

Barwon Darling Alliance

Murdi Paaki Regional Assembly & the Shire Councils of
Bourke, Brewarrina, Central Darling, Coonamble and Walgett

5th May 2009

Secretary
House Standing Committee on Regional Development
Parliament House
Canberra ACT 2600

Dear Secretary,

Re: Inquiry into the impact of the global financial crisis on regional Australia

The Barwon Darling Alliance (BDA) welcomes the opportunity to provide a submission to the *Inquiry into the impact of the global financial crisis on regional Australia*. We also appreciate the extension of time granted to provide this submission. Whilst it is still unfolding, the full effect cannot be assessed but the global financial crisis will undoubtedly have a negative impact on regional Australia. It is likely that its impact will be felt disproportionately in those areas where social and economic disadvantage is already severe. The Barwon Darling region of western NSW is just such an area.

This submission seeks to highlight the social and economic disadvantage in this large region of NSW and communicate the findings of recent economic research undertaken by Western Research Institute into the level of disadvantage in the region. This research is very concerning and yet it does not even take into account the potential effect of even higher unemployment as a result of deteriorating global and national economic conditions.

This submission then outlines some proposed policy responses which BDA believes would make very significant inroads to addressing this disadvantage at a relatively low net cost to Government. These proposals could fit well with appropriate stimulus policies being adopted by Government.

Current Disadvantage

It is commonly known that many isolated communities with a large percentage of Aboriginal populations dependent on welfare, are beset with social ills like domestic violence, alcoholism, poor school attendance, poor health, family breakdown and despondency. That youth turn to violence and crime is sad and regrettable but no surprise.

Chronic unemployment, a welfare mentality, or, just as bad, a 'program' mentality, are part of a cycle of hopelessness. But there is hope. BDA represents Aboriginal and Non-Aboriginal communities with a commitment to work together and to try new approaches to these old problems.

BDA is a unique alliance of five Western NSW Local Government Councils (Central Darling, Bourke, Brewarrina, Walgett and Coonamble), and Murdi Paaki Regional Assembly, the regional representative governance structure for Aboriginal and Torres

Strait Islander residents of the region. This alliance dates back to 1997 and is based on mutual trust and understanding and a common goal to raise the quality of life for all the region's communities.

The Alliance includes almost twenty per cent of NSW and all five shires are already besieged with the effects of low socio-economic ratings. The Alliance has, over several years, developed and sought support for a trial of a new policy tool - a 'Socio-economic zone'. It aims to kick start a turn-around for our communities and the model also has the potential to address problems not only in the Barwon Darling region but in other similar communities. Whilst the proposals BDA puts to the Committee are focused on this region, the policy mechanism would have applicability to other regions suffering socio-economic disadvantage.

Proposed Policy Response

Government funding is sought to fund a trial of a socio-economic zone. The model has been developed on the basis that with some incentive, business in the region will expand their enterprises and employ more people. It has been independently modeled by Western Research Institute and researched overseas in the UK and United States.

Specifically, the aim is to promote employment growth for targeted groups such as indigenous persons and the long term unemployed and to increase business investment. The proposal represents very good return on investment for the community with a low net fiscal impact. The model relies on a mix of economic and social incentives to encourage business to expand and take on new employees as well as addressing problems such as poor education, crime and drug abuse.

As recognised by the Government in its Australian Social Inclusion Agenda, there is a need for a holistic approach to provide a "joined-up solution". Existing assistance to the Barwon Darling region is generous but ineffective because it is not being delivered in a true whole of government way.

The Socio-economic trial will overcome this silo approach delivering significant benefits to the communities and cost effective program delivery for Government. As the model has the potential to address problems not only in the Barwon Darling region but in other similar communities this trial would be evaluated to determine how it might be applied elsewhere.

The trial needs to be allowed sufficient time, at least five years, to demonstrate its value as these are neither short term problems nor solutions. However, a strict evaluation process would be applied throughout to genuinely assess the merit of the trial.

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|--|-----------------|-----------------------------|-----------------------------|
| <u>Fiscal Impact:</u> | | | |
| <u>Total Cost</u> - \$5.9 mil pa | {Admin | - \$0.6mil | |
| | {Incentives | - \$5.3 mil: | Wage Credits - \$3.5mil |
| | | | Other Incentives - \$1.8mil |
| <u>Wage Credit</u> | \$3.5mil | <u>Returned</u> | |
| | | Additional Income Tax | \$ 732,540 |
| | | Additional GST | \$ 237,469 |
| | | Unemployment Saved | \$2,445,884 |
| Govt. Funds OUT | \$3.5mil | Govt. Funds RETURNED | \$ 3,415,893 |
| 97% of GOVERNMENT FUNDS for WAGE CREDITS RETURNED | | | |

Business Case Snapshot:

The expected return on Government investment in the socio-economic trial is significant in terms of reduced unemployment, particularly in indigenous groups, improved living conditions and reduced welfare costs. The proposed trial will deliver real jobs at a low net cost when welfare savings and tax increases are considered. These expectations are based on detailed economic modeling undertaken by the Western Research Institute.

- 421 **new jobs** will be created in the Barwon Darling region at a net marginal cost of approximately \$281 per job created. The average cost to the Government would be approximately \$6,886 per job created.
- The **unemployment** rate in the Barwon Darling region is expected to decrease from 9.3 percent to 5.4 percent.
- An increase of \$26.2 million is expected in **Gross Regional Product** (GRP) and \$14.9 million in household income. Given the estimated gross regional product in 2006-07 of \$364 million, this is equivalent to economic growth of 7.2 percent.
- The value of **social security benefits** flowing into the Barwon Darling region could be expected to decline by 2.8 percent.
- It is estimated that the implementation of the Barwon Darling socio-economic zone trial would require net **government expenditure** of \$2.5 million pa. Additional income tax, GST and the unemployment benefits saved, account for the lower net expenditure than the budget allocation of \$5.9 million pa.

State of Play

Economic modelling commissioned by BDA, with funding support from the Australian Government, clearly demonstrates the need for a trial as the conditions in the Barwon Darling region have deteriorated since 2000-01. The disadvantage gap between the region and the rest of the state has only widened even further.

Modelling of the region in terms of a Socio-Economic Zone Index (SEZI) compares the five Shire areas within the Barwon Darling with NSW in ten key socio-economic areas. For each time an area is ruled as being disadvantaged it receives an SEZI point. The model provides a yardstick by which to assess the region's social and economic conditions in comparison with the State as a whole as well as within the region.

Walgett, Brewarrina and Central Darling have remained stable in terms of their respective SEZI scores between 2003 and 2008. Coonamble has seen a slight decline but is still not considered disadvantaged under the SEZI measure. The greatest shift however, has been in the Bourke LGA, which scored 5 SEZI points, up from 2 in 2003 to be reclassified as disadvantaged. As a whole, the Barwon Darling Alliance SEZI score increased by 1 meaning that as a whole the region is considered disadvantaged.

Indigenous Employment

The focus of the proposed trial on the creation of real, long term jobs for indigenous people fits with the Australian Government's commitment to the placement and long term retention of 50,000 Indigenous people into jobs under the Australian Employment Covenant (AEC).

Such efforts are clearly required because as difficult as the situation is now, it is only likely to worsen over the coming years particularly given the steady population increase in indigenous populations in context of declining overall populations. By way of example, it is estimated that 8000 new jobs need to be created in NSW alone by the end of 2009 to just maintain the existing appalling indigenous unemployment rate of 34%. Current economic conditions are not conducive to increased employment options for indigenous or long term unemployed people, unless there are some incentives to stimulate business activity. The economic and social impact of a worsening problem is clear to see.

The Government has undertaken to facilitate the identification, recruitment and preparation of indigenous job seekers for successful placement in the workforce. The proposed socio-economic trial would deliver mentoring, education and support services to prepare people for employment. It would also provide the environment to allow private businesses to expand employment, particularly of indigenous people.

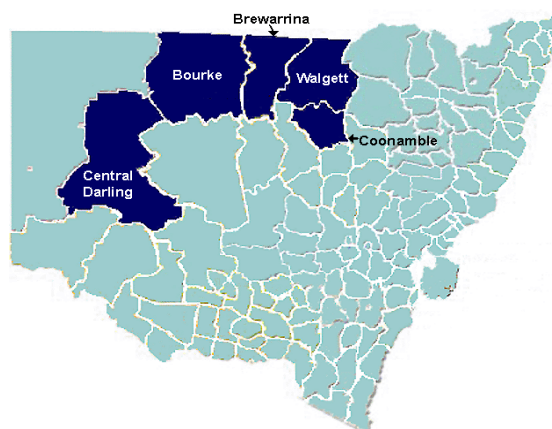
Regional Development

The need for government to catalyse business expansion is clear. Since 2000-01 gross regional product for the Barwon Darling area has declined by 39% and employment fell by a very substantial 1,393 jobs or a 17% reduction in employment, leading to a reduction in household income of 22%.

Long term unemployment is 24% which is 33% higher than in NSW as a whole and youth unemployment is also higher than the State average at 17%. Employment growth is indicative of economic growth in a region and in the Barwon Darling region it averages at -18% whereas NSW as a whole has increased by 6%.

Gross regional product has declined between 2000-01 and 2006-07 by some 39% to \$364 million. There are also significantly more people in the Barwon Darling region living below the poverty line.

The Barwon Darling Alliance in Relation to NSW as a Whole



Economic modelling indicates that the proposed trial will arrest this trend although may not be enough to reverse it by fully offsetting external negative factors. Without such a policy mechanism, the future for the Barwon Darling communities appears bleak even before the impact of lower overall economic activity and declining

unemployment are considered.

How would the model work?

Incentives under the proposed trial can be grouped as follows:

1. **Social incentives** to improve the quality of life, including: increased public support for education to improve basic reading and writing skills; mentoring for unemployed people, especially indigenous persons and the long-term unemployed, to help them make the transition to work; increased crime and drug prevention; an improvement in the quality of childcare; and more family-friendly work policies.
2. **Economic incentives** to promote employment growth and business investment, including: a 25 percent wage credit for new employees; interest rate grants to reduce the cost of finance; accelerated depreciation grants to encourage capital investment; and grants to offset various government costs and charges that could assist new businesses.
3. **Capacity building incentives** to strengthen the ability of the Barwon Darling community to drive development, including support for networking and clustering; the establishment of a research partnership with Charles Sturt University; advice from experienced exporters on how to penetrate foreign markets; and priority consideration for government infrastructure development.

These incentives would operate simultaneously and provide a positive re-enforcement to one and other. Economic incentives lower the risk to business of engaging new employees thereby enabling them to expand their business and create more wealth in the area.

Business Environment

BDA has evidence that businesses in the region would respond to the proposed incentives by increasing investment to grow existing business and/or creating new businesses and employing more people. The economic base for the Barwon Darling region is primarily the agricultural, tourism, retail and service sectors.

Recent modelling indicates that whilst the current drought limits the agricultural sector, it is nonetheless a key income generator and will generate even more income and employment once climatic conditions improve. Tourism is a growing industry in the region and has the potential to develop further with people increasingly preferring to travel closer to home due to financial constraints. Associated indigenous cultural and industry services are likely to increase along with tourism.

In the longer term, land management and environmental services such as National Parks, private land of environmental significance, wind farms and carbon sinks are likely to be an increasing source of employment and income in the region. Local Councils could also be an even greater employer of staff to undertake new roles in relation to tourism, town maintenance and environmental care. These roles are also likely to be attractive to indigenous employees. Other sectors such as transport, light manufacturing and retail all have potential to grow, particularly if incentives exist to support businesses to employ more staff.

Shift Share analysis¹ shows that the greatest increase in employment over the period 2001 – 2006 was recorded in the health and community services sector, followed by electricity, gas and water supplies, education, and cultural and recreational services. These jobs are largely in the public sector. The private sector needs stimulus and a reduction in risk to boost investment which would in turn increase employment. The greatest declines in employment occurred in agriculture, forestry and fisheries, followed by retail trade, wholesale trade and manufacturing. The primary cause for the fall appears to be the drought and its flow on effects so it is reasonable to expect that improved agricultural conditions will provide job opportunities.

Economic Impact

The availability of \$3.5 million pa for wage subsidies would facilitate the creation of 421 new jobs. Considering only direct effects, all else being equal the creation of 421 new jobs could be expected to reduce the unemployment rate in the Barwon Darling region from 9.3 percent to 5.4 percent. If this occurs the value of social security benefits flowing into the Barwon Darling region could be expected to decline by 3.6 percent.

The remainder of the proposed budget for the socio-economic zone, \$1.9 million pa, would be available to provide businesses with interest rate grants to reduce the cost of finance; accelerated depreciation grants to encourage capital investment; and grants to offset various government costs and charges that could assist new businesses establish or move into the area. Current economic uncertainty heightens the need for such incentives which reduce risk to business of investment.

After accounting for additional income tax, GST and the unemployment benefits saved, it is estimated that the implementation of the Barwon Darling socio-economic zone model would require net government expenditure of about \$2.5 million per annum.

Based on the assumptions used by WRI, the average cost to Government would be about \$6,886 per job created in the Barwon Darling region. The net marginal cost of job creation in the Barwon Darling socio-economic zone model is about \$281 per job. In other words, once the Barwon Darling socio-economic zone program is established, the net cost of job creation is relatively small.

Social Impact

Meanwhile, addressing the problems of education, crime and drugs should improve the lifestyle of residents and make the Barwon Darling region a more attractive place to live for professionals and families. These social improvements could then be expected to flow to the bottom line of businesses in the region, catalysing a positive cycle of business confidence.

Likewise, the generation of regular work opportunities in the Barwon Darling could also be expected to have social benefits. Indeed, B. Lulham, the Wilcannia magistrate wrote that he was “absolutely convinced” that an increase in employment opportunities was responsible for a reduction in crime. A failure to act means that there would be no catalyst to arrest the worsening cycle of socio-economic decline which in the indigenous population is already several generations deep.

¹ The growth and decline of 17 major industry sectors in the Barwon Darling was observed by comparing 2001 and 2006 ABS employment figures, as shown in *Appendix 1 “2008 Barwon Darling Socio-Economic Zone Model”, Western Research Institute, 2009.*

The Dropping off the Edge ² report highlights the particularly strong link between intergenerational poverty and low educational attainment. *“By detaching individuals, families and whole communities from the modern economy in this way, the report argues that disadvantage is holding back the nation's economic potential. Concentrated disadvantage of the kind demonstrated in the report, robs the nation of needed skilled workers, adds to labour shortages and, by inflating welfare expenditure, reduces government expenditure than would otherwise be necessary.”*

BDA recommends:

- 1. That the Committee consider, as part of its advice to Government, the implementation of a trial of the Socio-economic zone in the Barwon Darling region for five years.**
- 2. That the trial is monitored with a view to assessing its success and applicability to other regions.**

The outcomes of current well intentioned taxpayer funded programs are not good enough. We do not think the idea proposed is a silver bullet. We *do* think it has sufficient merit to be trialed and thoroughly assessed. It would start building bridges between private enterprise and the disenfranchised.

The proposed socio-economic trial would include social incentives and capacity building activities, with a goal of building up practical skills to enable communities to become stronger and more self-sufficient. The trial offers a tangible stepping stone to restoring hope and unity, and to contribute to a foundation for generational change. Breaking the social dislocation cycle requires putting in some very hard yards. Long term, consistent teamwork between white and black communities, business, government and the social service sector is needed.

Potentially, there is a great deal to be gained from this trial. Certainly, there is a lot to lose if Australia's leaders lack courage to work with proactive local communities in the search for new approaches. We owe it to ourselves and to future generations to explore all feasible actions and commend this submission to the Committee as part of this process.

I would be pleased to discuss this submission further and attach for your reference, a copy of *“2008 Barwon Darling Socio-Economic Zone Model”, Western Research Institute, 2009*. In the meantime should your office require further information they may also wish to contact Ms Dee Wilkes-Bowes, who works with us on this issue, on Ph: 02 6227 4181.

Yours sincerely,



Sam Jeffries
Chairman, Barwon Darling Alliance

² *“Dropping off the Edge: the distribution of disadvantage in Australia”, Professor Tony Vinson, 2007.*