

MESSAGE FROM THE CHAIR

December 2015

The Hon Scott Morrison MP
Treasurer, Parliament House, Canberra ACT

Dear Treasurer

Regional Capitals Australia (RCA) is pleased to present this submission for consideration in the preparation of the 2016-17 Federal Budget.

RCA understands the challenges of the current fiscal environment and the difficulty in preparing a Budget that fulfils the Government's commitment to return the Budget to surplus within ten years. Investing in Regional Capitals presents a valuable opportunity to capitalise on Australia's unique strengths and improve overall productivity.

Regional Capitals Australia is an alliance of 30 local government associations across the nation, representing Australia's regional cities. Regional capitals are home to almost four million people and service the needs of another four million Australians who live in surrounding areas, jointly generating \$225 billion per annum, or more than 15 per cent of national economic activity. Regional Capitals perform a 'capital city' role within their regions, providing a central point to access essential infrastructure, services, business, employment and education. These services and infrastructure are accessed by local residents as well as those in surrounding towns and rural areas.

Infrastructure is a vital concern for regional capitals leaders. In RCA's membership survey conducted in April of this year, respondents were asked to identify the level of importance of various federal policy areas to their region, and the vast majority of respondents (95 per cent) listed infrastructure investment as **very** important, followed by support for education and skills development and communications infrastructure. Infrastructure includes traditional 'hard' infrastructure as well as 'soft' services such as essential liveability-promoting assets.

RCA acknowledges that there was a one-off doubling of Roads to Recovery funding in the most recent Budget, however it should be noted that socially and economically progressive regional capitals require more than investment in roads. Long-term, planned and forward-looking funding arrangements across the infrastructure spectrum are required in place of ad-hoc one-off funding rounds.

Regional Capitals Australia applauds the Government's creation of a Cities portfolio in acknowledgement of cities' many economic social and cultural contributions, but calls for full resourcing of the portfolio to recognise the role cities play in attracting key workers and industries to Australia's regional capitals.

RCA welcomes the Government's commitment to regional connectivity as part of its programs in the recent Innovation Agenda and looks forward to working with the government to promote innovation in our regions.

Building a stronger economy in the coming years requires discipline and difficult choices, and Regional Capitals Australia stands ready to work with the Government to deliver an agenda increasing Australia's productivity and international competitiveness.



Mayor Deirdre Comerford
Chair, Regional Capitals Australia

POLICY FRAMEWORK

Regional Capitals have the potential to play a critical role in the future prosperity of Australia. For this to happen, a national regional capitals policy framework is required.

The objectives of this framework should be to build Regional Capitals' capacity to:

- Increase population
- Increase productivity; and
- Increase liveability.

The key elements of this policy:

- Infrastructure for better economic outcomes and social amenity;
- Communication technology for better domestic and international connectivity; and
- Education and skills pathways to create jobs of the future and ensuring that regional Australians do not get left behind.

ECONOMIC AND SOCIAL INFRASTRUCTURE

Continued investment in economic and social infrastructure is the most important issue facing the sustainable growth of regional capitals today. Recognising the strategic importance that regional capitals have in Australia's future, and investing accordingly can add billions of dollars to Australia's economic output.

Australia's four largest cities are projected to grow by about 45 per cent by 2031, with this growth continuing to create social pressures on the swelling suburban fringes. Australia's regional capitals have the capacity to share in this projected population growth, and with this growth can increase economic output, filling skills gaps and contributing to a diversified local economy.

Australia's burgeoning population will persistently put pressure on the infrastructure needed to connect workers to jobs in major metropolitan cities. The 2015 Infrastructure Australia Audit found the overall quality of Australia's infrastructure lags behind comparable nations, with a congestion cost of \$53 billion by 2031. The Business Council of Australia and Infrastructure Partnerships Australia estimate Australia's current infrastructure deficit at anywhere between \$450 and \$700 billion.

Compared to the metropolitan infrastructure deficit, the return on investment for regional infrastructure makes it surprisingly affordable. The Regional Australia Institute estimates that the backlog in regional capitals infrastructure at \$15 billion, between 2-3 per cent of the national deficit.

Infrastructure is not consistently funded in Australia. Multiple levels of government handle 'soft' and 'hard' infrastructure under a plethora of different funding arrangements, and there is a dearth of data available to analyse funding patterns. The majority of infrastructure funding provided to regional capitals is to address urgent repairs to decaying or dangerous infrastructure, not to generate economic activity or support and encourage population growth. The only predictable source of funding is the Black Spot program and the Roads to Recovery program, and while RCA acknowledges the one-off doubling of Roads to Recovery funding in the latest budget, this does little to address the need for consistent and reliable infrastructure funding streams for Australia's regional capitals.

Infrastructure is more than just roads and bridges. Services such as higher education and skills training are vital to economic growth. Workers in regional capitals are 6 per cent less productive than the national average, caused by lower educational attainment and less economic diversity. Addressing skills gaps in

regional capitals will shift major economic activity in regional capitals to the highly-skilled industries of the future.

Basing infrastructure funding primarily on population, rather than a need for economic diversity and potential for growth, exacerbates a worsening gap between regional and metropolitan infrastructure and ignores the substantial flow-on benefit of liveability-promoting infrastructure needed to attract and retain productivity boosting businesses and workers.

Regional capitals are already attractive to new industries and workers who are working flexibly or seeking a liveable alternative without the choking congestion issues of major cities. Providing the right services and amenities is crucial to attracting and retaining these industries and workers in regional capitals.

Regional capitals face increasingly complex funding processes for infrastructure across federal, state and local regional development areas. It is clear that effective coordination between all levels of government for long-term infrastructure planning is now critical.

Recommendations

Investing in infrastructure contributes directly to a regional capital's economy, providing jobs, increasing value-add spending and lifting productivity. Infrastructure investment also increases business and employment activity.

RCA recommends:

- 1 An Infrastructure Australia review that seeks to build a list of national strategic projects in regional capitals calculated with equitable return on investment models, including social as well as economic capital.
- 2 The creation of a Regional Capitals Productivity Fund to consistently and predictably fund productivity-improving projects in regional capitals.
- 3 The creation of a Liveability Infrastructure Fund to fund amenity improvement projects promoting labour mobility, migration and jobs in regional capitals.

COMMUNICATIONS AND TECHNOLOGY

The availability of high-speed broadband services and other connectivity technologies has given Australians choices. The tyranny of distance has reduced the connectivity in regional capitals can in part now be overcome. These technologies also mean that economies reliant on outputs such as primary production, manufacturing, health and professional services must advance if they are to remain relevant and competitive and connect to new markets.

Connectivity enables a new generation of knowledge workers to become mobile – they do not have to work where they live or live where they work. They do, however, bring innovation and diversification to their destination economies, vital factors for growth and productivity. Better internet connections draw jobs to regions not just by attracting businesses, but by attracting workers for whom fast broadband is a baseline requirement to move to an area.

Regional capitals are ideally suited to be what KPMG calls 'magnet cities' that attract educated, ambitious and energetic young people, or 'young wealth creators'. Telecommunications access is an essential element of a successful magnet city. Uneven access to high-speed broadband and mobile black spots constrain innovation and discourage such people to live and work in regional capitals.

In Regional Capitals Australia's 2014 survey of internet connectivity, the majority of the capitals surveyed classified their current broadband coverage and quality as poor to variable. These assessments were based on consideration of whether available broadband is adequate for the city's requirements. Variable

or 'patchy' services appear to be a particular problem for regional capitals – while some areas of a city, such as new developments or CBDs, have adequate broadband coverage, this is not consistent across the entire regional city.

This is particularly relevant given the commitment to provide NBN to all new 'greenfield' sites – it will be important not to neglect 'brownfield' or existing developments that contain high priority precincts that valid broadband requirements.

RCA welcomes the Government's acknowledgement of the role of connectivity in the knowledge economy as part of its commitments in the recently released Innovation Agenda. These include Incubator Support Program, reinstated research funding for regional universities and funding to inspire students and the community with digital technologies and STEM. We note however that without enabling infrastructure in regional capitals once again regional economies will not be able to participate in these sectors.

The Australian Government's Mobile Blackspot Program is designed to fix black spots, but the rollout of the program is inconsistent and based on state co-funding partnerships. The disparity in program rollout based on the interplay between state and federal funding is set to put regional workers further behind in economic connectivity and competitiveness.

The latest Infrastructure Australia Audit projects: "demand for telecommunications infrastructure will continue growing faster than GDP growth." This is largely due to business and consumer demand for services that increasingly depend on high volumes of data. This includes agriculture, tourism, financial services – industries that drive regional economies. Regional capitals require the speed and scalability of infrastructure to connect cities and take advantage of the growing opportunities of an increasing technology-focussed economy.

Recommendations

It is clear that the internet has become both a critical business and communication tool and an essential lifestyle service for existing jobs and industries. It is vital that regional capitals have high-speed internet to promote the practicality of moving businesses and individuals to regional capitals and to attract 'young wealth creators' and their associated high-tech industries.

RCA Recommends:

- 4 Fast internet access is now a core liveability requirement and RCA recommends that all regional capitals have Full Fibre to the Premises (FttP) by 2021
- 5 Prioritise regional capitals in the delivery of the Mobile Blackspot Reduction Program to enable full telecommunications access for vital economic and services nodes
- 6 Resource the communication portfolio to reflect its economic development importance, investing in ICT education and growth
- 7 Encouraging telecommunications competition in regional capitals.

JOBS, SKILLS AND EDUCATION

Regional capitals are the hubs through which the majority of Australia's agribusiness and resources exports move. They are also employment centres for wider regional areas, where demand for service sectors is growing. Regional capitals will continue to be key to Australia's global competitiveness, but more must be done to ensure they are able to adapt successfully to local structural economic change and emerging market trends.

A key component of adaptability will be to better connect to global markets while attracting fast-growing, vibrant technology industries. To meet these transition challenges, regional capitals must be able to train and attract a workforce that innovates and diversifies their economies.

Workers in regional capitals are six per cent less productive than the national average, in no small part caused by lower educational attainment in regional areas. Young people aged 15-24 years from rural and regional Australia are half as likely to attend university as young people from metropolitan areas. Students in regional capitals face significant barriers to tertiary education, they are less likely to apply for university study, less likely to accept places and more likely to defer admission. This adversely impacts the types of capital investment from business and jobs attracted in some regional locations due to perceived and actual skills gaps in these areas –making regional capitals less competitive overall.

However, improvements in education in regional capitals provide a key opportunity to quickly improve regional economies. Students who study in a regional area are significantly more likely to continue with their education, live and work in that area. According to a recent report, 65.7 per cent of students who study at regional higher education institutions remain in regional areas for employment five years after course completion.

To remain competitive at a local and global level, regional capitals need to capitalise on their core strengths while ensuring adequate diversification of industry and labour force to guard against industry-specific downturns and economy-wide shocks.

There are already advantages in regional capitals that can be built upon. Currently 15 per cent of national economic output is generated in regional capitals and 40 per cent of Australia's exports are produced in, or move through, a regional capital. Driving this output is a labour workforce of more than two million people and 300,000 active businesses.

Regional capitals are growing. An extra one million people expected to call a regional capital home by 2020. Regional capitals are seen as a desirable 'liveable alternative' for people and businesses seeking to escape congested metropolitan cities – people making the switch are often a highly educated mobile workforce bringing a diverse range of skills and innovative business models.

Recommendations

Regional capitals must be able to retain and attract young people or people transitioning to the services sector with a renewed focus on improving the skills pathways (through VET) and universities offerings to match industry needs.

RCA Recommends:

- 8** Set aside funds designated for regional universities and TAFEs, giving better support to regional research and education facilities
- 9** Provide incentives for students (domestic and international) to study in regions and regional capitals to promote skill retention in regional capitals
- 10** Better align regional course offerings to promote jobs growth in key areas, partnering with business to create jobs pathways