5-2011

Inventing the Future: People, Projects, Productivity – Where to from here? Regional Development

Department of Primary Industries and Regional Development, Western Australia

Andrew Murray[1]
Chair Western Australian Regional Development Trust
Tuesday 30 August 2011 15 minute address and a panel session; 10h30-14h00 Parmelia Hilton Perth

An address for the Committee for Economic Development of Australia's *Inventing the Future Series*, seeking to discuss long term policy issues within Western Australia

Inventing the Future: People, Projects, Productivity – Where to from here?

Regional Development

Distinguished guests, my thanks to the Chamber of Minerals and Energy and CEDA for asking me to address today's question: *'Where to from here?'*

'Where to from here?' is a bigger political and policy question than we sometimes acknowledge. It is a social as well as an economic question.

Of all the political parties, the Greens challenge the direction and nature of growth and development the most.[2] As William Bowe puts it:

> *[Australian] Greens members owe their seats to the approval of a broader ideological and policy program at odds with many of the consensus viewpoints of the major parties.*[3]

One party that is partly on a different direction, but mostly on a better means of getting there, is the WA Nationals. They have given regional development much more momentum.

The *Royalties for Regions Act 2009* (Act) delivers a dedicated secure ongoing income stream for regional development, by taking 25 percent of state royalty income every year for expenditure by the Royalties for Regions Fund.

This funding mechanism means far greater regional expenditure is possible than ever before; and because this policy is bipartisan, legislated, and its funding is guaranteed, it allows for sustained long-term regional policies and programs to be devised.

Very few people have grasped what this really means.

Western Australia's royalty income is estimated at $4.8 billion for 2011-12;[4] 25 percent of that is $1.2 billion.

---

[1] Andrew Murray BA Hons (Rhodes) MA (OXF) is the Chair of the Western Australian Regional Development Trust. He is a Rhodes Scholar and former businessman who was a Senator for Western Australia 1996 to 2008.

[2] Andrew Murray *Getting to grips with minorities;* The Institute of Public Administration Australia's Annual National Conference Thursday 25 to Friday 26 August 2011 Hotel Grand Chancellor Hobart Tasmania, with the theme *Learning to Power Share*.

[3] William Bowe: *Green Members in Green Chambers: The role of the Australian Greens in government formation. Australasian Parliamentary Review*, Autumn 2010, Vol 25(1), 137-49.; referencing Kate Crowley *Strained Parliamentary Relations: Green-supported minority government in Tasmania, Australasian Parliamentary Review*, 2003, Vol 17 No. 2, 55-71.

[4] $4,794 billion Government of Western Australia 2011-12 Budget Paper No 3 Economic and Fiscal Outlook Table 1 page 73.

Anticipating forward royalty income conservatively, $1 billion Royalties for Regions income per year for ten years is $10 billion.

Royalties for Regions has a significant leverage opportunity, by partnering with federal and state agencies, and the private sector, to work collaboratively with regional and remote country communities for them to grow and develop.

$10 billion over ten years spent regionally under Royalties for Regions will create a multiplier effect by bringing forward regional expenditure by other state agencies that either would not have occurred or would have occurred later; similarly from the Commonwealth; and from the corporate and the not-for-profit sector, which includes those entities forecast to benefit by billions from native title agreements.

At present we can only guess at the multiplier effect, but it looks reasonable to assume it is at least two times, and if it was five times it would mean $50 billion more invested in country Western Australia over ten years, than would otherwise have been spent.

Not only have most commentators not grasped either the longevity or the quantum Royalties for Regions represents, but they have not grasped its message.

Some conceive Royalties for Regions as a form of horizontal fiscal equalisation whereby Western Australia's government provides finance to reduce inequalities in Western Australia's regions arising from their distance from Perth and their differences in geography, demography, natural endowments and economies.[5]

Royalties for Regions is much more than just a regional catch-up-on-the-backlog policy. It is much more than just a catch-up-to-Perth-services program.

As it is developing, Royalties for Regions and regional development is emerging as a transformational state-building philosophy, an aspiration to develop this vast state to realise its potential, increase and grow its aggregate wealth, and to enhance the well-being of its people.

This intent can almost certainly be made a reality because of the 'bourgeoisification' of China and India, and the great and growing appetite for our mineral resources, food, and other goods and services.

I can only agree with Dr Martin Parkinson, who recently said: "*I am continually surprised that Australian investors have not yet realised the potential benefits of this new middle class for our agricultural industries*."[6]

Judging by their recent interest in acquiring Western Australian farms, Chinese investors do realise the potential benefits.

[5] In this context, for a discussion on horizontal fiscal equalisation and local government funding and spending, see the Senate report of June 2011: *Reform of the Australian Federation.*
[6] Dr Martin Parkinson, Secretary to the Treasury, 30 June 2011: Gala Address to the Melbourne Institute Economic and Social Outlook Conference SUSTAINING GROWTH IN LIVING STANDARDS IN THE ASIAN CENTURY page 9.

All eyes are on mining at present, but greater food exports represent a huge opportunity. Western Australia would benefit if new sustainable farmlands could be opened up.

Whatever that opportunity, there are challenges to its realisation.

Green tape is a big hurdle to be got over; native title takes a long time to resolve, but it is water that is often the biggest challenge to regional development. A lack of adequate water data can and does affect significant development proposals.

I have the advantage over many of having travelled WA's regions looking at regional development for over two decades. In my present role as Chair of the Western Australian Regional Development Trust, in traversing the nine regions and talking to community leaders I have found that Royalties for Regions is popular valued and appreciated.

It has already significantly lifted the amenity and facilities of many regional villages' towns and cities, and I would describe its effect on the Pilbara cities as transformational.

Royalties for Regions is not Canute-like trying to turn back the FIFO[7] hordes, but it is increasing the likelihood of sustainable growing and permanent populations that will not just live for a while in those northern towns and cities, but die there.

Despite the efforts so far, there is no indication of a general acceptance in media, political, bureaucratic, academic, business and community circles that regional development (both in Western Australia and nationally) is a long-term policy and not a passing political fashion, and that there not only can be but will be significant and sustainable investment creating growth in Western Australian country towns and cities, and in WA's rural areas.

If you think it hard trying to get metrocentrics in Perth switched on to regional development in Western Australia, it is nothing compared to getting the East on-side. Bernard Salt says a Great Divide still separates heartland eastern Australia from frontier Australia.[8]

While pessimists fear busts will crash northern hopes, sceptics think diversified sustainable northern economies impossible, and cynics call southern regional spending pork-barrelling, investors and optimists are giving regional development its own momentum.

There are also pressures to respond to. Demographers are expecting our population to double. That means the regional populations will also double.

We all know China, India and the developing world offer growing opportunities for Western Australia, which will create more jobs skills and wealth. The burgeoning global middle class of the developing world signals likely demand for WA's food and fish, resources, and tourism, and hopefully other goods and services.[9]

That demand will need leadership investment and innovation to satisfy it.

---

[7] Fly-in-fly-out.
[8] Bernard Salt - *The Australian* 28 May 2011.
[9] Commonwealth Budget Paper No 1 2011-12 Budget Strategy and Outlook: Statement 4 Opportunities and Challenges of an Economy in Transition.

There are attitudinal impediments to overcome. Unreasonable pessimism is one. There are those who so fear the effects of poor political and policy performance, terms of trade changes, slower Chinese growth, a too high Australian dollar, falling productivity, and ongoing global financial social and economic pressures, that they think Australia's prospects gloomy over the longer term.

Opposition exists to particular developments, and in some sectors to any development.

Then there are those who not only think a resources bust is coming but that any downturn will be permanent; this despite the sustained long term growth we have experienced and the demand that is forecast to continue.

Many do not distinguish between price and volume. High resource prices result from demand exceeding supply. As supply lifts prices will indeed fall, but the huge investment in added resource capacity in Western Australia confirms that investors are certain high volume demand will continue.

Back to the money.

Such large sums as will be spent regionally in Western Australia need to be strategically spent to get maximum effect and to deliver value for money. As the Commonwealth Auditor General has stressed, this has not been easy to achieve elsewhere.[10]

Regional development in Australia has never been entrenched as core government business like health or education, so experience is still being gained.

Past expenditure in regional Australia has been erratic. It has been reactive and project-based, and not designed to achieve state-wide productivity gains, growing settlements, or defined wealth and job creation outcomes.

Both nationally and in Western Australia we do not yet have sufficient evidence or experience in regional development to draw firm conclusions as to what particular combination of expenditure policy and programmes will produce the best outcomes in regional development.

The regional development policy framework can be improved, sourced from Western Australian, Australian and international evidence experience and outcomes.

Its state-building potential and its multiplier capacity are not yet well understood, nor the potential to develop and satisfy regional human capacity and needs.

[10] The Commonwealth Auditor-General says that soft areas in agency management include
- insufficient mechanisms to ensure value for money;
- insufficient active management of programs by senior executives;
- inadequate performance reporting as programs proceed; and
- performance reporting focussed on program efficiency and effectiveness can be thin or non-existent.

Public Sector Accountability Ian McPhee Auditor General for Australia CPA Australia International Public Sector Convention Melbourne 11 March 2011, pages 4-5.

Broadly speaking, you can summarise regional development as building physical capacity, and building human capacity. You can build infrastructure in a few years, but taking a pre-schooler to a proficient 'tradie' takes two decades.

Leadership development; skills development and retention; entrepreneurial and innovation development; addressing unemployment and under-employment and excess capacity; and addressing the needs of new regional populations resulting from regional development are all areas of importance to regional and rural human capacity building.

It is not surprising that Royalties for Regions expenditure to date has been stronger on building physical capacity than on building human capacity. Given the pressures for infrastructure 'catch-up', this has been the right priority.

International evidence indicates that to be effective, regional development is a long-term endeavour. OECD[11] evidence is that effective regional policies should provide infrastructure as part of an integrated regional approach; invest in human capital; emphasise innovation, research and development; and, focus on integrated regional policies.[12]

Money is not the only thing needed to accelerate regional development.

The principle of subsidiarity is much more espoused than practised. As the Barnett-commissioned Economic Audit[13] indicated, regional development will advance best if not just regional service delivery is improved but if regional decision-making and planning takes over from Perth decision-making and planning wherever sensible.

That same Economic Audit rightly lauded attention to productivity and efficiency and to breaking down the silos that so obstruct government agency coordination.

---

[11] 34 leading counties constitute the Organisation for Economic Co-Operation and Development.

[12] In an Organisation for Economic Co-Operation and Development March 2009 Policy Brief *How Regions Grow* p6, the OECD outlined some broad principles for successful regional development policies. These are as follows (italics added to emphasise the importance of developing human capacity):

- **Provide infrastructure as part of an integrated regional approach**. The analysis suggests that *infrastructure alone has no impact on regional growth unless regions are endowed with adequate levels of human capital and innovation*. In other words, *infrastructure is a necessary, but insufficient, condition for growth*. The analysis also reveals that it takes about three years for infrastructure to positively influence growth.
- **Invest in human capital.** *Regions with well-educated populations will grow.* Investments in tertiary education take about three years to have a positive impact on regional growth.
- **Emphasise innovation and research and development.** Investments in R&D have a positive effect on patent activity in all categories, as do R&D expenditures by businesses, the public sector, higher-education institutions and the private non-profit sector. However, innovation is a longer-term process and appears to have a positive influence on regional growth only after five years. The analysis suggests that *as capital and talent agglomerate, they tend to positively influence growth in neighbouring regions.* However, innovation remains a highly localised element.
- **Focus on integrated regional policies.** Agglomeration economies are partly responsible for regional growth. *Sources of growth from within regions, such as human capital and innovation, are more important than a region's physical distance from markets*. Although a region with good accessibility to markets has an added advantage, *its growth depends on the presence of human capital, innovation, infrastructure and economies of agglomeration*. Regions perform well when local actors in a regional innovation system can communicate easily with each other. Indeed, one region's performance strongly influences neighbouring regions, suggesting that inter-regional trade and inter-regional linkages play an important role in regional growth.

[13] *Putting the Public First Partnering with the Community and Business to Deliver Outcomes;* Final Report of the Economic Audit Committee Perth October 2009.

On that front, one country business leader forwarded an email that said:
"Potentially some developments I have to contend with…
3 levels of Govt…local. state, federal
2 commissions…local development commission, state planning commission
9 govt departments…planning, local government, regional development, water, health, education, transport, main roads, environment & conservation
2 authorities…EPA, FESA
3 utilities…western power, water corp, alinta
Landcorp
Plus some specific area development authorities (eg Pilbara cities) and more recently Regional Development Australia now that they have been allocated some funds.
That's 22 different agencies of Government."

Evidence-based policy implies perfect information, but governments can't hang about, and judgements have to be made on the best available information, even if incomplete.

While the guide to regional development policy is broad – section 4 of the Act states that the Royalties for Regions Fund is to be used *to promote and facilitate economic, business and social development in regional Western Australia* – section 9 of the Act is more specific as to the direction of expenditure required:
(a) to provide infrastructure and services in regional Western Australia;
(b) to develop and broaden the economic base of regional Western Australia;
(c) to maximise job creation and improve career opportunities in regional Western Australia.

In fulfilling the requirements of the Act, at present Royalties for Regions and regional development policy priorities and strategies are determined by six government requirements: Building capacity in regional communities; Retaining benefits in regional communities; Improving services to regional communities; Attaining sustainability; Expanding opportunity; and, Growing prosperity.

Ministerial judgement and Royalties for Regions decision-making is assisted by extensive community input, by sound departmental processes, by cabinet approvals for all proposals and by parliamentary and public scrutiny.

Decision-making is not assisted by a lack of well-developed and holistic strategic local and regional plans. Steps are being taken to address this.

Key to successful sustainable and effective regional development is regional capacity building and regional decision making which finds expression in an integrated comprehensive strategic plan for each sub-region and region.

The broad vision is to create growth opportunities, address market failure, build regional capacity, and remove barriers to growth in ways that reflect the needs and goals of the regions and regional communities themselves, as well as the state as a whole.