Regionalisation Agenda

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National Farmers Federation

Leading Australian Agriculture

Contents

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Acknowledgement

The National Farmers' Federation wishes to thank the following organisations for their contribution to this paper and support for the regional development agenda.

Foreword

2020 was an historic year for all the wrong reasons. But years that make history are normally the ones that shape our future, and we hope the future is regionalisation.

COVID-19 has changed the way we work, and it's changed the places we want to live. Sharing dense urban centres is no longer an economic necessity, nor is it the only desirable lifestyle.

This is a 1 in 100 year moment for regional Australia to make its case to governments and urban Australians alike, and articulate a vision for what our regions could become with the right encouragement.

Establishing a regionalisation agenda is not just about forging a better lifestyle for Australians. It's a potential shot in the arm for an ailing Australian economy. This paper doesn't simply rehash the failed thinking of relocating city jobs to regional areas. It's about growing new regional jobs, designed to thrive in the unique economic conditions of regional Australia.

Successful regionalisation of the Australian economy has dual benefits. It taps into new and untapped opportunities the bush, and it also takes the pressure off our major cities. Australia is unique in having nearly two thirds of its population based in cities of over 1 million people. This sort of economic concentration burdens our urban infrastructure, and amplifies our vulnerability to shocks such as COVID-19.

If regionalisation is so logical, you might ask why it hasn't happened already? Several factors are making this a real possibility for the first time: jobs which once required people to come together physically can now happen virtually; better connectivity is making those virtual connections possible in every corner of our continent; and modern manufacturing processes are reshaping the economics of businesses we'd previously sent offshore.

Perhaps most importantly though, we have a rare moment of political unanimity. Both major parties at the Federal level have articulated regional development as a priority, and state and territory governments of all persuasions are also progressing with plans to invest in their regions.

What this convergence of positive intent lacks, however, is national coordination. That's where a Regionalisation Agenda such as the one articulated in this paper can help.

I would like to acknowledge and thank the Business Council of Australia, the Australian Food & Grocery Council, the Council of Small Business Australia, Minerals Council of Australia, Regional Australia Institute and Grain Trade Australia for their contributions and support towards this paper. The opportunities from regionalisation extend well beyond the farm gate, and this diverse coalition of contributors is testament to that.

I would invite every like-minded organisation and Australian to consider the ideas put forward in this paper, and join us in championing a brighter economic future for regional Australia.

The moment we find ourselves in is too precious to waste.

Fiona Simson
President
National Farmers' Federation

Now is the perfect time for our regional cities and towns to map out ambitious plans for their economic futures.

Executive Summary

COVID-19 lockdowns have changed many Australians views on the benefits of regional and rural lifestyles, challenged businesses to embrace a physically decentralised approach to their operations, and demonstrated to governments the risks associated with concentrating Australia's economic capacity in major capital cities. This shift in thinking creates enormous opportunities for the regionalisation and decentralisation of the Australian economy.

Australia is uniquely vulnerable to the shocks and disruptions that could impact large population centres. While the urban-rural population split for Australia is not too dissimilar to other advanced economies, Australia stands alone in having its population concentrated in capital cities with populations exceeding one million, with 64.1% of Australians living in big cities. By contrast approximately 30% of Canadians and New Zealanders live in big cities.[i]

Now is the perfect time for our regional cities and towns to map out ambitious plans for their economic futures. A well-resourced regionalisation agenda will provide the pathway to bring all levels of government and the private sector together to deliver on plans that will create significant employment in our regional and rural communities – not simply displacing urban jobs to the regions.

Regional towns, such as Toowoomba, have shown that effective regionalisation is possible when governments, local communities and the private sector work together to deliver the enabling hard and soft infrastructure, that in turn delivers a diversified and robust regional economy.

Telecommunications and digital connectivity that were historically impediments to regionalisation, are becoming key enablers in the continued regionalisation of Australia. Through rollout of the nbn network, and deployment of next generation mobile and IoT networks, more businesses can begin to remove digital connectivity from the list of barriers to regionalisation.

The Federal Government's *Modern Manufacturing Strategy, National Manufacturing Priorities, Regional Recovery Partnerships Program* and *Building Better Regions Fund*, and state programs, such as the NSW Government's Special Activation Precincts provide a solid foundation for this regionalisation agenda. The seeds of bipartisanship have been sown with respect to regionalisation, with the Federal Labor Party also releasing their vision and roadmap on reinvigorating Australia's regional communities and economy.[ii]

Agriculture can and will be at the centre of this agenda. The competitive advantage of traditional regional industries (such as agriculture) must be fully utilised, along with the establishment of non-traditional industries that can harness the advantages of regional communities, for successful regional development. This paper focuses on opportunities and challenges in agriculture; however, we have sought contribution from other industries to identify the opportunities and enablers of regionalisation.

The regionalisation agenda requires an organisational lead to ensure that the agenda stays in the forefront of economic, political and public discourse. The Regional Australia Institute would be the natural organisation to resource and support to ensure regionalisation becomes a reality.

Measures recommended in this paper including an independent assessment framework for regional development proposals, a prioritised list of 'shovel-ready' regional development projects, the delivery of 20 place-based regional development precincts and the reduction of discount rates in government cost-benefit analysis that will ensure that the regionalisation agenda is not solely reliant on political will and infrequent bursts of bipartisanship.

Better coordination of priorities between federal and state governments, a long-term approach to assessing and funding regional development and infrastructure investment and promoting the development of capable regionally-based institutions, including local government, will ensure that effective regionalisation becomes a reality.

What is regionalisation?

The regionalisation agenda aims to provide a focus on placed-based development for our regional centres that are the economic and social heartbeat of regional Australia. These centres should provide a network of economic and social infrastructure across all of Australia that provides physical and social access to economic opportunities, a skilled workforce, and social amenities needed to maintain vibrant regional economies and communities.[iii]

Regionalisation is not an outcome in and of itself, it is about ensuring livable and thriving communities for our regional and rural population, and the development of a decentralised and geographically diverse Australian economy that is resilient to shocks and disruptions to our current economic centres, including pandemics, physical and cyber-attacks, and crippling over-population and congestion.

Regionalisation has three pillars including: providing for livable and vibrant local communities; ensuring a skilled and fulfilled workforce; and providing for ongoing economic development. This paper focuses on the third pillar – regional economic development.

Barriers to effective regionalisation and the need for intervention

Despite the significant will and allocation of resources to regional development by state and federal governments, the desired economic outcomes have not materialised. This should not be seen as a failure of regional development as a concept, but an issue of implementation. Current state and federal government initiatives mentioned in this paper, stand apart in taking a more strategic, long-term, and outcomes focus to regional development. Though coordination of effort between governments remains a challenge.

Persistent barriers to implementation include:

- regional development investments undertaken in a discretionary and ad-hoc manner;[iv]
- a lack of coordination between state and federal governments on regional priorities;
- initiatives that have tried to supplant industries and business with no history, affinity or nexus with regional Australia;[v]
- regional development strategies not being backed by expedited planning and environmental reforms or expedited master-planning;
- a lack of expertise and resources at a regional level to ensure bottom-up approaches,[vi] including under-resourced regional local governments who cannot lead and facilitate; and,
- a city-centric regulatory mindset that neglects regional outcomes.

Building on existing competitive advantage – the role of agriculture

Regional development cannot proceed by transferring businesses and industries to the regions that have no logical nexus or need to be in the regions. The focus of regional development must be on industries that already have a foothold in the regions or have the potential to have a competitive advantage in being located in regional and rural Australia.

Traditional industries currently include agriculture, mining and exploration, tourism and hospitality, and healthcare and social services.[vii] However, there is significant scope for non-traditional industries to flourish in the regions. Nascent energy industries, including renewables and hydrogen supply chains, can gain competitive advantage from being in regional and rural areas, as can digital infrastructure such as data centres.

This paper speaks to the agricultural opportunities inherent in a regionalisation agenda, however, opportunities and benefits span across all industries. Agriculture underpins the economies of most of Australia's regional communities. It is a $60 billion industry with ambitions of becoming a $100 billion industry by 2030.[viii]

Similarly, agriculture's future is completely tied to the fortunes of regional communities. The sector is reliant on the amenities, services and workforce that regional communities provide. Investment in the enabling hard and soft infrastructure to meet agriculture's $100 billion ambition is not viable purely based on the fortunes of agriculture.

The opportunities that agriculture provides go beyond the farmgate and can be utilised to supercharge the regionalisation agenda. There are significant opportunities to collocate food processing and manufacturing close to the point of food production, not near the markets and economic infrastructure of capital cities.

There are further opportunities to develop synergies with other complementary industries, including provenance-based food and wine tourism,[ix] and new opportunities in expanding the highly lucrative markets for organics and 'nutraceuticals' – food produced and marketed for its health and medicinal benefits.[x]

These opportunities all translate into new jobs for regional and rural Australia. More importantly, they will be new jobs, not simply jobs displaced from our cities.

The solution – a regionalisation agenda

The paper recommends that an explicit regionalisation agenda be developed by the Federal Government, in conjunction with state governments, to become the engine for regional economic development. This should be a top priority for any government, given that the primary focus of the agenda is the promotion of economic development and the creation of new employment opportunities.

The Federal Government's suite of regional policy measures, including the *Regional Recovery Partnerships Program*, forms a solid foundation to build the regionalisation agenda upon.

When our regions win, Australia wins.

Following the bushfire emergency and COVID-19, there has never been a better time to focus attention on accelerating the economic recovery of regional communities. Not just to get back, but to get back stronger.

The COVID-19 pandemic has proven the advantages of living in regions, and increased acceptance of remote working. There is an opportunity to capitalise on these strengths and promote regions as a great place to live, work and do business.

Reinvesting in our regions to make them more accessible, attractive and productive places to live and work will be an important national step in our economic recovery. Equally important will be ensuring inclusivity extends to local community collaboration in designing and prioritising investment.

Incentivising corporate infrastructure and investment in regional locations, rather than cities, will drive economic activity and population growth. As many corporates look to onshore their operations following the COVID-19 lock downs there is an opportunity to make regions a preferred onshoring location.

This will require tax incentives such as payroll tax discounts, along with addressing barriers to investment such as energy and transport costs. Skills packages will also help anchor regions and develop talent pipelines for emerging local industries.

Australia's regions are currently some of the safest places in the world, offer affordable living, have employment vacancies, and with the right support can come back from the pandemic stronger than ever. The regions need a concerted campaign to encourage Australians to consider the benefits of living in a region.

The Business Council supports regionalisation through taking a place-based approach to investment, encouraging corporate infrastructure and creating ecosystems in our regions that provide the skills, training, connectivity and infrastructure required to make regions a first choice to do business.

Our Strong Australia Network is a community of people who are passionate about helping our regions thrive. When business thrives, whole communities thrives.

Recommendations

Integration of federal, state and local government priorities on regionalisation

It is recommended that:

- **The regionalisation agenda be elevated to a National Cabinet issue.**
- **National Cabinet identify and establish 20 place-based regional development precincts.**
- **National Cabinet be responsible for reporting on regional development outcome measures.**

The coordination and integration of federal, state and local government priorities on regional economic development has not yet been fully achieved. While there is a myriad of Federal Government programs that promote cross-government collaboration, they do not provide coordination and consensus on priorities. As an example, the NSW Government's regional development focus on the Special Activation Precinct program does not align with any of the pilots for the Federal Government's Regional Deals program.

There is an opportunity to elevate cross-government coordination on regional economic development as a sub-committee of the National Cabinet process. Federal and state governments should be applauded for establishing the Rural and Regional National Cabinet Reform Committee.[xi] As a first step, the Committee is auditing the various investments being made by governments on regional and rural development.

There is significant scope for this Committee to further promote the regionalisation agenda by being the main intergovernmental forum to push forward this agenda including the development of principles for the identification and assessment of regional development priorities, and the implementation and roll-out of prioritised regional development projects. The Committee could be responsible for aligning and integrating state and federal regional development schemes to deliver the 20 place-based regional development precincts across the nation, as sought in the National Farmers' Federation (NFF) *Get Australia Growing* economic recovery plan and consistent with the Business Council of Australia's recommendations on regional development in *A plan for a stronger Australia.*

The success of the regionalisation agenda is reliant on the ongoing commitment of all levels of government. As such, this paper seeks that National Cabinet be responsible for delivering and reporting on regional development outcome metrics. These outcome metrics include (but are not limited to):

- access to digital infrastructure (digital download speeds and costs, 5G access);
- the relative cost and reliability of electricity in regional areas compared to urban areas; and
- the relative income per household in regional areas compared to urban areas.

Having an explicit scoreboard for regional development will be vital in ensuring focus on activities and initiatives that will effect change.

Recommendations

An independent regional development assessment framework and a priority list for regional investment opportunities

It is recommended that the Federal Government develop:

- **An explicit decision framework be developed to administer regional development investments.**
- **A 'shovel ready' independently assessed priority list for regional development opportunities.**

Investment in regional development opportunities needs to be mobilised and ready for when budgetary or economic considerations are conducive to promoting the regional development agenda. Regional development investments must be 'shovel ready' to take advantage of such opportunities.

To develop a prioritised list of regional development opportunities, an explicit assessment framework is required to identify and develop a short-list of priority regions and industries. The framework criteria should include:

- the centrality of the proposed region in providing the economic and social amenities for the network of regional and rural communities surrounding it;[xii]
- the current or potential availability of the determinants of growth (human capital, competitive advantage/ business advantage, access to local and global markets, cross-sectoral partnerships etc.);[xiii] and
- current and historical government investment or intervention in the region's economic development and the economic outcomes of those investments.

Infrastructure Australia could be tasked to assess and develop this priority list. This would not necessarily duplicate the current Infrastructure Priority List, noting that the current list generally focusses and prioritises large-scale projects. The prioritised list of regional development opportunities are likely to focus on smaller-scale projects that would not be elevated to the priority list of nationally significant infrastructure.

It is understood that the 2019 Infrastructure Australia Audit[xiv] has begun to explore options that provide a greater focus on regional and placed-based development investments.

An independently assessed priority list for regional development projects allows for top-down and bottom up approaches to occur simultaneously, increasing the depth, breadth and robustness of opportunity identification. Local communities and industries will be empowered to develop regional development proposals and advocate for them without calls of pork 'barreling' or 'picking winners' being leveled at politicians.

Recommendations

Building the capacity of regional local communities, industries and government to lead the regionalisation agenda

It is recommended that:

- **Regional Development Australia (RDA) priorities be aligned and integrated with regional councils that form part of the RDA region.**
- **Federal and state governments provide secondment opportunities within regional local government to assist with economic development (capacity building).**
- **Short term incentives (tax incentives, expedited planning approvals etc.) be provided for private investment**

To develop the capacity of regional communities, and for industries and councils to be the driving force for practical and effective place-based regional development, it is recommended that:

- duplicative and overlapping regional activities be integrated by focusing on functional economic regions as the focal point of any regional development strategy;
- Regional Development Australia (RDA) be given a central economic development role to develop capability maps and economic development strategies for every functional economic region within each RDA's scope. This will be a useful resource for local communities, councils and industries to build their bottom-up regional development proposals using a common language; and,
- local government capacity be built by establishing a secondment program where departmental staff working on regional development related portfolios are moved into relevant regional councils, and regional organisations.

Recommendations

Transformative infrastructure to anchor local buy-in (lowering discount rates):

It is recommended that:

- **A review of infrastructure cost-benefit analysis discount rates be undertaken, that has acted as a barrier to prioritising regional infrastructure projects with long-term benefits.**
- **The annual $3.8 billion infrastructure shortfall in regional Australia be addressed.**
- **Short-term incentives be provided to encourage private investment, particularly in food and fibre processing and manufacturing.**

Place based economic development requires transformative and imagination capturing investment in infrastructure to act as the catalyst for industry and community engagement and investment. To achieve this, it is recommended that:

- antiquated discount rates for cost-benefit analysis be revised, noting the once-in-a-generation low cost for long-term government debt, to ensure that productive and game-changing regional infrastructure is deemed viable;
- existing infrastructure investments, such as the Inland Rail and Renewable Energy Zones, be at the centre of any regionalisation agenda; and
- an ambitious infrastructure agenda be established to propel Australia into economic recovery, noting the unprecedented low cost of long-term government debt.

The Global Infrastructure Hub[xv] forecast a $217 billion infrastructure investment shortfall in Australia to 2040. Given that regional Australia makes up 35% of the population, at least $76 billion should be allocated to regional freight, transport, telecommunications, water and social infrastructure above and beyond the current trajectory for regional infrastructure funding. This equates to an annual allocation of an additional $3.8 billion to regional infrastructure.

These infrastructure programs would provide the catalyst for private investment. Short-term incentives should be provided to encourage private investment in economic capacity and infrastructure to establish the economic ecosystem or critical mass. This could include tax incentives (payroll tax concessions), expedited planning and environmental approvals, or business development grants.

The promotion of the role of local suppliers in providing the infrastructure is another economic development opportunity.

Food, beverage and grocery manufacturing truly a part of regional Australia

Australia's food, beverage and grocery manufacturers are well and truly part of regional Australia. Manufacturers take the raw commodities from our farmers and turn it into the products we all love, not only supporting our farmers but also ensuring Australians enjoy the best quality products too.

As Australia's largest manufacturing sector, worth over $127 billion and directly employing over 274,000 people of which nearly 40 per cent are in regional Australia, it is of vital importance that the future economic and social direction of regional communities is secured.

Backed by a reliable and efficient supply chain, our manufacturers ensure we all have what we need to feed our families - making this sector one of the most essential industries in the country.

However, regional communities need industry too. Our sector helps to bind the social fabric of our regions with jobs and contributing to the local economy even through the most challenging times like fires, floods, droughts and pandemics.

To encourage industries (or the food and grocery manufacturing sector) to move to and prosper in the regions - tax incentives to help drive investment, improved transport and infrastructure to move goods across the country, access to skills and training as well as addressing rising input costs such as energy will help to strengthen this sector in regional areas.

The AFGC recently welcomed the Federal Government's recognition of the important role of manufacturing in Australia and prioritising the food and beverage along with five other industries under the Modern Manufacturing Strategy.

The strong presence in regional Australia by this priority sector demonstrates commitment business have to these communities. A sizeable proportion of the foods, beverages and other grocery items Australians buy every day are made in regional Australia. The AFGC along with its member companies are proud that our industry continues to provide investment, innovation and importantly employ locals in regional Australia – the true powerhouse behind the products on the supermarket shelf.

The AFGC is very supportive of a regionalisation agenda to ensure the economic and social security of our regions and pleased to be part of the agenda with the NFF and other industry groups.

TANYA BARDEN
Australian Food and Grocery Council

Introduction – what is regionalisation?

Regionalisation is not an outcome in and of itself. The regionalisation agenda aims to establish a network of economic and social infrastructure to ensure that Australia's regional and rural communities are viable places to live and work. People need fulfilling jobs and social amenities to live rewarding lives, while businesses require a skilled workforce, cost-effective inputs, and affordable access to markets to ensure that they are compensated for their endeavors.

The regionalisation agenda is about sustainable economic development that will create secure and fulfilling job opportunities across Australia.

Regionalisation also ensures a decentralised and geographically diverse Australian economy that is resilient to shocks and disruptions to our current economic centres, including pandemics, natural disasters, and crippling over-population and congestion.

Regionalisation has three pillars to it including, providing for livable and vibrant local communities, ensuring a skilled and fulfilled workforce, and providing for ongoing economic development. The following paper focuses on the third pillar – regional economic development.

Mining – Strengthening regional communities

Australian mining is one of the most productive industries in the world, supporting rural and regional communities by providing highly skilled, high-value jobs, strengthening local economies and providing essential services and infrastructure. In 2019-20 mining was the biggest contributor to Australia's GDP (10.4 per cent) and the resources industry earned 60 per cent of Australia's export revenue – more than all other industries combined.

Regional development is supported by the almost $40 billion in mining taxes and royalties paid each year, helping to fund better infrastructure, schools and hospitals. Mining directly supports around 240,000 jobs mostly in regional Australia, that on average pay $144,000 per annum – 58 per cent above the average of all industries. Including the mining equipment, services and technology (METS) sector, 1.1 million Australian jobs directly or indirectly rely on mining.

From Weipa to the Tanami, from Bendigo to Port Hedland, the benefits of mining are centred on regional communities. According to the Productivity Commission, Australian regions whose economic base is large-scale mining have generally had the highest employment growth with total employment in mining more than double what it was before the mining boom.

Minerals companies work in partnership with communities to support their aspirations, aligning business and community priorities to achieve enduring outcomes through social investment – such as investments in emergency services, sporting clubs, charities and community groups.

Mining powers the development of a stronger skills base in the regions, with the sector employing around 8600 apprentices and trainees – more than double the proportion of all employment than most other sectors. In coming years, the mining industry will provide 5000 new mining apprenticeships, mostly in regional Australia.

Mining is one of the keys to advancing the economic development and empowerment of Australia's First Nations people. More than 60 per cent of operating mines are near Indigenous communities and the mining workforce has the highest proportion of Indigenous employees of any industry. Minerals companies support thousands of regional indigenous businesses through local procurement, many of which have grown to service clients across Australia and beyond.

Australian mining is well positioned to meet growing world demand for the commodities that make modern life possible so it can continue to provide jobs and opportunities for people in rural and regional Australia.

Making the most of future opportunities will require reforms to reduce uncompetitive taxation rates, support faster project approvals to create more jobs, build a modern skills system, create a workplace relations system for more productive and flexible workplaces and ensure access to affordable and reliable energy with low emissions.

Furthermore, there is opportunity for governments to support the growth of strong, diversified regional economies by complementing minerals industry investment and supporting partnerships across sectors with a focus on local skills and business development.

TANIA CONSTABLE
Minerals Council of Australia

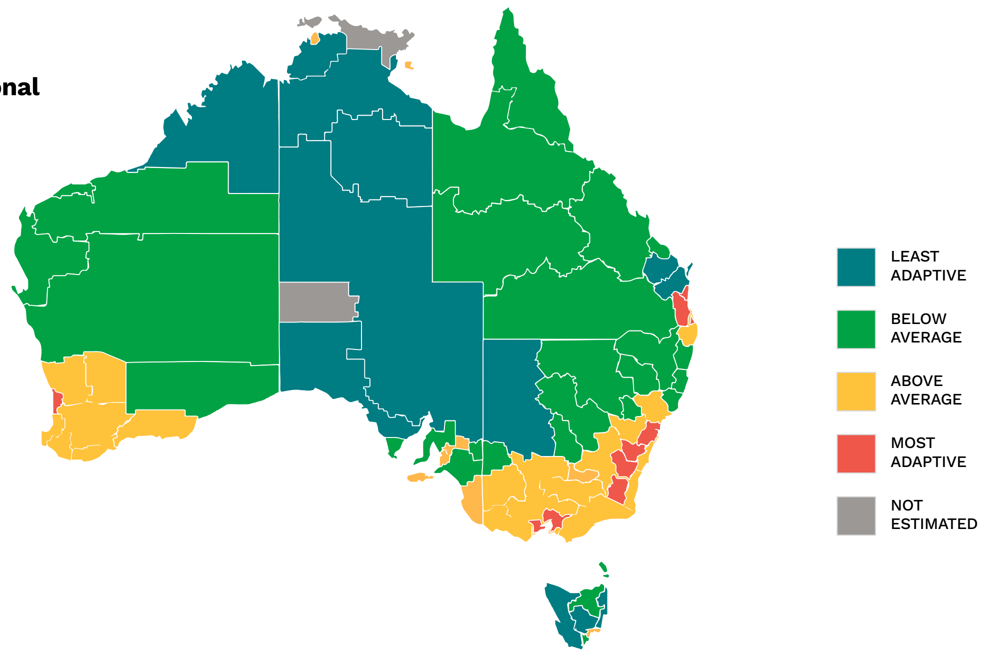
What is a region?

Regions can be defined and conceived in different ways including by local government areas (LGAs) or electoral boundaries. These concepts of regions are often heavily relied upon by policymakers as they provide a ready-made administrative framework for government initiatives to be established and implemented. However, these concepts are administrative concepts and do not reflect how social and economic activities are undertaken on the ground. This paper recommends that functional economic regions (FERs) be the main tool to conceptualise regions, where daily social and economic interaction defines what a region is.

While LGAs and electoral boundaries are useful administrative concepts, they do not provide a useful concept of a region that can enable economic activity and regional development. As an example, Albury and Wodonga are divided into two separate LGAs, and form part of two separate electorates at a state and federal government level. Yet community members in the region may live in Wodonga but work and participate in social activities in Albury. Farmers may be located in the Hume Shire but access Albury for farm inputs or to access freight and logistics services. FERs use these interactions to group regions who have economic and social interdependencies.

The regions in and around Albury-Wodonga equally understand the importance of FERs, with local councils forming a regional economic development coalition based on the FER that transcends the Victoria – NSW border.

Map of Australia's functional economic regions



What is the problem?

Australia is uniquely susceptible to the adverse shocks that are associated with having a very centralised economic base. While the proportion of Australians living outside of capital cities (approximately 30%) mirrors other advanced economies, Australia stands alone in concentrating its population and economic activity in big cities. 64.1% of Australians live in cities with populations in excess of one million.[xvi] By contrast approximately 30% of Canadians and New Zealanders live in big cities,[xvii] while approximately 45% of American live in big cities.[xviii]

64.1% of Australians live in big cities... By contrast approximately 30% of Canadians and New Zealanders live in big cities.

The geographic concentration of Australia's economy is also a concern. 45% of Australia's GDP is located in just two cities – Sydney and Melbourne.[xix] This concentration has been accelerating as regional Australia's GDP contribution has been in decline since the 1990s.

The folly of unfettered geographic concentration of economic activity is well understood in industry. These risks have become more evident as a result of COVID-19 restrictions in our capital cities but go beyond and precede the economic crisis associated with the pandemic. Businesses regularly mitigate geographical risk by investing in new locations and divesting when their geographical footprint gets too concentrated in one area. These same principles should apply to national economies.

Regionalisation and decentralisation cannot be relegated as a potential community service obligation to regional communities, it is a policy imperative to ensure a viable and resilient Australian economy.

45% of Australia's GDP is located in just two cities – Sydney and Melbourne.

Place-based economic development and capacity of regional stakeholders

Creating genuine place-based economic development strategies in Australia's regions would represent a major change from the current, highly centralised approach to regional policy and programs. The genuine empowerment of regional communities is essential for generating positive economic development outcomes.

Inadequacies of centralised decision-making

The current dominance of centralised decision-making in Australia inhibits positive change in the regions. Centralised decision-making has its place in creating the macro-economic settings that form the operating environment for business. However, regional economic development can't be managed from Canberra. Centralised decision-making quickly loses momentum when serious economic challenges arise in the regions, whether from pandemics, natural disasters or change caused by global economic forces.

The response to the bushfire devastation during 2019-2020 is a vivid demonstration. Initial bushfire recovery responses by government were highly centralised – arguably by necessity. These responses were widely criticised as being out of touch with local communities. To its great credit, the National Bushfire Recovery Agency learned from this experience and discovered the most effective way to assist communities was to empower them to make decisions about their own futures.

National or state level programs often take a one-size-fits-all response to economic issues. Community consultations on policies and programs rarely allow for genuine local decision-making.

True place-based regional economic development

Only those people who live, work and do business in a regional community are fully in touch with its development needs and opportunities. Small business is at the core of economic and community life in any region and plays a direct role in strengthening regional economies. A true place-based approach to regional economic development will enable key businesspeople to have real decision-making input. Local business is well placed to guide positive economic change.

Regional communities should be empowered to have direct input into government decisions that relate to micro-economic strategy, infrastructure spending and government-funded services that impact on the regional economy, including employment and training services.

A national network of local economic development committees should be resourced with the aim of leading sustainable economic development in the regions. These committees can only be effective if they have real influence over regional spending by governments, so it is managed in the most targeted and effective way. The reluctance of governments to empower Regional Development Australia (committees in this way has severely limited their effectiveness. This requires politicians and senior public servants to be prepared to relinquish to a degree of control.

JOHN GRACE
Council of Small Business Australia

Barriers to effective regionalisation

The biggest barrier to effective regionalisation is the perception of failed regional policies of the past, where regional development initiatives have not delivered the sought outcomes. These failures are not due to some deficiency in the logic of regionalisation, but due to issues of implementation, including:

- unclear and inconsistent objectives of regional development initiatives;
- regional investment not being guided by appropriate, rigorous and independent assessments;
- a lack of coordination and cooperation between the three tiers of government on regional development, exacerbated by resource poor and capacity constrained regional councils;
- lack of strategic planning for regional areas, including the lack of local capacity to drive this process;
- initiatives that have unsuccessfully tried to supplant industries and business with no history, affinity or nexus with regional Australia; and
- broader government policies, including planning and environmental regulations, that are not optimised with regional communities and economies in mind.

A 2017 Productivity Commission report on regional development policies highlighted a record of missed opportunities and under-delivery[xx]. The report highlights a history of initiatives that invest in regional development activities that artificially create and maintain an advantage for a regional community where such an advantage does not inherently exist. These initiatives on the most have ended with little benefit to regional communities and a needless impost on Australian taxpayers.

The current Federal Government's *Modern Manufacturing Strategy, National Manufacturing Priorities*, and *Regional Recovery Partnerships Program* and *Supply Chain Resilience Initiative* provides a contrasting approach - very much focusing on industries that Australia has or could have competitive advantage in, and the priority of food and beverage manufacturing could provide significant opportunities for regional economies.

The biggest barrier to effective regionalisation is the failures of the past.

Strong collaboration is key to unlocking the real value of regionalisation

Strategic collaboration at all levels of business, government and community is clearly the way forward in rural and regional Australia. Integral to this principle is a commitment to co-investing in enabling infrastructure like telecommunications.

Co-investment is at the heart of Telstra's priority to deliver for our customers living and working in regional, rural and remote areas.

Investing in regional Australia has never been more important – a commitment that Telstra maintained throughout the years. In the five years to end June 2021 Telstra will have invested $8bn in our mobile network nationally with $3bn of that invested in regional areas alone.

Our long history working in regional Australia means we have experience providing network solutions tailored to each location collaborating with business, community and all levels of government to make it happen.

Telstra's experts on the ground understand the characteristics of their region, from the challenges created by terrain and seasonal conditions to how local solutions can help protect and invigorate communities.

This focus strengthens our commitment to investing in infrastructure that maximises digital inclusion. Solutions that help keep people safe at work and on the road, reduce disadvantage and encourage business innovation.

So regional Australians can take full advantage of these opportunities Telstra continues to support and encourage ongoing co-investment and partnerships with business, community and all levels of government.

Improving connectivity is especially important for country communities to benefit from transformational changes in technology like telemedicine, making the best education available online for isolated children and reliable connectivity that enables local businesses to thrive.

So regional Australians can take full advantage of these opportunities, Telstra continues to support and encourage ongoing co-investment and partnering with business, community and all levels of government.

Among many examples of how this is being achieved is a recent $11 million co-investment with local, state and federal governments to significantly upgrade the network on Flinders and Cape Barren Islands in Bass Strait.

The renewed network was launched in October 2020 and the outcome for the communities on these isolated Tasmanian islands is already surpassing expectations.

'In 2017 we had a population of 780 and only about 70 students at our high school,' says Flinders Island Mayor, Annie Revie.

'In line with the Telstra upgrade, recent reports show the current population is now 1,010 and the local school has just over 100 students – an increase of about 27 per cent.'

'The potential for such benefits through remote connections allows a stronger vision for the future of our economy, community, and even health and wellbeing. Access to modern telecommunications means there is no disparity, and no limitations to living on Flinders Island.'

The positive outcomes from the co-investment on Flinders and Cape Barren Islands demonstrates the power of collaboration between Telstra, government and the community.

At Telstra, we look forward to fostering ongoing partnerships like this to deliver equivalent development initiatives so all Australians in regional, rural and remote areas can benefit from a connected way of life.

DR BEN GURSANSKY
Head of Rural and Regional Affairs
Telstra Corporation

Regionalisation opportunities in NSW's Central West

The Central West of NSW is a source of untapped opportunity and potential for agriculture. Hosting a diverse range of industries, including beef, sheep, wool, dairy, horticulture and wine, and perfectly positioned next to the consumer markets of Sydney, the region is poised to take-off. The distinctive qualities of the Central West mean significant value can be captured within the region through local processing and manufacturing. A quicker journey from the Central West to Sydney would also help local economies obtain greater value from agricultural products destined for overseas markets.

What are the barriers or challenges in turning these opportunities into reality?

Investment in transport and infrastructure is key. Upgrading road infrastructure will improve access to Sydney air and seaports, while building a rail line between Orange and Parkes can connect the Central West to the inland rail intermodal. These developments will allow the region to capture greater value from its world-class agricultural output.

Regionalisation should also be a priority. Government should be a champion of regional development. Leveraging the capacity that already exists within the regions, it should create the conditions – education, health, stable connectivity and affordable utilities – that allows the private sector to build sustainable growth.

What are some of the enablers to make this happen?

The Central West stands to benefit from the disruption caused by COVID-19. State and federal governments have committed to major infrastructure and local manufacturing projects to rebuild our economy. Most important is the duplication of the Great Western Highway, which will slash travel time between the Central West and Sydney. The agri-precinct, set for the new Western Sydney Airport, is also a game-changer. It will enable the efficient processing and packaging of world-class Central West produce destined for lucrative markets for fresh food in Asia and the Middle East.

The value of agriculture to local, state and national economies must not be forgotten. Often focus on the development of regional centres comes at a cost to agriculture. It is critical that plans are developed to capitalise on existing and established local production. The priority should not only be attracting new businesses, but also facilitating the establishment of enterprises that add value to the raw product, including manufacturing and product development.

JAMES JACKSON
President, NSW Farmers

Local community, industry and government capacity to lead regionalisation

Regional stakeholders often do not have the resources to effectively engage in and advocate for the regionalisation agenda. The contrasting resources available to regional councils as compared to their urban counterparts is a case in point. Australia's regional local governments are exemplars of hard work and ingenuity, but simply do not have the rate base or capacity to divert significant resources to regional economic development. The NSW Legislative Council inquiry into local government amalgamations[xxi] found that most regional councils simply did not have the rate base to provide the full suite of activities and services expected of a local council, with some councils being '$12million to $15 million behind' on their operational budgets. Similarly, a Western Australian review of local government[xxii] found that under-resourced regional councils had 'generally low levels of community participation and regional cooperation'.

The benefits of local government being resourced and tasked with progressing regional economic development cannot be underestimated. While state and federal governments have the resources to deliver infrastructure and deliver services associated with economic development, the role of regional councils are often neglected. Regional councils are best placed to engage and activate local communities and industries, to identify opportunities and challenges that are not readily visible at a state or federal level[xxiii]. They also have the economic and land-use planning powers to expedite developments that can form part of any economic development plan, that can facilitate and incentivise private investment.

While the resourcing of local government is a matter for state governments, the Federal Government has provided substantive assistance to fund local community and industry capacity to engage in the regional development conversation. Programs, such as Regional Development Australia (RDA), have assisted in building the economic development capabilities of regional communities and councils.

The 2016 Independent Review of the RDA Program[xxiv] commissioned by the Federal Government found that the program had progressed regional development by identifying local capabilities, but that the RDA had largely run its course and recommended that funding to the program cease. This is not the view shared by this paper. The $55 million allocated to RDAs over the forward estimates should continue to be allocated to regional development, however, the focus of the RDA process should be on delivering capability maps and development strategies for each functional economic region within each RDA's geographical remit, and integrating RDA priorities with those of corresponding local governments[xxv]. The imperative of aligning and integrating government priorities on regional development should go beyond high-level agreements between the executive branches of state and federal governments, and filter down to service delivery activities of state and federal agencies.

Given the lack of professional and financial resources in regional Australia, any available resources must be utilised to further the regional development agenda. The network of regionally-based universities is one such resource that can be utilised to further regional economic development. According to the Regional Universities Network (RUN) a core objective of the network of universities is 'to provide policy advice to government, particularly with regard to ... regional development.'[xxvi] Regional universities should be resourced and incentivised to work more closely with local government and communities, not just on regional development collaborations, but to build the professional capacity of these councils in this space.

The concept of universities leading economic development opportunities is not a new one. As an example the NUW Alliance, a collaboration between University of Newcastle, University of Wollongong, UNSW and Western Sydney University, has established itself in the Western Sydney Aerotropolis precinct to align teaching and research to the economic development opportunities that the Aerotropolis precinct provides in priority areas including defence, aerospace and advanced manufacturing.[xxvii]

Leading the regionalisation of our nation

For the past decade, the Regional Australia Institute (RAI) has been undertaking cutting-edge research, influencing policy and shaping discourse on regional issues. As the nation's thought-leader on regional Australia, the concept of regionalisation is central to its work and it is the natural organisation to lead the regionalisation agenda.

The success of regional Australia is critical to Australia's future. Home to 9.45 million people, responsible for around 40% of the nation's economic output and employing one-third of Australia's workforce, regional Australia has demonstrated its resilience against both internal and external shocks. It was central to Australia's stability during the global financial crisis, and job figures show that it is Australia's post-COVID renaissance.

For the RAI, regionalisation is more than mere decentralisation; it involves taking measures to ensure that regional businesses and communities can grow and thrive.

The RAI's work has provided the evidence underpinning support for regionalisation. The RAI's 2020 report, *The Big Movers: Understanding Population Mobility in Regional Australia,* confirms the preference that many Australians have for moving to, and living in, a regional centre – young people included. The 2019 report *Regional Population Growth – Are We Ready?* addresses issues fundamental to our future settlement patterns, challenging decision-makers to prioritise future growth in regions, to avoid becoming a nation of megacities. The RAI Toolkit, Steps to Settlement Success supports regions to welcome migrants, thereby enhancing population stability, boosting skills and filling workforce needs. The forthcoming RAI *Liveability Toolkit* will provide advice for communities on strengthening the appeal of their town as a place to live and work.

Australia's most influential corporations are supporting the RAI's regionalisation agenda through the Regional Australia Council 2031 (RAC2031). Regional stakeholders are also given a voice through the Regional Activators Alliance. This year, the RAI will be launching its most ambitious project yet – a National Awareness Campaign designed to create a societal shift in Australians' perceptions of living and working in regional Australia.

Australia is on the cusp of a new era, one in which regional Australia grows and thrives like never before. The RAI is poised to lead the regionalisation of the nation. Shifting the Australian narrative from being metro-centric to one in which its regions are front and centre will ensure the whole nation's success and prosperity. The RAI welcomes this position paper from NFF and its contribution to the regionalisation agenda.

LIZ RITCHIE
CEO, Regional Australia Institute

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The success of regional Australia is critical to Australia’s future.

Boosting domestic processing for forestry products

Australia is a leading provider of forestry products, much of which is domestically processed into high quality sawn timber and paper products. However, the sector generates significant volumes of low-quality 'pulp logs' which are exported because they are surplus to Australia's processing capacity. With trade related disruptions due to COVID-19, the importance of local supply chains have become vital for the future of forestry, and there is an opportunity to develop value-add processing and manufacturing including:

- *Pulp and paper making:* There are significant opportunities to process more pulp-log, wood residues and fibre into paper and packaging products as the world moves away from petroleum-based products.
- *Engineered wood products:* Manufacturing of products such as particleboard and medium density fibreboard (MDF), used for kitchens, bathrooms, and furniture could add significant value to otherwise low value by weight pulp logs and woody residues.
- *Bioenergy:* Renewable biomass from the forestry sector can be the source of affordable renewable energy that can supercharge our regional manufacturers and communities, as it already is internationally. For example, the Drax bioenergy power station provides 12% of the UK's renewable energy.

New and existing processing and manufacturing capabilities require government incentives and support, particularly noting the impacts of bushfires on supply of logs to facilities at Tumut and Tumbarumba.

The cost of freight in Australia is a significant barrier to these opportunities, noting the low value by weight of logs. Significant investment in regional road and rail infrastructure is needed to grow domestic processing capacity.

Duplication and lack of coordination between governments

Regional development investments to date have not been outcomes focused, and the good intentions of investments have not always translated to outcomes or benefits for regional communities. According to the Productivity Commission, this failure to make an impact has been due to the ad-hoc and discretionary nature of investments by state and federal governments of all political persuasions.[xxviii]

Regional development investments are made based on the imperatives of the state and/or federal government of the day, lack coordination, and rarely have outcomes or performance metrics attached to them. According to the Productivity Commission the history of regional development is defined by the 'persistent favouring of perennial candidates for support, (yet) have not delivered measurable benefits.'

While recent Federal Government regional development and industry development initiatives go some way towards overcoming issues of short-termism and lack of a strategic vision, coordination of regional development priorities between governments has been elusive.

As an example, the NSW Government relies on local government and its Joint Organisation of Councils framework to drive bottom-up regional development. The Federal Government on the other hand has initiated Regional Development Australia as its vehicle to facilitate the same outcome. In addition to these initiatives, the NSW Government has established Special Activation Precincts to kickstart regional place-based economic development, and these do not align with the Federal Government's Regional Deals program.

South Australia provides the good practice model for effective coordination and integration of government priorities on regional development. RDA Boards in South Australia are a tripartite partnership between the Australian and South Australian Governments, and the Local Government Association of South Australia. Importantly, substantial funding and in-kind resources are provided to the RDAs by all three levels of government to underpin the collaboration.

Value-adding in Australia – malting barley

Malted barley is the preferred grain for making beer. Malt is barley that has been allowed to germinate by soaking the grain in water, ready to ferment the sugars into alcohol.

Malting begins by soaking barley, then transferring them to steeping tanks where it spends a couple of days soaking up water. The barley is then transferred to a huge room where it is aerated, turned regularly, and held at around 16 Celsius degrees.

On the most, Australia sends its high-quality barley overseas without malting, missing a significant opportunity to value-add in Australia, creating jobs and economic growth.

The biggest barrier to malting barley in Australia is the lack of competitiveness around energy, water, and labour costs relative to global competitors. Recent Federal Government investments in energy and electricity generation and transmission networks, multi-billion-dollar allocation of funding to improving water infrastructure combined with the regionalisation agenda could kickstart processing of barley in regional Australia.

A significant barrier to domestic processing is Australia's aging malting facilities. With government support for investments in upgrading facilities, processing of malted barley would become a viable endeavor and provide significant market access benefits as compared to raw barley.

Funding and resourcing regionalisation

The quantum of funding allocated to regional Australia is a contentious and contested issue. The Productivity Commission views the level of regional investment as adequate and is more concerned in the ad-hoc manner which funds are spent.

The 2018 Select Committee on Regional Development and Decentralisation on the other hand suggested the level of funding to regional communities has been inadequate. It is instructive to note that many investments that are characterised as regional investments are predominantly for the benefit of urban communities and businesses. As an example, the $10 billion Inland Rail project is generally classified as a regional infrastructure investment. While it will have significant benefits for farmers through the reduction of freight costs, its primary goal is to reduce the freight journey time between the ports and markets of Melbourne and Brisbane.[xxix]

The lack of funding for regional infrastructure equally applies to Australia as a whole, which is perpetually faced with an infrastructure investment shortfall. The Global Infrastructure Hub, a G20 funded infrastructure think tank, has forecast a $217 billion infrastructure investment shortfall for Australia to 2040.[xxx] Using population as an approximation for infrastructure investment allocation, noting that regional Australia makes up 35% of the population, at least $76 billion should be allocated to regional freight, transport, telecommunication, water and social infrastructure above and beyond the current trajectory for regional infrastructure funding. This equates to an annual allocation of an additional $3.8 billion to regional infrastructure to make up the shortfall. Announcements in the Federal 2020-21 Budget on water infrastructure goes some way in addressing some of this infrastructure gap.

nbn - Regionalisation and digitisation

At nbn™, connecting more regional homes and businesses to help communities have access to high speeds and reliable broadband[1] has been one of our key commitments from day one. With the initial network build now complete, more Australians can access fast broadband* that helps them to work, study, stream entertainment and run a business from any location.

The events of COVID-19 have been the catalyst helping Australians explore the possibility of choosing where they live and work. According to the nbn™ *Flexible Lifestyle Survey*[2], conducted by YouGov and commissioned by nbn, 35 per cent of those surveyed are considering relocating to their ideal community. This desire to relocate is felt more keenly by city-dwellers, 50 per cent of whom have wanted to relocate for a while but only recently recognised that it is feasible. Of those looking to relocate, more than half want to move to a regional area.

The COVID-19 pandemic has shown that many people are able to live a flexible lifestyle by escaping to an ideal location, that could be supported by the nbn™ network. The importance of connectivity is shown through the survey which highlights three in four Australians don't believe a flexible lifestyle would be possible without access to fast and reliable broadband*. Through the enabling capabilities of the nbn™ network, Australians are better able to relocate to regional areas and remain connected to their workplace, friends and family, all while taking advantage of reduced costs of living and improved quality of life.

We're supporting regional Australia by committing more than $2 billion to major infrastructure upgrades and investments. We will invest:

1. Up to $2.9 billion will be invested to make nbn's highest wholesale speed tiers available where demand arises, around 50 per cent of this investment will be dedicated to the regional fixed-line network.
2. $300 million to establish a dedicated fund to co-invest with governments or local councils to help deliver access to higher speed wholesale broadband services. The fund is expected to move more regional areas from fixed wireless or satellite to fixed line services.
3. Establishment of 85 Business Fibre Zones in regional Australia to support the digitisation of small and medium businesses by making nbn's wholesale premium-grade business offering more accessible to more businesses.
4. $50 million available to work with local councils, state or territory governments for the expansion of Business Fibre Zones.
5. nbn™ has previously committed $800 million to help improve the speed and capacity of its fixed wireless network throughout Australia. This investment is underway, with nbn investing hundreds of millions of dollars to help improve the speed and capacity that is delivered to customers connected to the nbn™ network by fixed wireless or satellite technology over the next three years.

Australia's broadband infrastructure is the digital backbone of the nation, which has the capacity to enable population, economic and social growth in regional areas now and into the future.

GAVIN WILLIAMS – Chief Development Officer, Regional and Remote at NBN Co.

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[1] ***Note from nbn:*** Your experience, including the speeds actually achieved over the nbn™ network, depends on the nbn™ access network technology and configuration over which services are delivered to your premises, whether you are using the internet during the busy period, and some factors outside nbn's control (like your equipment quality, software, broadband plan, signal reception and how your service provider designs its network). Speeds may also be impacted by the number of concurrent users on the nbn™ Fixed Wireless network, including during busy periods. Satellite end customers may also experience latency.

[2] ***Note from nbn:*** This research was undertaken by YouGov on behalf of nbn. The research was conducted from the 31st August to the 19th September 2020. 3,358 respondents aged 18+ completed the nationally representative survey, including hyperlocal boosting in Wollongong, Bendigo (Central VIC), Far North QLD, Adelaide, Perth, South West WA, Hobart, Darwin, Canberra. 63% of the respondents lived in one of the 5 major capital cities, and 37% outside the capital cities. Following the completion of interviewing, the data was weighted by age, gender and region to reflect the latest population estimates in Australia as per statistics published by the ABS.

Why the infrastructure shortfall?

Despite continual identification of a persistent infrastructure shortfall in Australia, and particularly a shortfall in regional Australia, the required infrastructure investments are rarely made to close this gap. One significant barrier is the use of high discount rates in calculating the net present value for cost-benefit analysis (CBA) that determines the viability of infrastructure and other investments.

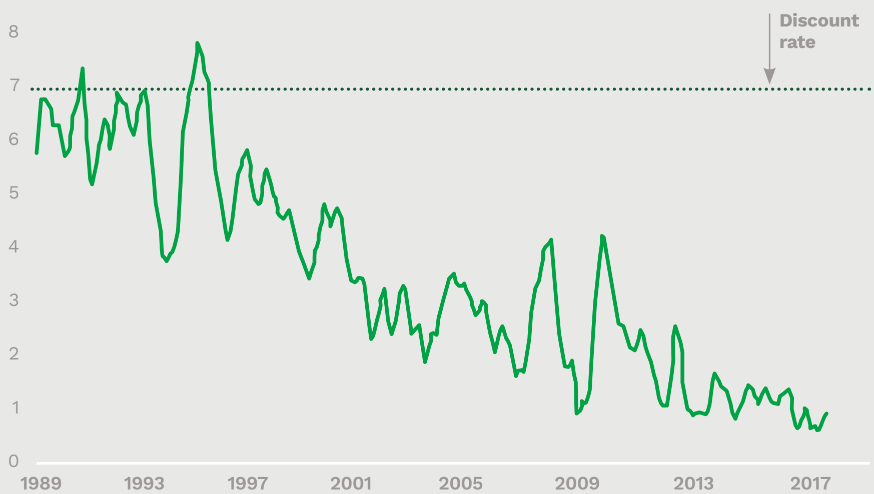
What is a discount rate?

In infrastructure CBAs, most of the costs are incurred soon after the project is approved, while the benefits are realised over decades. As benefits enjoyed in the distant future are worth less than benefits enjoyed in the present, future values need to be discounted back to a present value (net present value). The discount rate is set with reference to the real long-term cost of debt and the risk of realising benefits.[xxxi]

The current discount rate for government investment sits at 7% despite long-term government debt sitting well below 1%, record low inflation, and no prospect of the cost of debt increasing in the medium or long-term. This rate does not reflect the true costs and benefits of an infrastructure investment, and unnecessarily discounts benefits of long-term projects.

The discount rates used by Australian governments are too high. The discount rate was initially set at 7% by governments in 1989 for Australian government CBAs. At the time of setting this discount rate, the real rate of long-term government debt was well over 5%, and during the 1990s actually exceeded the 7% discount rate. Over the past decade the real cost of government debt was well below 2% and tending towards zero in the past two years.

Real cost of long-term Australian Government debt



Source: Reserve Bank of Australia Australian Government 10 Year Bond Yield (%)

According to the Grattan Institute,[xxxii] this discount rate has not been set by regular and considered evaluation of the rate with reference to risk and cost of debt, but through neglect by state and federal bureaucracies. Discount rates should vary according to the cost of debt and the inherent risks of the project, which is what happens in most overseas jurisdictions.

Australian governments have some of the highest discount rates in the world, with UK, French and some Canadian provenances having discount rate equivalents well below 5%.[xxxiiii]

Many organisations and individuals have questioned the needlessly high discount rate used by Australian governments, including the Grattan Institute, Australian Sustainable Built Environment Council, Dr Philip Laird (transport expert), SMART Infrastructure Facility at the University of Wollongong, and Applied Economics (economic consultancy).

The notion that a lower discount rate will allow projects with low viability to proceed is unfounded:

- discount rates should not be used as a determinant for government budgets – they are a tool to prioritise between projects; and
- governments can adjust the level of the cost-benefit ratio for decisions on project investment to align budgets with calculations on the net present value of costs and benefits.

It is understood that Infrastructure Australia is actively considering the role of discount rates and their impact on prioritisation of projects. Any change to the central discount rate (and sensitivities) would need to be determined and agreed with national, state and territory treasury departments.

Australia's approach to discount rates has significant adverse implications for investments with long-term horizons for the capturing of benefits, particularly for investment proposals in regional Australia.

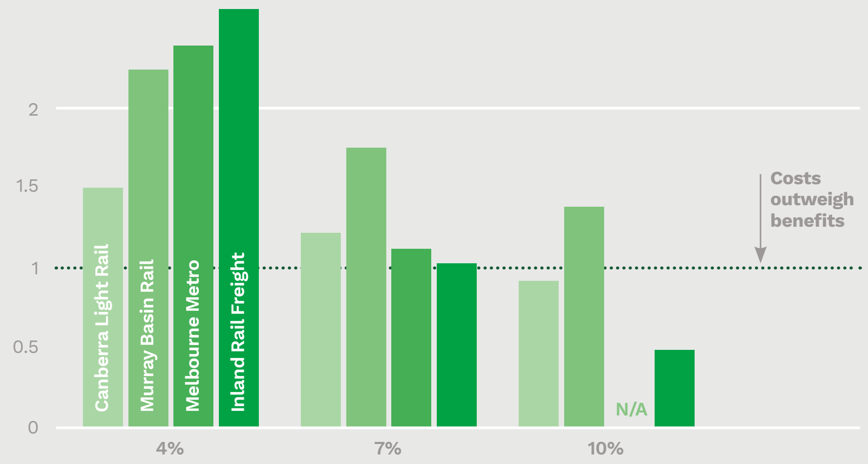
Why the shortfall in regional Australia?

A high CBA discount rate reduces the viability of projects with longer-term benefits, or whose benefit only start to accrue in the long-term. Regional development investments are by their nature long-term investments, requiring economic and social change, and are thus heavily disadvantaged by needlessly high discount rates.

As an example, when using a 7% discount rate, a project that creates one billion dollars in benefit in year one, will take precedent over a project that will create three billion dollars of benefit in year twenty. At a 4% discount rate, a project that accrues three billion dollars of benefit in year 20 will be seen as more favourable than a project that creates one billion dollars of benefit in year one.

The Grattan Institute highlights this point by noting that the priority order of well-known infrastructure proposals changes significantly when discount rates are changed from 4%, 7% and 10%. At a 4% discount rate, the Inland Rail project is the most attractive project out of the selected projects yet ranks last at a 7% discount rate. The lowering of discount rate is not about making unviable projects viable, it is about giving projects with longer-term goals a fair chance of being prioritized.

Infrastructure cost-benefit analysis with different discount rates



Source: Grattan Institute 2018

A 7% discount rate prioritises short-term reactive projects that try to deal with an immediate issue or concern, and this will mostly favor urban developments. Due to immediacy of the benefit, a bus terminal in an already congested urban area will always trump investment in digital infrastructure that will form the backbone of future regional industries and communities. A high discount rate artificially rewards immediate benefits over longer-term benefits.

City-centric policy and regulations

The broader public policy and legislative agenda is optimised to meet the needs and context of urban communities and businesses. The impacts or efficacy of reforms rarely take into consideration regional and rural experiences. This is not by design; it stems from the fact that regulators' and policymakers' lived experience is mostly in an urban setting, and most Australians live in urban communities. The downside of this is that public policy settings often do not optimise outcomes for regional communities and economies.

As an example, the Australian Energy Market Operator has undertaken extensive consultations in developing the Integrated Systems Plan[xxxiv] that will dictate the location of multibillion dollar investments in transmission lines and electricity generation. The energy industry and consumers have been heavily consulted in the development of the Plan and have been provided significant opportunity for input in shaping the ISP.

Landowners and local governments have not been afforded the same seat at the table for the ISP. ISP decisions will be made with urban consumers and the energy industry in mind, while the impacts (positive and negative) and challenges to rural communities and industries are only considered during the implementation phase, where most decisions on the plan have already been made. Providing policymakers with experience regional and rural issues, and an understanding of the regional context can help avoid such pitfalls.

Organics an opportunity to go up the value-chain

Australia boasts more than 50% of the world's total certified organic agricultural land, representing a prime opportunity to produce high quality pre and post-farmgate products. The global market for organic products reached USD $105 billion in 2018. In the USA, all leading supermarkets now market their own private label organic products.

Australia is well placed to capture the global appetite for organics. Despite current limitations to market access, Australia exports some AUD $700 million of organic product annually to large international markets. Government to Government equivalency arrangements into these markets would provide increased trade opportunities without the economic burden currently creating barriers for Australian organic producers.

Under the current legislative framework, Australian consumers cannot be assured that a product that claims organic on its packaging or marketing materials is truly organic. In a recent survey, 78% of consumers were not aware that products that have as little as 2% organic ingredients can claim to be organic. Consumers are seeking protection, with a significant number agreeing that it is important for organic products to be tested by a strict set of standards through certification.

Domestically, an unknown volume of non-certified produce makes an array of claims that lower the credibility of genuinely organic produce. Certified organic operators across Australia commonly report that other businesses and products that claim organic status (that have not been through the rigorous process of certification) provide constant confusion in the marketplace. Most often it is through pricing inequity and misleading marketing messages.

Despite ongoing discussion with key trading nations such as the USA and China, Australian organic products are not recognised through equivalency nor mutual recognition agreements. The key reason typically cited for the lack of reciprocal agreements is Australia's lack of domestic regulation.

Australian Organic Limited has explored various pathways for achieving a clear and strong domestic regulation of the use of the word organic. In December 2020, the Department of Agriculture, Water and the Environment appointed an Organics Industry Advisory Group to investigate the creation of a nationwide regulatory framework for the production and sale of organic products.

It is Australian Organic Limited's recommendation to agree on a consistent approach that will grow economic outcomes both domestically and internationally.

NIKI FORD
CEO, Australian Organic Limited

Building on regional industry competitive advantage – the role of agriculture

Regional development cannot proceed by relocating businesses and industries to the regions that have no logical nexus or advantage in being in the regions. The focus of regional development must be on industries that already have a foothold in the regions or have the potential to have a competitive advantage in being located in regional and rural Australia.

Traditional industries currently include agriculture, mining and exploration, tourism and hospitality, and healthcare and social services.[xxxv] However, there is significant scope for non-traditional industries to flourish in the regions. Nascent energy industries, including renewables and hydrogen supply chains, can gain competitive advantage from being located in regional and rural areas, as can digital infrastructure such as data centres. These industries currently include agriculture, mining and exploration, tourism and hospitality, and healthcare and social.

Agriculture underpins the economies of most of Australia's regional areas. The agricultural sector has set an ambitious target to become Australia's next $100 billion industry by 2030.[xxxvi] Agriculture is the number one industry in terms of employment in regional economies like the Western Australian wheat belt, the Barossa-Yorke region and the South-East of South Australia, the Central West and New England regions of NSW, the Outback region and Darling Downs in Queensland, and South East region of Tasmania, and in the top five in most other regional and rural economies.[xxxvii]

Agriculture's future is completely tied to the fortunes of regional communities. It's time to pick winners and agriculture is a proven winner. The sector is reliant on the amenities, services and workforce that regional communities provide. The sector's international competitive advantage is reliant on investment in the enabling hard and soft infrastructure in regional and rural areas.

The opportunities that agriculture provides go beyond the farmgate. A myriad of organisations including the CSIRO, PwC and the Future Business Council, have all identified agriculture and food industries as one of the key drivers for future growth in Australia's economy. There are significant opportunities to collocate food and fibre processing and manufacturing close to the point of food and fibre production and move food and agricultural production up the value-chain. Currently, 88% of Australia's food exports are non-value added bulk commodities,[xxxviii] which is a huge missed opportunity in terms of value-adding and creating wealth and jobs in regional Australia.

The inclusion of food and beverage manufacturing in the Federal Government's *National Manufacturing Priorities* is most welcome, and the exploration of regional processing and manufacturing can be the core of the regionalisation agenda.

There are further opportunities to develop synergies with other complementary industries, including provenance-based food and wine tourism,[xxxix] and new opportunities in expanding the highly lucrative markets for organics and 'nutraceuticals' – food produced and marketed for its health and medicinal benefits.[xl]

These natural industry synergies can be utilised to improve the financial resilience and preparedness of farming businesses. As an example, farm tourism and hospitality experiences can be leveraged to provide farmers with much needed 'off-farm' income, reducing farmers' exposure to drought events and natural disasters.

Liveability of the regions
NFF Telecommunications and Social Policy Committee

Encouraging individuals and families from larger centres to relocate to regional Australia must remain a focus, but there is also a need to ensure the retention of people who already reside in regional communities. Ensuring regional communities can provide services and fulfilment for needs as they change must be a focal point.

To realise the full potential of regionalisation, the human element must be addressed. To attract and retain people from diverse environments, regional Australia must be able to offer the range of services that underpin quality of life and 'liveability'.

Liveability relies upon the provision of essential services including equitable access to quality and specialist healthcare, childcare and education. Telecommunications and transport infrastructure are also important. Liveability also includes the many other support services, facilities and entertainment options that are often taken for granted by those living in larger centres.

While the benefits of relocating to a regional area are many - from lower cost of housing, more relaxed lifestyle and proximity to employment - we know that for many this can be outweighed by the compromises, often compounded by remoteness.

Those contemplating a move to regional Australia will consider more than whether the move will be profitable. The liveability aspect for themselves and their family is important. As policy changes, the questions asked by families and individuals must be considered and able to be answered.

- Will my kids have access to quality educational opportunities?
- If I get sick and need specialist treatment, how far will I need to travel?
- Are maternity services available?
- What entertainment options are available?
- Can I access affordable transport?
- Will the telecommunications services allow me to work remotely/stay connected with loved ones?

The NFF's Telecommunications and Social Policy Committee considers the human element to be an essential pillar of regionalisation, which must be addressed in concert with economic and workforce considerations.

Recommendations: A Regionalisation Agenda

Summary of recommendations

1. **Integration of federal, state and local government priorities**
   - The regionalisation agenda be elevated to a National Cabinet issue.
   - National Cabinet identify and establish 20 place-based regional development precincts.
   - National Cabinet be responsible for reporting on regional development outcome measures.
   - Local government be given a seat at the table.

2. **An explicit decision framework be developed to administer regional development investments.**
   - An explicit framework to guide regional development investments would ensure that government investments maximise development outcomes, and protect against claims of 'picking winners' or 'pork-barreling'.

3. **The development of an independently assessed priority list for 'shovel ready' regional development opportunities.**
   - An independently assessed priority list allows for top-down and bottom up proposals to be assessed and prioritised for when fiscal or economic conditions are conducive for public or private investment.

4. **Building the capacity of regional stakeholders on regionalisation**
   - Regional Development Australia priorities be integrated with relevant state government priorities, and regional councils.
   - Federal and state government provide secondment opportunities within regional local government on economic development (capacity building).

5. **Transformative infrastructure to anchor community and industry buy-in and investment**
   - A review of infrastructure cost-benefit analysis discount rates be undertaken that has acted as a barrier to prioritising regional infrastructure projects with long-term benefits.
   - The annual $3.8 billion infrastructure shortfall in regional Australia be addressed.
   - Short term incentives (tax incentives, expedited planning approvals etc.) be provided to facilitate initial private investment to kickstart the regionalisation agenda.

Integration of federal, state and local government priorities

Given the finite resources available for regional economic development, it is imperative that all three levels of government integrate and align their priorities and strategic vision for regional development to ensure outcomes from available resources are maximised.

There is a myriad of valuable Federal Government programs that aim to integrate federal, state and local government regional development priorities, including the work of Regional Development Australia, the Regional Deals program, and the Regional Recovery Partnerships Program. While these programs promote cross-government collaboration, they do not provide coordination and consensus on priorities. As an example, the NSW Government's regional development focus is on the Special Activation Precinct program, which does not align with any of the Federal Government regional development programs.

Cross-government coordination on regional economic development priorities is required, including on matters of principles, resourcing, and service delivery. This process should be initiated at a National Cabinet level via a sub-committee process. Federal and state governments should be applauded for establishing the Rural and Regional National Cabinet Reform Committee.[xli] As a first step, the Committee is auditing the various investments being made by governments on regional and rural development.

There is significant scope for this Committee to further promote the regionalisation agenda by being the main intergovernmental forum to push forward this agenda including the development of principles for the identification and assessment of regional development priorities, and the implementation and roll-out of prioritised regional development projects. The Committee could also be responsible for aligning and integrating state and federal regional development schemes to deliver the 20 place-based regional development precincts across the nation, as sought in the NFF *Get Australia Growing* economic recovery plan.

As a part of this place-based regional development, and noting the launch of the Federal Governments' Modern Manufacturing Strategy, greater government resources should be placed into enhancing the role of regional food and fibre manufacturing in regional areas. As per Productivity Commission recommendations on regional development, any short-term government incentives should go to facilitating economic activity with a natural competitive advantage in being located regionally, not a long-term subsidy that tries to artificially prop up economic activity that has no advantage or benefit in being regionally based.

The paper further seeks that National Cabinet be responsible for delivering and reporting on regional development outcome metrics. These outcome metrics including (but not limited to):

- access to digital infrastructure (digital download speeds and costs, 5G access);
- the relative cost and reliability of electricity in regional areas compared to urban areas; and
- the relative income per household in regional areas compared to urban areas.

Having an explicit scoreboard for regional development will be vital to ensure focus on activities and initiatives that will effect change.

Nuseed bringing R&D to Regional Australia

Nuseed (a fully owned subsidiary of Nufarm), is Australia's leading developer and supplier of hybrid canola seeds optimised for Australian conditions.

Nuseed's global canola innovation hub is based in Horsham, Victoria. This centre underpins our research and development for Australia and global markets including North America, LATAM and Europe.

Attracting and retaining global research and development talent to regional areas is a challenge, however, we feel that over time this can be addressed by building scale and developing centres of excellence in towns like Horsham.

We have partnered with the local agricultural college in Horsham to provide scholarships and training. Further opportunity exists to broaden the engagement and contribution of other universities and research institutions, which will amplify regional development and strengthen R&D development for agriculture.

Building the capacity of regional stakeholders on regionalisation

Regional communities, industries and local government should be the focal point for developing and advocating for regional development and investments. However, with few exceptions, these regional stakeholders do not have the same resources as their urban counterparts to invest in advocacy for industry and economic development investments for their region.

Regional councils in particular do not have the rate base or resources to actively explore and devise economic development opportunities, and advocate and seek state and federal resources to execute these opportunities. Any regional development strategy must seek to build the capacity and resources of regional stakeholders, particularly the capacity of local government.

The following actions will be instrumental to develop the capacity of regional stakeholders to be the driving force for practical and effective regional development:

Regional Development Australia to provide economic plans for every functional economic region

To allow regional stakeholders to effectively collaborate and coordinate limited resources towards development of viable bottom-up regional development proposals, state and federal government programs, resources and administrative agencies must coalesce around a common geographical and economic boundary. This paper has argued that resources and activities coalesce around the concept of functional economic regions.

Coordination of regional development goals should go beyond high-level agreements between state and federal governments. The Regional Development Australia (RDA) program and local governments are key regional development institutions for federal and state governments respectively. Their priorities should also be aligned and coordinated.

Each RDA should be tasked with providing capability audits and economic development plans for each functional economic region within its footprint. This would provide a practical roadmap upon which regional councils, industries and communities can base their economic development priorities and proposals, and provide input to governments around potential place-based regional development precincts.

The RDAs should be given a central regional economic development role and be integrated into local government structures to build the professional capabilities of regional councils to undertake economic development activities, including establishing forums for industry and community dialogue.

In general, RDA priorities and activities should be aligned with the priorities of regional councils covered by that RDA.

There are significant synergies to be gained from the integration of RDAs and local government priorities and activities. RDAs have demonstrated their ability identify regional economic capacity and potential, and to engage governments, industry and communities to identify economic development options. Local governments have the planning and service delivery powers to deliver on economic development opportunities.

State and Federal Government secondments into regional local governments

Regional councils should be a driving force in the regionalisation agenda, however, resource constraints due to a dwindling rate base means that they cannot dedicate adequate time and effort to regional development opportunities.

Federal, state and local governments would all benefit from regular secondment opportunities within regional local governments for state and federal agency staff. These opportunities could be provided to agency staff who deal with regional issues including within the regional development, infrastructure, industry, treasury and social services portfolios. The benefits of such a program include:

- additional headcount for budget constrained regional councils;
- building the professional capacity of local governments by sharing knowledge and best practice via the secondee; and
- a greater understanding of the regional and rural context for public servants and policymakers when making public policy decisions.

Framework for identifying regional development opportunities

Governments require a ready-made robust framework to identify and assess regional development opportunities. This is vitally important to guard against the perception of picking winners or favoring particular regions or industries on grounds other than merit. There also needs to be a recognition that governments have finite financial resources, and any investment must provide the greatest return across a broad set of stakeholders.

The following criteria can form the basis for regional development prioritisation:

- the current or potential availability of the determinants of growth (human capital, competitive advantage/ business advantage, access to local and global markets, cross-sectoral partnerships etc.);[xlii] and
- the centrality of the region in providing the economic and social amenities for the network of regional and rural communities surrounding it.[xliii]

Regions which score highly on these two criteria, should be shortlisted for further evaluation based on the potential for government intervention to provide a step change in the long-term economic prospects of the region. This evaluation would include an assessment of current and historical government investment or intervention in the region's economic development and the economic outcomes of those investments.

This framework could be used by an independent body, such as Infrastructure Australia, to identify and assess regional development opportunities, or assess third-party proposals. Framework criteria should be communicated broadly throughout business, community and to allow for bottom-up community and local government led proposals to align their application to the framework criteria.

The upcoming ACIL Allen AgriFutures research, will provide a thorough overview of this assessment framework.

Independently assessed priority list for regional development opportunities

The 2020-21 Federal Budget (the Budget) has demonstrated the importance of having independently assessed ready-made projects for government investment. The Infrastructure Australia pipeline of prioritised infrastructure project formed the basis of the Federal Government's economic recovery agenda within the Budget.

Investment in regional development opportunities needs to be mobilised and ready for when budgetary or economic considerations are conducive to promoting the regionalisation agenda. These investments need to be 'shovel-ready', particularly in times where fiscal responses are required to make immediate economic impact. Resources are rarely diverted to identifying and assessing potential long-term investment options during an economic crisis.

An independently assessed priority list for regional development projects would allow for invested stakeholders, local communities and industries to put forward and advocate for investment proposals without the risk of what the Productivity Commission refers to as 'persistent favouring of perennial candidates for support'. These bottom-up regional development proposals would still need to pass the scrutiny of an independent assessment, must demonstrate benefits outweigh costs, and must demonstrate returns above and beyond competing proposals.

The bottom-up approach also assists agencies established to identify and assess investment opportunities, such as Infrastructure Australia, in making more robust assessments. These agencies rarely have a strong grasp of local conditions or visibility of opportunities and barriers that are only visible to local stakeholders.

The independent prioritisation assessment process protects against accusations or perceptions of governments picking winners or pork barreling.

To develop a prioritised list of regional development opportunities an explicit assessment framework is required to identify and develop a shortlist of priority regions and industries. The previous recommendations provides high level principles to assist in the development of an assessment framework.

This list should then inform the establishment of future place-based regional development precincts. Priority should be given to regions with high long-term economic prospects which can benefit most from government investment or intervention, and clear pathways to embedding the determinants of growth within their region. The upcoming AgriFutures-Acil Allen research paper (to be released late 2020) on the intersection of regional development will help inform potential opportunities.

Revitalising Australia's wool industry

Regional Queensland could soon be riding on the sheep's back once again, based on a feasibility study into local value adding in the wool supply chain.

Despite the hollowing out of Australia's wool manufacturing capacity, Australia continues to be the world's largest producer of high-quality wool. Nearly all of Australia's wool is exported as unprocessed greasy wool and is value-added offshore. China is the near sole purchaser of the Australian wool clip, and purchases most of the world's traded wool.

There is an opportunity for Australia to leverage its competitive strengths and re-enter the wool manufacturing business. This could mean higher value Australian exports and the return of hundreds of jobs in regional communities.

Queensland can establish an industrial scale, vertically integrated wool processing facility in Blackall that can scour wool and produce a spun yarn. The process could be viable, principally on the back of modern, efficient machinery and leveraging the temperature of the Great Artesian Basin water, which considerably reduces running costs of scouring operations.

This also provides market diversification opportunities. There are established markets for woollen yarn in the UK and Italy, as well as opportunities in Vietnam, Indonesia, and Bangladesh.

Realising this opportunity requires a mixture of private and government involvement. Work is currently underway to identify potential investors and establish a private operating and ownership model on commercial terms – independent of government assistance. This is the type of opportunity Australian superannuation funds can get behind, in partnership with well-known Australian operators.

The Federal Government, through Austrade, can de-risk the opportunity by identifying international woollen fabric weavers and opening the door to commercial supply negotiations. The Queensland Government needs to provide access to water, expand the cluster fencing program, upgrade energy infrastructure, and provide a skills pathway for workers to feed into this emerging supply chain.

Reinvigorating Australia's wool processing is a big step towards revitalising Australian manufacturing. Now is the time to be leveraging our existing strengths in agriculture and locking in the employment and economic benefits value adding provides to the economy.

JONATHAN PAVETTO
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Transformative infrastructure to anchor community and industry buy-in and investment (lowering discount rates)

Place based economic development requires transformative and imagination capturing investment in infrastructure to act as the catalyst for industry and community engagement and investment in the regionalisation agenda.

It is recommended that governments fund the regional infrastructure gap of $3.8 billion per annum and utilise this spend to rally industry, local community and business around these infrastructure projects for regional development purposes. This paper notes announcement in the 2020-21 Federal Budget of multi-billion-dollar government and non-government investments in water and digital infrastructure and believes these are good first steps in addressing the regional infrastructure gap.

Lower the discount rate to ensure long-term vision and prosperity

The use of a discount rate of 7% to calculate net present value for cost-benefit analysis is too high and de-prioritises investment in regional development and infrastructure. Regional infrastructure generally has benefits that accrue later in the projects lifecycle. Too many regional investment proposals are being knocked back because they do not tick the short-term benefit box.

This paper recommends a discount rate closer to 4% that would provide a balanced approach in quantifying short-term and long-term benefits.

The 4% rate is commensurate to the range of discount rates used internationally, and more commensurate with the cost of long-term government debt and risk associated with a properly scoped project.

This paper recommends that as a first step a government review of discount rates used in Australian government cost-benefit analysis with reference to:

- the cost of long-term government debt;
- assessment of risks associated with government-funded projects; and,
- international experience with discount rates.

The paper further seeks that the issue of discount rates be addressed and put on the intergovernmental agenda via the Treasury portfolio, noting the need for agreement and consensus amongst state, territory and federal treasuries.

Short term incentives provided for facilitation of initial private investment

A regional infrastructure program would provide the catalyst for private investment. Short-term incentives should be provided to encourage private investment in economic capacity and infrastructure to establish the economic ecosystem or critical mass. This is particularly so for synergistic sectors, such as food and processing and manufacturing.

This could include grants for the establishment or expansion of regional facilities and expedited planning and environmental approvals. The Victorian Government's payroll tax concessions for regional employers[xliv] provides a blueprint of how taxation can incentivise the regionalisation agenda.

The promotion of the role of local suppliers in providing the infrastructure is another economic development opportunity.

Building the international competitiveness of regional industries - the grain supply chain

Grain Trade Australia (GTA) is the focal point for the commercial grain industry within Australia. It facilitates trade and works to provide an efficient, equitable and open trading environment by providing leadership, advocacy and an industry driven self-regulatory framework including the Australian Grain Industry Code of Practice, grain Trading Rules, Contracts and Grain Trading Standards.

Improving supply chain efficiency, improves value of every tonne of grain sold and Australia's global competitiveness. This value will flow directly into our regional communities.

A GTA developed strategy called *Modernising the grain supply chain – from drought, through COVID-19 to 2030* has identified four key *Strategic Growth Pillars* to develop and grow industry, through strategic efficiency gains in the value chain. The Strategic Growth Pillars are:

1. Skills and Capability
2. Quality and Market Access
3. Technology
4. Transport and Logistics.

Investment in industry is critical to remain competitive into the future and to capture the benefits and to deliver economic growth for Australia. This is especially the case given 30-35% of a grower's total cost is supply chain cost and the traditional quality advantage for Australian grain is under pressure as processers increase their efficiency and utilisation of grain from alternative origins.

However, industry alone cannot make the required supply chain investments or drive the system wide operational efficiencies on their own. There are several reasons including:

a) The overall size or quantum of investment required.
b) The risks around developing new technology.
c) The broad base of beneficiaries across the value chain.
d) Limited 'first mover advantage' for developing new technology.
e) Limited 'first mover advantage' in investing in infrastructure relating to pre-competitive activities.

GTA's report identifies industry driven 'strategy enabling projects' that are aligned with Government policy objectives and the projects in Agriculture, Trade and Market Access, Information Technology and Transport and Supply Chain portfolios. Delivery of these projects would see industry work in partnership with Government improve Australia's global competitiveness and deliver value to regional communities.

PAT O'SHANNASSY
Grain Trade Australia

Improving supply chain efficiency, improves value of every tonne of grain sold and Australia’s global competitiveness.

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NFF Member Organisations

AGFORCE
ACGC Australian Chicken Growers' Council
Australian Dairy Farmers
ALEC Australian Livestock Exporters Council
Australian Organic
AVA Australian Veterinary Association
Australian Pork
Beechworth Honey
Australian Forest Products Association
ALPA
CANEGROWERS
Cattle Council of Australia
FCA Farmers for Climate Action
Cotton Australia
The Pastoralists' Association of West Darling
GICA Goat Industry Council of Australia
GrainCorp
Grain Growers
NSWIC New South Wales Irrigators' Council
KIAA
National Farmers Federation Horticulture Council
NSW Farmers
Northern Territory Cattlemen's Association N.T.C.A
PET Primary Employers Tasmania
Tasmanian Farmers and Graziers Association TFGA
PPSA Primary Producers SA
Ricegrowers' Association of Australia Inc
Sheep Producers Australia
SoilsForLife
Victorian Farmers Federation
WAFarmers
WoolProducers Australia

National Farmers Federation

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