these programs have successfully met their objectives and achieved value for money, and whether there is scope for governments to use regional funding more effectively.

Box 10 Government expenditure on regional programs**Australian Government**

As at May 2017, the Australian Government has committed an estimated \$20.9 billion in expenditure on regional programs. This is a conservative estimate, as it excludes concessional loan schemes and a number of programs with significant, but unspecified, regional components. Among these are the National Broadband Network (about \$30 billion to date) and the Melbourne to Brisbane Inland Rail Project (about \$8.4 billion).

State and Territory governments

Between 2008 and 2017, the WA Government's Royalties for Regions program directed over \$6.9 billion into over 3700 infrastructure and community projects.

The Queensland Government committed \$10.7 billion to capital works in its 2016-17 budget, with almost half (\$4.9 billion) being targeted at regional Queensland.

As at 30 June 2017, the NSW Government had committed or reserved a total of \$9.1 billion for regional programs and projects, consisting of \$3.8 billion in committed funding and \$5.3 billion in funding reserved for future projects.

Between 2014 and 2017, the Victorian Government reported having spent over \$8.5 billion on regional investment, and committed a further \$4 billion to regional investment from 2017-18.

There is also evidence (box 11) that expenditure in regions has not been well planned or evaluated, is insufficiently transparent and often poorly implemented. Regional programs and projects have often suffered from:

- unclear and inconsistent objectives
- expenditure decisions not following good processes and rigorous evaluation
- a lack of coordination and cooperation between governments, made more challenging by three tiers of government operating in this space
- strategic planning processes failing to identify and plan for significant risks, such as the likely closure of a major employer
- a lack of local capacity (trained staff) for rigorous strategic planning and evaluation
- inadequate data to support regional planning
- lack of a regional focus in planning processes.

Box 11 Examples of inadequate project assessment and evaluation**Regional Growth Fund (Victoria)**

In 2015, the Victorian Auditor-General found evidence of a lack of transparency and rigour, as well as inadequate monitoring, evaluation and performance reporting, in the Victorian Regional Growth Fund, which provided about \$570 million in regional grants during 2011–2015. The audit found that the \$295 million Economic Infrastructure Program kept no documentation of the pre-application process. In the context of a non-competing grant funding model, this absence of documentation contravened best practice guidelines and made it difficult to ascertain if Regional Development Victoria funded the best available projects.

Royalties for Regions (Western Australia)

In 2014, the WA Auditor-General reported a number of problems with Royalties for Regions project selection, monitoring, benchmarking and evaluation.

- Projects were submitted for Cabinet approval that did not clearly indicate outcomes to be delivered or demonstrate long-term sustainability.
- Since 2009, the Department of Regional Development (DRD) had been developing indicators to benchmark and measure the impact of projects against the six Royalties for Regions objectives, but these had still not been implemented.
- Not all Royalties for Regions projects were clearly aligned with one or more of the six Royalties for Regions objectives, and only half of project business cases reviewed complied with the DRD's requirement to include specific and measurable outcomes.
- At the time of audit, the DRD had completed only seven evaluations of Royalties for Regions projects, and these only reported on outputs delivered, rather than on whether they met their intended outcomes.
- The DRD had no monitoring system to oversee the progress of individual projects and of the overall program, despite over 3500 projects having been approved (at the time of audit).

Improve the effectiveness of planning and expenditure in regions

There is significant confusion, overlap and uncooperative rivalry between the Australian, State, Territory, and local governments in the pursuit of regional development. Over recent years the tendency for such confusion and rivalry has increased as the varying governments express concern that their expenditures are not sufficiently recognised by the populace. This is a worrying trend that should be addressed now. Political recognition is not a valid objective for good public policy. The Australian population expect and deserve good government at all levels, working cooperatively in the interests of the people of Australia.

Improvements to the way proposals for regions are identified and prioritised (and then linked to expenditure decisions) are essential for ensuring that funding to regions is directed in ways that achieve the greatest net benefit for the community.

The Australian Government should focus on national economic development

Although all tiers of government have a shared interest in regional development, State and Northern Territory governments are responsible for regional development and the establishment of local governments in their jurisdictions. Assessment of regional development strategies also need to recognise the unique circumstances of local regions and their communities. Central responsibility for regional development should reside with State and Territory governments, with support from local governments. For the Australian Government, to the extent that it has a role, it should be a supporting one.

Over recent years successive Australian governments have encroached more into regional policies that should remain with the states and territories. There appears to be little economic benefit from the Australian Government pursuing independent regional development strategies. By returning to its core business, the effectiveness of the State and Territory governments in delivering regional programs can more readily be assessed. This would also reduce the scope for blaming another jurisdiction for failures of policy development and implementation.

Instead, the Australian Government should focus on national economic development through policy settings that have broad application across regions. National policy settings in areas such as education, health, communications, defence and trade, as well as the ‘built-in’ distribution of funds across regions (such as Financial Assistance Grants for local governments’ service delivery) have a significant impact on development in regions. As such, it is important that the Australian Government works effectively in collaboration with all tiers of government to ensure that services meet the needs of people living in regions.

Only in rare circumstances does there remain a case for the Australian Government to provide additional support. For example, to assist regions that have been affected by a severe negative economic shock and for which existing support mechanisms are demonstrably inadequate (discussed later). This happens rarely in Australia.

State and Territory governments should play a lead role in facilitating transition and development in regions

Improvements to the way proposals for regions are identified and prioritised and then linked to expenditure decisions of governments are essential for ensuring that funding to regions is directed in ways that achieve the greatest net benefit for the community. To achieve this, State and Territory governments should:

- develop definitions of regions based on FERs to be used for regional strategic planning purposes, and align relevant regional boundaries to these FERs
- ensure that a regional entity is responsible (and has sufficient capacity and funding) for developing and publishing a strategic regional plan that identifies priorities for development and transition in each FER

-
- direct any discretionary funding for regional development or transition to the priorities of regions identified in a regional strategic plan — all decisions to fund regional programs should be transparent, including prior publication of cost–benefit analyses
 - enhance cooperation and collaboration, including by pooling of funding with local governments for regional projects.

Better targeting State and Territory government regional expenditure to the priorities identified through rigorous planning

It is important that any discretionary government expenditure for the development of regions is clearly linked to the priorities of regions as identified in a regional strategic plan, underpinned by rigorous public assessment, selection and evaluation processes. This includes expenditure from grant programs, such as regional growth funds, which are often administered on an ad hoc basis by the State or Territory government department or agency responsible for regional development. This would better align regional development expenditure by State and Territory governments with the priorities that deliver the highest benefit to regional communities.

Funding decisions by governments should be open and transparent, including prior publication of detailed cost–benefit assessments and explanation of the selection of projects across regions, as well as public evaluations of alternative proposals for achieving the same objectives.

It is also essential that local councils are aware of and have the capacity to fund any commitments to ongoing maintenance and operating costs associated with the project.

The selection of large regional development projects would be further improved by building on the work of Infrastructure Australia and state-based infrastructure advisory bodies. This would help governments prioritise infrastructure projects between regions and systematically embed transparent, rigorous infrastructure investment processes in governments' decision making.

Where governments choose to pursue regional projects or activities that are inconsistent with the priorities identified through rigorous regional planning processes or independent infrastructure advisory bodies, governments should provide a public justification for how and why the project was selected. Ultimately, expenditure decisions are the responsibility of governments and relevant Ministers. However, they can be made more accountable for their decisions through openness and transparency.

Specific national adjustment assistance

On rare occasions, the impact of economic changes and transitions may place a disproportionate burden on some groups of people. Some workers may become unemployed, some firms may go out of business and some towns may disappear or decrease significantly

in size (as has been the case throughout Australia's history). This can have significant social impacts on people in regional communities.

However, governments cannot, and should not, shield people in regional communities from all possible adverse events or ongoing pressures. There will always be some people who are disproportionately affected by change. Businesses may close and move elsewhere, and workers may become unemployed and relocate in search of work. Some people might find it difficult to obtain employment elsewhere because their skills are no longer in demand, or because there are limited job opportunities in the region in which they have chosen to live. And some regional communities face ongoing challenges due to disadvantage. The fairest and most equitable way to support the many thousands of Australians who experience involuntary job loss every year is through the social security, tax, training and job services systems.

On rare occasions, the existing social security, tax, training and job services systems are insufficient, and without further government interventions, the most vulnerable people in regional communities experience such severe, pervasive and persistent changes that there is a strong likelihood of them becoming permanently disadvantaged. In these circumstances there is a case for additional support for individuals. However, assistance should be targeted based on the principles in box 12.

Box 12 Principles guiding the rare application of specific adjustment assistance

The case for specific adjustment assistance is strongest when policy and market adjustments are unanticipated and impose a clear and sizable burden on a specific disadvantaged group, and the general safety net arrangements are demonstrably inadequate.

When assistance is provided, it should:

- facilitate change for affected individuals
- be targeted at those groups for whom adjustment pressures are the greatest
- be transparent, both in policy and administration
- be of limited duration
- be compatible with the general safety net arrangements.

Additional support could involve targeted and time-limited training assistance and provision of information on industry needs and employment opportunities. It is important that any targeted support facilitates change and helps people adapt, instead of preventing change from occurring. Past assistance to specific industries or firms in regions, to support investment in infrastructure and preserve jobs, has often been costly and ineffective. Such assistance can also give false hope to people and businesses by signalling the long-term health and prosperity of particular industries. This can discourage workers from acquiring new skills, thereby reducing their future employment prospects, and gives businesses less incentive to become more innovative and productive and to plan for the future.

There will be instances where regions face continued decline in employment and economic activity that cannot be feasibly reversed. In such cases, governments' efforts should be directed at managing family and labour mobility, facilitating movement and ensuring that residents who remain in a region have access to a minimum level of services. Inevitably this cannot mean that services will always be provided within all towns or at the same level as might be expected in major urban or regional centres. Like all sound policies, regional adjustment should not promise what it cannot deliver sustainably.

Findings and recommendations

FINDING 2.1

Australian, State and Territory governments already have a suite of existing arrangements aimed at redistributing resources across regions, achieving service delivery objectives and planning for regional transition and development.

There are also generally available measures provided to assist people and businesses across all regions when faced with economic disruptions, under the social security, tax, training and job services systems.

Assistance beyond these arrangements should be rare, occurring in response to extreme circumstances that strongly portend the development of permanent disadvantage in a regional community, and that cannot be addressed by existing arrangements. Additionally, such assistance should be designed carefully to ensure that it is only temporary.

FINDING 2.2

There is no single approach to assessing the scope for economic and social development in regions. However, assessments should be guided by the following principles.

- Incorporate the views and knowledge of regional communities.
- Consider a region's relative strengths and inherent advantages.
- Identify barriers to people or businesses relocating, either within the region, or to other regions.
- Identify unnecessary regulatory impediments to people or businesses taking up economic opportunities.
- Include robust and transparent evaluation of existing programs and policies.
- Include rigorous strategic regional planning and cost–benefit analysis of any proposed programs, policies or strategies.
- Consider the scope for private economic activity that is not dependent on ongoing government financial support (other than payments made under general taxation, social security and welfare laws).

FINDING 3.1

All Australian regions experience significant variation in their growth in employment, with many having occasional periods of negative growth. Even so, most regions (67 out of 87 SA4 regions) have seen net increases in the number of employed persons over the five years to October 2017. Many regions with low rates of employment growth have a large agricultural base.

FINDING 3.2

Almost all regions have experienced growth in average personal incomes over the four years to 2014-15.

Incomes in agricultural regions grew faster than in mining regions in the period immediately following the end of the mining construction boom (between 2012-13 and 2014-15).

But incomes in 2014-15 generally remained higher in mining regions compared with agricultural regions.

Income growth in greater capital city areas has varied across Australia, but income levels in capital cities are, on average, higher than in other regions. Across capital cities, growth in incomes between 2010-11 and 2014-15 was highest in Perth and Darwin. Perth and Darwin also had higher average incomes compared with other capital cities.

FINDING 3.3

Regions with an economic base concentrated in manufacturing tend to have declining employment in manufacturing consistent with the inexorable rise in service industries and desirable shifts in technologies. Many of these are sub-regions within greater metropolitan areas of capital cities and have demonstrated adaptability in adjusting to declining manufacturing employment.

FINDING 3.4

Mining regions continue to have high incomes and have substantially more people employed than prior to the boom. Many regions with a high concentration of activity based on mining have transitioned well from construction to production following large expansions in capacity during the mining investment boom.

However, mining operations in regions that are smaller in scale, are economically marginal or are approaching the end of their economic lives have been most affected by the end of the high-price cycle.

FINDING 3.5

Mobile labour (such as fly-in, fly-out workers) was instrumental in meeting the high demand for workers during the investment phase of the resources boom, and helped to spread the benefits of the boom to other regions.

Many of the workers employed in the investment phase lived in regions outside mining areas, such as capital cities and other regional centres, or temporarily lived in the region. In addition, many mining workers work in capital cities and their greater metropolitan areas.

The natural completion of the high mining investment phase has affected labour markets and economic conditions across the country, particularly in Western Australia but also in many regions outside of traditional resources areas.

FINDING 3.6

Efficiencies and technological innovation are generating higher levels of agricultural production using less labour. This is driving a long-term trend of lower employment in agricultural regions. There is also a pattern of consolidation from smaller towns to larger regional centres, which affects the social fabric of these communities.

FINDING 3.7

Capital cities have experienced high population growth over the past 25 years. Growing demand for services and large increases in knowledge-based service employment has resulted in demographic change in Australia's largest cities.

Many smaller cities and regional centres have also grown (in some cases more quickly than capital cities) due to movements of people from inland regions and the migration of families and retirees from capital cities. Connectivity to large cities and proximity to the coast are important drivers of the wellbeing of those living in smaller cities and regional centres.

FINDING 4.1

The Commission's index of relative adaptive capacity is based on a widely accepted methodology. The metric can be used as a litmus test to identify regions which may find it difficult to adjust to significant economic disruptions.

However, caution is required in interpreting the metric and using it as a basis for policy making. A single metric of relative adaptive capacity cannot fully capture the unique attributes of each regional community. Further, the metric does not predict the likely outcome of a region to a shock, which is based not only on the region's adaptive capacity but also the nature of shocks it faces, the options available to people affected, and the decisions that they make.

FINDING 4.2

The proportion of regions in the least adaptive category increases with the degree of remoteness. About 659 000 people (or 3 per cent of the population) live in the least adaptive regions. In contrast, nearly 16 million people (66 per cent of the population) live in the most adaptive regions, which are concentrated in major cities.

FINDING 4.3

The main factors shaping the index value of relative adaptive capacity for each region relate to:

- people-related factors (including educational achievement, employment rates, skill levels, personal incomes and community cohesion)
- the degree of remoteness and accessibility of infrastructure and services.

FINDING 5.1

Governments can primarily facilitate successful development by removing unjustified or excessively burdensome regulations that impede people and businesses from taking advantage of opportunities. Significant benefits would arise from expediting regulatory reforms in land use planning and development, environmental, agriculture-related regulation and occupational licensing.

These ‘win-win’ reforms benefit all regions but are particularly important to regions that do not have the advantages and range of opportunities found in capital cities and major regional centres.

FINDING 5.2

Substantial funding has been devoted to regional programs by successive Australian, State, Territory and local governments over many years. The effectiveness of these programs in facilitating development in regions is unclear, largely due to a lack of robust and transparent evaluation.

There is scope to achieve considerably improved outcomes for regional communities by changing the way regional programs are designed and delivered. Fundamental to this is applying rigorous and transparent processes for choosing, implementing, and evaluating regional spending.

Failure to set out clear objectives, build capacity and adequately plan for new spending risks regional communities missing out on opportunities and taxpayers’ funds being squandered.

FINDING 5.3

Strong and effective local leadership is critical in developing and implementing regional development plans. There is a case for State and Territory governments to build capacity in leadership of regional institutions and community groups and to ensure these entities can attract skilled leaders.

FINDING 5.4

States and the Northern Territory are responsible for regional development and the establishment of local governments within their jurisdictions. Assessment of regional development strategies needs to consider the circumstances of local regions and communities. Although all tiers of government have a shared interest in regional development, central responsibility for regional development best resides with State and Territory governments, supported by local governments.

RECOMMENDATION 5.1

The Australian Government should abolish the Regional Development Australia program.

RECOMMENDATION 5.2

Current discretionary funding allocated by the Australian Government specifically to regional development (such as funding for regional grant programs, City Deals and the Northern Australia Infrastructure Facility) should be subject to independent, rigorous and transparent evaluation.

Where discretionary regional programs are found to have significant net benefits, the Australian Government should transfer responsibility to the relevant states and territories consistent with their primary roles in regional development. Where the programs do not have significant net benefits they should be abolished.

RECOMMENDATION 5.3

State and Territory governments, in consultation with local governments and communities, should develop a single consistent definition of Australia's regions to be used to inform regional development planning and policy.

Regions should be based on functional economic regions, so as to take into account the stronger linkages and interdependencies between neighbouring communities.

State, Territory and local governments should adopt these classifications for guiding regional policy and planning.

RECOMMENDATION 5.4

State and Territory governments should ensure that each functional economic region has a nominated entity that:

- is responsible for developing a credible regional strategic plan that identifies the capabilities and attributes of the region and, where relevant, identifies priority actions and projects for facilitating transition and development in the region
- is sufficiently resourced and capable of developing high-quality business cases for proposed regional initiatives
- has representation from the relevant State, Territory and local governments, businesses and the regional community
- utilises and incorporates past planning priorities where they have been soundly and rigorously developed.

RECOMMENDATION 5.5

State and Territory governments should direct discretionary expenditure for regional development (for example from regional growth funds) to areas that have been identified as priorities in a published regional strategic plan.

Decisions should be transparent, including publication of cost–benefit assessments. For major regional infrastructure projects, decisions should be informed by the work of Infrastructure Australia and state-based infrastructure advisory bodies.

Where governments choose to pursue projects that have not been assessed as a priority by infrastructure advisory bodies, or are inconsistent with the priorities of regions as identified in strategic plans, governments should provide a public justification for why these projects have been selected.

FINDING 5.5

Decentralising public sector agencies imposes costs and risks on governments, taxpayers and users of government services. These risks include a loss of efficiency and service quality, and difficulty sourcing specialised skills and expertise.

Although decentralisation has the potential to increase employment in target regions, in most cases it simply redistributes economic activity across regions. As a regional development strategy, decentralisation is unlikely to make a long-term, systemic difference to regional growth and resilience.

FINDING 5.6

Generally available welfare, training and employment measures promote fairness and equity and are usually the most effective means for facilitating transition. Assistance that creates false expectations about the future success of a particular business, industry or region can lead to confusion and reduce individuals' incentives to plan and adapt to changing circumstances.

Past assistance to industries and regions has often been costly, ineffective, counter-productive, wasteful, poorly targeted and inequitable.

RECOMMENDATION 5.6

Specific adjustment assistance (beyond generally available measures) should be reserved for extreme events that are likely to result in high levels of permanent disadvantage in a region. It should be targeted to the people who are least likely to make a successful transition and be focused on improving their employment prospects.

Assistance designed to sustain regions or industries (as distinct from individuals) should be avoided. Assistance should be designed to facilitate movement towards explicit and transparent adjustment goals, which might be a path of managed decline.