

MESSAGE FROM THE CHAIR

February 2017
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 2017-18 Federal Budget.

RCA understands the challenges of the current fiscal environment but submits investing in Regional Capital Cities (RCC) presents a valuable opportunity to capitalise on Australia's unique strengths and improve national productivity.

RCA is an alliance of 29 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.

RCC 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.

RCC are growing. An extra one million people are expected to call a RCC home by 2020. Our cities are seen as a desirable – and as confirmed in the recent **Demographia International Housing Affordability Survey** – far more affordable alternative for people and businesses seeking to escape congested metropolitan cities. A concerted focus on growth and investment for regional cities is key to securing sustainable growth in our regions.

RCA applauds the Government's City Deals initiative in acknowledgement of cities' many economic and social contributions, but submits specific factors in relation to the regional cities stream of the impending process need to be considered. Further, RCA acknowledges that the inception of the Regional Jobs and Investment Package, and Building Better Regions Fund are steps in the right direction for growing our regions; but submits that regional capitals require ongoing, evidence-based, forward-looking funding rather than ad-hoc one-off funding rounds.

RCA stands ready to work with the Government to deliver a long-term agenda to increase Australia's productivity and looks forward to contributing to the development of a new regional policy strategy in 2017.



Mayor Shane Van Styn
Chair, Regional Capitals Australia | Mayor, City of Greater Geraldton

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POLICY FRAMEWORK

Regional capital cities can play a critical role in the future prosperity of Australia. To ensure that the most is made of the opportunities available in regional economies, RCA calls on the government to adopt funding streams that will allow our cities to be:

1. **Connected** – with high speed broadband, roads, rail, ports and airports; and
2. **Liveable** – with local access to tertiary education, health, sporting facilities, arts, and culture centres.

In the context of the 2017-18 Federal Budget, RCA highlights that supporting the development of connected and liveable RCC can be channeled through the delivery of new and existing programs, namely:

New programs and priorities:

- The regional city stream of the Smart Cities and City Deals programs
- The new federal regional development policy
- The coordinated delivery of priorities identified in the National Infrastructure Plan.

Existing funding for regionally targeted:

- Infrastructure – Building Better Regions Fund
- Communications technology programs – Mobile black spots and National Broadband Network
- Jobs, skills and education programs – Regional Jobs and Growth Package and Innovation Investment

RATIONALE

As the nation's productivity continues to decline, developing a network of socially and economically thriving RCCs should be the objective of all levels of government in Australia.

Australia's population is predicted to almost double to just over 40 million people over the next 50 years. Our nation's four largest cities are projected to grow by about 45 per cent by 2031. Melbourne and Sydney are each predicted to be cities of just under eight million.

Meeting the cost of this growth will be challenging. Infrastructure Australia today, puts the cost of addressing the national infrastructure deficit anywhere between \$450 - \$700 billion. Federal and State governments cannot afford to allow this gap to widen.

The Regional Australia Institute (RAI) estimates that for every 100,000 Australians who choose to live in RCCs rather than the big five metros, that an additional \$50 billion will be released into the economy over 30 years in reduced congestion costs alone.

However RCCs have different challenges to Australia's largest cities that must be addressed. Unemployment in RCCs is on average higher (2%), as is worker productivity (6%). These cities have lower year 12 completion rates (42%) compared to the national average (52%).

Changing these statistics requires urgent attention. It is clear Australian Governments and businesses need a new a solution that moves past the capital city thinking that historically has been engrained in our national leadership. All cities that work are enormous economic assets and play a vital role in building a strong economy. The opportunity to build on the economic capability of Australia's RCCs must be embraced.

INVESTMENT PRIORITIES

1. City Deals

RCA welcomes the Government's announcements in 2016 in relation to the regional cities stream of the 2017 City Deals process. The development of a network of socially and economically thriving RCCs is critical to the nation's growth, and many of our members have cited the receipt of a City Deal as a game-changer for their community and economy.

Whilst City Deals have been highlighted as the new paradigm and investment for urban Australia, recipient cities have been chosen by the Government so there is little understanding of how competitiveness will be assessed. To that end, RCA has made specific recommendations to the Department of Prime Minister and Cabinet regarding what process considerations should be applied.

The expectation across our member cities is that over the three-year budget period, at least three cities will be chosen annually for a city deal.

RCA understands that there will be significant resources required from the Department of Prime Minister and Cabinet to run the regional city deal competitive process and also in negotiating and delivering the city deals once the cities are selected.

RCA also understand that City Deals, whilst tailored to each city, will prioritise six domains for action:

- Governance
- Infrastructure
- Housing, jobs and skills
- Innovation/digital opportunities
- Liveability; and
- Sustainability.

It is widely publicised that two regional city deals that have been negotiated to date in Launceston and Townsville had co-contributions across a mix of the above priorities from the Australia Government of \$139.5 million and \$253 million respectively. Based on this initial round of deals the average budget allocation for regional city deals is \$195 million per deal.

RCA recommends that the Australian Government recognise the significant investment that will be required across the government portfolios of education, innovation, infrastructure, communications and environment and prioritise an investment stream towards regional city deals within the departmental budgets.

RCA Recommendation

The Australian Government plans for the analysis, management of assessment and delivery of regional city deals through the following priorities:

RCA recommends:

- 1 Specific funding be allocated to the Department of Prime Minister and Cabinet to assess regional capital city deal applications and negotiate the selected deals on behalf of the Government.

- 2 Identify regional city deal investment streams through the Departments of Infrastructure and Regional Development; Industry, Innovation and Science; Health; Education and Training; Environment and Communications and Arts.
- 3 Allocate funding for the preparation of a Regional City Deal Tool Kit to map issues and requirements of a regional city deal competitive bid.

2. Regional Development Strategy

RCA welcomed the January 2016 Australian Government announcement by the previous Deputy Prime Minister Warren Truss and the then Regional Development Minister, Hon. Michael McCormack to create a new Australian Government Regional Development policy.

RCA welcomed and noted that an unspecified amount of funding for this strategy was highlighted in the 2016-17 Budget for allocation over the 2017-18 financial year.

It is the position of RCA that the development of this policy begin immediately and the policy should seek to:

- Map how infrastructure and services in regional capital cities are used by residents and communities in the surrounding rural areas (also known as the hub and spoke model)
- Use this to inform investment priorities in regional capital cities that benefit the whole region;
- Develop initiatives that will encourage population growth in regional capital cities; and
- Develop a more equitable model of evaluating national infrastructure investment, focusing on how regions can better contribute to GDP objectives.

RCA Recommendation:

4. The Australia Government use the 2017-18 budget allocation undertake the consultation, research and planning for the delivery of the new regional development policy inline with priorities outlined above.

3. Infrastructure

Australian Infrastructure Plan

To support the delivery and success of both the impending regional development plan and the regional city deals stream, RCA highlights that a program of planning for and investment in regional infrastructure must be key. **Strategic** infrastructure investment is the keystone of all productive and liveable cities. The infrastructure needs of regional capital cities have not been well understood, nor planned for by successive State and Federal Governments. RCA supports evidence creation, investment and collaboration around the key priorities that Infrastructure Australia (IA) identified in the *Australian Infrastructure Plan (AIP)* for regional Australia. The most notable recommendations are:

Australian Infrastructure Plan (AIP) Recommendation 4.2:

- *The Australian Government should prioritise investment in regional infrastructure where the population is growing quickly and where the bulk of our regional economic growth can be found.*
- *Efficient, livable and productive regional hubs should be considered national economic assets and be a key priority for investment.*

Australian Infrastructure Plan (AIP) Recommendation 4.3:

Regional infrastructure investment should respond to each community's particular needs, its changing demographics, and what is affordable. Where governments are providing infrastructure in slower growing regions, they should make available information on how infrastructure is being used to address efficiency and equity issues, what taxpayers can expect in return and how such investments will be maintained over time.

Australian Infrastructure Plan (AIP) Recommendation 4.5

The development of the proposed National Freight and Supply Chain Strategy should be informed by CSIRO's Transport Network Strategic Investment Tool (TRANSIT). This tool should be used to identify the most efficient routes along major supply chains and to inform funding decisions on where strategic regional projects will have the most substantial economic impact.

RCA acknowledges that the AIP and the Federal Government, through their response to the AIP, have highlighted that State governments are responsible for regional infrastructure planning, RCA states that only national leadership will deliver the shared oversight required to meet the growth needs of both regional cities and Australia's regions.

As such RCA recommends that strong consideration be given to an infrastructure investment stream that will incentivise State and Territory Governments to develop and fund long-term regional infrastructure plans to deliver on the following recommendation:

Australian Infrastructure Plan (AIP) Recommendation 4.1:

State and territory governments should deliver long-term regional infrastructure plans. These plans should:

- Identify gaps in infrastructure networks and identify priorities to support productive regional industries;*
- Be developed with involvement from all levels of government to help coordinate investments and remove duplication;*
- Provide transparency for the private sector to allow for government funding to be leveraged and private investment to be maximised; and*
- Assess the potential for regions to ease pressure on our largest cities.*

Building Better Regions Fund

RCA has welcomed the government's new Building Better Regions Fund (BBRF) that will focus solely on funding projects in regional and rural areas. Two funding streams; Infrastructure Projects and Community Investments are available for grants, and RCA welcomes the Government's announcement that applications will be assessed against 'like' applications within the same round.

To ensure the right level of community infrastructure exists in regional capital cities, RCA recommends that annual funding of \$200million (inline with the current allocation across 4 years) for the program until 2021.

RCA Recommendation:

Investing in infrastructure contributes directly to a regional capital's economy, providing jobs, increasing value-add spending and lifting productivity. Effective infrastructure investment, however, requires strategic planning based on probative evidence to inform those priorities.

RCA recommends:

5. Ensure the Australian Government delivers on Infrastructure Australia's AIP, specifically recommendations 4.2, 4.3 and 4.5
6. Take a leadership role to work with and incentivise State and Territory Governments to deliver on Infrastructure Australia's AIP, specifically recommendations 4.1
7. Annual allocation of \$200million towards the Building Better Regions Fund

4. Evidence Based Data Gaps

Measuring and evaluating the success of government policy

Success in the three key areas of government policy impacting RCC; regional city deals, the Australian regional development policy and national infrastructure investment, require a clear understanding of the drivers of social and economic growth for these cities. Evidence based policy creation in this area continues to be a challenge for our members.

When preparing the RCA submission to the 44th Parliament's Senate Inquiry into "(t)he future role and contribution of regional capitals to Australia", there was almost no data available to understand the comparative impact on a city through regional funding or the impact on a regional area where investments into a city had occurred.

This gap was confirmed by the Regional Australia Institute in the Canberra Senate Hearing when it was recognised that data gaps are one of the biggest challenges to the institute's work. CEO, Jack Archer stated it was "*factually impossible to make a decent assessment*" on the level and effectiveness of investment into RCCs.

The detailed analysis undertaken by the Standing Committee on Rural and Regional Affairs and Transport inquiry into RCCs also confirmed this gap and led the committee to make a clear recommendation in the final report to close these gaps. The recommendation is as follows:

"(t)he future role and contribution of regional capitals to Australia" Final Report Recommendations:

<p>Senate Inquiry Recommendation 3</p>	<p><i>The committee recommends that the Australian government develop a national data set focused on regional capitals. Specifically, data should be gathered on:</i></p> <p><i>(a) who is using the resources in each regional capital (including non-residents);</i></p> <p><i>(b) how much Commonwealth and state funding is provided to each regional capital; and</i></p> <p><i>(c) the projected growth of each regional capital.</i></p>
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While it is true that the analysis of indicators which determine the progress of RCCs are getting better, the analysis still remains incomplete and as such may impede a truly comparative analysis of the impact of government policy and investment.

Gaps - Liveability and connectivity indicators in RCCs:

- Where a RCC may have a competitive advantage or a strategic gap on ‘liveability’ indicators such as: air pollution, housing affordability, traffic congestion and average commuting time, these indicators are not widely measured in RCCs, meaning the liveability of a RCC is not easily measured, compared and, as a result, planned for.
- Where a RCC may have a competitive advantage or a strategic gap on ‘connectivity’ indicators there is little analysis or metrics available to demonstrate and compare a city’s connectivity to its region, State capital or even other RCCs. This means the connectivity of a RCC is not easily measured, compared and, as a result, planned for.

Both of these gaps are important indicators to understand, if the objective is to create jobs and increase private sector investment. It is clear that business will analyse these indicators when making investment decisions and workers will assess these issues when making liveability choices.

Gaps - RCCs as service hubs:

- The social and economic relationship between RCCs and regions has received almost no national policy attention – meaning once again, data available to demonstrate and compare a city’s role as a service hub largely does not exist. The exception to this issue is in the area of health where the hub and spoke policy is well understood and implemented across regional Australia.

These issues must be addressed to plan for and map the success of regional, rural and remote Australia. A lack of comparative data is a clear roadblock to success for a competitive CD process and will also present issues for the impending regional development strategy.

Dedicated resourcing within the Department of Prime Minister and Cabinet - Cities Unit and also within the Department of Infrastructure and Regional Australia should be allocated to undertake analysis of the unique growth and investment drivers of regional cities, namely:

- Mapping the liveability and connectivity of the cities; and
- Mapping the relationship between a regional capital and the region it serves.

This information should be developed in a timely manner to allow inclusion in the National Cities Performance Framework that will inform the regional City Deal process and the development of the regional development policy.

Regional Australia Institute

RCA recommends the continuation of research funding for the Regional Australia Institute. Like RCA, the RAI is a leader in innovative, strategic thinking for regional development policy. A government investment will not only allow the RAI to produce important data and innovative policy solutions, it will also significantly assist government in its own delivery of the impending regional development policy. RAI has outlined research objectives that demonstrate a clear path to unpick vital information about regional industries and communities that will, in turn, translate to new and practical solutions aiding the delivery of successful government policy and real economic development in regional Australia.

RCA Recommendation:

Investing in evidence based analysis of the drivers of growth and investment in RCCs is required to support the development and evaluation of government policy.

RCA Recommends:

8. Dedicated resourcing within the Department of Prime Minister and Cabinet - Cities Unit and also within the Department of Infrastructure and Regional Development should be allocated to undertake analysis of the unique growth and investment drivers of regional cities, namely:

- Mapping the liveability and connectivity of the cities; and
- Mapping the relationship between a regional capital and the region it serves.

9. Continuation of research funding to the Regional Australia Institute (\$10 million over 5 years).

5. Communications and Technology

National Broadband Network

The availability of high-speed broadband services and other connectivity technologies has given Australians choices and has reduced, to a degree, the tyranny of distance in RCCs. 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’ – 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 2016 membership survey, 80% of the capitals surveyed cited communications and technology as a ‘top 3’ policy priority for their city.

The NBN rollout – a crucial component of regional connectivity – requires attention. When the NBN was announced, it was welcomed as a means of narrowing the economic and social inequity between residents in regional cities and those in metropolitan areas. However, much has happened in the last financial year, including a \$20 billion federal loan in November to pay for the final phase of construction of the network, and the proposed *regional broadband scheme*, in December 2016. RCA is concerned that these factors could delay rollout plans, and essentially result in these outlying areas waiting much longer for an improved service comparable to the metropolitan areas.

In short, RCA submits that the Government needs to prioritise the accelerated rollout of NBN in regional areas.

The detailed analysis undertaken by the Standing Committee on Rural and Regional Affairs and Transport inquiry into RCCs also confirmed this issue and led the committee to make a clear recommendation in the final report to close these gaps. The recommendation is as follows:

“(t)he future role and contribution of regional capitals to Australia” Final Report Recommendations:

Senate Inquiry Recommendation 4	<i>The Australian government ‘accelerate the roll-out of the National Broadband Network to all regional capitals across Australia’.</i>
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Mobile Blackspots Program

The 2015 Infrastructure Australia Audit has projected: “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. RCCs require the speed and scalability of infrastructure to connect cities and take advantage of the growing opportunities of an increasing technology-focused economy.

RCA welcomed the December 2016 announcement by the Government of Round 2 of the Mobile Black Spot Program, planned to deliver 266 new and upgraded mobile base stations in regional Australia. RCA submits that in recognition of their strategic economic importance, regional capital cities should be clearly prioritised in Round 3 locations, due to be announced in 2017.

Additionally RCA recommends the government allocate resources and investment to the Department of Communication and the Arts to deliver on recommendation 4.4 of the Australian Infrastructure Plan:

Australian Infrastructure Plan Recommendation 4.4

The Australian Government should remove barriers to entry for mobile network providers in regional Australia to facilitate improvements in coverage, competition and service quality. This should include:

- Considering the merits of modifying the existing fixed-line Universal Service Obligation in regional areas toward improving mobile coverage;
- Where possible and appropriate, making National Broadband Network backhaul and towers available to mobile network providers; and
- Taking steps to encourage mobile network providers to co-locate their mobile infrastructure.

RCA Recommendation:

As a critical component to connecting regional capital cities to domestic and international markets, RCA makes the following recommendations.

RCA Recommends:

10. Regional capital cities are prioritised for Full Fibre to the Premises (FttP) by 2025

11. Regional capital cities are prioritised in Round 3 of the Mobile Blackspot Reduction Program to enable full telecommunications access for vital economic and services nodes

12. Allocate resources and investment to the Department of Communication and the Arts to deliver on recommendation 4.4 of the Australian Infrastructure Plan.

JOBS, SKILLS AND EDUCATION

Treasurer Morrison emphasised that the focus of the 2016-17 economic plan was on jobs and growth. From a regional capital's perspective, jobs and growth is inextricably linked to a regional capital's ability to better connect to global markets while attracting fast-growing, vibrant technology industries. Regional capitals must be able to train and attract a workforce that innovates and diversifies their economies.

To capitalise on regional capitals' labour workforce of more than two million people and 300,000 active businesses, creating and developing education and job opportunities are key.

Regional Tertiary and Education Availability

However, there is a significant differential in higher education attainment between city and regional Australians. The Regional Universities Network cites that in 2011, 31% of people aged 25-64 who lived in major cities held a Bachelor degree or above. This figure declined to 18% for Australians living in inner regional areas, to 15% for outer regional areas and down to 12% for very remote areas.

Thriving regional universities are essential to help ameliorate this discrepancy. Regional universities not only offer this opportunity more readily to our regionally-based young people, they also help to train, attract and retain the skilled workers required for a successful and diversified economy. Historically, students who study in regional areas are likely to remain in the regions, thus contributing socially and economically to their communities. Evidence shows, for example, that 60-80% of graduates within the Regional Universities Network are employed in regional Australia a few months after graduation, with around two thirds remaining employed in regional areas five years after graduating.

A thriving regional university sector is critical to ensuring that regional capitals can continue to provide many of the same services provided by metropolitan capitals, whilst continuing to grow our already substantial contribution to Australia's economic activity.

Regional universities also have enormous potential in driving regional innovation, and regional economic, social and cultural development. The Regional Universities Network has stipulated regional universities perform a growing share of Australia's highly ranked research, much of which is undertaken in close partnership with regional Australian industries and communities.

An investment to increase the accessibility of regional tertiary education and skills development should be a key Government priority.

Regional Jobs and Growth Packages

RCA welcomed the Government's Regional Jobs and Growth Package, announced during the election, granting up to \$30 million (total \$200 million) for ten chosen 'pilot' regions including the NSW North Coast, Cairns, the Upper Spencer Gulf, the Goulburn Valley and the Wide-Bay Burnett region. Skills and training, business innovation and local infrastructure are available funding streams for grants sought under this process. RCA notes however this investment is selective and leaves many RCCs and their associated regions unsupported.

Regional Innovation Investment

Whilst RCA welcomed last year's commitments by the Government to prioritise innovation in our regions, including the Global Innovation Strategy and Incubator Support Programs. However, the latest ten new science and technological innovations announced in December 2016 under the *National Innovation and Science Agenda* were overwhelmingly metropolitan teams – drawing from Flinders University, Macquarie University, RMIT, The University of Newcastle, The University of Western Australia, the Defence Science and Technology Group and CSIRO. RCA submits consideration should be given to a separate regional funding stream under this program.

RCA Recommendation:

RCA Recommends:

- 13.** Expansion of grants under the Regional Jobs and Investment Package to further support regional communities reach their untapped potential in the skills and training sector;
- 14.** Create a separate regional funding stream under the National Innovation and Science Agenda to prioritize innovation in our regions; and
- 15.** Set aside funds designated for regional universities and TAFEs, giving better support to regional research and education facilities.

SUMMARY OF RECOMMENDATIONS

- 1 Specific funding be allocated to the Department of Prime Minister and Cabinet to assess regional capital city deal applications and negotiate the selected deals on behalf of the Government.
- 2 Identify regional city deal investment streams through the Departments of Infrastructure and Regional Development; Industry, Innovation and Science; Health; Education and Training; and Environment.
- 3 Allocate funding for the preparation of a Regional City Deal Tool Kit to map issues and requirements of a regional city deal competitive bid.
- 4 The Australia Government use the 2017-18 budget allocation undertake the consultation, research and planning for the delivery of the new regional development policy inline with priorities outlined above.
- 5 Ensure the Australian Government delivers on Infrastructure Australia's AIP, specifically recommendations 4.2, 4.3 and 4.5
- 6 Take a leadership role to work with and incentivise State and Territory Governments to deliver on Infrastructure Australia's AIP, specifically recommendations 4.1
- 7 Annual allocation of \$200million towards the Building Better Regions Fund
- 8 Dedicated resourcing within the Department of Prime Minister and Cabinet - Cities Unit and also within the Department of Infrastructure and Regional Development should be allocated to undertake analysis of the unique growth and investment drivers of regional cities, namely:
 - Mapping the liveability and connectivity of the cities; and
 - Mapping the relationship between a regional capital and the region it serves.
- 9 Continuation of research funding to the Regional Australia Institute (\$10 million over 5 years).
- 10 Regional capital cities are prioritised for Full Fibre to the Premises (FttP) by 2025.
- 11 Regional capital cities are prioritised in Round 3 of the Mobile Blackspot Reduction Program to enable full telecommunications access for vital economic and services nodes.
- 12 Allocate resources and investment to the Department of Communication and the Arts to deliver on recommendation 4.4 of the Australian Infrastructure Plan.
- 13 Expansion of grants under the Regional Jobs and Investment Package to further support regional communities reach their untapped potential in the skills and training sector;
- 14 Create a separate regional funding stream under the National Innovation and Science

Agenda to prioritize innovation in our regions;

- 15 Set aside funds designated for regional universities and TAFEs, giving better support to regional research and education facilities.