



Australian Government  
Productivity Commission

# Transitioning Regional Economies

## Productivity Commission Initial Report *Overview & Initial Findings*

April 2017

This draft report has been prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.

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### **The Productivity Commission**

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

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

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

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# Opportunity for further comment

You are invited to examine this initial report and comment on it by written submission to the Productivity Commission by Monday 31 July 2017. Further information on how to provide a submission is included on the study website at [www.pc.gov.au/inquiries/current/transitioning-regions/make-submission](http://www.pc.gov.au/inquiries/current/transitioning-regions/make-submission).

The final report will be prepared after further submissions have been received and further consultations have been undertaken, and will be published in December 2017.

## **Commissioner**

For the purposes of this study the Commissioner is Paul Lindwall.

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# Terms of reference

## **A study on the transition of regional economies following the resources boom**

I, Scott Morrison, Treasurer, pursuant to Parts 2 and 4 of the Productivity Commission Act 1998, hereby request that the Productivity Commission undertake a study into the geographic impacts of the transition of the Australian economy following the resources investment boom.

### **Background**

The transition from the mining investment boom to broader-based growth is underway. This transition is occurring at the same time as our economy is reconciling the impacts of globalization, technological and environmental change.

By its nature, the geography of our economic transition will not be consistent across the country.

The combination of forces driving the transition of our economy will unavoidably create friction points in specific regional areas and localities across the country, while being the source of considerable growth and prosperity in others.

The different impacts across the geographic regions of the Australian economy occur because of variable factors such as endowments of natural resources and demographics. Some regions may also have limited capacity to respond to changes in economic conditions; for example, due to different policy or institutional settings.

### **Scope of the research study**

The purpose of this study is to examine the regional geography of Australia's economic transition, since the mining investment boom, to identify those regions and localities that face significant challenges in successfully transitioning to a more sustainable economic base and the factors which will influence their capacity to adapt to changes in economic circumstances.

The study should also draw on analyses of previous transitions that have occurred in the Australian economy and policy responses as reference and guide to analysing our current transition. The Commission should consult with statistical agencies and other experts.

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In undertaking the study, the Commission should:

1. Identify regions which are likely, from an examination of economic and social data, to make a less successful transition from the resources boom than other parts of the country at a time when our economy is reconciling the impacts of globalization, technological and environmental change.
2. For each such region, identify the primary factors contributing to this performance. Identify distributional impacts as part of this analysis.
3. Establish an economic metric, combining a series of indicators to assess the degree of economic dislocation/engagement, transitional friction and local economic sustainability for regions across Australia and rank those regions to identify those most at risk of failing to adjust.
4. Devise an analytical framework for assessing the scope for economic and social development in regions which share similar economic characteristics, including dependency on interrelationships between regions.
5. Consider the relevance of geographic labour mobility including Fly-In/Fly-Out, Drive-In/Drive-Out and temporary migrant labour.
6. Examine the prospects for change to the structure of each region's economy and factors that may inhibit this or otherwise prevent a broad sharing of opportunity, consistent with the national growth outlook.

## **Process**

The Commission is to undertake an appropriate public consultation process including consultation with Commonwealth, State and Territory governments, as well as local government where appropriate.

The final report should be provided within 12 months of the receipt of these terms of reference, with an initial report provided in April.

**The Hon Scott Morrison MP**  
**Treasurer**

[Received 15 December 2016]



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# Abbreviations

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
APVMA	Australian Pesticides and Veterinary Medicines Authority
ASIC	Australian Securities and Investments Commission
BLADE	Business Longitudinal Analysis Data Environment
CBD	central business district
COAG	Council of Australian Governments
FIFO	fly-in, fly-out
GDP	gross domestic product
GRP	gross regional product
IAC	Industries Assistance Commission
IC	Industry Commission
NBN	National Broadband Network
OECD	Organisation for Economic Cooperation and Development
PC	Productivity Commission
PCA	Principal components analysis
RDA	Regional Development Australia
RGF	Regional Growth Fund
SA2	Statistical Area Level 2
SA4	Statistical Area Level 4
SEIFA	Socio-Economic Indexes for Areas



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# OVERVIEW

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## Key points

- The mining boom has caused transitional pressures, but it has also made Australians substantially better off in the long term. A mobile workforce (including fly-in, fly-out) has spread the benefits of the boom across workers living in other regions, as well as reduced the cost of both the investment phase and the ongoing production phase.
- About 80 per cent of regions have had positive employment growth over the past five years.
- Even though overall employment growth has been positive, all regions have had highly variable growth in employment over time, with most also experiencing decreases at times.
- Adjustment from the mining boom may not be the largest source of dissatisfaction outside of capital cities. Over the past five years, employment and population falls are evident in some agricultural and a small number of mining regions.
- In agriculture, employment decline is driven by efficiencies and technological innovation, leading to growth in production using less labour. At the same time, there has been a pattern of consolidation from smaller towns to larger regional centres, affecting the social fabric of these communities and engendering a feeling of being left behind as Australia prospers more generally.
- Caution is required if making policy decisions based on the rankings of regions using the estimated metric of relative adaptive capacity in this initial report. There is unavoidable uncertainty about its estimated value for each region, and actual adaption to any specific disruption would be affected by factors beyond the metric.
- The factors shaping adaptive capacity include: people-related factors (educational achievement, employment rates, skill levels, personal incomes and community cohesion); the degree of remoteness and accessibility to infrastructure and services; natural endowments (such as agricultural land) and industry diversity.
- Most mining regions appear to be resilient and have relatively high adaptive capacity.
- Regions with a greater dependency on manufacturing have relatively low adaptive capacity.
- Remote and very remote regions (including Indigenous communities) also tend to have relatively low adaptive capacity.
- There is no 'one size fits all' approach that will promote successful adaptation in all regions, although there are 'no-regrets' policies that should be pursued as soon as practicable.
- Strategies for successful adaptation and development are those that focus on supporting people in regional communities to adjust to changing economic circumstances. Strategies work best when they are:
  - identified and led by the local community, in partnership with all levels of government
  - aligned with the region's relative strengths
  - supported by targeted investment in developing the capability of the people in the local community to deal with transition, adaptation, and securing an economic future
  - designed with clear objectives and measurable performance indicators and subject to rigorous evaluation.
- Although government expenditure on projects can create short-term employment, it often does little to support transition and long-term sustainable growth in regions.
- The initial findings in this report could change when data from the 2016 Census of Population and Housing become available in October and further research is undertaken.

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# Overview

The most recent investment boom in the resources sector (which ended in about 2013) was a confluence of high commodity prices, increased demand, substantial construction of new mining capacity and a sustained increase in production levels. A larger than usual commodity cycle has been notable (box 1). Although the cyclical nature of mining activity is unsurprising, the amplitude of the most recent cycle was relatively large. This resources cycle has presented both opportunities (short- and long-term) and challenges for workers, business owners, people in communities and governments.

The transitional pressures (both in the investment and post-investment operational phases) have been distributed across regions. For example, in Western Australia, the employment effects have been distributed across the state, particularly in the Pilbara, the greater metropolitan area of Perth and regions south of Perth. A significant number of people who were employed in construction and mining lived in Perth and southern regions, which collectively supplied about 70 per cent of the fly-in, fly-out workers for the north-west of the state during the construction phase. This has alleviated transition pressures and enabled a larger number of workers and businesses to share in the opportunities. There is a similar story in Queensland.

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

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

At the same time, there are other long-term transitions taking place in regions. There is increasing urbanisation driven partly by the long-term trend of productivity improvements in the agricultural sector and associated consolidation and growth of regional towns and centres. The trend to urbanisation and the relative growth in services is not confined to Australia — many OECD countries have experienced a similar long-term trend.

It is important to note that Australia's regions have enjoyed overall employment growth and improved social connections as technology is helping bring people closer together.

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This has provided new opportunities for many regional towns and helped cement their long-term viability and vitality.

However, there are some regions that have been more directly affected by the pressures of changing economic circumstances and some that face substantial challenges in forging a sustainable future. It is these regions that are a focus of this study.

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

##### **Western Australia**

Economic growth peaked at 9.1 per cent in 2011-12 and business investment accounted for over 34 per cent of economic growth in 2012-13 (the average was about 12 per cent between 1989-90 and 2004-05). Following the end of the investment phase, economic growth slowed and in 2015-16 was the lowest in 13 years, at 1.9 per cent. While economic growth has remained positive, 88 000 people were unemployed (on average in the year to February 2017) compared to less than 40 000 people in 2008. The unemployment rate rose from about 3 per cent in 2008 to over 6 per cent in the year to February 2017. Total employment has also decreased by about 10 000 people (nearly 1 per cent) over the past year (on average to February 2017).

##### **Queensland**

Construction expenditure in Queensland rose to unprecedented levels during the boom, peaking in 2013-14 at \$36.6 billion, and subsequently decreased by about 70 per cent. Unemployment in Queensland also decreased to about 80 000 people on average in 2008, but has since almost doubled, reaching about 155 000 people in the year to February 2017. During this period the unemployment rate rose from less than 4 per cent to over 6 per cent.

## **What the Commission has been asked to do**

In essence, the task for this study is to:

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

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The Commission has been asked to publish an initial report by April 2017. To meet this deadline, the Commission has delivered a streamlined initial report and tailored its consultation processes. A full final report will be published in December.

Following the publication of the initial report, the Commission will consult widely in regions, seeking feedback and suggestions from interested persons and organisations on its initial report, findings and information requests.

In light of this, there is a high likelihood that the analysis and findings will change for the final report, due to:

- access to the 2016 Census of Population and Housing data in October 2017, which is paramount to this study
- consultation and feedback from participants
- scope to undertake further research that was not practical for the initial report.

Documentation for the single metric will be published on the website for this study by the end of June.

## **Framework for assessing adaptation and development**

### **All regions are considered**

All regions of Australia (both urban and non-urban) are considered in this study (box 2), not just those directly affected by mining investment, such as the Pilbara, Surat and Bowen basins, and the Hunter Valley. The mining investment boom has had widespread effects on regions through:

- an expansion of mining capacity and increased production in mining regions
- the mobility of workers between regions induced by the construction phase (and the operational phase) through relocation; fly-in, fly-out; and drive-in, drive-out workers
- many mining workers (including construction) working principally in capital cities and not on-site in mining regions
- the contribution of the boom and its end to the rise and fall in the real value of the Australian dollar, which has affected regions with significant non-mining export sectors (such as agriculture) and import-competing sectors (such as manufacturing, which is often based in major cities)
- the associated rise in energy prices in eastern Australia, particularly as the domestic gas market links to the world market and domestic prices move towards export parity.

There are also some regions that are subject to transitional pressures from other sources, such as environmental, energy and climate change policies (for example, the Latrobe Valley and Port Augusta/Leigh Creek) and other economic and policy changes affecting

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industries in regions (examples include vehicle manufacturing in Geelong and North Adelaide).

### **Box 2      What is a region?**

'Regions' can be defined in many ways, and the way that they are best defined is likely to depend on the policy purpose of the analysis. For example, the definition used in this study is likely to be different from the definition used in a study of the Murray-Darling Basin, where environmental issues regarding water are the main policy interest.

Within the context of this study, there is no clear answer as to how regions are best defined. 'Regions' could be based on economic characteristics ('mining' or 'manufacturing' regions), administrative units (such as local government areas), or the effects of the resources boom (for example, towns that are interrelated because of fly-in, fly-out workers).

Due to the widespread effect of the resources boom and the variability in the data across regions that might be considered similar, the Commission has used geographical regions defined under the ABS Australian Statistical Geography Standard.

Most of the analysis uses regions defined at the Statistical Area Level 2 (SA2) and Statistical Area Level 4 (SA4). There are 2196 SA2s, each representing communities that are linked socially and economically. There are 88 SA4s which represent larger geographical areas — for example, inner Perth is represented by one SA4 region, and includes 14 SA2 sub-regions (including Perth City and Cottesloe).

## **Key elements of the framework**

The study of the economic resilience and adaptation of local and regional economies has gained momentum since the global financial crisis. The ideas have found their way into policy debates about building regional economic resilience. A major challenge is that there is no generally accepted way to measure economic resilience and adaptive capacity (indeed, there are not even common definitions of these terms). As such, caution is needed with the interpretation of the information presented in this report and its application to policy making aimed at building resilience and promoting economic development in regions.

There are three key elements to the framework adopted for this study, discussed below.

### **Economic performance over time**

The first element is to observe change in the economic performance of regions over time. From this, insights can be gained about how regions have transitioned or are transitioning from economic disruptions (box 3).

### Box 3 An illustration of the concept of economic resilience

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

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

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



From an examination of economic growth over time, it might be possible to identify regions that have experienced a significant disruptive event, and determine whether they recovered (were resilient in an absolute sense) or whether their growth path stagnated or deteriorated (were non-resilient). If such regions can be identified, it would then be possible to examine factors associated with observed resilience and, in principle, to direct policy to increasing resilience.

In practice, operationalising this concept has proved challenging with the time series data available and the level of regional disaggregation possible. It has been difficult to observe events at a regional level that are out of the ordinary (using criteria such as the amplitude and duration of business cycles). This is not to say that at a personal level, workers and business owners have not experienced significant pressures.

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The analysis of employment data suggests that regions are continually experiencing ups and downs, as illustrated in box 3. There are also longer-term trends across classes of regions, including those that are predominantly focused on mining or agriculture, or that are regional population centres (towns and cities). These observations are used to paint a picture of changes taking place across classes of regions and to examine the factors at play in shaping their development path.

### Single economic metric of relative adaptive capacity

The Commission has been asked to develop a single economic metric that can be used to rank and identify regions most at risk of failing to adjust successfully to economic disruptions. This is the second element of the approach adopted in this study and is achieved by creating an index of the relative adaptive capacity for each region using data from the 2011 Census of Population and Housing for regions at the Statistical Area Level 2.<sup>1</sup>

Relative adaptive capacity is an unobservable attribute of a region that can be inferred using a set of observable factors considered important in shaping adaptive capacity. It is not a measure of resilience or actual adaptation to disruptive events, which can vary in magnitude and type across regions. Rather, it is a summary of the complex set of factors, including the skills and education of regional workforces, access to infrastructure and services, availability of natural resources, financial resources available to business owners and individuals and the diversity of industries. It is a relative measure, derived using data across all regions. Principal component analysis has been used to construct the metric. This is a method applied to develop similar metrics, such as the ABS Socio-Economic Indexes for Areas (SEIFA). In general, regions with higher adaptive capacity have attributes that are associated with increased potential to transition successfully following an economic disruption.

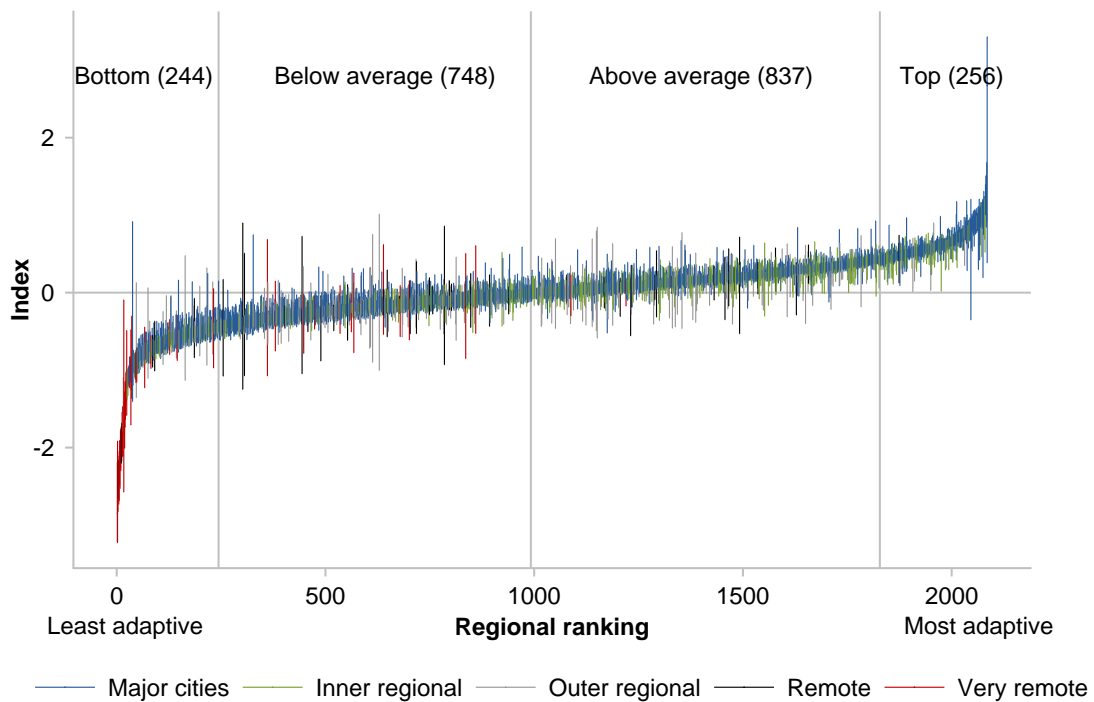
It is difficult to capture the unique features of diverse regions in a single metric. Obtaining data on a consistent basis for all regions has proven challenging. Imperfect proxies have been used to measure a number of the underlying factors thought to shape adaptive capacity, particularly social factors and natural resources. Sensitivity analysis provides insights into the uncertainty about the estimated value of the index score for each region, and therefore their relative rankings. There are a large number of regions whose rankings could change substantially when different variables are included within the analysis, illustrated by the large ranges in the scores for each region (figure 1).

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<sup>1</sup> For the final report, the Commission intends to use data from the 2016 Census which, importantly, were collected after the end of the mining investment boom.



**Figure 1 High uncertainty in the rankings of adaptive capacity**  
 Index values for each region and their 90 per cent confidence intervals, regions sorted from lowest to highest



Even if adaptive capacity could be measured accurately, on its own it does not identify whether regions will be successful in transitioning to a more sustainable economic base following a disruption. Actual outcomes depend on how sensitive a region is to a particular disruption and the opportunities available to regional communities. It depends on the many decisions made by people within those communities as they respond to change in a way that is in their best interests. This limits the suitability of the metric as a guide for policy decisions. However, the metric can be used to explore some broad themes and patterns of adaptive capacity in Australia's regions.

### Framework for economic and social development

The third element is a policy framework to assess the scope for economic and social development in regions and the factors that may inhibit adaptation to changing circumstances. The framework (outlined later) is intended to provide guidance to governments that choose to support adaptation and development in regions.

Strategies for successful adaptation and development are those that focus on supporting people in regional communities to adjust to changing economic circumstances. Strategies work best when they are led by the local community (in partnership with all levels of

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government), are aligned with a region's relative strengths, and are supported by rigorous evaluation of projects and targeted investment in the capabilities of people. Governments should focus on the people who reside in regions — both urban and non-urban — rather than the geographical areas themselves. The movement of people from one region to another can be important to their wellbeing.

## **A snapshot of regional growth and adaptive capacity**

Insights into the performance and adaptive capacity of Australia's regions have been gained using the first two elements of the Commission's framework.

### **Recent trends in regional growth**

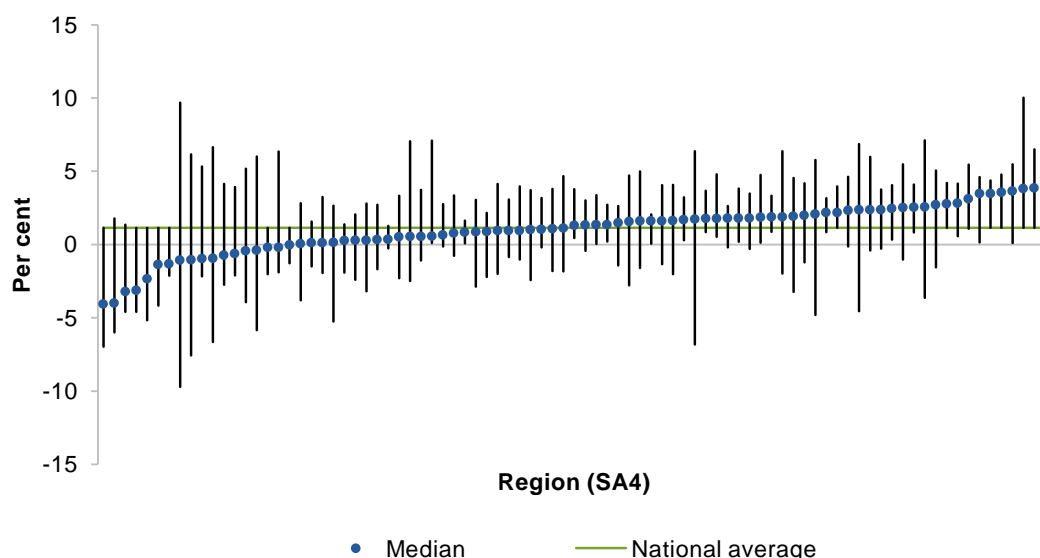
The Commission attempted to identify regions that had experienced an out of the ordinary economic disruption (cycles that are larger than usually observed) using time series data for employment at the Statistical Area Level 4. This is the lowest level of aggregation for which a sufficient time series is available. Based on the information, it has not been possible to identify regions experiencing disruptive events. If it were possible to analyse employment data at a lower level of disaggregation over time, this might reveal regions experiencing disruptive events.

Most regions (about 80 per cent) have experienced overall positive growth in employment over the past five years (figure 2). However, almost all regions have displayed significant variability in growth rates, as indicated by the large ranges in the growth in employment.

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Figure 2 **Most regions have experienced positive employment growth**

Median annual employment growth and interquartile ranges, March 2012 to February 2017, year average data



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## An overview of the adaptive capacity of Australia's regions

Not all regions of Australia have the same capacity to adapt to change. Regional communities that are likely to have the least capacity to adapt (about 12 per cent of all regions<sup>2</sup>) are spread across all areas of Australia, in both remote and regional areas and in urban areas, including major cities (figure 3). Although remote and very remote regions cover large areas of Australia, they represent a small proportion of the total number of regions (and total population) in the 'least adaptive' category.

Major cities and very remote areas have a relatively higher representation in the least adaptive category of regions (figure 4). Over half of the people in the least adaptive regions reside in the greater metropolitan areas of Sydney, Melbourne and Adelaide. The total number of people living in the least adaptive regions was about 2.5 million.

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<sup>2</sup> The 12 per cent of regions (244) with the lowest index value are those that are one standard deviation or more below the mean index value of all regions.

Figure 3 The adaptive capacity of Australia's regions

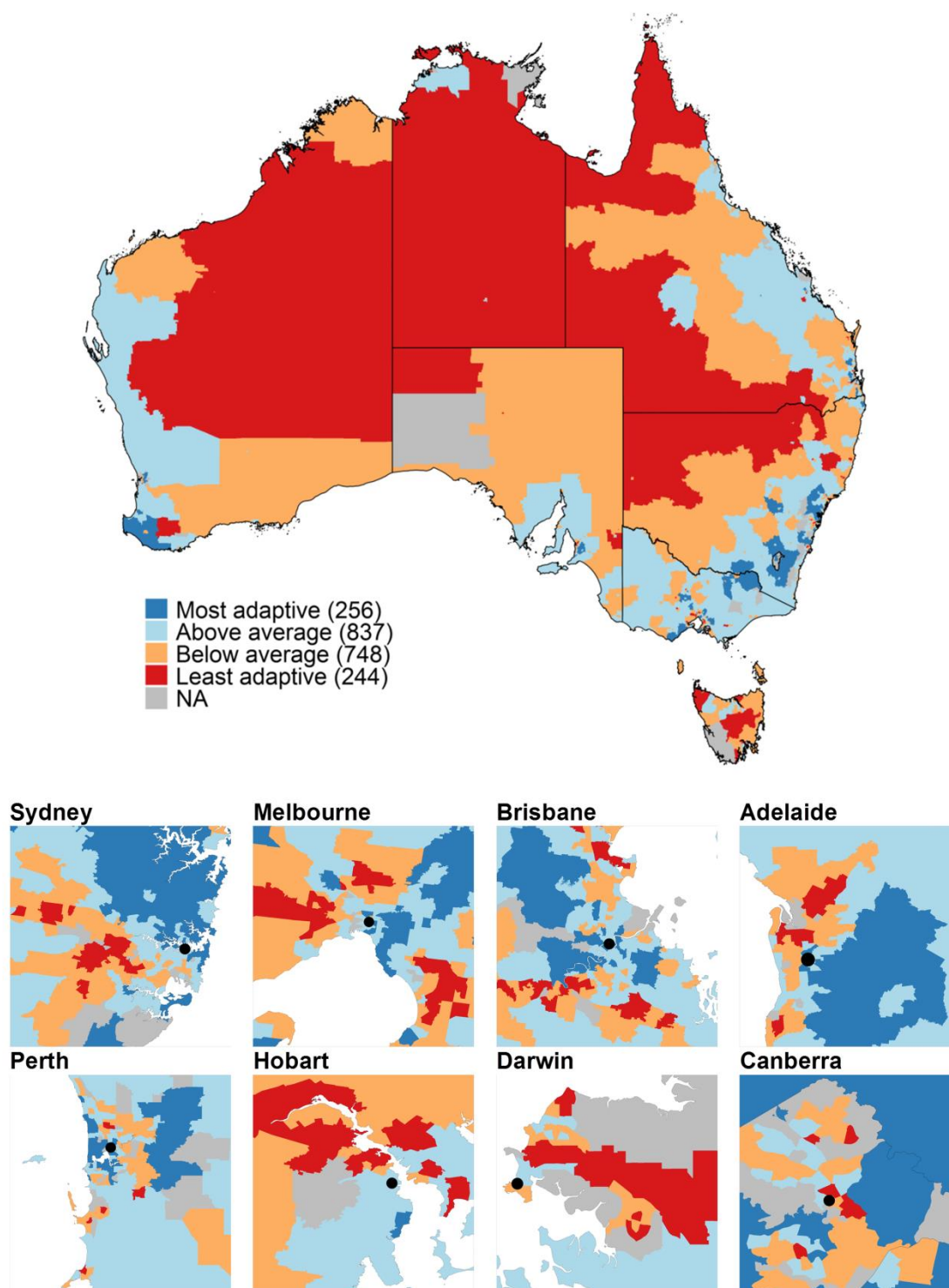
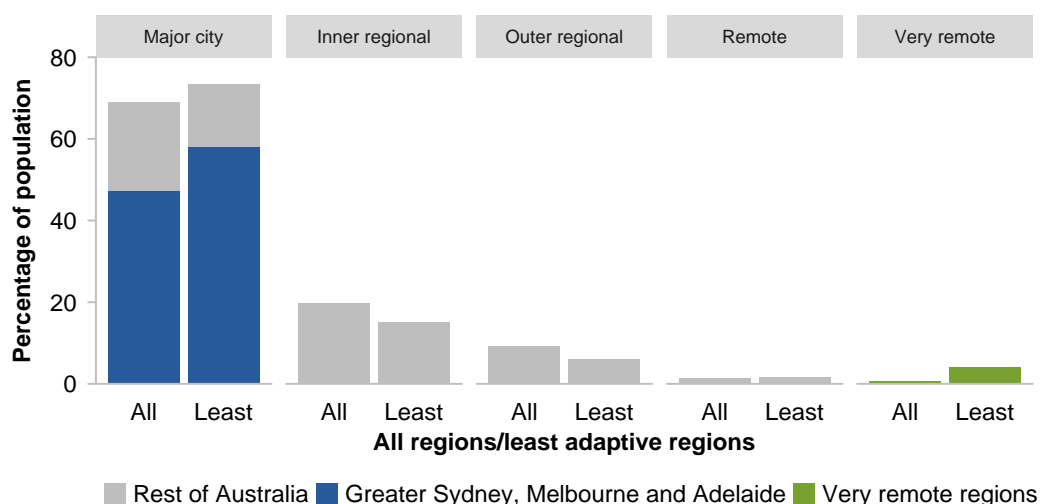


Figure 4 **Some major cities and very remote regions have a high representation in the least adaptive category**



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

## Emerging themes of regional growth and adaptation

Australia's regions are diverse, reflecting differences in their endowments of natural resources, economic geography, their history of development, and the mix and relative size of economic activities undertaken. Although this diversity has made it difficult to classify regions based on either the trends in performance or the metric of adaptive capacity, a number of general observations have emerged.

Regions whose economic base is large-scale mining have generally had the highest rates of growth in employment (since 2005), notwithstanding the end of the investment boom. Overall, employment in mining remains higher now than it was prior to the boom. That said, not all mining areas are prospering and some are in decline. These are typically areas that have marginally profitable mines or where existing mines are approaching the end of their economic lives (including coal mines dedicated to supplying local power stations that

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have been closed). Further, mining does not only affect regions containing mining operations. Many workers in the mining industry live and work in capital cities. In other cases, workers commute to capital cities or drive/fly to mining operations.

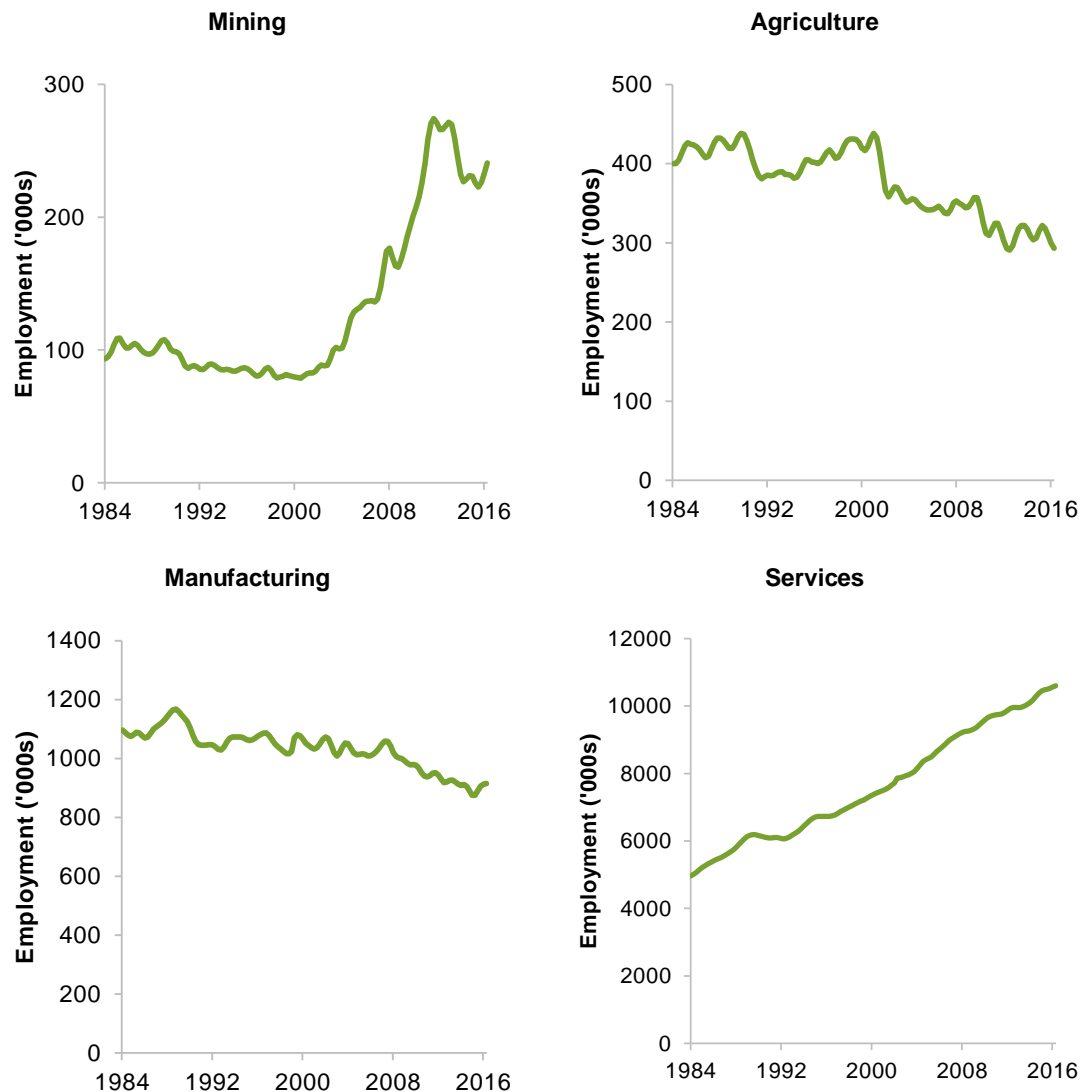
Regions that are predominantly based on agriculture, particularly broadacre cropping, tend to have lower rates of growth in employment. At the same time, there has been an improvement in the productivity of agriculture enabling output to increase with fewer workers. Agricultural regions have also experienced consolidation of small towns into larger regional towns.

Regions whose economic base is predominantly manufacturing tend to have relatively low rates of growth in employment and adaptive capacity. In contrast, regions whose economies are predominantly based on services (cities, large regional centres) tend to have higher rates of growth.

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

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Figure 5 **National trends in employment by industry**



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## Trends in mining regions

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

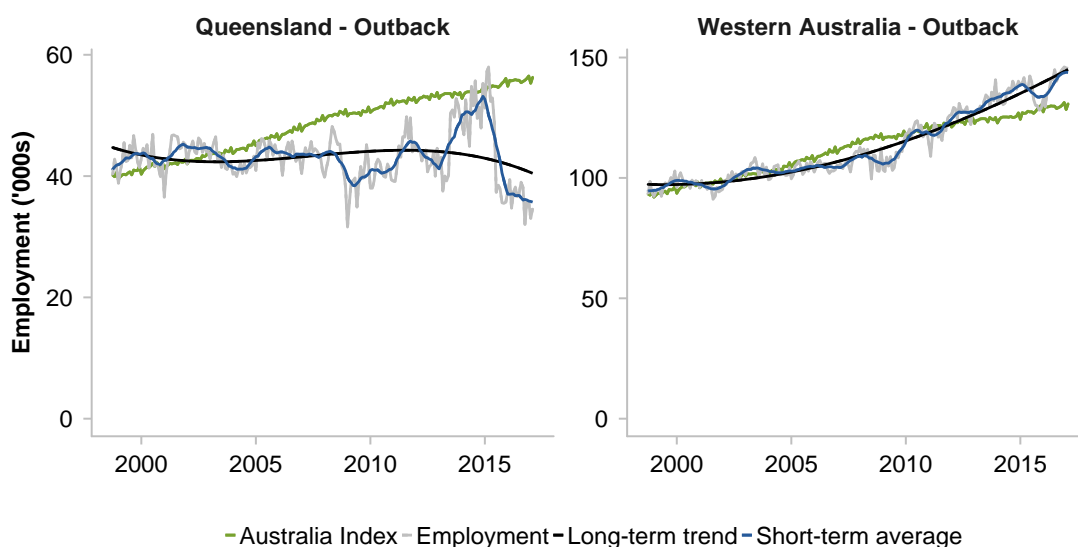
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Most resource regions are continuing to grow and have relatively high adaptive capacity

Most resource regions are continuing to grow. In Fitzroy (Queensland) and the Western Australian Outback, employment has continued on a strong upward trend. The Western Australian Outback has experienced one of the highest rates of employment growth in Australia, growing by almost 20 per cent in the past five years (figure 6).

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



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The effects of the resources boom were particularly transformative in the Pilbara region. High commodity prices and demand for the Pilbara's resources spurred a large number of iron ore and gas investment projects aimed at a major expansion in the capacity of mining operations. Many people moved to the area to take advantage of lucrative employment opportunities, and income growth in the region was well above the national average (7.2 per cent compared with 4.9 per cent between 2005-06 and 2010-11). The spread of the benefits went beyond the regions where mining activity was taking place. There was strong growth in mining-related employment in other areas, including the Perth and Peel regions (box 4). The rest of Australia benefited through the additional taxation receipts, which in some cases were used to fund permanent increases in welfare payments or some cuts in taxes.

The influx of fly-in, fly-out workers and rapid population growth of a highly-paid workforce had a large impact on demand for goods and services in the region and widespread price increases occurred, from basic items such as coffee all the way through to housing.

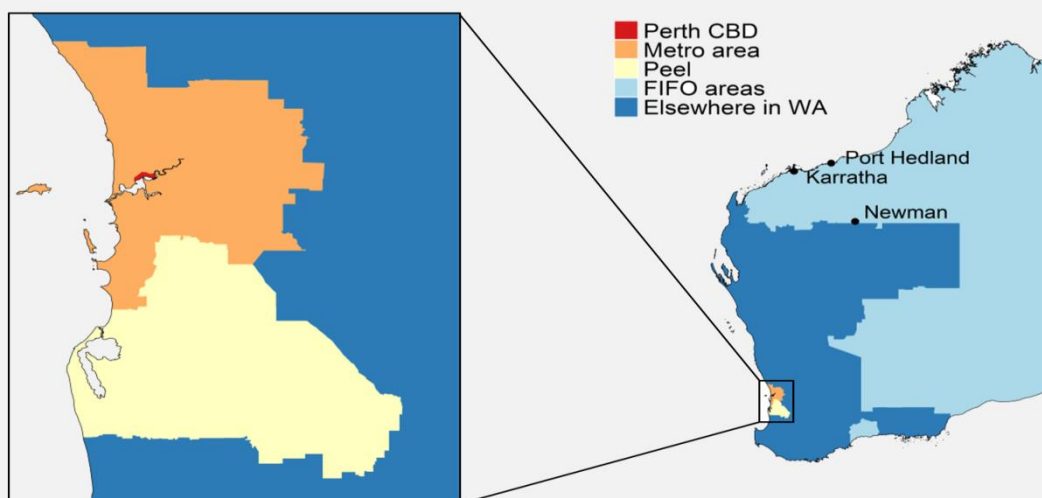


## Box 4 The geographic spread across regional labour markets

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

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

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



Location of employment	Mining industry		Construction industry	
	Peel residents (%)	Perth metro residents (%)	Peel residents (%)	Perth metro residents (%)
Perth metro area (CBD)	22.2 (9.3)	69.1 (41.4)	35.9 (2.5)	93.3 (8.1)
Peel	37.1	1.4	53.8	0.9
FIFO areas (Pilbara, Kimberley and Goldfields)	35.3	25.0	6.5	4.3
Elsewhere in WA	5.4	4.5	3.8	1.5
Number of workers	2 844	32 870	4 260	57 246

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## Adjustment from the mining boom presents challenges for some regions

Just as the investment phase was large and fast, so too has been the transition to the production phase. The implications of a more mobile source of labour, now that the resources cycle has shifted from investment in capacity to production, is that both source and host regions for mining labour are subject to transitional forces. The cyclical nature of employment (demand for certain skills at particular points in time) does not diminish the effects of job loss (or lower wages) for people who expected continued employment and high wages.

During the boom, housing prices skyrocketed from a median of \$200 000 in 2001 to \$800 000 in Karratha and over a million dollars in Port Hedland in 2012. The housing market then experienced a rapid re-adjustment following the end of the resources boom, falling significantly in a number of areas including Karratha, Port Hedland, Moranbah and Mount Isa. Prices have returned to pre-boom levels, creating winners and losers in the process. Mortgagee sales in regional centres have been large and some property investment groups have entered into liquidation.

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

## Some resource regions are in decline and have relatively low adaptive capacity

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

Very few mining regions have been found to be in the least adaptive category, as assessed using the metric. Although this makes it difficult to identify the factors that characterise 'at-risk' mining regions, there are some common features. All of the least adaptive mining regions are in very remote areas. Regions where mines have high cost structures that are only economically viable during periods of relatively high commodity prices face challenges from cyclical downturns in mining investment. For example, in the Kimberley region of Western Australia, three mines that accounted for 30 per cent of gross regional product (when iron ore prices were at their peak) are now in care and maintenance.

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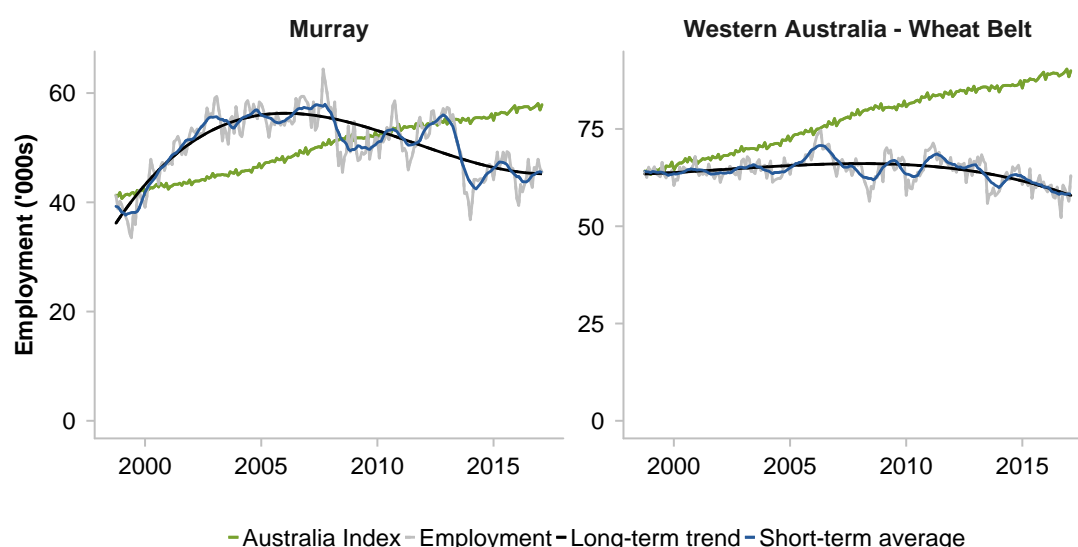
The availability of mineral resources in these regions presents both challenges and opportunities. It provides a source of employment (all of the least adaptive mining regions have a high share of their community employed in mining). Indeed, some towns were developed solely to service the mining industry (such as Leinster and Goldsworthy) and may not have existed were it not for the natural mineral endowments in the area. At the same time, this lack of industry diversity leaves the community exposed to loss of mining activity.

## Trends in agricultural regions

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

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Figure 7 **Illustrative trends in employment in agricultural regions**



## On-farm productivity improvements

Many agricultural products are sold on competitive international markets. The prices that primary producers have received for these products have often not kept pace with the increase in prices for the inputs used. These include wages paid to workers and the price and availability of water, fertiliser, seeds and chemicals. Partly in response to these pressures on profit margins, primary producers have lowered their cost of production through productivity and technological innovation. Farm sizes have increased significantly

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over time and more technologically advanced machinery and farm practices are being used. These changes mean that over time, there are fewer farm owners, farm families and workers. Those remaining in the sector are operating larger-scale properties and more intensive operations to supply agricultural produce.

### Supply chain productivity improvements

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

### Consolidation of services from small towns to regional centres

The services provided by smaller towns, such as banking and finance, retail, machinery repairs, professional services, education and health have consolidated to larger regional towns and centres. Wagga Wagga in the Riverina (New South Wales) is an example of these changes (box 5).

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

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**Box 5      Wagga Wagga and the Riverina region (New South Wales)**

The Riverina is primarily a cropping region, with wheat (the major crop) grown along with rice, canola and barley. Over time, the region's population has increasingly centred on Wagga Wagga. The population of the region grew by about 11 000 people between 1991 and 2015, with Wagga Wagga growing by about 9500 (almost 90 per cent of the Riverina's growth). Much of the remaining increase was in the next largest town (Griffith), while most smaller towns remained stable or declined.

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

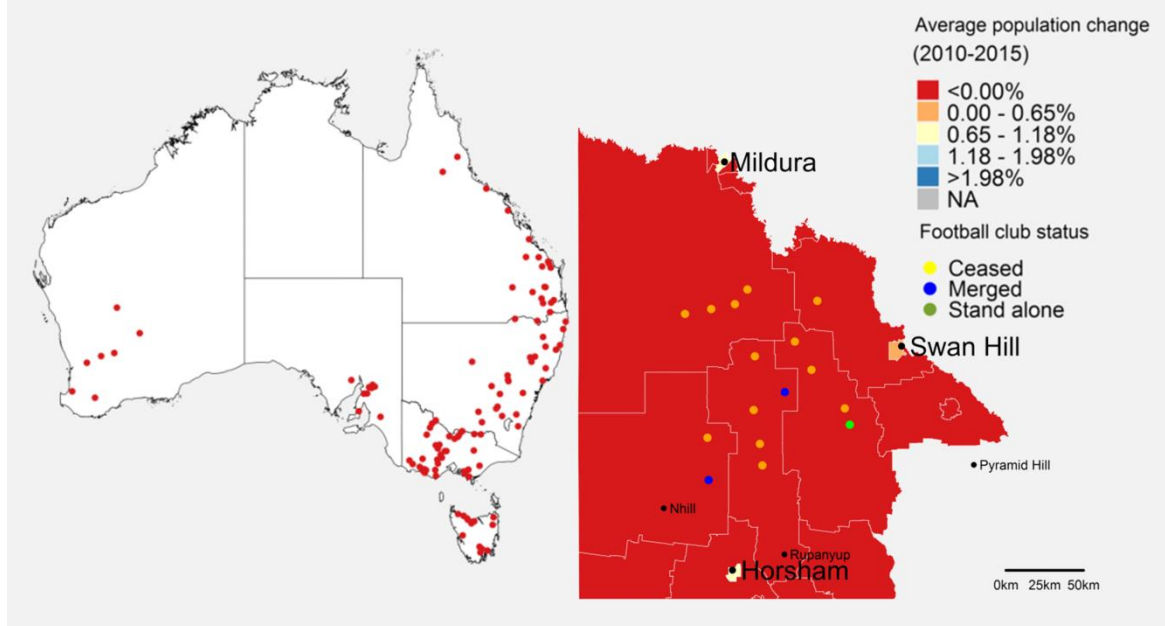
The advent of better personal transport increased competition and trade between service providers in previously less commercially-connected towns. Such providers had to 'get big or get out', creating pressure to consolidate into fewer, larger centres.

As a result of centralisation, many nearby smaller towns have experienced population decline. For example, while Boree Creek (with a population of 212 people in 2011) formerly housed an Australian Wheat Board receiver, its population declined steadily over recent history. That said, the experience of towns in the Riverina has not been uniform. For example, Junee has a correctional centre, providing an alternative employment base from traditional agricultural activities, and has staved off population decline.

There are now fewer people living in some smaller regional towns — a familiar story in the history of Australia's regions. Over the past century, many previously thriving regional towns have shrunk (box 6). When people and businesses leave a regional community to take up better opportunities elsewhere, this often generates greater value and so increases the overall wellbeing of the population as a whole. However, such changes can have adverse effects on people left behind. Individuals who depart the region to pursue other opportunities are also often those who played key roles in the community, such as leading local sporting clubs and similar organisations. A shrinking of the population can harm a community's social and cultural life, and reduce local leadership expertise and skills. As noted above, this is not a unique Australian trend, with many OECD countries experiencing similar trends. It is a trend that cannot, nor should be, thwarted.

## Box 6 Shrinking Australian towns

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



## Urban areas with low adaptive capacity are dominated by manufacturing activity

Many of the urban areas with the least adaptive capacity are dominated by manufacturing — it is the largest source of employment for almost 75 per cent of the urban regions in the ‘least adaptive’ category. These regions are typically associated with high levels of industry diversity and have good access to services and infrastructure, which positively contribute to adaptive capacity. However, relatively high levels of social and economic disadvantage (in terms of skills, education levels and other factors that influence employment opportunities and wellbeing) limit adaptive capacity. This means that people within these communities are less able to take advantage of the opportunities arising from economic diversity and may face challenges finding re-employment following a disruptive event, such as the closure of a manufacturing plant.

Lower levels of community connections, engagement and social cohesion (forms of social capital) could also be contributing to the lower relative adaptive capacity of these regions. Measurement of social capital is difficult, and for this preliminary analysis has been limited to rates of volunteering.

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## Strategies for successful transition and development

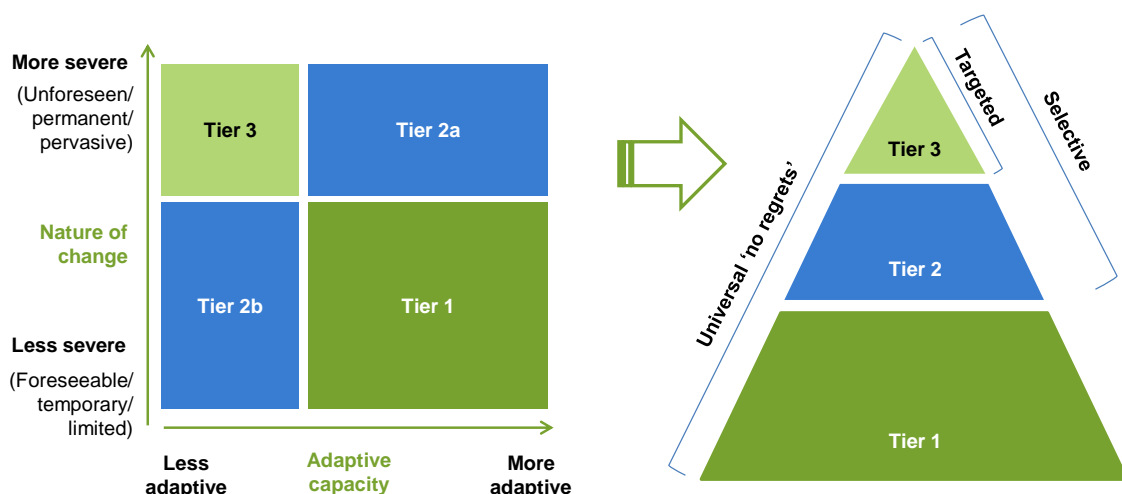
Regional economies are continually transitioning and adapting to pressures for change, not just those arising from large disruptions. A key element of development strategies should be about positioning local communities to adapt to such pressures. Strategies that facilitate successful transition and development are those that focus on supporting people in regional communities (rather than businesses or industries) to adjust to changing economic circumstances.

Deciding whether and how best to provide support to people in regional communities is a complex task for governments. There is no easy solution or ‘one size fits all’ approach that will facilitate transition and adaptive development in all regions of Australia. Each region is unique in its experiences and the risks and opportunities it faces. Some are well-resourced in terms of the skills of their workforce, access to infrastructure and natural assets. Others are less so. This means that regional strategies will vary. Managing transition (or decline) in areas that have limited opportunities for sustainable long-term economic activity is vastly different to facilitating regional development in areas where opportunities are abundant.

Strategies to support transition and development in regions should be guided by an examination of each region’s circumstances and the nature of the change it is experiencing, as well as its inherent strengths and weaknesses (figure 8).

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**Figure 8      A tiered model of policy support for regional communities**



Regional communities that have the greatest capacity to adapt and develop and that are not facing significant challenges need the least support (tier 1 regions). Regional communities undergoing substantial change with limited adaptive capacity have the greatest need for support (tier 3 regions). Others may need support but for different reasons, either because

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they are facing substantial adverse circumstances (tier 2a regions), or because they have limited capacity to adapt and develop on their own (tier 2b regions).

All regional communities (in tiers 1, 2 and 3) would benefit from the removal of obstacles that prevent people and businesses from taking advantage of opportunities, particularly those in which the region has a comparative advantage. Barriers include unnecessarily complex and costly regulatory processes and regulations that restrict what people (including business owners) can do. The Commission has previously made recommendations to reform regulations affecting regional communities, including in relation to planning, zoning and development processes, environmental regulations, and occupational licensing arrangements (box 7).

### **Box 7            ‘No-regrets’ policy reforms to support regional development and adaptation**

All governments can support regional communities to adapt to changing circumstances and facilitate development by removing obstacles that prevent people and businesses from taking advantage of new economic opportunities as they see them.

There are some regulatory impediments that prevent business owners from operating efficiently and taking up potentially profitable opportunities. These include:

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

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

Removing unnecessary regulatory barriers is a ‘no-regrets’ or ‘win-win’ policy option — these reforms are justifiable in their own right and create incentives and open up new opportunities for communities to adapt to change. They should be pursued by all



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governments. Although the advantages of such reform are clear, adoption of previously recommended reforms has been patchy and slow. Given the challenges to regions highlighted in this report, governments should expedite these reforms. Failure to do so will unnecessarily increase the pressure faced by vulnerable communities and reduces their future prospects.

At times, governments have given false hope to people and businesses by signalling the long-term health and prosperity of particular industries through various subsidy schemes or protection from competition. Such measures are counterproductive, discouraging workers from acquiring new skills and reducing their future employment prospects. Business owners also have less incentive to become more innovative and productive and to plan for the future. This type of program is inherently risky and does not promote transition or sustainable development. There is a fine balance in calibrating regional development programs so that they are targeted towards a region's strengths and based on an assessment of the long-term sustainability of the region (which in some cases will be uncertain).

Tier 2 and 3 regions are likely to require more targeted support in the form of initiatives aimed at building the capacity of people to adjust to change. Additional assistance may need to be provided to support people who are the most vulnerable to hardship as a result of a change in their circumstances.

## **Guiding principles to support transition and development of regional communities**

Governments should avoid providing 'ad hoc' support to regions without an underpinning framework that aligns with clear principles focused on supporting people in regional communities to transition to ever-changing circumstances. Where governments do decide to develop initiatives to facilitate transition and development, the initiatives should be strategic, built on a region's strengths (to work with rather than against the inherent advantages of the region), coordinated between governments, and focused on developing the capacity of the community and the connectivity of the region with domestic and international markets. It should also be locally-driven with effective and coherent partnerships between a regional community and all levels of government.

### **A locally-owned, strategic and coordinated approach**

Support for regional development has the best chance of success when it involves regional communities taking a leadership role in planning their own development needs and identifying strategies for how best to facilitate development. Locally-developed strategic plans should analyse a region's strengths, opportunities and potential risks and set priorities for action. Many local governments already prepare strategic plans for their communities but their quality is highly variable. The importance of local leadership is exemplified in the case of Stawell in Victoria, where the local government took a lead role in seeking ways to repurpose a gold mine that had ceased operations (it will now be used

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as an underground physics laboratory). Working in coordination with the Victorian and Australian Governments, it was able to find a new source of growth that builds on its existing strengths and resources.

### Building on a region's strengths and endowments

Regional development should also work with, rather than against, the natural, historical or social advantages of a region, as these can facilitate new opportunities for growth. Environmental assets, proximity to major cities or regional centres, access to infrastructure and the skill profile of the local population are all examples of attributes that influence the types of activities that are likely to be successful in a region. An example is the Geelong Regional Alliance's Regional Economic Development Strategy, which identified the region's main sustainable competitive advantages, such as a strong manufacturing and engineering skills base, significant capacity in health and medical services, environmental assets and proximity to Melbourne. These advantages are informing the Alliance's approach to transforming the region from its historical focus on heavy manufacturing towards areas such as higher-technology manufacturing, healthcare, education and other services.

### Investing in the capabilities of people and regional connectivity

Regional adaptation and development can be supported through well-planned investment in the adaptive capacity of people in regional communities and in investments that link regions and markets. This may involve investing in capabilities found to be inadequate in some regions, particularly skill levels of the labour force and physical infrastructure. It can also include supporting regional communities to access new markets, domestically or internationally. The National Broadband Network, for example, is Australia's largest infrastructure project. The uniform pricing strategy adopted for broadband services across regions is aimed at significantly narrowing the digital divide between rural, regional and urban Australia. Broadband is a fundamental enabler of distant trade in goods and services, allowing non-urban communities to find new markets in Australia and overseas.

At the same time, investment in a region's capacity and actions to promote its access to markets should align with a strategic view of the region's inherent strengths and constraints. Governments should avoid 'picking winners' and should not use scarce taxpayer funds to support investment that could crowd out commercially attractive private investment. Focusing principally on investments in people, rather than businesses, will best ensure that this risk is avoided.

Governments also need to take into account the effects of policies on the incentives they create for individuals and business owners. All proposed major regional programs funded by governments should be preceded by rigorous and transparent assessments, including explicit and detailed consideration of available alternatives, to ensure that taxpayer funds are directed to their most valuable use. Governments should clearly state the objectives of the program and how its success or failure will be measured.

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Importantly, governments should not discourage the movement of people from a region in order to shore up its population. After all, the priority for governments should be the people who live in a region, not the geographic region itself. Where government programs reduce the incentive for people to move, they reduce the wellbeing of people who would otherwise find new skills or employment, and can also increase long-term unemployment.

## Achieving sustainable regional development

Adaptation and regional development initiatives are most likely to be viable and sustainable over the longer-term when they have been designed in line with the above principles. That is, where adaptation and development have been designed to invest in a region's strengths, and are led by the regional community in partnership with all levels of government.

The 2016 City Deals program, which aims to support the development of selected regional centres through coordinated public and private investment, is indicative of efforts to establish partnerships and improve collaboration between all levels of government, communities and the private sector (box 8). It is still too early to assess the effectiveness of these partnerships in achieving successful outcomes for the target regions (they should be formally evaluated). However, the principle of all levels of government working together on locally-developed programs is consistent with the principles outlined in this report.

With respect to the first wave of UK City Deals (the inspiration for the Australian City Deals), the UK National Audit Office found that governments' understanding of the impact of the program would remain limited unless they developed a shared approach to monitoring and evaluation. This is a lesson for all Australian governments as well, emphasising the need to ensure clarity regarding a performance measurement framework for each City Deal initiative (before and after the deal), and indeed for all regional development initiatives.

Few evaluations have been published that assess the effectiveness and value for money of regional development initiatives. Further, governments have not always adhered to good principles for the design and implementation of programs. For example, a Victorian Auditor General report found inadequacies in the design, implementation and governance of the \$570 million *Regional Growth Fund*, including a lack of transparency and rigour in the selection of infrastructure projects. Similarly, the Western Australian Auditor General's review of the Royalties for Regions program reported a number of problems with the selection, monitoring, and evaluation of projects — \$6.9 billion has been dedicated to over 3700 infrastructure and community projects since 2008. The review concluded that the long-term benefits of the projects funded by the program is essentially unknown. With such large sums, it is especially important that taxpayers are getting value for money. This highlights the need for governments to have systematic arrangements for project assessment, monitoring and evaluation — not only of whether project outputs were delivered or short-term benefits were gained, but whether long-term outcomes and benefits to the community were achieved.

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## Box 8      **City Deals — all levels of government working together**

As part of the Australian Government's *Smart Cities Plan*, the City Deals program is aimed at promoting economic growth, employment, affordable housing and environmental sustainability through coordination between governments, communities and the private sector. Each City Deal involves a specific regional or metropolitan urban centre, with three deals having been announced so far (Townsville, Launceston and Western Sydney).

City Deals are intended to be tailored to local circumstances, objectives and opportunities, while being organised and governed according to common principles, including:

- partnerships between all three levels of government
- clearly defined outcomes and actions
- Australian Government funding linked to regulatory and policy reform
- coordinated, targeted investment in infrastructure
- clear governance arrangements, timeframes for delivery and accountability between levels of government
- assessment of performance (using identification and measurement of key performance indicators).

A substantial amount of government expenditure has also been dedicated to regional areas in Queensland. For example, the Queensland Government has provided over \$4.4 billion to regional areas through a range of initiatives, including its *Building our Regions* initiative and its *Jobs and Regional Growth Package*. An additional \$10.7 billion was committed to capital works in the 2016-17 Budget. Almost half of this (\$4.9 billion) is targeted at regional Queensland.

Caution should also be exercised in encouraging industry diversification in its own right as a strategy for achieving regional development. Although diversification can support a successful transition, there are costs associated with diverting resources away from the activities that provide the highest value (such as from mining into tourism in areas that do not have natural or locational advantages for tourism activity).

The above principles are a guide only. They do not supplant the role of undertaking comprehensive and transparent analysis of proposed projects, including rigorous evaluation and analysis. Nor do they replace the need for strong stakeholder and community engagement. All regional development initiatives should be tailored to the specific attributes, needs and contexts of individual regional communities.

## **Targeted support to facilitate transition in regional communities**

Governments cannot and should not shield people in regional communities from all possible adverse events or ongoing pressures for change. There will always be some people who are disproportionately affected by change. Business owners may close their businesses and move elsewhere, and workers may become unemployed. Some people might find it

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difficult to obtain employment elsewhere because their skills are no longer in demand or because there are limited job opportunities in the region in which they have chosen to live. And some regional communities face challenges because they are already disadvantaged.

At times, governments may wish to provide targeted support to people in regional communities who are disproportionately affected by severe economic, social or environmental pressures and who do not have the capacity to adapt. The fairest and most equitable way of supporting the many thousands of people in Australia who experience involuntary job loss every year is through the social security and tax systems.

There are also good equity-based reasons for governments to provide additional assistance to people who have the most difficulty becoming re-employed and who are already disadvantaged. Additional support might involve training assistance and provision of information on industry needs and employment opportunities.

It is important that any targeted support facilitates change and helps people adapt, instead of preventing change from occurring (for example, by supporting industries that are commercially unsustainable without ongoing government support). Governments have at times chosen to provide assistance to a specific industry or to regions as a whole, to support investment in infrastructure and preserve jobs. There can be benefits in targeting investment in infrastructure that can help regional communities more easily take advantage of economic opportunities. However, in the past, regional adjustment assistance has often been costly and ineffective in facilitating a region's adaptation to changing economic circumstances.

There may be instances where environmental or economic change in regions and the accompanying transition process result in continued decline in employment and economic activity that cannot be feasibly reversed. As noted earlier, circumstances like this are not new. Some mining and agriculture settlements that were once thriving have become depopulated. Environmental and technological change along with lifestyle choices of workers and families are all factors in the ongoing transition of Australia's regions.

Where regions face decline, with limited prospects for long-term sustainable development, the efforts of governments should be directed at managing depopulation and facilitating movement. It will also be necessary to ensure that residents who remain in a region (for lifestyle, cultural or historical reasons) have access to a minimum level of services. This does not mean that services should be provided within all towns or at the same level as might be expected in a major urban or regional centre. Rather, in making decisions about how best to manage declining regions, government should strike a balance between ensuring remaining residents have access to services that support their wellbeing, and promoting equitable outcomes across the population as a whole.

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## Further work to inform strategies for transition and development in regions

As noted above, substantial expenditure has been dedicated to regional areas, both to facilitate development and transition and to overcome disadvantage. Expenditure programs have often been ineffective in facilitating transition and it is notable that most existing regional programs have not been evaluated.

The transparent evaluation of programs by all levels of government is essential and should be a high priority. There is scope to achieve better outcomes for regional communities by better targeting existing expenditure.

There may also be scope to trial exemptions of regulations that unnecessarily inhibit people and business owners from responding to changes in economic circumstances in regions. The Commission has previously recommended fixed-term exemptions from regulatory requirements that inhibit entry or new business growth. There are many regulations that could be candidates for regulatory exemptions in regions, including aspects of planning, zoning and development assessments (box 7). Conditional exemptions could be granted for regional communities that are facing severe adjustment pressures. The Commission seeks feedback from participants on regulations and regions where pilot regulatory exemptions could be conducted.

For the final report, the Commission also intends to undertake further analysis of the effectiveness of policy responses implemented in previous transitions. The aim of this analysis is to identify specific strategies and programs that have worked well and those that have not. The Commission will also examine expenditure on major regional assistance programs.

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# Initial findings

## INITIAL FINDING 2.1

There is no widely accepted method to define and measure the economic resilience and adaptive capacity of regions. Noting this, an index of relative adaptive capacity has been estimated but caution is required in interpreting and applying it to policy making aimed at building resilience and promoting economic development.

## INITIAL FINDING 3.1

All regions experience significant variation in their growth in employment, including periods of negative growth. Even so, most regions (69 out of 87) have seen net employment growth over the past five years.

## INITIAL FINDING 3.2

Australia's regions are diverse, reflecting differences in their endowments of natural resources, climate, economic geography, history of settlement and development, and in the relative mix of industries. This makes it challenging to group regions based on similar factors affecting their resilience and adaptive capacity.

## INITIAL FINDING 3.3

Many regions with a high concentration of activity based on mining have experienced high employment growth and have relatively high adaptive capacity.

There are some, however, that have experienced a decline in employment and have relatively low adaptive capacity. These regions tend to have mining operations that are smaller in scale, are economically marginal or are approaching the end of their economic lives.

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#### INITIAL FINDING 3.4

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

The slowdown in mining investment has affected labour markets and economic outcomes across the country, including many regions outside of traditional resource areas.

#### INITIAL FINDING 3.5

Regions predominantly based around agriculture tend to have lower growth in employment. Even so, these regions are growing, with efficiencies and technological innovation generating higher levels of production using less labour. There is also a pattern of consolidation from smaller towns to larger regional centres, which affects the social fabric of these communities and engenders a feeling of being left behind as Australia prospers more generally.

#### INITIAL FINDING 4.1

A single metric of relative adaptive capacity cannot capture the unique attributes of each regional community, nor can it be used with any precision to rank regions. There is significant uncertainty about the index values estimated for each region.

Moreover, adaptive capacity does not identify whether a region will be successful in transition following a disruption.

The metric can be used to explore some broad themes and patterns of adaptive capacity across broad classes of regions.

#### INITIAL FINDING 4.2

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

- people-related factors (including education achievement, employment rates, skill levels, personal incomes and community cohesion)
- the degree of remoteness and accessibility to infrastructure and services
- natural endowments, such as agricultural land
- industry diversity.

Data from the 2016 Census and other sources of data not available for the initial report are likely to change the regional rankings of adaptive capacity in the final report.



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#### INITIAL FINDING 4.3

Regions with an economic base concentrated in manufacturing tend to have lower employment growth and relatively low adaptive capacity. Many of these regions are located in the greater metropolitan areas of capital cities.

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#### INFORMATION REQUEST 4.1

*The Commission is seeking feedback on:*

- *the methodology that has been used to construct the index of adaptive capacity, including whether other methods might be superior for the purpose*
  - *the factors (variables) that have been included in the index and whether there are other variables and data sources that could be used.*
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#### INITIAL FINDING 5.1

There is no single approach that will facilitate adaptation and sustainable development in all regions.

It is unclear if strategies for adaptation and development have been successful as evaluation is usually not attempted. Strategies that focus on supporting people in regional communities to adjust to changing economic circumstances appear more likely to be successful. The best strategies are those that:

- are identified and led by the regional community itself, in partnership with all levels of government
  - remove barriers to people or businesses relocating, both within or to other regions
  - are aligned with the region's relative strengths and inherent advantages
  - are supported by targeted investment in developing the capability of the people to deal with adjustment and the connectivity of the region to other regions and markets
  - facilitate private economic activity that is not dependent on ongoing government financial support (beyond general government transfers).
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#### INFORMATION REQUEST 5.1

*The Commission invites participants to comment on the relevance and applicability of the policy framework set out in this chapter. Where practicable, participants are asked to support their views with evidence of effective and/or ineffective approaches that have been used to facilitate transition and development following disruptive events or ongoing pressures in regional areas (in Australia or overseas).*

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#### INITIAL FINDING 5.2

Governments can facilitate successful transition and development across all regions by removing regulatory barriers that impede people and businesses from taking advantage of economic opportunities, where such regulations are unjustified by the benefits they provide. Expediting regulatory reforms previously recommended by the Commission would assist in this regard.

This would benefit all regions, regardless of their circumstances or adaptive capacity, and helps to improve the operation of the economy generally — making it a ‘win-win’ or ‘no-regrets’ way of supporting regional communities. However, it is particularly important to regions that do not have the advantages and range of opportunities found in capital cities and major regional centres.

#### INITIAL FINDING 5.3

City Deals initiatives that genuinely develop strategic, coordinated partnerships between all levels of government, communities and the private sector are more in line with the Commission’s principles but require effective monitoring and evaluation. It is essential that all governments ensure there is a clear performance measurement framework for each City Deal program, and publicly review the efficacy and cost-effectiveness of the first wave of City Deals within four years of their commencement.

#### INITIAL FINDING 5.4

Strategies for adaptation and development are most likely to be successful and sustainable where they:

- have clear objectives and measurable performance indicators
- are preceded by rigorous and transparent analysis and explicit consideration of available alternatives
- include transparent community consultation, public reporting and evaluation (before and after implementation) of the efficacy and cost-effectiveness of programs.

#### INITIAL FINDING 5.5

There is substantial funding devoted to regional programs across all levels of government. The effectiveness of most of these programs has not been evaluated.

There is scope to achieve better outcomes for regional communities by better targeting existing expenditure.

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#### INITIAL FINDING 5.6

Individual specific adjustment assistance (beyond generally available measures) is best reserved for unexpected circumstances and highly vulnerable groups of people, and should be aimed at helping individuals make a successful transition to employment. Assistance that creates false expectations about the future success of an industry or economic activity can lead to confusion and reduce individuals' incentives to plan and adapt to changing circumstances.

Assistance to industries and regions has often been costly, ineffective, counter-productive, poorly targeted and inequitable. To avoid these problems, support to assist people to adapt is best provided within the context of a coordinated, strategic development framework designed to capitalise on a region's strengths and to facilitate self-sustaining growth.

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#### INFORMATION REQUEST 5.2

*The Commission invites participants to comment on where a regional community could benefit from a trial exemption from regulations that are unnecessarily inhibiting transition or development.*

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