

## Introduction

- 1.1 Since federation, Australia has prospered on the basis of the hard work and commitment of regional Australians. At the turn of the century, the pastoral industry, agriculture, mining, dairying, forestry and fisheries industries produced £58.7 million, or 31 per cent of gross domestic product. In 1998-99, agriculture, forestry and fishing, together with mining, totalled \$43 371 million or 7 per cent of GDP. There has been a contraction of population resulting in a loss of skills in many regional areas and governments have focussed largely on metropolitan areas. Regional Australia's contribution to the nation's development has been well out of proportion to its influence on national affairs and policies. There is a growing sense of alienation and concern in many areas of regional Australia that their contribution to Australia's economic performance continues to go unrecognised and that they are falling behind in health, education and technology.
- 1.2 That the benefits of the nation's economic prosperity have not been distributed evenly is manifest in the regions, with some in decline and disparities in employment and income reported as continuing to grow in 1998-99.<sup>1</sup> Unease at the possible development of two nations based on growing income and performance gaps between metropolitan and non-metropolitan regions remains.
- 1.3 These matters are of major concern to governments and communities alike and lie at the heart of the reference for this inquiry into infrastructure and the development of regional areas, agreed to, at the request of the committee, by the Minister for Transport and Regional Services in February 1999. Regional infrastructure is vitally important to ensuring the

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1 *State of the Regions 1999*, National Institute of Economic and Industry Research Pty Ltd, November 1999, p. 8.

continuation or, in many cases, rejuvenation, of economic development not only in the regions, but for the nation as a whole.

- 1.4 Population movement and skills loss to regions is occurring both through out-migration (particularly of young people) and relocation of individuals and families, in the face of declining regional economic prospects and reduced social support following withdrawal or closure of essential services. The phenomenon of 'sponge cities', that is larger regional centres growth at the expense of smaller communities, has been a feature of Australia in the past decade. Regional Australia is vulnerable due to an unprecedented increase in household debt over the last 5-10 years and volatility in external trade. These issues must be addressed on social justice and equity grounds and because the nation's advancement depends, in large part, on a secure and sustainable future for the regions. National security issues, urban concentration problems and the need for environmentally sustainable development are other critical, interrelated matters. The committee considers it imperative that geographical or administrative boundaries do not constrain consideration of these issues. The report therefore considers 'regions' as the combination of communities, businesses and industry that constitute an economically and socially viable unit.
- 1.5 The problems facing regional Australia are not new or confined to Australia but the pace of change is increasing rapidly and the need for action more urgent. Regional economies throughout the world are facing global pressures that, combined with rapid technological advances, increasing productivity growth from commodity sectors and the need to ensure environmentally sustainable development, bring the prospect of spiralling decline for those regions suffering skills loss, reduced investment and, notably, lack of infrastructure. These trends also bring opportunities, however, for communities and regions to capitalise on new trade and economic activities. Changing global trading conditions, in which regions rather than nations are forming world trading groups with a growing dependency on export markets, highlights the need for regional initiative and community-driven development. By identifying intrinsic competitive advantage, regions can advance their own futures through strategic actions such as specialisation, upskilling and agglomeration of supporting industries into clusters of high performing activity.
- 1.6 Business investment is the key to regional advancement and the quality of regional infrastructure (especially transport and telecommunications) is a major determinant of business investment decisions. Other factors include proximity to markets, the quality and availability of labour, prospects for

cluster development through the presence of other companies and quality of life.

- 1.7 According to the State of the Regions 1999 report, 'high skilled, high income areas around dynamic global cities have virtually returned to full employment' and 'job rich regions are continually generating more jobs'.<sup>2</sup> The social services and amenities offered by these regions (educational, health, and entertainment and cultural amenities) are significant attractions for people. In addition, high performing regions are best-placed to capture profits, interest and dividends to advance their continuing development.
- 1.8 A new regional policy framework is urgently needed in Australia to address the circle of increasing prosperity for high-performing regions and decline for other regions caught in low income, low employment growth patterns. Governments in Europe and North America have recognised the need for renewed involvement and assistance for regions to attain their potential. The OECD has established a Territorial Development Service to deal with the effects of globalisation on regions, including 'agglomeration processes' in urban and intermediate areas that allow reinforcing actions from consumers and investors and provide the framework for development and innovation. The need to address these issues is even more important in Australia where isolation, large distances and the contribution of regions to total exports are critical factors.
- 1.9 Equitable access to infrastructure, both economic and social, is vital to the rejuvenation of regions. A number of studies both in Australia and overseas over the last two decades demonstrate the link between increases in infrastructure investment to productivity, output, employment and growth.

In general, quality infrastructure facilitates economic growth and improves quality of life by:

- reducing production costs, including by reducing domestic transaction costs and increasing access to market information;
- diversifying production into more productive and higher return activities by facilitating growth of alternative employment and consumption possibilities; and
- raising the population's standard of living and welfare.<sup>3</sup>

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2 *State of the Regions 1999*, National Institute of Economic and Industry Research Pty Ltd, November 1999, p. 9.

3 Department of Industry, Science and Resources, Submission no. 168, p. 4.

Locations with quality infrastructure are more attractive not only to individuals and companies but for the development of clusters of high performing and networking businesses.

- 1.10 Recent experience in Australia and overseas supports the committee's view that 'throwing money at regions' or 'backing winners' is not the answer. Tariffs, subsidies, and support for a few very large projects, sometimes on political grounds, will not deliver long-term sustainable solutions to regional areas. Instead, new partnerships between governments, business and communities to facilitate community driven development and local ownership of solutions are required. Regional advantages such as lower transport and set up costs, committed and stable workforces, lack of congestion, pollution and other urban problems, and increasing access to international markets through advanced communications technologies, are not well enough appreciated by investors.
- 1.11 Regional development has been the subject of many reports, inquiries and initiatives by parliamentary committees, government agencies and private bodies in recent years. Among the major investigations are:
- *Developing Australia: A Regional Perspective*, a Report to the Federal Government by the Taskforce on Regional Development, Kelty, W. 1993;
  - *Lead Local Compete Global: Unlocking the Growth Potential of Australia's Regions*, McKinsey & Company 1994;
  - *Private Infrastructure Taskforce Report*, Economic Planning and Advisory Committee, September 1995;
  - *Planning not Patching: An Inquiry into Federal Road Funding*, the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, 1997;
  - *Report on the Brew Report and on the Continuing Role of the Commonwealth in the Australian Rail Industry*, Senate Rural and Regional Affairs and Transport References Committee, May 1997;
  - *Tracking Australia*, the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, 1998;
  - *Regional Banking Services: Money Too Far Away*, the House of Representatives Standing Committee on Economics, Finance and Public Administration, March 1999;
  - *Jobs for the Regions*, Senate Employment, Workplace Relations, Small Business and Education References Committee, September 1999;

- *Impact of Competition Policy Reforms on Rural and Regional Australia*, Productivity Commission Inquiry Report No. 8, September 1999;
- *A Report Card on the Nation's Infrastructure: Investigating the Health of Australia's Water Systems, Roads, Railways and Bridges*, the Institution of Engineers, Australia (IEAust), December 1999; and
- *State of the Regions*, National Institute of Economic and Industry Research Pty Ltd, December 1999.

The Regional Australia Summit (October 1999) and the Innovation Summit (February 2000) provided opportunities for discussion by communities, governments, business and industry of themes addressed in this report, including leadership, development of competitive advantage, skills development and entrepreneurship.

A wide range of government policies and programs, both federal and state, focussing on the advancement of regions has been developed and implemented over the past decade.

- 1.12 The committee has no intention of 'reinventing the wheel' and will build on all of the above in the discussion that follows. Recognising the inextricable links between different categories of infrastructure, the committee has considered infrastructure in the broadest sense. The following definitions were a guide to their deliberations:
- economic physical (or 'hard') infrastructure, for example, roads, ports, railways, energy networks;
  - economic intangible (or 'soft') infrastructure, for example, financial and research institutions;
  - social physical infrastructure, for example, hospitals and schools; and
  - social soft infrastructure, for example, medical and allied health professionals, teachers, institutions delivering community and welfare services.
- 1.13 The committee amassed a vast amount of evidence during its inquiry. In addition to the reports referred to above, over 300 submissions were received. These are listed at Appendix A. The committee met with a wide cross-section of people living and working in regional areas including individuals, academics, community groups and regional organisations, and a range of regional business and industry representatives from all sectors. It also met with representatives of national organisations and government officials concerned with regional development and infrastructure provision. The committee held six public hearings, received three private briefings and undertook inspections and held informal

discussions in regions throughout the country, visiting every state at least once. A full list of public hearings is at Appendix C, and the list of inspections and informal discussions is at Appendix D.

1.14 The report contains chapters on major issues:

- leadership and local skills (chapter 2);
- policy, planning and coordination (chapter 3); and
- finance and investment (chapter 4)

with the remaining chapters dedicated to particular sectors or issues as follows:

- advanced telecommunications (chapter 5);
- information technology (chapter 6);
- transport (roads, rail, shipping, airports) (chapter 7);
- energy (electricity, gas, renewable energy) (chapter 8);
- education (chapter 9);
- water resources (chapter 10); and
- health (chapter 11).