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The Parliament of the Commonwealth of Australia

# The Global Financial Crisis and regional Australia

House of Representatives  
Standing Committee on Infrastructure, Transport, Regional Development &  
Local Government

November 2009  
Canberra

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## Foreword

The effects of the global financial crisis (GFC) have been felt around Australia and certainly regional Australia has not been immune. Major export industries located in the regions have suffered, as have small and medium sized regional businesses. Working hours have reduced and job losses have been incurred.

The Committee acknowledges the economic importance of regional Australia and has undertaken this inquiry in order to assist the Government to better understand how economic downturns affect regional Australia, so that it will be in a better position to formulate regional development policy aimed at strengthening the economic resilience of our regions.

Examining an issue which continues to unfold has presented some challenges. The changing nature of the crisis has impacted the Committee's evidence, much of which is anecdotal and does not provide a complete record of the impact of the GFC on regional Australia. The Committee has reported on the evidence it received, noting the effects of the crisis on key sectors in regional economies as well as the impact of the crisis on local communities and government. The GFC has also highlighted the importance of regional development in abating the effects of economic downturns on regional communities. Therefore, the report concludes with a discussion about the importance of continuing Commonwealth Government programs and policies that build infrastructure, encourage education and support the growth of business in regional Australia.

The Committee has made comments and recommendations where appropriate. Some have been more general in nature while others more specific. The Committee has recommended that the Government examine the use of structural adjustment funds as a response to economic downturns and their ability to assist small business. Increased funding for the TQUAL Grants program and increased cooperation in identifying key tourism markets and setting priorities for marketing those locations has also been recommended as part of the Committee's investigation into regional tourism. Discussion about the Government's Bank

Guarantee Scheme has led the Committee to support a review of its differential pricing structure and comment on banking competition in regional Australia.

Should unemployment continue to rise, the Committee believes there may be a case for the introduction of a national unemployment mortgage assistance program, providing its impacts have been fully considered by government. The GFC has demonstrated a need in regional Australia for the provision of localised, collective social services and so the Committee has recommended increased funding to the Department of Human Services in order to expand its co-location site trials and increase its local service provision activities. It has also recommended that the Government examine options for locating government departments or functions of government departments into regional areas to increase regional employment opportunities.

Support for small business is particularly important during these periods and, as such, the Committee believes that the Small Business Advisory Service should continue to operate beyond its current two-year funding commitment. Small business can be further assisted by an increase in the number of AusIndustry representatives in regional Australia.

The GFC has not been the first, nor will it be the last economic challenge regional Australia faces. Its ability to respond in the future will depend on individual regions reaching their growth potential. The Committee believes this will only occur if local strategies are underpinned by Commonwealth Government policies focusing on infrastructure, education and businesses support.

The Regional Development Australia network presents the best possible option through which governments can assist in the development of regional Australia. Its success will be based in part on its ability to generate region specific community and economic development planning that is supported by the region; maintain productive levels of cooperation between the three tiers of government; and facilitate cooperation between various agencies and government programs in the regions.

The GFC should be seen as an opportunity to examine the impact of change on regional Australia and test policy responses. The lessons learned will assist in strengthening existing regional development policy, which will help regional Australia withstand future downturns.

Ms Catherine King MP  
Chair



## Membership of the Committee

**Chair** Ms Catherine King MP

**Deputy Chair** Mr Paul Neville MP

**Members** Mr James Bidgood (from 17/6/09  
until 22/10/09)

Ms Jodie Campbell MP

Mr Darren Cheeseman MP

Mr Jason Clare MP (until 15/6/09)

Mrs Joanna Gash MP

Mr Robert Oakeshott MP (from 19/3/09)

Ms Melissa Parke MP (from 19/3/09)

Mr Brett Raguse MP

Mr Don Randall MP

Hon Andrew Robb AO MP

Mr Jon Sullivan MP

## Committee Secretariat

Secretary	Mr Peter Keele (to May 09) Ms Julia Morris (from May 09)
Inquiry Secretary	Mr Michael Crawford
Research Officers	Ms Sophia Nicolle (to June 09) Ms Adrienne Batts (from June 09)
Administrative Officers	Ms Kane Moir Ms Alison Wardrop





## Terms of reference

The Committee is to inquire into the impact of the current global financial crisis on regional Australia and the role of the Commonwealth Government in ensuring that regional Australia is equipped to respond, with particular focus on:

- the encouragement of economic development and employment; and
- the development of sustainable essential services and social infrastructure designed to enhance the liveability of regional Australia.





## List of abbreviations

ABS	Australian Bureau of Statistics
ACC	Area Consultative Committee
ADI	Authorised Deposit-taking Institution
APRA	Australian Prudential Regulation Authority
ASX	Australian Stock Exchange
BEC	Business Enterprise Centre
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CBD	Central Business District
CDO	Collateralised Debt Obligation
CDS	Credit Default Swaps
CMB	Canadian Mortgage Bond
CMHC	Canadian Mortgage Housing Corporation
DEEWR	Department of Education, Employment and Workplace Relations
DHS	Department of Human Services
DITRDLG	Department of Infrastructure, Transport, Regional Development and Local Government
GDP	Gross Domestic Product

GFC	Global Financial Crisis
HECS	Higher Education Contribution Scheme
LEC	Local Employment Coordinator
LNG	Liquefied Natural Gas
NBN	National Broadband Network
NHAMBS	National Housing Act Mortgage-Backed Securities Program [Canada]
NSW	New South Wales
NT	Northern Territory
NUMAP	National Unemployment Mortgage Assistance Program
OECD	Organisation for Economic Cooperation and Development
QLD	Queensland
RBA	Reserve Bank of Australia
RDA	Regional Development Australia
RET	Department of Resources, Energy and Tourism
RMBS	Residential Mortgage Backed Security
SA	South Australia
TAC	Victorian Transport Accident Commission
TQUAL	Not an acronym. A competitive funding program formerly known as the Australian Tourism Development Program
TRAIN	Trans-Regional Amalgamated Infrastructure Network
VET	Vocational Education and Training
WA	Western Australia



## List of recommendations

### 2 Impact of the GFC on regional business

#### Recommendation 1

The Committee recommends that the Government evaluate and report on the potential use of structural adjustment funds as a response to economic downturns such as the global financial crisis.

#### Recommendation 2

The Committee recommends that the Government, in examining the use of structural adjustment funds, consider the flexibility and ability of structural adjustment funds to assist small enterprises in addition to larger companies.

#### Recommendation 3

The Committee recommends that the Government increase the quantum of funding for the TQUAL Grants program, while ensuring that regional tourism businesses receive a proportionate share of the grant funding, provided the applications adhere to the program guidelines.

#### Recommendation 4

The Committee recommends that the National Long-Term Tourism Strategy should consider how states and regions can further improve their cooperation on identifying key tourism markets and setting priorities for marketing those locations.

### **3 Impact of the GFC on regional populations**

#### **Recommendation 5**

The Committee recommends that the Government examine in detail the potential impact of a national unemployment mortgage assistance program as a means of responding to rising unemployment and mortgage stress in regional Australia, should unemployment and mortgage default levels continue to rise.

#### **Recommendation 6**

The Committee recommends that the Government evaluate the work of the Local Employment Coordinators with particular focus on their ability to act as a conduit between local, state and the Commonwealth Government to promote coordinated human service provision, with a view to utilising the evaluation as a basis upon which greater coordinated action and information sharing about available services can occur in the future.

#### **Recommendation 7**

The Committee recommends that the Government increase funding to the Department of Human Services in order to expand its co-location site trials and increase its local service provision activities.

#### **Recommendation 8**

The Committee recommends that the Commonwealth Government examine options for locating government departments or functions of government departments into regional areas.

### **5 Strengthening Australia's regions**

#### **Recommendation 9**

The Committee recommends that the Government examine the uptake of its Small Business Support Line and Small Business Advisory Service with the intention of continuing funding support for this initiative.

#### **Recommendation 10**

The Committee recommends that the Commonwealth Government increase the number of AusIndustry representatives in regional Australia.

**Recommendation 11**

The Committee recommends that the Government examine the manner in which various government business support programs worked together in particular regions during the GFC and the potential role RDA may play in facilitating greater coordination between business support programs and integrating them into wider regional development frameworks in future.

**Recommendation 12**

The Committee recommends that the regional employment plans of Local Employment Coordinators should be integrated into the regional development plans of Regional Development Australia. In those areas where a Local Employment Coordinator has not been deployed, Regional Development Australia should be developing regional employment plans.





# The global financial crisis and regional Australia

## Regional Australia

- 1.1 Regional Australia is the 'economic backbone of the nation's prosperity.'<sup>1</sup> In 2003, Australia's non-capital city regions contributed 34.1 per cent of Australia's Gross Regional Product worth some \$205 billion.<sup>2</sup> Regional exports such as minerals, forestry products, grain, wool, beef, wine and tourism drive the nation's economy and were worth about \$65 billion in 2006.<sup>3</sup> These industries also drive the local economies of the regions, which often depend on major export industries to generate local economic activity.
- 1.2 The effects of the global financial crisis (GFC) have been felt around Australia, from the CBD of Sydney to the CBD of Burnie. This is not surprising given the pervasive nature of the crisis and the considerable economic activity that occurs in regional Australia.
- 1.3 It is the Committee's role to identify and highlight issues facing regional Australia. The GFC is certainly one of those issues, and it is the Committee's expectation that this report will assist the Government to better understand how economic downturns affect regional Australia so

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1 Department of Foreign Affairs and Trade, about Australia fact sheet: Regional Australia, [http://www.dfat.gov.au/facts/regional\\_australia.html](http://www.dfat.gov.au/facts/regional_australia.html), p. 3, accessed 8 September 2009.

2 2003 State of the Regions, [http://dpl/Ejournals/State of theRegionsReport/INDEX.htm](http://dpl/Ejournals/State%20of%20theRegionsReport/INDEX.htm), accessed 17 September 2009.

3 Department of Foreign Affairs and Trade, about Australia fact sheet: Regional Australia, [http://www.dfat.gov.au/facts/regional\\_australia.html](http://www.dfat.gov.au/facts/regional_australia.html), p. 3, accessed 8 September 2009.

that it will be in a better position to formulate regional development policy aimed at strengthening the economic resilience of our regions.

## The global financial crisis

- 1.4 In July of 2007, rising interest rates in the United States, combined with a constricting US economy, led to a rise in home mortgage defaults. Rising mortgage defaults revealed that the lending practices of some US lenders were questionable, as money had been lent to people who should have been ineligible to borrow. Unfortunately, many risky mortgages in the United States had been bundled into mortgage bonds, rated by ratings agencies and sold to investors. In some cases, the risk associated with these bonds was passed on utilising credit default swaps (CDS).<sup>4</sup>
- 1.5 When investors began to lose confidence in the bonds, a liquidity crisis ensued as the bonds were sold off. A declining derivatives market also forced major investment banks such as Bear Stearns and Lehman Brothers to write-down the value of their assets, leading to a greater lack of liquidity in the market and the collapse of some investment banks.<sup>5</sup>
- 1.6 By the time Lehman Brothers collapsed in September 2008, an American crisis had become a global financial crisis. The internationalised capital market was in decline and the lack of liquidity in the banking system resulted in a lack of available or affordable credit in many countries including Australia.
- 1.7 Governments around the world responded to the crisis by providing billions in funding for banks, credit and consumer markets, and on some occasions, guaranteeing bank deposits. In Australia, the Government guaranteed bank deposits up to one million dollars, wholesale term funding of Australian incorporated banks and authorised deposit-taking institutions and purchased \$4 billion in Residential Mortgage Backed Securities.<sup>6</sup>

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4 A CDS is a form of insurance that allows for the transfer of credit risk without the transfer of an underlying asset, Dr Michael Porter, *The economic collapse we did not have to have*, Committee on Economic Development Australia, 25 August 2009, [http://www.ceda.com.au/public/research/financial\\_crisis/porter.html](http://www.ceda.com.au/public/research/financial_crisis/porter.html), accessed 25 August 2009.

5 Manningham City Council, *Submission No. 32*, p. 3.

6 Media Release, Prime Minister of Australia, *Global Financial Crisis*, 12 October 2008.

- 1.8 No amount of government intervention could fully negate the effects of the crisis that rippled through the Australian economy throughout late 2008 and into 2009. The Australian Stock Exchange (ASX) fell and businesses exposed to the global economy or reliant on credit began to suffer. Job losses followed and consumer confidence began to wane, further impacting businesses and jobs. Australia, however, fared better than many – and continues to do so.<sup>7</sup>
- 1.9 The effects in regional Australia have been similar to those experienced in the metropolitan areas – declines in business activity, job losses and resulting social problems. Some regions, heavily reliant on industries such as mining, tourism and manufacturing, have keenly felt the effects of the crisis.<sup>8</sup> While some agricultural regions view the crisis as another challenge to be faced after years of drought, others have experienced growing economies due to an increase in domestic tourism at the expense of declining international tourism numbers.<sup>9</sup> Similarly, in regions where the drought has broken, the financial crisis is of less concern.<sup>10</sup>
- 1.10 The picture that emerges of this crisis in the regions is a mixed one and serves to highlight the challenges that regional policy makers face when considering regional development issues generally, and responses to this crisis specifically. Challenges, however, should not be deterrents, and while a considerable amount of effort (and money) has been committed in response to the GFC by government, the Committee, in undertaking this inquiry, has sought to ensure that regional concerns are heard as Government formulates responses to the crisis and aids in the development of regional Australia.

## Aim and scope of the report

- 1.11 There were several challenges the Committee faced in undertaking an inquiry of this nature. The GFC continues to unfold and so the Committee has been aware that information it gathered has been regularly superseded by events. Likewise, official data is reflective of a specific time

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7 The impact of the global financial crisis to date has been less severe in Australia than other OECD countries. See OECD Economic Outlook 85 database.

8 This was most evident in areas the Committee visited such as Broken Hill (mining), the Gold Coast (tourism) and Geelong (manufacturing).

9 Regarding agriculture see, Department of Agriculture, Fisheries and Forestry, *Submission No. 128*, p. 3. Regarding tourism see, Mr Robert Wallace, *Transcript 21 April 2009*, p. 9.

10 Mr Anthony Brun, *Transcript 29 April 2009*, p. 2.

period and is not always timely when events are moving quickly. In this case, business surveys have assisted in providing more timely information.

- 1.12 Much of the evidence gathered by the Committee is anecdotal and does not provide a complete record of the impact of the GFC on regional Australia, however, the Committee expects that this inquiry will add to the body of information available regarding the impacts of the GFC in regional Australia and will assist future research into the crisis once it has abated.
- 1.13 The speed of the crisis and the need for governments to respond quickly has resulted in a situation where the Committee is aware of government action but not able to comment extensively on the impact of this action because enough time has not lapsed. The Committee does, however, examine government programs and stimulus in regional Australia where appropriate.
- 1.14 The report is broken into two sections; the first addresses the impact of the crisis on regional Australia to date and the government response. The second section examines current and future regional development policy options targeted at assisting Australia's regions to grow and withstand future economic challenges.

## **Conduct of the inquiry**

- 1.15 The inquiry was advertised in *The Australian* on 18 February 2009 and in the 13 February 2009 edition of the Australian Local Government Association newsletter. A press release was also issued to regional media outlets on 12 February 2009.
- 1.16 In addition, the Committee invited submissions from federal Ministers, state and territory governments, 560 local governments, 49 state and territory Regional Development Boards, 54 Area Consultative Committees, as well as a wide range of businesses, and business and labour organisations, research institutes and social service providers. In total, the Committee issued 628 submission invitation letters.
- 1.17 To date, the Committee has received 170 submissions from 164 parties. These submissions are listed in Appendix A. The Committee also received 31 exhibits which are listed in Appendix B.

- 1.18 The Committee held public hearings in: Burnie, Launceston, Geelong, Ararat, Geraldton, Busselton, Mandurah, Sydney, Broken Hill, Beenleigh, Canberra, Townsville and Darwin. In total, 164 witnesses appeared before the Committee at these public hearings. Details of the hearings and witnesses who appeared can be found in Appendix C and a brief summary of the Canadian Mortgage Bond Scheme is found in Appendix D.
- 1.19 Transcripts of the Committee's public hearings and copies of all written submissions are available from the Committee Office of the House of Representatives, the National Library of Australia or on the inquiry website:
- <http://www.aph.gov.au/house/committee/itrdlg/index.htm>



## Impact of the GFC on regional business

### Introduction

- 2.1 It is difficult to generalise when discussing the impact of the GFC on regional Australia. As noted in the previous chapter, the picture which has emerged throughout the course of this inquiry is a mixed one. Some regions are worse off than they were before the crisis, others the same or better.
- 2.2 Much of this has to do with the economic make-up of various regions. Those which are heavily reliant on the mining industry, for example, have suffered as world commodity prices and demand have declined. Yet, in Queensland, a new coal mine is opening in the Surat Basin, creating more jobs<sup>1</sup> while declining mineral prices have led to job losses in the Mackay-Fitzroy-Central West region of Queensland.<sup>2</sup> The tourism industry has found itself in similar circumstances. Decreasing international tourist numbers have had a negative impact on cities such as Cairns and the Gold Coast, while the tourism sector in Tasmania remains strong.
- 2.3 The differing nature of the crisis is reflected to some degree in the presentation of the evidence in this report. Rather than itemising the impact of the crisis on various regions around Australia, the next three chapters will note the impact of the crisis on business, individuals and local governments in regional Australia, in each case noting the assistance provided by the Commonwealth Government.

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1 Media report, Surat Basin's Newest Mine Creates Jobs, ABC Rural, 12 June 2009, <http://www.abcnet.au/rural/resource/stories/s2596512.htm>, accessed 26 August 2009.

2 See, Government of Queensland, *Submission No. 156*, p. 3 & Townsville Enterprise, *Submission No. 120*, p. 11.

2.4 This crisis is an economic one and therefore it is logical to begin with its impact on business in regional Australia, because a constricting economy affects people, which in turn, affects the government institutions that assist them.

2.5 As noted, it is not possible for the Committee to present a complete picture of the impacts of this crisis on the various industries noted in this section, as the crisis continues and its full impact will not be known for some time. The first section of this chapter will therefore detail the evidence the Committee has received to date, noting the major sectors in regional Australia that have felt the crisis' effects and ways in which the Commonwealth Government has responded. These sectors include:

- Resources;
- Manufacturing;
- Tourism;
- Retail;
- Construction;
- Primary industries; and
- Banking and lending.

The chapter will conclude with a brief discussion on operating businesses through economic downturns.

## Resources sector

2.6 Australia's resource sector is export oriented, with much of the exports going to Asian markets such as China, Japan and the Republic of Korea. Gross Domestic Product (GDP) in these countries has fallen since the onset of the GFC and as a result, demand for Australian energy and minerals commodities has also fallen.<sup>3</sup> Falling demand has led to falling prices. In turn, falling commodity prices have raised the cost of mining operations and impacted the ability of resource companies to access financing for development projects.<sup>4</sup> Accessing credit will be discussed later in this section; however, it should be noted that mining companies have been unable to access credit or only at terms which 'impose a highly risky and

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3 Department of Resources, Energy and Tourism, *Submission No. 35*, p. 9.

4 Department of Resources, Energy and Tourism, *Submission No. 35*, p. 9.



- onerous debt burden on them'.<sup>5</sup> The option of on-market equity raising has been problematic due to the volatility of the share market.<sup>6</sup>
- 2.7 Exploration in the resources sector has also decreased since the beginning of the GFC. Barring exploration for petroleum, which has increased, mineral exploration expenditure fell by 3.1 per cent in the December 2008 quarter alone. Exploration budgets have been cut and exploration staff laid off in order to conserve capital.<sup>7</sup>
- 2.8 All this has resulted in decreasing profits for resource companies with a corresponding decrease in company share prices. In regional Australia, a reduction in the demand and price of commodities has meant job losses. From February 2009, employment in the mining industry fell by 5.2 per cent – the equivalent of 8,600 people.<sup>8</sup> Combined with a decrease of 7.9 per cent in the period between November 2009 and February 2009 (13,000 people), it is clear that job losses in the mining sector have been significant.<sup>9</sup>
- 2.9 Evidence provided to the Committee by the Department of Resources, Energy and Tourism (RET) indicates that Western Australia (WA), South Australia (SA) and Queensland (QLD) have been hit particularly hard by job losses in the resources sector.<sup>10</sup> This is consistent with evidence gathered by the Committee at its public hearings. In Geraldton, the Committee was advised that some of the mining companies 'have either stopped or reduced production, which has led to downturns and staff being put off'.<sup>11</sup> In Broken Hill, around 50 positions have been lost at the CBH mine and 440 at the Perilya mine, resulting in a 30 per cent decrease in employment across all of Broken Hill.<sup>12</sup>
- 2.10 A 30 per cent decrease in employment in Broken Hill is substantial and the flow-on effects even more so. In cities such as Broken Hill, mining companies are often the major employer and driver of local industry. Job losses at the local mine have a major impact on other businesses which may be suppliers of mining products or services or depend on the economic activity generated by mine employees for business. In Burnie,

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5 Department of Resources, Energy and Tourism, *Submission No. 35*, p. 9.

6 Department of Resources, Energy and Tourism, *Submission No. 35*, p. 9.

7 Department of Resources, Energy and Tourism, *Submission No. 35*, p. 9.

8 Ms Jane Madden, *Transcript 14 August 2009*, p. 72.

9 Department of Resources, Energy and Tourism, *Submission No. 35*, pp. 10 & 11.

10 Ms Jane Madden, *Transcript 14 August 2009*, p. 72 & Department of Resources, Energy and Tourism, *Submission No. 35*, p. 10.

11 Mr Anthony Brun, *Transcript 29 April 2009*, p. 3.

12 Mr Desmond Bilske, *Transcript 7 July 2009*, p. 2.

for example, Caterpillar, an underground mining manufacturer, has been forced to reduce employment due to a reduction in orders for mining equipment.<sup>13</sup> The whole Burnie region has suffered as a result. Some redundant workers have found other work but at lower pay, resulting in poorer living standards.<sup>14</sup> Local businesses dependant on the Caterpillar supply chain have also experienced a reduction in orders and profits leading to multiple job losses:

...there are a couple of other local companies that have supported Caterpillar. There will be a loss of 20 to 25 per cent of the jobs in one particular small engineering firm of 20 people. Lots of other companies have gone back to four-day weeks. They are trying to hang on and keep their skill base together as an alternative to making people permanently redundant. The outsourcing habits, particularly of larger businesses like Caterpillar...are fairly catastrophic to other small to medium sized businesses in the region.<sup>15</sup>

- 2.11 In some instances, job losses in the resources sector can impact regions far removed from the primary operation. In WA, job losses at the Iluka mineral sands mine in the North West have had an effect as far south as Busselton. Many of the retrenched Iluka workers were fly-in/fly-out and based in southern cities such as Busselton. The loss of these jobs impacts the Busselton community, as unemployed and underemployed workers are forced to relocate to Perth or elsewhere for work, thereby reducing economic activity in Busselton.<sup>16</sup>
- 2.12 The Busselton example also highlights the sometimes transient nature of employment in the resources sector. RET points out that resource job losses in WA and SA were mitigated by increases in mining industry employment in Tasmania and Queensland (the opening of a mine in the Surat Basin has already been noted in this report) in the February 2009 quarter and the Department has advised that mining and contractor companies are redeploying staff to other areas of their operations.<sup>17</sup>
- 2.13 Reports of staff redeployments and growth in areas of the sector (Queensland LNG for example) are encouraging. Certainly the resource industry, while affected by the crisis, has appeared to weather it better to date than other industries which are discussed in this chapter. RET
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13 Caterpillar Underground Mining Pty Ltd., *Submission No. 75*.

14 Mr Paul Arnold, *Transcript 20 April 2009*, p. 6.

15 Mr Lee Whitely, *Transcript 20 April 2009*, p. 20.

16 Mr David Smith, *Transcript 30 April 2009*, p. 5.

17 Department of Resources, Energy and Tourism, *Submission No. 35*, pp. 10 & 11.

attributes this to the resilience, innovativeness and efficiency of the sector which has 'taken steps over the last 10 years to ensure it is well-positioned for the future'.<sup>18</sup>

- 2.14 Despite the relatively good health of Australia's resource sector, the Commonwealth Government has provided assistance to the sector. The assistance has focused predominantly on employment and education programs for those who have lost their jobs. Much of this activity occurs under the auspices of Job Services Australia, which is the Commonwealth Government's major employment services program across Australia.<sup>19</sup> At its public hearing in Canberra, the Department of Education, Employment and Workplace Relations (DEEWR) advised the Committee that Job Services Australia is 'there to assist redundant workers' and noted that 'people who lose their jobs as a result of a global economic recession...do get immediate access to a higher level of service within Job Services Australia'.<sup>20</sup>
- 2.15 In regards to the mining sector, Job Services Australia providers firstly attempt to help workers find other employment within the industry. If other employment is not forthcoming, training designed to develop alternate skill sets for employment in other sectors is provided.<sup>21</sup>
- 2.16 The Committee accepts and supports the general goals of this service but did raise concern that in a town such as Broken Hill, when a mine closes and many people lose their jobs, the ability of the community to absorb those workers into other professions may be limited.<sup>22</sup> DEEWR noted the Committee's concern but pointed out that the Jobs Fund<sup>23</sup> 'will create jobs in the local communities'.<sup>24</sup>
- 2.17 At the time of writing, the first round of Jobs Fund projects had just been announced. Broken Hill did not receive a project in that round<sup>25</sup> and therefore, it is likely that unemployed miners in Broken Hill have been

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18 Department of Resources, Energy and Tourism, *Submission No. 35*, p. 10.

19 Mr Graham Carters, *Transcript 14 August 2009*, p. 17.

20 Mr Graham Carters, *Transcript 14 August 2009*, p. 18.

21 Mr Graham Carters, *Transcript 14 August 2009*, p. 18.

22 Mr Jon Sullivan MP, *Transcript 14 August 2009*, p. 19.

23 The Jobs Fund is a \$650 million dollar fund designed to support and create jobs and improve skills by funding projects that build community infrastructure and create social in local communities, DEEWR, <http://www.deewr.gov.au/Employment/Pages/JobsFund.aspx>, accessed 25 June 2009.

24 Mr Graham Carters, *Transcript 14 August 2009*, p. 19.

25 See successful Jobs Fund projects under Round 1 document, [http://www.deewr.gov.au/Employment/Documents/Jobs\\_Fund\\_projects.pdf](http://www.deewr.gov.au/Employment/Documents/Jobs_Fund_projects.pdf), accessed 4 September 2009.

redeployed, moved to other mining areas for work – as noted by RET in its evidence to the Committee – or assisted by Job Services Australia.

- 2.18 The redeployment of skills out of a region may assist in ensuring continued employment but it does not necessarily benefit the region's economy, as skilled employees do not always return. The only other option for maintaining a region's skills base is diversifying its economy. Economic diversification is key to ensuring that regions are better equipped to withstand economic downturns and the Committee will discuss this issue in greater detail later in the report.
- 2.19 The Committee was advised by DEEWR that in addition to the services provided by Job Services Australia around the country, certain regions across Australia hit particularly hard by the crisis have been identified as Local Employment Priority Areas. In these areas, Local Employment Coordinators (LECs) have been tasked with identifying employment opportunities for workers who have lost their jobs; working with community stakeholders to maximise employment and training opportunities resulting from the Government's stimulus package; and developing apprenticeship opportunities and promoting the skills needed for future economic recovery.<sup>26</sup> There are twenty Local Employment Priority Areas and several of these cover regions which have been affected by job losses in the resources sector.
- 2.20 Direct government financial assistance to the resources sector is much more limited. The sector has benefited from some of the recent government stimulus, for example, The Australian Rail Track Corporation received \$580 million from the Commonwealth as part of a larger package to upgrade the Hunter rail system, thereby benefiting the coal industry. Commonwealth money has also been provided to various pipeline projects; however, the mining sector 'from the Government's perspective, is expected to pay for itself'.<sup>27</sup>

## Manufacturing sector

- 2.21 The Australian manufacturing sector has been under stress for some time. Between 2002 and 2008, the high value of the Australian dollar 'led to a severe deterioration in the competitiveness of Australian

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26 DEEWR,  
[http://www.deewr.gov.au/Employment/Documents/LEC\\_FactSheet\\_13\\_July\\_2009.pdf](http://www.deewr.gov.au/Employment/Documents/LEC_FactSheet_13_July_2009.pdf),  
accessed 4 September 2009.

27 Mr Christopher Stamford, *Transcript 14 August 2009*, p. 79.

manufacturing'.<sup>28</sup> The sector has also been undergoing a period of mechanisation—leading to a reduction in the workforce and has faced pressure from overseas competition.<sup>29</sup> The GFC, then, is being viewed by some manufacturers as the final blow in a 'perfect storm' of challenges facing Australian manufacturing.<sup>30</sup>

- 2.22 In regional Australia, those areas reliant upon manufacturing for the generation of employment and other economic activity have been particularly impacted by the GFC. Larger manufacturing centres such as Geelong and the northern Adelaide region have received much attention due to job losses in the automobile and textile industries; however, other cities such as Wodonga have also suffered.<sup>31</sup> Furthermore, in much smaller towns, a reduction of staff at a local manufacturing business can have an exponentially larger impact when that business is the major employer in the region.<sup>32</sup>
- 2.23 The Committee gathered evidence around the country regarding job losses in the manufacturing sector. Geelong, in particular, served as a valuable case study for the Committee about the impact of the GFC on manufacturing in regional Australia. When the Committee visited Geelong in April 2009, 1000 jobs had already been lost as a result of the GFC.<sup>33</sup> Like the resources sector, a downturn and subsequent job losses at major manufacturers affects the entire supply chain and so, in Geelong, the impact of the GFC on companies such as Ford, Shell, Godfreys and Alcoa can have a substantial multiplier effect, impacting supply companies in Geelong and the region.<sup>34</sup>
- 2.24 The Commonwealth Government provides assistance to the manufacturing sector in two ways. It provides support for small and medium sized manufacturers through programs such as Enterprise Connect and AusIndustry's Small Business Advisory Program. There has also been support provided to those who have lost their jobs in the sector through the work of Local Employment Coordinators and Job Services Australia.
- 2.25 Specifically, the Government has responded to the needs of Australian manufacturers on a sectoral basis, establishing various programs and

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28 Geelong Manufacturing Council, *Submission No. 131*, p. 4.

29 The Geelong Chamber of Commerce, *Submission No. 129*, p. 2.

30 Geelong Manufacturing Council, *Submission No. 131*, p. 2.

31 City of Wodonga, *Submission No. 19*, p. 1.

32 Central Murray ACC, *Submission No. 100*, p. 4.

33 Mr David Sykes, *Transcript 22 April 2009*, p. 46.

34 Mr David Sykes, *Transcript 22 April 2009*, p. 47.

structural adjustment funds targeted at facilitating innovation in Australia's manufacturing sector.<sup>35</sup>

2.26 In the medium to long-term, entities such as the Pulp and Paper Industry Group and the Steel Industry Innovation Council are examining ways in which their industries can grow.<sup>36</sup> These bodies are important and are expected to assist manufacturers in Australia to adapt to the challenges they face. To date, the Government has announced six Industry Innovation Councils:

- Automotive (19 December 2008);
- Built Environment (2 September 2008);
- Future Manufacturing (10 October 2008);
- Information Technology (5 May 2009);
- Textile, Clothing and Footwear (12 May 2009) and
- Steel (30 July 2009).<sup>37</sup>

2.27 The Committee was interested, however, to explore how governments can provide rapid responses and financial assistance to manufacturers during sharp downturns. The Department of Innovation, Industry, Science and Research advised that immediate assistance can come in the form of structural adjustment funds. Funds have previously been set up in response to Mitsubishi and Electrolux plant closures and the Auspine mills in Tasmania.<sup>38</sup>

2.28 The Geelong Investment and Innovation Fund was also cited and discussed at the Committee's hearing in Geelong. The Fund was established following a decision by Ford Australia to restructure its Geelong manufacturing operations. The fund is a \$24 million package with the Commonwealth Government contributing \$15 million, the Victorian Government \$6 million and Ford Australia \$3 million.<sup>39</sup> It is designed to support new investment in the region which is expected to

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35 Mr Stephen Payne, *Transcript 14 August 2009*, p. 34.

36 Mr Stephen Payne, *Transcript 14 August 2009*, p. 34.

37 Department of Innovation, Industry, Science and Research, *Submission No. 169*, p. 1.

38 Mr Stephen Payne, *Transcript 14 August 2009*, p. 35.

39 GrantsLINK, Geelong Investment and Innovation Fund, <http://www.grantslink.gov.au/Info.aspx?NodeID=2&ResourceID=1829>, accessed 7 September 2009.

lead to sustainable job opportunities,<sup>40</sup> in the neighbourhood of one job created for every \$30,000 to \$40,000 spent.<sup>41</sup> The Geelong Manufacturing Council has noted the 'significant and positive impact' the fund has had on the Geelong region.<sup>42</sup>

- 2.29 Despite anecdotal evidence provided to the Committee about the positive impact the Geelong Investment and Innovation Fund has had on the Geelong region, it is too early to tell the extent of the impact. While its long-term effects may be positive, the use of structural adjustment funds as a response mechanism to a rapidly declining economic environment should be tested. The Australian National Audit Office has examined the administration of previous structural adjustment funds but it is not clear if they are an effective tool to be employed during economic downturns such as this. Therefore, the GFC presents an opportunity for the Government to evaluate the potential use of structural adjustment funds in response to economic downturns such as the GFC.

### **Recommendation 1**

- 2.30 **The Committee recommends that the Government evaluate and report on the potential use of structural adjustment funds as a response to economic downturns such as the global financial crisis.**
- 2.31 The Committee is also concerned that structural adjustment funds are not sufficiently flexible in nature to account for the challenges facing small business during times such as these. The manufacturing sector in Australia has been changing over time as overseas competition has increased and jobs have been lost to improved methods of production. As a result, smaller manufacturers in regional Australia have replaced larger manufacturing companies. It is those smaller manufacturers, and other small businesses, which have driven economic and employment growth in regions such as Geelong.<sup>43</sup>

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40 GrantsLINK, Geelong Investment and Innovation Fund, <http://www.grantslink.gov.au/Info.aspx?NodeID=2&ResourceID=1829>, accessed 7 September 2009.

41 Mr David Sykes, *Transcript 22 April 2009*, pp. 49 & 50.

42 Mr David Sykes, *Transcript 22 April 2009*, p. 48.

43 The Geelong Chamber of Commerce, *Submission No. 129*, p. 2.

- 2.32 Structural adjustment funds are targeted in nature and are intended to assist in cases where large scale job losses will create massive problems in communities. They may not, however, assist smaller businesses in regional Australia that are otherwise successful but have suffered a short, sharp shock because of the GFC and the nature of the industry they operate in.<sup>44</sup>
- 2.33 The Committee, therefore, encourages the Government, in examining the potential use of structural adjustment funds in response to economic downturns such as the GFC, to consider their flexibility and ability to assist small enterprises in addition to larger companies.

## **Recommendation 2**

- 2.34 **The Committee recommends that the Government, in examining the use of structural adjustment funds, consider the flexibility and ability of structural adjustment funds to assist small enterprises in addition to larger companies.**

## **Tourism sector**

- 2.35 The tourism industry has certainly felt the impact of the GFC, declining at a worse rate than the rest of the economy.<sup>45</sup> Data presented to the Committee in August 2009 indicated that there was ‘real deterioration’ in the domestic tourism market – the ‘backbone of the Australian tourism industry’.<sup>46</sup> International visitor numbers were also down nearly two per cent in the first half of 2009.<sup>47</sup> This has resulted in a marked lack of profitability for the industry as individuals have delayed holidays and business travel has been reduced.<sup>48</sup>
- 2.36 It should be noted, however, that the Australian tourism sector is faring comparatively well when considered against the performance of countries such as Japan and New Zealand. Around the world, travel is down eight

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44 Ms Catherine King MP, *Transcript 14 August 2009*, p. 35.

45 Mr Evan Hall, *Transcript 6 July 2009*, p. 67.

46 Ms Jane Madden, *Transcript 14 August 2009*, p. 72.

47 Ms Jane Madden, *Transcript 14 August 2009*, p. 72.

48 Tourism Australia, Tourism Forecasting Committee, *Forecast 2009: Issue 1, Exhibit No. 29*, p. 1.



per cent for 2009, while the travel market in Australia has only declined by 1.7 per cent in the same period.<sup>49</sup>

- 2.37 The decline in tourism activity has been particularly felt by regional areas which have a greater reliance on tourism for employment.<sup>50</sup> Throughout its public hearings, the Committee canvassed witnesses about the impact of the GFC on tourism and tourism employment in their region. The reports it received were mixed.
- 2.38 On the Gold Coast, tourism contributes approximately \$4.2 billion annually to its economy and generates over 19,000 full-time jobs.<sup>51</sup> In that region, August 2009 figures indicated that international visitation was down by 7.8 per cent or 65,000 visitors and domestic overnight visitation was down 12.8 per cent or 470,000 visitors.<sup>52</sup> This has resulted in declining operator confidence, cuts to operator marketing and a 'virtual drying up of tourism investment and development' on the Gold Coast.<sup>53</sup> Conversely, international visitor expenditure and day-trip expenditure has increased while overnight visit expenditure has decreased.<sup>54</sup>
- 2.39 In the Northern Territory, domestic and international visitation numbers declined in the 2007/2008 period, as did visitor expenditure, which decreased by 12.4 per cent in the same period.<sup>55</sup> As elsewhere, the greatest impact of the GFC on NT tourism has been declining employment prospects in the tourism and retail related industries – felt most acutely in regional towns.<sup>56</sup>
- 2.40 Western Australia, outside of Perth, has experienced a decline in tourism activity.<sup>57</sup> This evidence was supplied to the Committee in July 2009, indicating that the situation had worsened in South West WA since the Committee's public hearings there in April. When in Busselton WA, the Committee was advised that:

...things are very good at the moment. We are talking about the immediate vicinity of Busselton and not the whole Busselton shire. Most businesses benefit in this whole Capes to Capes region either

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49 Ms Jane Madden, *Transcript 14 August 2009*, p. 72.

50 Mr Evan Hall, *Transcript 6 July 2009*, p. 68.

51 Gold Coast Tourism, *Submission No. 166*, p. 1.

52 Gold Coast Tourism, *Submission No. 166*, p. 1.

53 Gold Coast Tourism, *Submission No. 166*, p. 1.

54 Mr Paul Donovan, *Transcript 4 August 2009*, p. 32.

55 Northern Territory Government, *Submission No. 145*, p. 6.

56 Northern Territory Government, *Submission No. 145*, p. 7.

57 Mr Evan Hall, *Transcript 6 July 2009*, p. 68.

directly or indirectly from tourism... The accommodation providers that are providing for the top end [clientele] are suffering a bit. The mid-range are not. Our biggest market in this region for tourism is Perth based metropolitan. We are also getting more and more overseas visitors. We are actually going the opposite way to the Australian trend... people in the hospitality industry, in general, are having the best year that they have had for many years.<sup>58</sup>

- 2.41 In Victoria, and particularly in Tasmania, discussions surrounding the tourism sector had a generally positive tone. The Grampians area of Victoria has noted a decline in international and interstate tourism numbers, but the region has been buoyed by an increase in intrastate visitors:<sup>59</sup>

We believe that the opportunities for us, even in tough times, are reasonably good. That is mainly because our biggest market is the domestic market... We are already finding that we have seen a tendency for our domestic volume to increase because everyone is staying at home and not travelling overseas so much. From that point of view, we see there are some positive signs.<sup>60</sup>

- 2.42 Tasmania, it would appear, has fared better than most. When the Committee visited Launceston in April 2009, it was advised that 'tourism in Tasmania and in Launceston in particular is going extremely well at the moment'.<sup>61</sup> In Tasmania, like Victoria and perhaps even WA, domestic tourism has carried the industry during this period:

A very small proportion of our ongoing tourism business is internationally based or comes from international visitation. Figures released in the last two weeks show an increase of 12 per cent in visitation but, more importantly, an increase of 19 per cent in per visitor spend. To put that into practical language, instead of people from Sydney and Melbourne, which are our main drawing areas, going overseas, they are taking a holiday to an island.<sup>62</sup>

- 2.43 The Committee often received conflicting reports during the course of this inquiry and particularly relating to tourism. Part of this has to do with the rapidly changing and available data, as figures or evidence relayed in the

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58 Mr Peter Gordon, *Transcript 30 April 2009*, p. 38.

59 Mr Glen Davis, *Transcript 23 April 2009*, p. 23.

60 Mr Ross Hatton, *Transcript 23 April 2009*, p. 35.

61 Mr Robert Wallace, *Transcript 21 April 2009*, p. 9.

62 Mr Robert Wallace, *Transcript 21 April 2009*, p. 9.

first half of 2009 did not always match data released in the latter part of the year. It also reflects the difference between national data and region specific data. There are always challenges when interpreting data, however, the story which emerged from the written and oral evidence was varied enough to warrant follow-up discussion.

- 2.44 The Committee raised this issue with the Tourism and Transport Forum during its public hearing in Sydney and was advised that Tasmania, South Australia and Victoria were performing well in the domestic tourism market and that the strength of the industry in different regions was 'determined largely by how dependent [a region is] on domestic versus international tourism'.<sup>63</sup>
- 2.45 The Tourism and Transport Forum also argued that 'most people are mistaking volume for yield'.<sup>64</sup> The tourism industry, the Committee was advised, has been dramatically cutting profit margins and prices which has resulted in good volume but poor yield. Once discounting has occurred, the only other place to cut costs is in labour and that is why employment numbers are down in the tourism industry.<sup>65</sup>
- 2.46 Employment numbers are down in those regions reliant on international tourism. Far North Queensland and the Northern Territory in particular are heavily reliant on international tourism and in Far North Queensland, August 2009 employment figures indicated that the rate of unemployment there was the highest in the country at nearly 10 per cent.<sup>66</sup>
- 2.47 Differentiating between domestic and international tourism helps account for some of the mixed messages received by the Committee. As RET points out, often tourism is referred to as 'almost an amorphous single entity' but in fact it is a sector with a range of components. In addition to leisure tourism, there are business events, major events and study tourism as well.<sup>67</sup> As a result, 'some parts of the industry can be performing quite strongly and well while other parts are having particularly difficult times'.<sup>68</sup>
- 2.48 The Committee heard that this is why the Government has responded to the crisis with a suite of measures which apply to a range of industries and

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63 Mr Evan Hall, *Transcript 6 July 2009*, p. 71.

64 Mr Evan Hall, *Transcript 6 July 2009*, p. 71.

65 Mr Evan Hall, *Transcript 6 July 2009*, p. 71.

66 Tourism and Transport Forum, Media Release: *Tourism Needs a Shot in the Arm*, 3 September 2009.

67 Ms Jane Madden, *Transcript 14 August 2009*, p. 75.

68 Ms Jane Madden, *Transcript 14 August 2009*, p. 75.

a range of sector sub-sets. In regards to the tourism sector, it has been a 'net beneficiary' of the Government's cash stimulus and the Committee has been advised that the 'injections of fiscal stimulus into the economy have been flowing through some tourism establishments'.<sup>69</sup> The Government's second stimulus package targeting infrastructure spending is also expected to have 'some benefit for tourism'.<sup>70</sup>

2.49 Likewise, the Regional and Local Community Infrastructure Program is funding projects 'targeted primarily at improved tourism infrastructure'<sup>71</sup> and the Jobs Fund has supplied money for tourism related projects.

2.50 More specifically, tourism businesses have access to the TQUAL Grants funding program administered by AusIndustry. TQUAL Grants support initiatives that:

- develop innovative product, services or systems within the tourism industry;
- contribute directly to long-term economic development in the host region; and
- develop or support high quality visitor services and experiences.<sup>72</sup>

2.51 The TQUAL Grants program opened in early 2009 and RET reports that over four hundred applications were received:

It was massively oversubscribed for the amount that is available. There was \$8.5 million available for two years. We had 491 bids. The total, if all bids were to be considered, would be many hundreds of millions of dollars. And of course it is a highly competitive process. But it shows the need, the interest and the enthusiasm in regional and rural Australia for having some support to help them develop further the tourism product and service in the areas.<sup>73</sup>

2.52 The Committee notes the strong demand for the TQUAL Grants program and recommends that the Government consider increasing the quantum of funding for the Program, while ensuring that regional tourism businesses

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69 Ms Jane Madden, *Transcript 14 August 2009*, p. 78.

70 Ms Jane Madden, *Transcript 14 August 2009*, p. 78.

71 Western Australia Local Government Association, *Submission No. 71*, p. 7.

72 AusIndustry, TQUAL Grants, <http://www.ausindustry.gov.au/Tourism/TQUALGrants/Pages/TQUALGrants.aspx>, accessed 8 September 2009.

73 Ms Jane Madden, *Transcript 14 August 2009*, p. 77.

receive a proportionate share of the grant funding provided the applications adhere to the program guidelines.

### Recommendation 3

- 2.53 **The Committee recommends that the Government increase the quantum of funding for the TQUAL Grants program, while ensuring that regional tourism businesses receive a proportionate share of the grant funding, provided the applications adhere to the program guidelines.**
- 2.54 Tourism businesses also have access to other government programs administered by various departments. For example, small and medium sized tourism businesses have been among the major beneficiaries of the Export Market Development Grants Scheme, administered by Austrade.<sup>74</sup> RET advised the Committee that it has recently secured agreement that regional tourism organisations can bid for these grants. This will help those organisations to market offshore.<sup>75</sup>
- 2.55 Like each of the industries discussed in this chapter, employees in the tourism sector who have lost their jobs as a result of this downturn have access to support through Job Services Australia and the services of Local Employment Coordinators assigned to regions reliant on tourism – particularly Far North Queensland.
- 2.56 The tourism industry comprises a broad range of businesses and employees, and as such, government assistance for the sector has been equally broad. While the tourism sector has received assistance through a variety of programs, the Committee is concerned that the funding is not being directed in a manner which will ensure a particular outcome. Certainly, the money is supporting jobs and assisting business through a tough period but looking forward, it is important that there is coordination in the strategic planning, as there are ‘so many diverse players within tourism, all of whom need to act together cooperatively to create the one experience for the tourist’.<sup>76</sup>
- 2.57 The Tourism and Transport Forum has suggested that destination planning is the appropriate approach. For example:

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74 Ms Jane Madden, *Transcript 14 August 2009*, p. 79.

75 Ms Jane Madden, *Transcript 14 August 2009*, p. 79.

76 Mr Evan Hall, *Transcript 6 July 2009*, p. 78.

You might say, 'We're going to build up the Gold Coast and the hinterland of South-East Queensland as a nature based destination attracting markets from the Middle East and India.' That would be quite a legitimate strategy to pursue. How do you actually implement that? That comes down to things like planning in Surfers Paradise to make sure that three- or four-bedroom apartments are being built.<sup>77</sup>

2.58 Destination planning requires a high level of cooperation between federal, state and local governments, various industries and across government portfolios,<sup>78</sup> but it may avoid scenarios whereby a grant for the private sector in a particular tourism destination 'is not totally inconsistent with the branding, marketing and future direction'<sup>79</sup> of that destination.

2.59 The Committee has been advised that RET is 'very mindful of trying to work across the whole raft of government programs'<sup>80</sup> and there is precedence for this type of cooperation. The National Landscapes Program:

...provides a framework for regional and cross-jurisdictional collaboration to ensure that the visitor experience promised by the destination brand is delivered to the target market.<sup>81</sup>

The TQUAL Grants process will encourage cooperation between state and federal governments as state tourism organisations have been asked to assess applications as part of the process.<sup>82</sup> The Committee is also aware that coordination between government and the private sector has been a primary consideration when developing the National Long-Term Tourism Strategy.<sup>83</sup>

2.60 Given the current levels of cooperation between federal, state and local governments and the current levels of stimulus being provided by governments, now would be an ideal time to encourage greater coordinated planning in the tourism sector.

2.61 The Tourism and Transport Forum has suggested that coordinated planning should come in the form of prioritisation:

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77 Mr Evan Hall, *Transcript 6 July 2009*, p. 78.

78 Mr Evan Hall, *Transcript 6 July 2009*, pp. 78 & 79.

79 Mr Evan Hall, *Transcript 6 July 2009*, p. 80.

80 Ms Jane Madden, *Transcript 14 August 2009*, p. 79.

81 RET, *Submission No. 35*, p. 26.

82 Mr Evan Hall, *Transcript 6 July 2009*, p. 80.

83 Ms Jane Madden, *Transcript 14 August 2009*, p. 77.

If you do a little bit all over the place you do not raise the quality of a destination, which means you get no extra people going there and they are certainly spending no more for a better experience. If you concentrate that effort in one destination, you change the nature of the destination, you get more people in and they spend more. That is not to say that you should ignore everywhere else, but we have, I think, 80 tourism regions for which we have separate marketing campaigns. We can identify 20 that account for 90 per cent of tourism expenditure. Not all regions are the same. If you started focusing on those 20, first of all you would be getting a lot more bang for your buck.<sup>84</sup>

- 2.62 Denying funding to projects in areas which are not considered a priority will result in some regions missing out on funding that creates jobs and boosts local economies. It may also deny some regions the opportunity to grow and develop as tourist destinations. However, regions which already have a strong focus on tourism could benefit from a coordinated planning approach.
- 2.63 The Committee is aware that state, territory and the Commonwealth Government tourism ministers have been working towards a 'more coordinated relationship...across government'.<sup>85</sup> The Committee supports greater coordination between the tourism departments of state, territory and the Commonwealth Government and believes that the Development of the National Long-Term Tourism Strategy provides an opportunity to consider how states and regions can further improve their cooperation on identifying key tourism markets and setting priorities for marketing those locations.

#### **Recommendation 4**

- 2.64 **The Committee recommends that the National Long-Term Tourism Strategy should consider how states and regions can further improve their cooperation on identifying key tourism markets and setting priorities for marketing those locations.**
- 2.65 Strategic cooperation, it has been suggested, may also lessen the impact of the GFC on the regional tourism industry through the introduction of a

84 Mr Evan Hall, *Transcript 6 July 2009*, p. 80.

85 Ms Jane Madden, *Transcript 14 August 2009*, p. 77.

joint industry and government marketing campaign to be used where there is matching funding provided by industry or state tourism bodies:

...a joint industry/government tactical marketing fund of up to \$40 million per year over two years communicating Australian tourism's price competitiveness to international visitors is an appropriate response to market conditions...It would be used for 'tactical' campaigns marketing competitive tourism packages, such as airline and hotel discounts. In the short-term, this would be more effective than general destination promotion, driving bookings and expenditure and supporting jobs. A \$40 million fund would generate \$80 million in matched co-operative marketing.<sup>86</sup>

- 2.66 Central to this recommendation is the notion that, at present, targeted marketing campaigns are more effective than general destination promotion. This point was echoed by Gold Coast Tourism which is concerned about the kind of marketing activities undertaken by Tourism Australia:

Woolworths do not promote the history of tomatoes or the sun in which they grow. They promote tomatoes, the kilo price and where you go and buy them...we are calling for less esoteric and aspirational marketing, getting down to things which people can relate to, where they can see value for money, see what the price is and see how they get there.<sup>87</sup>

- 2.67 The Committee supports the use of a more strategic approach to tourism marketing, especially during times of acute economic stress in the industry. **Tourism Australia should, therefore, consider a strategic approach to its campaigns to ensure priority is given to markets affected by the GFC and those that will deliver the best return for the taxpayer's marketing dollar.**

## Retail sector

- 2.68 The retail sector, like tourism, accounts for a wide range of businesses and therefore, the impact of the GFC on the retail sector has varied. The retail sector has also been affected to varying degrees depending on the region in question.
- 2.69 Those regions which have suffered downturns as a result of poor conditions in sectors such as mining, manufacturing or tourism have

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86 Tourism and Transport Forum, *Submission No. 155*, p. 6.

87 Mr Paul Donovan and Mr Martin Winter, *Transcript, 4 August 2009*, p. 38.



experienced corresponding downturns in their retail sectors. Job losses in Broken Hill's mining sector, for example, account for the evidence received by the Committee there suggesting that 'retail has been hit heavily, especially in the discretionary spending'.<sup>88</sup>

2.70 Businesses which rely on discretionary spending have felt the effects more than others in the retail sector. A witness in Busselton noted:

Not surprisingly it depends almost entirely on how discretionary the spending is. Food and beverage sales are having their best year yet. Some of our hotels, pubs and supermarkets are doing well, but our discretionary spending shops are really struggling now and beginning to lay off staff. It is quite a mixed picture.<sup>89</sup>

Indeed, when discretionary spending is separated from total sales figures, the indication is that discretionary spending has been weak since March 2008.<sup>90</sup>

2.71 The retail sector has also experienced periods of highs and lows during the 2008/09 financial year. Initial, sharp declines in retail sales during the latter half of 2008 were followed by increases in retail spending during the Christmas 2008 period – largely due to the Government's pre-Christmas stimulus package.<sup>91</sup> Recent figures suggest that the impact of the stimulus package has begun to wash through the economy and customers are now retreating from stores.<sup>92</sup>

2.72 It is also interesting, and somewhat perplexing to note that in September 2009, retail spending was in a decline, while business confidence was at a six-year high, with particular improvement showing in the retail sector amongst others.<sup>93</sup> Each new survey and index reveals a different and changing picture, which has been one of the challenges inherent in this inquiry. It is safe to surmise, however, that the GFC has negatively impacted the retail sector, particularly those businesses relying on discretionary spending.

2.73 The primary action undertaken by the Government in support of the retail sector has been the distribution of bonus payments to households across Australia as part of the Government's economic stimulus plan. To date, it

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88 Mr Robin Edgecumbe, *Transcript 7 July 2009*, p. 14.

89 Councillor Steve Harrison, *Transcript 30 April 2009*, p. 9.

90 Property Australia, *Value the new Mantra in the retail sector*, 1 July 2009.

91 See for example survey respondents' comments in Economic Development Australia, *Submission No. 110*.

92 The Courier Mail, *Dramatic Fall in Retail Spending*, 10 September 2009.

93 ABC News, *Business confidence hits six-year high*, 8 September 2009.

would appear that these payments 'have done something to hold up retail demand';<sup>94</sup> however, the retail trade remains weak.<sup>95</sup>

## Construction sector

- 2.74 Perhaps more than any other sector of the economy discussed in this section, the construction industry can be 'notably affected by the economic cycle'<sup>96</sup> and particularly the economic conditions created by the GFC. The lack of available credit resulting from the crisis has impacted on heavily geared sectors such as commercial and medium-density property construction,<sup>97</sup> and the declining output from the nation's mines, factories, office blocks and shopping centres means that the 'incentive to construct additional capacity is weak'.<sup>98</sup>
- 2.75 Lower capacity utilisation rates are also coinciding with a decline in business investment, resulting in a decrease in construction activity to expand productive capacity. A direct result of this decreasing activity is unemployment and it has been forecast that employment in the construction sector 'may decline by 8.2 per cent over the next three years'.<sup>99</sup> At the end of August 2009, the sector had registered its 17<sup>th</sup> consecutive month of declining employment.<sup>100</sup>
- 2.76 There are some positive figures that have come out of this sector to date. Housing construction activity is low but has remained resilient. In the July/August 2009 period, the Housing Industry Association Performance of Construction Index rose 2.9 points, indicating an improvement in house building and a stabilisation in the decline of apartment construction.<sup>101</sup> It is expected that population demands and low interest rates will result in 'an improvement in the number of housing starts'.<sup>102</sup>

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94 Mr Glen Stevens, *Transcript 28 September 2009*, Senate Economics References Committee, Government Economic Stimulus Initiatives reference, p. 12.

95 Mr Greg Evens, *Transcript 28 September 2009*, Senate Economics References Committee, Government Economic Stimulus Initiatives reference, p. 57.

96 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, p. 5.

97 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, p. 9.

98 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, p. 9.

99 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, p. 6.

100 ABC News, *Construction decline continues but eases*, 7 September 2009, <http://www.abc.net.au/news/events/global-financial-crisis/>, accessed 13 October 2009.

101 ABC News, *Construction decline continues but eases*, 7 September 2009, <http://www.abc.net.au/news/events/global-financial-crisis/>, accessed 13 October 2009.

102 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, p. 16.

- 2.77 Engineering construction has slowed but there is indication that certain projects in the mining, oil and gas and ports and energy sectors, coupled with government spending will assist in maintaining a strong project agenda, albeit at lower levels than previous years.<sup>103</sup> Commercial construction is generally down but the Commonwealth Government's Education Revolution spending program is driving building in the health and community services sector of commercial construction.<sup>104</sup>
- 2.78 This Australia-wide snapshot is consistent with the evidence received by the Committee in regional Australia. Commercial construction in regional Australia has slowed. In Townsville, Myer intended to spend \$150 million on a new store but that plan has been shelved for two years, as has a mall project worth about \$200 million and a cruise ship terminal development.<sup>105</sup> In WA, very little commercial construction activity was occurring in Geraldton in April 2009;<sup>106</sup> however, the Oakajee deep water port project is expected to generate 'numerous jobs in construction' in the area.<sup>107</sup>
- 2.79 Residential construction drives the economy of many regions in Australia. Those visited by the Committee, particularly South West WA and the Gold Coast have suffered from serious downturns in their property development sectors. In Busselton, the Committee was advised that:
- The impact on the residential construction industry [has been] immediate. I think people forget how important that is as an industry in rapid growth areas. For instance, I would estimate that in the greater Bunbury area residential construction has gone down by about 70 per cent, which has probably caused the loss of about 1,500 jobs from bricklayers, plasterers, tilers and so on.<sup>108</sup>
- 2.80 On the Gold Coast, commercial and residential construction has dropped significantly as a result of the crisis. Indeed, the Gold Coast felt the effects of the crisis earlier than most parts of Australia, impacting severely on all of its economy and particularly its construction sector, which virtually ceased:

...at the beginning of 2007...the secondary financial market that had built on the Gold Coast collapsed. That was funding early

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103 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, pp. 14 & 15.

104 Access Economics, *Construction industry: Economic drivers and outlook*, 27 July 2009, p. 13.

105 Mr Colin Dwyer, *Transcript 3 September*, p. 17.

106 Mr Anthony Brun, *Transcript 29 April*, p. 3.

107 Mid West Development Commission, *Submission No. 143*, p. 6.

108 Mr David Smith, *Transcript 30 April*, p. 4.

stage development projects which were underpinning the construction sector...What we saw in January, February and March 2007 was no money in the city because the financial sector, the providers of funds to developers and the construction sector, dried up...and a significant cash shortage [ensued] around March, April, May. This created an immediate outflow of employment...The rest of Australia started to move into it around September, October, but we were there nearly nine months earlier.<sup>109</sup>

- 2.81 Housing construction on the Gold Coast has slowed but the 'dwelling sector is probably the most robust because there is still a demand for that type of housing generated in part by incentives for first home buyers'.<sup>110</sup> Construction on community infrastructure has, as a result of government stimulus, also helped maintain construction activity in the regions.<sup>111</sup>
- 2.82 In much the same way that the Government's cash payments to households helped the retail sector through the first part of 2009, government support provided through the Nation Building Economic Stimulus Plan has assisted the construction sector and filled the gap left by the private sector when it exited the market.
- 2.83 There are four components of the Nation Building Economic Stimulus Plan that directly affect the construction sector:
- Education;
  - Community infrastructure;
  - Road and rail; and
  - Housing.
- 2.84 The Building the Education Revolution program is expected to provide builders and associated tradespeople with work constructing and rebuilding primary and secondary school infrastructure throughout Australia. The construction of other community infrastructure, such as community halls and recreation centres, has commenced with funding provided directly to local governments around Australia through the Regional and Local Community Infrastructure Program. The Government has also increased and brought forward funding for roads, rail and community housing in response to the crisis.
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109 Mr John Witheriff, *Transcript 4 August*, pp. 4 & 5.

110 Mr John Witheriff, *Transcript 4 August*, p. 5.

111 See for example, Southern Inland Queensland ACC, *Submission No. 114*, p. 2.

- 2.85 Much of the initial evidence taken by this Committee was done so in the early part of 2009. At that point, it was still unclear to some in the regions how some parts of this stimulus package would affect them. In a submission received by the Committee in early April, businesses in the Central Murray region of Australia noted that 'a number of components of the stimulus packages (Community Infrastructure Program and Building Education Revolution) have not yet had any impact and are unlikely to for another 3 to 12 months.'<sup>112</sup>
- 2.86 By mid year, evidence is suggesting that these stimuli have assisted in slowing the decline in the construction sector and of equal importance, evidence provided to this Committee suggests that the Nation Building Economic Stimulus Plan is having a positive effect on employment in the construction industry:
- If these capital works programs continue to operate over a number of years, they will greatly assist the City of Mandurah to maintain its infrastructure provision role, which in turn will maintain employment in the construction sectors. This in turn will have a positive flow-on effect to other industry sectors;<sup>113</sup> and
- The \$21,000 first home buyers grant "has saved a lot of people from being out of work".<sup>114</sup>

## Primary industries

- 2.87 The Committee received evidence from three primary industry sectors, which will be discussed in this section:
- Agriculture;
  - Forestry; and
  - Fisheries.

## Agriculture

- 2.88 The GFC has occurred at a time when resilience in parts of regional Australia is 'at an all-time low' as a result of prolonged drought.<sup>115</sup> The drought has significantly reduced yields and farm incomes and as a result,

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112 Central Murray ACC, *Submission No. 100*, p. 9.

113 City of Mandurah, *Submission No. 49*, p. 8.

114 ACC-Mackay Region, *Submission No. 45*, p. 7.

115 National Farmers Federation, *Submission No. 41*, p. 3.

‘the effect of the drought has, to date, been a more significant factor than the global financial crisis’.<sup>116</sup>

- 2.89 Nevertheless, the GFC has had short and long term impacts on the sector. Commodity prices, particularly of discretionary items such as wool and dairy, decreased immediately at the onset of the GFC and are expected to be volatile for some time.<sup>117</sup> The departure from the market of non-bank lenders has led to credit access problems for some farmers, particularly in Tasmania.<sup>118</sup> Buyers have also been troubled by limited access to credit, thereby creating uncertainty in the international trading environment and lowering farmers’ returns.<sup>119</sup>
- 2.90 Conversely, the GFC did depreciate the Australian dollar (against the American) thereby providing support for commodity export earnings and lower interest rates have provided some relief to farmers.<sup>120</sup> As the GFC continues, the agricultural sector is expected to be impacted by increased protectionist measures as countries support buy domestic campaigns. The initial retreat in discretionary commodity prices is being borne out by decreased demand for premium products in the market and a move towards cheaper staples. The National Farmers Federation is also concerned that rural land values may decrease.<sup>121</sup>

## Forestry

- 2.91 Much of Australia’s forestry products are exported to countries such as Japan, the Republic of Korea and China. Downturns in those economies as a result of the GFC led to an immediate decrease in demand for forestry products. In the export woodchip market, for example:

...it was immediate from Japan. We had boats told they were not coming. There were boats that were scheduled to come in and take woodchip off the docks, and they said these boats would not be coming. It was that immediate.<sup>122</sup>

- 2.92 Domestic sales have also decreased with reduced demand for solid wood products as wholesalers reduce their inventory.<sup>123</sup> In Victoria, falling

116 Department of Agriculture, Fisheries and Forestry, *Submission No. 128*, p. 3.

117 National Farmers Federation, *Submission No. 41*, p. 4 & Department of Agriculture, Fisheries and Forestry, *Submission No. 128*, p. 6.

118 Mr Charles McElhone, *Transcript 14 August 2009*, p. 51.

119 National Farmers Federation, *Submission No. 41*, p. 6.

120 National Farmers Federation, *Submission No. 41*, p. 6.

121 National Farmers Federation, *Submission No. 41*, p. 8.

122 Ms Eva Down, *Transcript 21 April 2009*, p. 63.

123 Ms Eva Down, *Transcript 21 April 2009*, p. 58.

international demand for woodchips coincided with falling investor demand for managed investment schemes used to fund forest plantations, resulting in the collapse of companies such as Great Southern at a considerable loss to investors.<sup>124</sup>

- 2.93 Investors have lost money and employees have lost jobs as a result of the downturn in the forestry sector. In April 2009, mills in Tasmania shut down for ten days to avoid unnecessary redundancies. Despite this, timber mills have downsized in North East Tasmania with several hundred jobs lost.<sup>125</sup>

## Fisheries

- 2.94 The Committee received very little evidence regarding the impact of the GFC on the fisheries sector. Only in Geraldton was the Committee able to discuss the fisheries sector, and in that instance it related directly to the lobster industry. Lobster is a discretionary product, so it is little surprise that the lobster fishery has experienced a contraction in demand. Many of the Geraldton Fisherman's Coop's markets were in the United States, Japan and Western Europe, all of which have been severely impacted by the downturn.<sup>126</sup> As a result, people in Geraldton 'cannot remember...a situation this bad in the marketplace'.<sup>127</sup>
- 2.95 What has been described as a 'short-term squeeze'<sup>128</sup> is coinciding with longer-term structural adjustment that is taking place in the industry. In much the same way that the manufacturing sector has undergone adjustment over time, the lobster fishery has experienced a long period of rationalisation whereby the technological capacity of the fleet was increased while the size of the fleet has decreased – almost by half.<sup>129</sup> The GFC has effectively meant that a reduced, but efficient fleet now waits to see if lobster markets will return.
- 2.96 While lobster fishermen in WA ride out this difficult period, the Commonwealth Government is offering a variety of assistance programs to primary industries in Australia. The Department of Agriculture, Fisheries and Forestry detailed for the Committee a number of programs already in place to support the agricultural sector in particular. These

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124 Mr Jim Cooper, *Transcript 23 April 2009*, p. 58.

125 ACC Tasmania, *Submission No. 80*, p. 8.

126 Mr Wayne Hosking, *Transcript 29 April 2009*, p. 46.

127 Mr Wayne Hosking, *Transcript 29 April 2009*, p. 45.

128 Mr Wayne Hosking, *Transcript 29 April 2009*, p. 50.

129 Mr Wayne Hosking, *Transcript 29 April 2009*, p. 49.

programs are focused on increasing productivity and investment in the sector and preparing it for climate change. In direct response to the GFC, the Government cites its Nation Building and Jobs Plan as well as the Rural Financial Counselling Service and the Farm Management Deposits Scheme as programs which will assist the agricultural sector through this difficult period. Direct cash stimulus payments are also expected to be of assistance.<sup>130</sup>

- 2.97 Most importantly, from an industry perspective, is the boost in investment in regional infrastructure which is expected as part of the Government's Nation Building Economic Stimulus Plan. Many representatives of regional economies that rely, in part, on primary industries cited greater infrastructure spending by government as the primary form of assistance required during this period and into the future:

The economic infrastructure investment – we are talking about roads, rail, ports, telecommunications and water infrastructure – is an incredibly key element in enabling agriculture to extend its contribution to the Australian economy, particularly to capitalise on the opportunities that we think are there and will continue to escalate over the medium to long term.<sup>131</sup>

- 2.98 In Busselton, representatives of the South West region stressed repeatedly the need for increased transport infrastructure spending to expand the economic capacity of the region:

I am going to sound like a broken record...at our board level there has been this coalescing of views, whether you are the shire president of Donnybrook-Balingup, the shire of Collie or the shire of Capel, with regard to the significance of the port, the capacity to expand the port in a timely way and to ensure connectivity.<sup>132</sup>

- 2.99 Those from the forestry sector who spoke with the Committee support the Government's efforts to combat the effects of the GFC, but noted:

If Tasmanian timber can be used in schools and new housing, if the earth-moving equipment of forest contractors can be redeployed for roads and if we can encourage small businesses to take up new investments, this could lessen the impact.<sup>133</sup>

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130 Department of Agriculture, Fisheries and Forestry, *Submission No. 128*, pp. 9-11.

131 Mr Charles McElhone, *Transcript 14 August 2009*, p. 53.

132 Mr Matt Granger, *Transcript 30 April 2009*, p. 57.

133 Ms Eva Down, *Transcript 21 April 2009*, p. 55.



- 2.100 Certainly, the Government's investment in regional schools, community and transport infrastructure is expected to do just that. In NSW, the Business Chamber had initial concerns that local contractors may miss out on work related to the government stimulus package but later confirmed that no chamber members have had that experience.<sup>134</sup>

## Banking and lending sector

### Introduction

- 2.101 Australia is lucky in that the GFC has impacted its banking sector less than in other countries. This has much to do with the strong regulation of the banking industry by the Australian Prudential Regulation Authority (APRA), whose close supervision and strong approach to risk management has resulted in an Australian banking sector that is more stable than those in overseas countries. Nevertheless, Australia's lending institutions have not entirely escaped the effects of the GFC. Its impact has been felt by banks, non-bank lenders, mutual ADIs<sup>135</sup> and the businesses that utilise their services.

### Impact of the GFC on the regional banking and lending sector

- 2.102 Representatives of the Australian banking sector advised the Committee that despite tough economic conditions internationally:

Australian banks have remained well capitalised, with strong lending books, as well as being profitable. They have also continued to lend despite tight and volatile credit markets and increased costs of funds.<sup>136</sup>

- 2.103 Despite these assurances, the Committee has received evidence from around Australia which suggests that banks' lending criteria have become more stringent since the onset of the GFC:

...Many local residents are more careful about their borrowings as are the banks with their lending practices (i.e. Loan to Valuation Ratios (LVR) have been reduced by most major banks for both residential and commercial loans).<sup>137</sup>

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134 Mrs Louise Southall, *Transcript 6 July 2009*, p. 58.

135 Authorised Deposit Taking Institutions

136 Mr David Bell, *Transcript 6 July 2009*, p. 44.

137 Goulburn Mulwaree Council, *Submission No. 113*, p. 2.

- 2.104 It is difficult for the Committee to confirm the veracity of these claims but the Committee has received enough anecdotal evidence to suggest that banks' risk profile may have changed as a result of the crisis. The banks do admit that 'there is a limit to the amount of risk and debt the banking industry can provide to a business'<sup>138</sup> and there have been highly geared companies which, as a result of the GFC, have been unable to secure additional credit.
- 2.105 Part of the perception that banks have reduced access to credit for business in regional Australia may be related to confusion about the definition of a bank. In Geelong, for example, evidence received by the Committee (and partially quoted above) noted that manufacturing businesses are 'finding it difficult to get any financial accommodation from the banks', however, that evidence goes on to state that 'GE Commercial Finance has really tightened its requirements'.<sup>139</sup>
- 2.106 GE Commercial Finance is not a bank, it is a non-bank lender. Non-bank lenders have been hit particularly hard by the GFC. Their inability to raise reasonably priced money on wholesale funding markets has resulted in increased credit costs for their customers<sup>140</sup> and in some cases, non-bank lenders have exited the market altogether.<sup>141</sup>
- 2.107 Mutual ADIs (authorised deposit-taking institutions) are perhaps the most prevalent lending institutions in regional Australia.<sup>142</sup> Mutual ADIs are financial institutions owned by their customers and include credit unions, building societies and friendly societies. Mutual ADIs rely heavily on deposits for funding in order to function but, over time, they have increased their mortgage lending 'by tapping securitisation markets' which 'virtually closed down' as a result of the GFC.<sup>143</sup>
- 2.108 Mutual ADIs are active in regional Australia but they do very little business lending; however like the banks, mutual ADIs report that they have not contracted their business lending as a result of the GFC:
- ...commercial lending is not a major feature of our operations, but those who do it are particularly located. They have not reported to us that they have contracted their lending at all, but nor are they seeking to widely expand that lending either. Those who are

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138 Mr Stephen Carroll, *Transcript 6 July 2009*, pp. 52-53.

139 Mr Lawrie Miller, *Transcript 22 April*, p. 18.

140 National Farmers' Federation, *Submission No. 41*, p. 6.

141 Mr David Bell, *Transcript 6 July 2009*, p. 47.

142 Abacus, *Submission No. 136*, p. 1.

143 Abacus, *Submission No. 136*, p. 4.

operating in the communities in which they have always operated and provided that commercial or small business lending are continuing to do so...<sup>144</sup>

- 2.109 The availability of credit is vital to the continuing prosperity of the Australian economy. The Commonwealth Government, therefore, moved quickly at the onset of the GFC to support Australia's lending institutions during this period. On 28 November 2008, the Government implemented the Bank Guarantee Scheme for a period of three years to protect the funds of financial institutions and to engender confidence and stability in the banking sector.
- 2.110 Under this voluntary scheme, deposits over \$1m per customer and wholesale funding liabilities are guaranteed by the Government upon payment of a fee based on the credit rating of the institution. The lower the credit rating the higher the fee charged. Institutions such as banks with the higher AAA credit rating are charged a lesser fee than the lower rated credit unions and building societies. For example, institutions that are AAA to AA rated, such as banks, are charged 70 basis points to access the scheme. Lower A+ to A rated institutions are charged 100 basis points and BBB+ and below (and unrated) institutions are charged 150 basis points.
- 2.111 Although the Bank Guarantee Scheme is providing a level of stability and security across the banking sector, the Committee has heard concerns that the differential pricing structure has meant that mutual ADIs that have not opted to utilise the Government Bank Guarantee Scheme are finding it difficult to attract large deposits, because depositors are seeking institutions that have the security of the Government backing.<sup>145</sup>
- 2.112 The Scheme also demands that users have a credit rating – something which most mutual ADIs do not have. The mutuals are concerned that an agency rating will become a requirement for them and if their rating is lower than a banks, competition may be stifled in the marketplace as consumers choose to work with higher rated agencies.<sup>146</sup>
- 2.113 Competition, or the lack of it, is being cited by mutual ADIs as the primary concern surrounding the Government's Bank Guarantee Scheme. They argue that competition in the banking sector has diminished, with less market share being experienced by the credit unions, building societies and regional banks despite the departure of non-bank lenders from the market. Mutual ADIs report that it is the major banks that have

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144 Mr Mark Degotardi, *Transcript 6 July 2009*, p. 36.

145 Abacus, *Submission No. 136*, p. 6.

146 Abacus, *Submission No. 136*, pp. 5-6.

increased their market share because of the cost benefit they derive from the Government's Bank Guarantee Scheme.<sup>147</sup>

2.114 The Committee is aware that the Senate Economics References Committee tabled a report on 17 September 2009, in which differential pricing within the Government's Bank Guarantee Scheme was examined. In that report, the Senate Committee found that the markets were not pricing all guaranteed debt identically and therefore the Government should 'review the need to apply differential premia for ADIs with different ratings'.<sup>148</sup>

2.115 The Committee also understands that the Government has advised the mutual ADI sector that its Bank Guarantee Scheme is 'under constant review'.<sup>149</sup> Representatives of the mutual ADI sector observe that:

...we are yet to see any movement, although we are actively making suggestions to the government about ways we believe funding could be adjusted to better serve the interests of competition.<sup>150</sup>

2.116 Given the degree to which regional Australia relies on mutual ADIs, the Committee is concerned about the potential for decreased competition in the regional banking sector. Like its Senate colleagues, this Committee also encourages the Government to review its differential pricing structure within its Bank Guarantee Scheme.

2.117 Competition in the banking sector has suffered as a result of the GFC. As Treasury states, 'the global financial crisis has affected the competitive dynamics of the banking system':<sup>151</sup>

...with investor demand for residential mortgage-backed securities (RMBS) drying up in late 2007 and early 2008, smaller lenders have found it more difficult to raise funds with which to finance new lending at competitive rates of interest. As a result, from mid-2007, a number of smaller financial institutions were forced to exit the market, merge with stronger entities, or relinquish market share to entities with more diversified sources of funding.<sup>152</sup>

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147 Mr Mark Degotardi, *Transcript 6 July 2009*, p. 35.

148 Senate Economics References Committee, *Government measures to address confidence concerns in the financial sector – The Financial Claims Scheme and the Guarantee Scheme for Large Deposits and Wholesale Funding*, September 2009, p. 19.

149 Ms Louise Petschler, *Transcript 6 July 2009*, p. 34.

150 Ms Louise Petschler, *Transcript 6 July 2009*, p. 34.

151 Treasury, *Submission No. 167*, p. 1.

152 Treasury, *Submission No. 167*, p. 1.

- 2.118 Prior to the GFC, the securitisation markets allowed smaller lenders to ‘better manage their capital base and to continue to increase home lending and compete with the major banks.’<sup>153</sup> The GFC effectively closed these markets, and in response, the Government committed to investing up to \$16 billion in residential mortgage backed securities (RMBS) to ‘support continued competition from smaller authorised deposit-taking institutions and non-ADI lenders throughout the GFC’.<sup>154</sup>
- 2.119 To ensure a continued supply of affordable credit for smaller lenders once the Government has completed its RMBS purchasing round, some participants of this inquiry have recommended the introduction of an Australian mortgage bond program or regional housing bond scheme similar to Canada’s Mortgage Bond (CMB) Program.<sup>155</sup> (A brief outline of the Program can be found in Appendix D).
- 2.120 Participants of this inquiry have argued that a similar scheme for Australia and perhaps regional Australia only, would assist Australians ‘to access home loans throughout economic cycles’.<sup>156</sup> It is suggested that an Australian program would operate in a similar fashion to the Canadian one, whereby an accredited lender (perhaps in regional Australia, say Bendigo Bank) writes loans (with very tight criteria) to home buyers. That lender would then take those loans and “warehouse” them with another facility – perhaps a larger lending institution. The Australian Government would then use those loans to create bonds, with a government guarantee attached, and sell them to investors. It is anticipated that the bonds would be insured by either a government or private insurer. The sale of the bonds to investors creates the funds which are made available to lenders to write more loans.<sup>157</sup>
- 2.121 The argument for introducing a similar program in Australia focuses on creating greater competition in the lending market through the increased availability of funds for smaller lenders and the generation of lower costs for lenders and borrowers.<sup>158</sup> When queried on the Canadian Scheme and its implications for introduction in Australia, the Treasury advised the Committee that there is evidence which suggests that the Canadian

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153 Ms Louise Petschler, *Transcript 6 July 2009*, p. 34.

154 Treasury, *Submission No. 167*, p. 3 & ABC News, *Swan announces \$8b mortgage market investment*, 11 October 2009.

155 Genworth, *Submission No. 157*, p. 4 & Abacus, Ms Louise Petschler, *Transcript 6 July 2009*, p. 34.

156 Genworth Financial, *Submission No. 157*, p. 4.

157 Mr Peter Hall, *Transcript 6 July 2009*, p. 12.

158 Genworth cites a KPMG audit of Canada’s scheme which notes decreased lender and borrower costs as a result of the scheme, see Genworth Financial, *Submission No. 157*, p. 5.

scheme has resulted in cost savings for larger lenders.<sup>159</sup> Treasury noted however, that there has been no substantive evidence to suggest that Canadian mortgage borrowers have benefited from reduced interest rates.<sup>160</sup> Indeed, the Reserve Bank of Australia (RBA) notes that the Canadian scheme did not stop Canadian mortgage interest rates from rising following the onset of the GFC.<sup>161</sup>

2.122 Most importantly, the RBA found evidence that:

...smaller lenders may have retained the small cost-savings from the program as increased margins rather than passing them on to borrowers.<sup>162</sup>

2.123 The Treasury has also raised concerns that a similar scheme in Australia could have 'the potential to create moral hazard' because a higher than optimal degree of risk taking may be encouraged.<sup>163</sup> Furthermore, permanent government support for the RMBS market 'has the potential to distort price signals in financial markets and the efficient allocation of capital'<sup>164</sup> meaning a less risky investment would be more attractive to investors. Evidence from the Canadian scheme indicates that the government-backed securities sector has grown at the expense of the corporate and securitisation sectors of the Canadian bond market.<sup>165</sup>

2.124 Of course, the other way to drive down cost is through competition. ABACUS believes that the introduction of a Canadian mortgage bond style scheme in Australia would assist in supporting competition in the banking sector – particularly in regional Australia.<sup>166</sup> Evidence regarding Canada's scheme as an effective facilitator of competition is mixed. Evaluation of the scheme reveals that [the scheme]:

...increased the availability of mortgage funding for smaller lenders in the five years following its introduction in 2001...[and]...played an important role in maintaining smaller lenders' access to funds throughout the turbulence in international

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159 *Canada Mortgage Bonds Program Evaluation: Final Report*, prepared by KPMG LLP, June 2008, cited in Treasury, *Submission No. 167*, p. 5.

160 *Canada Mortgage Bonds Program Evaluation: Final Report*, prepared by KPMG LLP, June 2008, cited in Treasury, *Submission No. 167*, p. 5.

161 RBA cited in Treasury, *Submission No. 167*, p. 5.

162 RBA cited in Treasury, *Submission No. 167*, p. 5.

163 Treasury, *Submission No. 167*, p. 6.

164 Treasury, *Submission No. 167*, p. 7.

165 Treasury, *Submission No. 167*, p. 7.

166 Ms Louise Petschler, *Transcript 6 July 2009*, p. 34.

capital markets, and may have even facilitated the entrance of new smaller players over this period.<sup>167</sup>

- 2.125 Conversely, the Treasury notes that 'Canada continues to have a highly-concentrated banking sector...notwithstanding two decades of government intervention'.<sup>168</sup> When the Committee queried smaller lenders about declining competition in regional Australia, it was advised that Australian mutual ADIs had had a marginal decline in market share since the onset of the GFC, but had not been able to take up any of the excess capacity that was available when non-bank lenders exited the market.<sup>169</sup> It is suggested that Australian mutual ADIs have been growing but not at the rate of the larger banks.<sup>170</sup>
- 2.126 The Committee also notes comments by the RBA made in a submission to the House of Representatives Standing Committee on Economics regarding the need for government intervention in the RMBS market to foster competition:

While it is true that lenders relying on securitisation have lost market share in recent months, it has always been the case that some phases of the economic cycle favour some forms of financing more than others. Securitisation has been strongly favoured over the previous five years of very low global interest rates; now it is at a disadvantage. Our view of recent events is that they are cyclical in nature rather than a permanent change to the structure of the market, in the sense that when market conditions settle, securitisation will pick up again. As such, it would be premature at this stage to embark on proposals such as the setting up of new government bodies to support certain forms of financial activity.<sup>171</sup>

- 2.127 In analysing this issue, the Committee is cognisant of the needs of regional Australians. **The Committee would only support the introduction of such a scheme in Australia if there was clear evidence that regional Australians were worse off because of smaller lenders' access to funds (resulting in higher mortgage borrowing costs for regional Australians) over the long-term economic cycle.**

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167 *Canada Mortgage Bonds Program Evaluation: Final Report*, prepared by KPMG LLP, June 2008, cited in Treasury, *Submission No. 167*, p. 4.

168 Treasury, *Submission No. 167*, pp. 4-5.

169 Mr Mark Degotardi, *Transcript 6 July 2009*, p. 35.

170 Mr Mark Degotardi, *Transcript 6 July 2009*, p. 35.

171 RBA, *Submission No. 44*, pp. 2-3, House of Representatives Standing Committee on Economics *Inquiry into competition in the banking and non-banking sectors*.

## Accessing credit in regional Australia

- 2.128 Most businesses need credit. In a growing economy the demand for credit is often driven by a desire for growth. In a slowing economy credit is required for cash flow.<sup>172</sup> This downturn has been somewhat unique because the GFC has resulted in a general lack of liquidity which has impacted the availability and cost of credit for individuals and business. This section will specifically examine credit issues for business.
- 2.129 Throughout this inquiry, the Committee has received evidence suggesting that businesses in regional Australia are experiencing difficulties accessing credit.<sup>173</sup> The NSW Business Chamber, for example, conducted a survey of its members, which noted that in the three month period to March 2009, 30 per cent of respondents, most of whom are in regional NSW, thought it had become harder to access credit.<sup>174</sup>
- 2.130 The difficulty lending institutions have faced accessing wholesale credit markets has clearly had a flow-on effect for businesses, as available credit has constricted. The GFC has also curtailed lenders' appetite for risk, and as a result, 'some loans that would have been offered prior to the GFC are no longer readily available.'<sup>175</sup>
- 2.131 Banking institutions provide credit, but so too do other businesses and during this crisis, suppliers have reduced their payment terms thereby putting further pressure on regional businesses.<sup>176</sup> Where lenders have been willing to provide credit, the cost has also increased.
- 2.132 The increased cost of credit in the form of higher interest rates or increased collateral has been a common experience facing business owners in regional Australia. Thirty three per cent of respondents to a NSW Business Chamber's survey found that 'credit had got more expensive to access'.<sup>177</sup> The Committee has also heard that interest rates being charged are so high that the viability of some projects is threatened.<sup>178</sup>
- 2.133 Credit costs for businesses have increased because lending institutions are changing the way they handle risk<sup>179</sup> and because some non-bank lenders have exited the market:
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172 Mr Richard Snabel, *Transcript 14 August 2009*, p. 36.

173 Tamworth Regional Council, *Submission No. 9*, p. 1.

174 NSW Business Chamber, *Submission No. 122*, p. 3.

175 National Farmers' Federation, *Submission No. 41*, p. 5.

176 Mr Alan Berechree, *Transcript 20 April 2009*, p. 43.

177 NSW Business Chamber, *Submission No. 122*, p. 3.

178 Mr Lee Whitely, *Transcript 20 April 2009*, p. 24.

179 Mr Richard Snabel, *Transcript 14 August 2009*, p. 37.



Those non-bank lenders who would have, say, lent money to people who we would not have now exited. That means there are a group of businesses and institutions that are not getting money. That is because prior to the global financial crisis they would not have met banks' risk profiles and banks would not have lent to them.<sup>180</sup>

- 2.134 Australian Bureau of Statistics (ABS) research shows that business lending fell by just under 15 per cent between January and February this year, which may in part be attributed to banks tightening their lending criteria.<sup>181</sup> Although the banks and other ADIs such as credit unions and building societies have asserted that they are still lending,<sup>182</sup> the experience of business owners in regional Australia seems to contradict this:

Certainly they tell us that they are finding it very difficult to get any financial accommodation from the banks since the global financial crisis became evident. The banks say that that is not the case; that there is plenty of money around, and they will lend. But the bank staff themselves, on a confidential basis, will tell you that their lending criteria have changed dramatically and they require a much more rigorous assessment of projects, particularly development projects.<sup>183</sup>

- 2.135 The higher cost of obtaining credit has not only limited the capacity of many small and medium sized businesses to weather this global downturn, but in some cases has been the catalyst to cease trading. The Government has acknowledged this and taken the following action:
- establishment in March 2009 of a small business complaints clearing house within the office of the Minister for Small Business, Independent Contractors and the Service Economy. Complaints about access to and cost of bank finance are referred for resolution through the Australian Bankers Association to senior management at the particular bank concerned;<sup>184</sup> and

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180 Mr David Bell, *Transcript 6 July 2009*, p. 47.

181 ABC News, *Big drop in business lending*, 15 April 2009, <http://www.abc.net.au/news/stories/2009/04/15/2543093.htm>, accessed 1 September 2009.

182 Mr David Bell, *Transcript 6 July 2009*, p. 47 & Mr Mark Degotardi, *Transcript 6 July 2009*, p. 36.

183 Mr Laurie Miller, *Transcript 22 April 2009*, p. 18.

184 Media release by the Hon Dr Craig Emerson, Minister for Small Business, Independent Contractors and the Service Economy, 'Banks to maintain funding to small business sector', 6 March 2009.

- activation from 1 September 2009 of Ozcar, a taxpayer-funded financing scheme to provide liquidity support to car dealer financiers.<sup>185</sup>
- 2.136 The Committee was advised by the Australian Bankers Association (in July), that the use of the small business complaints line in the Minister for Small Business' office has been 'extremely low...somewhere in the order of 57 to 60 contacts', which would indicate that 'either people do not know about it or that the incidence of credit problems is low'.<sup>186</sup>
- 2.137 Given the volume of anecdotal evidence received by the Committee suggesting that credit has become more difficult to access, the Committee is inclined to believe that people have not been adequately informed about the existence of the Small Business Credit Complaints clearing house phone line. When queried about the lack of knowledge in the community regarding the complaints line, the Department of Innovation, Industry, Science and Research conceded that more publicity should lead to a greater level of response.<sup>187</sup> Greater response is more likely to occur now that the complaints line is being made accessible through the Small Business Support Line, which acts as a link to information and referral services on a wide range of business issues.<sup>188</sup>
- 2.138 Awareness of government assistance was also an issue raised in relation to Ozcar. Business representatives in Broken Hill advised the Committee that car dealers there found information about Ozcar 'not easily understood'.<sup>189</sup> The Committee understands that it will always be a challenge for government to ensure that information about its programs is being adequately communicated and understood in the community. However, communication is an important component of any government program and therefore, the Committee expects that the Government is making every effort to educate the public about the assistance available to them, particularly during a period of crisis such as currently being experienced.
- 2.139 The need for a program such as Ozcar illustrates the credit problem facing businesses throughout Australia. Ozcar was designed to assist car dealers as non-bank lenders such as GE Credit exited the market after the onset of the GFC. When the Australian Bankers' Association advised the

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185 Media release by the Hon Wayne Swan, Treasurer, 'Activation of car dealership financing special purpose vehicle ('Ozcar')', 28 August 2009.

186 Mr David Bell, *Transcript 6 July 2009*, p. 47.

187 Ms Sue Weston, *Transcript 14 August 2009*, p. 37.

188 Business.gov.au, *Small Business Support Line*, 3 September 2009, <http://www.business.gov.au/Business+Entry+Point/News/Small+Business+Support+Line.htm>, accessed 4 September 2009.

189 Mr Robin Edgecumbe, *Transcript 7 July 2009*, p. 16.

Committee that their members have ‘continued to lend despite tight and volatile credit markets’<sup>190</sup> this does not contradict evidence the Committee has received around Australia suggesting that credit has been hard to access. Credit from traditional lending institutions, such as banks and other authorised ADIs may have increased in cost and they may be less likely to assume greater risk, but it is the lack of alternate credit sources, which may account for the apparent lack of available credit in regional Australia.

## Business and downturns

2.140 Many business operators in regional Australia have never run a business during a downturn or have never experienced one of this magnitude.<sup>191</sup> Suddenly, they have been forced to respond to a rapid decline in demand for products and services as well as a sudden lack of available credit which has traditionally assisted businesses through cyclical downturns or ensured ongoing cash flow:

Previously when we have been through these experiences before it has not affected the financial institutions – they have always been willing to see businesses through by extending their overdrafts and things like that because they know that, in a cycle of about five years or so, the zinc and lead prices will go through their normal cycle and people will be able to repay their commitments. But this time it is more than that and financial institutions are very reluctant to come to the aid of businesses.<sup>192</sup>

2.141 The response from business in regional Australia has varied. Each business is attempting to survive in its own way with some common trends emerging. Labour cost is often the first issue to be examined and certainly employment figures suggest that businesses are reducing their labour force and/or the hours worked.<sup>193</sup> However, some are looking to future-proof their business by ‘re-negotiating supply terms, implementing staff training and increasing marketing outputs’.<sup>194</sup>

2.142 Some of this activity is occurring independently, but the Committee has received sufficient evidence to suggest that many businesses in regional

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190 Mr David Bell, *Transcript 6 July 2009*, p. 44.

191 Mrs Louise Southall, *Transcript 6 July 2009*, p. 59 & City of Wangaratta, *Submission No. 23*, p. 6.

192 Mr Robin Edgecumb, *Transcript 7 July 2009*, p. 15.

193 ABC News, *Jobless figures weaken rate rise case*, 10 September 2009.

194 Advance Cairns, *Submission No. 160*, p. 2.

Australia are seeking and receiving advice from business advisory services:

...there is a real hunger out there for information about how to focus on numbers, in particular – keeping an eye on your cash flow, keeping an eye on making sure that you are paying bills and bills are coming. There are those sorts of issues. That has been a large part of our events program for this year, and it has been very popular with our members.<sup>195</sup>

2.143 Government has a strong role to play alongside industry groups in assisting regional businesses through this period. This chapter has noted some of the Commonwealth Government programs which provide business mentoring and support. Some, such as Enterprise Connect and the Business Enterprise Centres (BECs), were not designed as a response to the GFC, yet have taken a direct role in assisting firms during the crisis.<sup>196</sup> For example, BECs and other registered business organisations have received additional funding for the Small Business Advisory Service which is intended to ‘enhance access to information and advice on issues important to sustaining and/or growing small business in response to the current global financial crisis’.<sup>197</sup>

2.144 The Small Business Advisory Service is being complemented by the Small Business Support Line which:

...provides small business with advice and to put them in touch with specialist advisers on matters such as obtaining finance, cash flow management, retail leasing, personal stress and hardship counselling and promotion and marketing advice.<sup>198</sup>

To date, over 2220 people have utilised the Small Business Support Line and 90 per cent of those surveyed have expressed satisfaction with the service.<sup>199</sup>

2.145 Likewise, Enterprise Connect offers a range of business services (noted in Submission 169) and through the Innovative Regions and Remote Enterprise Centres, supported by Enterprise Connect, regional and remote Australia also has access to business support services.<sup>200</sup>

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195 Mrs Louise Southall, *Transcript 6 July 2009*, p. 59.

196 Department of Innovation, Industry, Science and Research, *Submission No. 169*, p. 3.

197 Ms Sue Weston, *Transcript 14 August 2009*, p. 28.

198 Ms Sue Weston, *Transcript 14 August 2009*, p. 28.

199 Minister Emerson, Media Release, *Small business support line get the thumbs up*, 20 October 2009.

200 Department of Innovation, Industry, Science and Research, *Submission No. 169*, p. 2.

## Impact of the GFC on regional populations

### Introduction

3.1 There is a personal aspect to this crisis that is often overlooked in reporting on the GFC. It is easy to talk about manufacturing, retail and tourism figures and the end of a mining boom. Unemployment figures can be up, down or steady but these figures couch, in different terms, the reality that people have been affected by this downturn. Jobs have been lost and homes have been lost as a consequence of the GFC and social services around the country have been strained. This chapter seeks to highlight the human impact that this crisis has had on regional Australia.

### Job losses in regional Australia

3.2 One of the most critical impacts of the GFC has been the loss of jobs. In the first half of 2009, 87.5 per cent of regions recorded an increase in their unemployment rate<sup>1</sup> and it is little surprise that those parts of regional Australia dependent upon industries that have been adversely impacted by the GFC have experienced corresponding job losses. What has been different during this downturn is the rise in underemployment. Statistics indicate that full-time employment has decreased while part-time employment increased.<sup>2</sup> As one news source has reported, 'the shedding of work hours is far more pronounced than the shedding of jobs'.<sup>3</sup> This is borne out in anecdotal reporting from around the country. In Ballarat, for

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1 Department of Education, Employment and Workplace Relations, *Australian Regional Labour Markets June Quarter 2009*.

2 Australian Bureau of Statistics, *Labour Force, Australia, August 2009*.

3 ABC News, *Working hour erosion tells the real story*, 6 August 2009.

example, local businesses affected by the GFC have negotiated with staff a reduction in work hours in order to preserve jobs.<sup>4</sup>

3.3 The Government has responded to the increasing levels of unemployment in regional Australia in a number of ways. Its Keep Australia Working strategy includes the support provided to business as part of the Nation Building Economic Stimulus Plan. In addition to the creation of jobs through economic stimulus, the Government is focusing efforts on three areas:

- Unemployment assistance;
- Community assistance; and
- Skills development.

3.4 Unemployed Australians are being provided support through the Job Services Australia program. Under arrangements which commenced on 1 July 2009, job seekers 'will receive an individual Employment Pathway Plan, which can include literacy and numeracy programs, work experience, help with resumes, trade equipment and training'.<sup>5</sup>

3.5 Communities in regional Australia are being assisted through the introduction of the Jobs Fund, which 'supports community projects in regions hardest hit by the downturn'.<sup>6</sup> The Government has also identified 20 Local Priority Employment Areas, in which Local Employment Coordinators have been employed to 'work with employers and not-for-profit groups to identify new job opportunities and help match employment and training opportunities with Government services and funding'.<sup>7</sup>

...the local employment coordinators have been tasked with going around to meet with people and talk to them to make them aware of the fact that there will be an opportunity for round 2 of the Jobs Fund to have developed proposals.<sup>8</sup>

In addition, Keep Australia Working Forums have been held in priority areas as a means of facilitating discussion amongst business leaders, local governments, employers and training and Job Services Australia providers.

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4 ABC News, *Downturn prompts offers to cut work hours*, 16 September 2009.

5 *Keep Australia Working*, Interim Report, p. 15.

6 *Keep Australia Working*, Interim Report, p. 17.

7 *Keep Australia Working*, Interim Report, p. 17.

8 Mr Graham Carters, *Transcript 14 August 2009*, p. 25.

3.6 Skills development is particularly important in regional Australia because the growth of regional economies is dependant on the retention of skilled labour in regional communities:

...we have seen people leaving the industry ...[it is a] key challenge and concern for the [marine] industry, because our indicators are that as demand comes back, with the improvement in economic circumstances and people's household budgets allowing for the expenditures which they previously enjoyed, that demand will be picked up by imports rather than by domestic product.<sup>9</sup>

3.7 The Committee was concerned that regions do not lose their skills base and as such, queried participants at each of its regional public hearings about the retention of skilled labour in their regions. In many cases, community representatives were not aware of what had happened to those who had lost jobs in their regions.<sup>10</sup> In one instance, the Committee received evidence suggesting that the Queensland State Government had been able to track some redundant workers in Townsville through their rapid response task force and their hotline;<sup>11</sup> however, the majority of the Committee's evidence suggests that despite the actions of the Commonwealth Government, local governments were not across the range of strategies being employed to keep redundant workers engaged in their regions.

3.8 The evidence does reveal that three scenarios have been playing out in regional Australia. In some areas, previous skills shortages have ensured that some redundant employees have been able to pick up work in other sectors and remain in the same location:

...probably over half were re-employed in the region. That was probably a function of the really critical skills shortage we had there for a while.<sup>12</sup>

3.9 In other cases, notably in WA's mining sector, fly-in/fly-out workers have been able to find work on other sites and are either continuing their commute from metropolitan centres or relocating their families back to those centres – a prospect that does not bode well for regional economies.<sup>13</sup> In some regional centres, there is no opportunity for skilled

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9 Mr Donald Jones, *Transcript 4 August 2009*, pp. 16-17.

10 For example see Mr Anthony Brun, *Transcript 29 April 2009*, p. 11.

11 Dr Lisa McDonald, *Transcript 3 September 2009*, p. 30.

12 Dr Lisa McDonald, *Transcript 3 September 2009*, p. 30.

13 Mr Anthony Brun, *Transcript 29 April 2009*, pp. 11-12.

workers to find alternative work in their field and there is a danger that they will be forced to relocate.<sup>14</sup>

3.10 Finally, evidence suggests that some companies are 'working hard to retain skilled workers'<sup>15</sup> and unlike previous economic downturns, employers are reducing staff hours rather than laying staff off.<sup>16</sup> Some of this activity may be in recognition of the need to retain skilled workers for the eventual recovery. This is particularly important in regional Australia, where the loss of a skilled workforce can have a significant impact on the regional economy.

3.11 Governments and industry are trying to retain skills within regional communities. In addition to immediate government support offered to the unemployed, education and training offer the greatest opportunity to equip the unemployed with the necessary skills to ensure that they are able to source alternative work within their communities:

...we are doing a lot of [training] work with workers who are displaced from the manufacturing sector...I think I can confidently put up my hand and say that all levels of government have recognised that and are doing terrific work...<sup>17</sup>

...I think that, with the changes that are being made by the state government and also the introduction of the Australian technical colleges – we have a campus that has just been opened here – we are well on the way to ensuring that we can respond.<sup>18</sup>

...there is a strong commitment to retaining apprentices and trainees within existing industry. I think industry has learnt from the experience of the last few years and where possible is maintaining a commitment to training to look at the future options for being able to pick up on labour supply.<sup>19</sup>

3.12 Skills development is being progressed in a number of ways. The Government has increased the number of Vocational Education and Training (VET) places in acute skills shortage areas and is increasing the number of places available at higher education facilities. Additional training is being provided to the long-term unemployed and extra money has been provided to apprentices to assist them to continue or complete

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14 Mr Rodney Greene, *Transcript 20 April 2009*, p. 12.

15 Mackay Region ACC, *Submission No. 45*, p. 3.

16 ABC News, *Jobless figures weaken rate rise case*, 10 September 2009.

17 Mr Grant Sutherland, *Transcript 22 April*, p. 13.

18 Mr Rodney Greene, *Transcript 20 April 2009*, p. 14.

19 Mr Donald Punch, *Transcript 30 April 2009*, p. 30.



their training during this period.<sup>20</sup> In response to the Keep Australia Working Report, the Jobs Fund has been adjusted to include a new Apprentice Kickstart Package 'to accelerate the take-up of apprenticeships in order to support the availability of trade skills in crucial sectors of the economy'.<sup>21</sup>

- 3.13 Skills will be retained if the right kind of training is provided. People should be trained in skills for which there are jobs available now and into the future.<sup>22</sup> The Committee has been advised that in the past, the typical training provider approach, in the manufacturing sector for example, may have meant going to Ford and signing up workers for a certificate in some automotive category even though, in reality, there probably wasn't going to be any work for someone with those skills.<sup>23</sup> They should also be provided with training that will increase and develop their skills, making them more employable when the economy recovers:

When Caterpillar comes back they are going to want to grow their employment pretty quickly but with more skilled employees than the people who are losing their jobs now. We need to get tradespeople up to university degrees and people who are unskilled into at least trade diploma or advanced diploma stage. They are the sorts of things we need to be moving on within the next few months to take advantage of the lull, if you like, before the economic growth that will come at the end of this crisis.<sup>24</sup>

- 3.14 The recently announced National Resource Sector Employment Taskforce is intended, in part, to examine the skills needed in the resource sector and plan for the education and training necessary to fill those skilled positions.<sup>25</sup> The evidence noted here, suggests that there is need for similar workforce planning in other sectors of the economy. The National Resource Sector Employment Taskforce effectiveness has yet to be tested, however, should resource sector-specific, Commonwealth Government workforce planning prove successful, then there may be scope for similar planning to occur in other sectors of the economy, notably the manufacturing sector.

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20 *Keep Australia Working*, Interim Report, p. 15.

21 DEEWR website, <http://www.deewr.gov.au/Employment/KeepAustraliaWorking/Pages/home.aspx>, accessed 21 October 2009.

22 Professor Sue Kilpatrick, *Transcript 22 April 2009*, p. 31.

23 Mr Grant Sutherland, *Transcript 22 April*, p. 13.

24 Mr Paul Arnold, *Transcript 20 April 2009*, p. 6.

25 Media Release, The Hon Gary Gray AO MP, *Gray to Head Up Resource Jobs Taskforce*, 2 October 2009.

## Mortgage stress in regional Australia

3.15 There is a direct link between unemployment and mortgage stress and as unemployment and underemployment rise, Australians become increasingly concerned about losing their jobs and their homes. This is equally true in regional Australia where almost 40 per cent of people could only continue to keep paying their mortgages for one to three months if they or their partner lost a job.<sup>26</sup>

3.16 In late 2008 and early 2009, when unemployment in the regions was rising precipitously, unemployment and underemployment was accounting for the majority of hardship applications received by mortgage insurers:<sup>27</sup>

In the first quarter of 2009, more than 500 hardship applications were approved as a result of employment related factors. The total number of arrears and mortgages in possession...as at May 2009 for regional areas was 672, which represents a significant increase since May 2008. In May 2009, the nationwide delinquency rate was 0.60 per cent. Some of the key regional areas of concern which were above the national delinquency average included, for example, the Hunter Region in New South Wales, which had a delinquency rate of 0.79 per cent; the Illawarra in the south-eastern region of New South Wales, which had a delinquency rate of 1.25 per cent; the northern far west, north-west region in New South Wales, which had a delinquency rate of 0.70 per cent; the north and west region in Queensland, which had a delinquency rate of 0.98 per cent; and the Mornington Peninsula, which had a delinquency rate of 0.96 per cent.<sup>28</sup>

3.17 The Committee visited some of the areas cited by mortgage insurers as being of particular concern. In Broken Hill, mine closures have resulted in a situation whereby people have:

...refinanced and remortgaged when employed, substantially in mining activities, only to be faced with a sharp decrease in the value of their mortgage property, unanticipated unemployment when there were recent closures in the mines, and the consequent inability to service those mortgages. Forced repossession by the financiers has been the result and/or the inability to sell the mortgage property for an amount equal to the mortgage liabilities.

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26 Ms Kristen Foster, *Transcript 6 July 2009*, p. 3.

27 Ms Kristen Foster, *Transcript 6 July 2009*, p. 3.

28 Ms Kristen Foster, *Transcript 6 July 2009*, p. 3.

In the majority of cases the forced sale has realised a figure substantially less than the amount of the liability.<sup>29</sup>

3.18 A financial counsellor speaking with the Committee in Broken Hill advised that ‘clients with mortgage stress have increased by 60 per cent’.<sup>30</sup> In the most extreme of circumstances, some have simply abandoned their mortgaged premises.<sup>31</sup>

3.19 In April 2009, the Commonwealth Government announced an agreement between itself and Australia’s four major banks to assist borrowers experiencing mortgage stress as a result of the GFC.<sup>32</sup> The agreement reached focused on principles which placed obligations on the four major banks to provide temporary relief to borrowers and provide assistance options. The agreement was subsequently extended to building societies and credit unions. In it, lenders agreed to:

- in relation to mortgages, postponement for up to 12 months the dates on which payments are due under the contract (with interest to be capitalised into the loan);
- an extension of the period of the contract and a reduction in the amount of each payment due under the contract;
- interest-only breaks on loan repayments; and
- fee waivers.<sup>33</sup>

3.20 At its hearing in Sydney, Genworth, a mortgage insurance provider, welcomed the agreement between the Government lenders but argued for greater assistance in the form of a national unemployment mortgage assistance program (NUMAP).<sup>34</sup> Under such a scheme:

Where the borrower cannot meet his repayments because he is unemployed, he can apply to the federal government...along the lines of a HECS style program where he gets the funding to keep the mortgage up to date. The expectation would be that the lender would convert the loan to an interest-only loan – in other words, the borrower is not profiting from their demise – but the

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29 Ms Rebecca McIlveen, *Transcript 7 July 2009*, p. 49.

30 Mrs Sherrie Wilkins, *Transcript 7 July 2009*, p. 51.

31 Ms Rebecca McIlveen, *Transcript 7 July 2009*, p. 49.

32 The Hon Wayne Swan, Media Release, *Relieving Mortgage Stress, The Principles: A Common Approach For Assisting Borrowers Facing Financial Hardship*, 5 April 2009.

33 The Hon Wayne Swan, Media Release, *Relieving Mortgage Stress, The Principles: A Common Approach For Assisting Borrowers Facing Financial Hardship*, 5 April 2009.

34 Ms Kristen Foster, *Transcript 6 July 2009*, p. 3.

repayment would then come from this federal government authority or body, would be paid directly to the lender's account to keep the loan up-to-date and at the same time the consumer would enter into an agreement, similar to HECS, so that once he is back in the workforce he would repay the lender, which happens to be the federal government, the repayments the government has made on his behalf.<sup>35</sup>

3.21 Genworth also advocated for the introduction of an industry funded mortgage stress helpline for borrowers experiencing problems with their mortgage repayments.<sup>36</sup> While funded by industry, it was proposed that the helpline operate independently of industry in order to reduce potential conflicts in seeking advice from organisations from which assistance is also being sought.<sup>37</sup>

3.22 The Committee canvassed with various stakeholders the potential for an industry funded mortgage assistance helpline. The responses were not overwhelmingly supportive. In NSW, there is already a Credit and Debt Hotline operated by the Consumer Credit Legal Centre and the establishment of another hotline would not be very helpful 'because it can be very confusing for consumers to work out where to go for advice'.<sup>38</sup>

3.23 It was noted, however, that other states and territories might not have access to a similar service, in which case, a hotline would be helpful provided that it:

...be seen to be independent and for it to be operated by a body such as a specialist community legal centre, a legal aid commission or some other independent body so that consumers can have confidence that the advice they are getting is appropriate and tailored to their needs. And it should involve accommodation of legal assistance and financial counselling.<sup>39</sup>

3.24 Australia's banks were less supportive:

...I am not sure what value that would add because we have already set up hotlines...so from a bank point I am not sure whether that would actually help; in fact, it might have the effect of diverting someone to a hotline whereas they might be better off speaking to their bank. It may be of assistance for other lenders

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35 Mr Peter Hall, *Transcript 6 July 2009*, p. 7.

36 Ms Kristen Foster, *Transcript 6 July 2009*, p. 4.

37 Mr Peter Hall, *Transcript 6 July 2009*, p. 9.

38 Mr Alan Kirkland, *Transcript 6 July 2009*, p. 20.

39 Mr Joseph Catanzariti, *Transcript 6 July 2009*, p. 22.

outside the mainstream, but I think for banks, and possibly for mutuals as well, what we should be promoting is that people should be contacting their bank in the first instance. So I am not convinced it is a good idea.<sup>40</sup>

- 3.25 A debt counsellor in regional Australia was of the opinion that a mortgage stress hotline was 'better than nothing' but, in general, believed that advice lines are 'limited in terms of the services that they can provide' because clients need to discuss issues on a face-to-face basis.<sup>41</sup>
- 3.26 In the case of NUMAP and the mortgage assistance hotline, Genworth recommends establishing a federal government task force to monitor mortgage stress triggered by unemployment and analyse the impact of a national unemployment mortgage assistance program.<sup>42</sup>
- 3.27 In September 2009, the unemployment rate remained high (5.8%)<sup>43</sup>, but steady and was not moving rapidly towards Treasury's earlier prediction that the unemployment rate could reach 8.5%.<sup>44</sup> There is also evidence that Australian mortgage delinquencies are on a downward trend. Fitch Ratings notes that peak arrears were reached in the fourth quarter of 2008 and have been decreasing in 2009, due in part to the reduction in official interest rates and the relative strength of Australian employment levels.<sup>45</sup>
- 3.28 Despite the relatively positive indicators at present, the Committee is concerned that unemployment could continue to rise, leading to increased delinquencies. If this occurs, regional Australia will be disproportionately affected – 15 of the Government's 20 Local Employment Priority Areas are in regional Australia. Close monitoring of unemployment figures and levels of arrears will be necessary, with any rise in these figures indicating a need for further action. Evidence collected by this Committee does not strongly support the introduction of a mortgage assistance helpline; however, the Committee does believe that the Government should examine in detail the potential impact of a national unemployment mortgage assistance program as a means of responding to rising unemployment and mortgage stress in regional Australia.

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40 Mr David Bell, *Transcript 6 July 2009*, p. 46.

41 Ms Rebecca McIlveen, *Transcript 7 July 2009*, p. 51.

42 Ms Kristen Foster, *Transcript 6 July 2009*, p. 4.

43 Australian Bureau of Statistics, *Labour Force, Australia, August 2009*.

44 Mr Peter Hall, *Transcript 6 July 2009*, p. 6.

45 ABC News, *Delinquent mortgages continue declining: Fitch*, 10 September 2009.

## Recommendation 5

- 3.29 **The Committee recommends that the Government examine in detail the potential impact of a national unemployment mortgage assistance program as a means of responding to rising unemployment and mortgage stress in regional Australia, should unemployment and mortgage default levels continue to rise.**

### The impact of the GFC on social services in regional Australia

- 3.30 The GFC has left some people in regional Australia unemployed or underemployed and struggling to pay their bills. As a result, demand for social services has increased. The Committee acknowledges that governments and private service providers are responding to that demand as best they can, but in many cases, resources are stretched. Greater funding and resourcing for social services is an ongoing concern and will assist to alleviate some of the pressure felt by providers. There are, however, additional service provision models being tested which could also have a positive impact on the provision of social services in regional Australia.
- 3.31 Evidence provided to the Committee from around Australia, particularly in the first part of 2009, indicated a substantial rise in demand for social services. The Department of Human Services (DHS) indicated that 'all Centrelink's service channels have seen a significant increase in demand from people testing their eligibility for government assistance and income support'<sup>46</sup> and Newstart and Youth Allowance claims over the past year have also increased.<sup>47</sup> In May 2009, the Centrelink office in Mandurah, was experiencing long queues often stretching out the door past 5 o'clock.<sup>48</sup> Private service providers in Mandurah were also indicating increased demand. The Salvation Army there was seeing in excess of '12 new families per week' contacting their office.<sup>49</sup> Community legal centres in regional NSW were seeing:

... a significant increase in inquiries relating to credit/debt issues. In addition, advice is being sought in areas of previous low demand, such as repossessions, bankruptcy and mortgage issues. There has also been a significant increase in the demand for

46 Department of Human Services, *Submission No. 154*, p. 4.

47 Department of Human Services, *Submission No. 154*, p. 4.

48 Mayor Patricia Creevey, *Transcript 1 May 2009*, p. 15.

49 Peel Community Development Group, *Submission No. 142*, p. 1.

financial counselling services attached to community legal centres.<sup>50</sup>

- 3.32 The increase in demand has exposed some service delivery problems. Evidence suggests that non-profit service providers are lacking the staff and finances required to respond to large-scale increases in unemployment. In the Peel region, for example:

...welfare organisations themselves have a finite monetary and staff resource base. They are either donation based or minimally funded and are currently being put under greatly increased financial and volunteer staffing pressure...there is no current increase in resources for our Peel Region welfare organisations yet the numbers seeking assistance continue to rise.<sup>51</sup>

- 3.33 Public legal assistance services struggled to meet demand prior to the GFC.<sup>52</sup> The crisis has exacerbated that situation, particularly in regional Australia:

Public legal assistance services in regional areas are not well placed to meet existing demand on services, let alone the increase in demand resulting from the GFC.<sup>53</sup>

- 3.34 It would appear that Centrelink too has suffered from a lack of available service delivery staff in some instances. In Mandurah it was claimed that Centrelink staff were 'overwhelmed' as a result of reductions in staff numbers:

...as unemployment went down, the staff were cut...the staff are very overwhelmed. There are long queues. Previously Centrelink would go to places where redundancies were happening and provide that information. That is not happening now. I think that is because of the staffing and the pressures that Centrelink are under. It is not the individual staff. The system is slow to respond.<sup>54</sup>

- 3.35 Some evidence has also suggested that increasing demand is not always being met at Centrelink call centres. In the Central Murray, the Committee is advised that the Centrelink call centre number was 'constantly busy'.<sup>55</sup>

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50 NSW Legal Assistance Forum, *Submission No. 148*, p. 3.

51 Peel Community Development Group, *Submission No. 142*, p. 2.

52 NSW Legal Assistance Forum, *Submission No. 148*, p. 6.

53 NSW Legal Assistance Forum, *Submission No. 148*, p. 6.

54 Mayor Patricia Creevey, *Transcript 1 May 2009*, p. 41.

55 Central Murray ACC, *Submission No. 100*, p. 9.

In addition, many in the community are not aware of Centrelink's various eligibility requirements, having never accessed them before:

When they get their redundancy package, apparently the system in place at Centrelink at the moment is that they actually have to spend their holiday pay and their redundancy package before they can start to get Centrelink benefits. So we are seeing people that are selling off their hard-earned assets that they have worked for as a family. That has huge ramifications.<sup>56</sup>

- 3.36 A rapid rise in unemployment will put a strain on service delivery. One way to overcome access and lack of knowledge problems is to access worksites where staff are being made redundant before they leave, in order to advise them of the services available and the guidelines surrounding those services. There is indication that this has been occurring. In Burnie, for example, Centrelink staff were at the Caterpillar factory for three weeks having interviews with all of the employees as they went out the door.<sup>57</sup>
- 3.37 The coordination of services is also an important mechanism for assisting people during times of crisis. In regional Australia, as in the rest of the country, there is no one service provider and 'making sure that people have access to the full range of services is a challenge'.<sup>58</sup> The Committee is aware that in response to the GFC, Centrelink has been working with the Community Response Task Force, local Job Services Australia providers and Local Employment Coordinators as well as providing referrals to social workers for long-term assistance.<sup>59</sup> Centrelink has also begun trialling a series of co-location sites between Centrelink and Medicare in order to explore ways in which it can 'work more effectively with other service providers'.<sup>60</sup>
- 3.38 The NSW Legal Assistance Forum is a proponent of integrated service delivery. It cited the West Heidelberg Community Legal Centre in Victoria, which is co-located with a health service, as a good example of the successful integration of social services.<sup>61</sup> In the field of legal aid, the Mortgage Distress Legal Aid NSW initiative has been set up to provide legal assistance and financial counselling and will be 'working very closely with Centrelink and Job Services Australia providers to try to pick
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56 Ms Donna Selby, *Transcript 1 May*, p. 40.

57 Mr Paul Arnold, *Transcript 20 April 2009*, p. 14.

58 Ms Catherine Rule, *Transcript 14 August 2009*, p. 41.

59 See *Transcript 14 August 2009*, pp. 39-50.

60 Ms Catherine Rule, *Transcript 14 August 2009*, p. 41.

61 Mr Alan Kirkland, *Transcript 6 July 2009*, p. 29.



up people at the point that they become unemployed or register as unemployed'.<sup>62</sup>

- 3.39 The combination of collectivised service provision and the use of a localised, place-based approach will further enhance the response of social service providers during crises. As this report has noted, the GFC has affected different regions differently. Therefore, the social services required by a region will vary across the country. Centrelink has had experience employing localised solutions to service provision:

...it is not looking at service delivery for the same people across the board delivered in the same way. As an example of that I will talk about Cooma. It is very small and some people may think it is close to Canberra and able to access services. We are doing a project about young carers and house support. Young carers are people still at school caring for sick parents. It is just looking at how we might be able to act as a connector of services for a group that is not or have not been able to access it – looking at what is available, what needs to be available to keep them in school, in education, to support them and all sorts of things.<sup>63</sup>

- 3.40 Moves towards greater collective service provision, tailored to local needs is an important step forward and has the potential to assist regional Australia at all times, but in particular during times of crisis. The evidence cited here suggests that the Commonwealth Government has attempted to coordinate the provision of its services during the GFC<sup>64</sup>, and while this may be occurring between other levels of government, the Committee has not received evidence demonstrating an awareness of the full range of human services provided in the regions or a high level of integration between those services.
- 3.41 As a national provider, the Commonwealth Government has a role to play in promoting and encouraging local, coordinated service provision between the three tiers of government. The Local Employment Coordinators have been working closely with local government, the not-for-profit sector, employers and providers during this crisis<sup>65</sup> and although they are limited to specific regions around the country, their work warrants further examination. An evaluation of their ability to act as a conduit between local, state and the Commonwealth Government to

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62 Mr Alan Kirkland, *Transcript 6 July 2009*, p. 29.

63 Ms Moya Drayton, *Transcript 6 July 2009*, p. 44.

64 See also Ms Stephanie Foster, *Transcript 14 August 2009*, p. 9.

65 Mr Graham Carters, *Transcript 14 August 2009*, p. 20.

promote coordinated human service provision could provide the basis upon which greater coordinated action and information sharing about available services can occur in the future.

### **Recommendation 6**

**3.42 The Committee recommends that the Government evaluate the work of the Local Employment Coordinators with particular focus on their ability to act as a conduit between local, state and the Commonwealth Government to promote coordinated human service provision, with a view to utilising the evaluation as a basis upon which greater coordinated action and information sharing about available services can occur in the future.**

3.43 In addition, the DHS co-location site trials, while a promising step in the right direction, are small and, like the LECs, limited in their geographic coverage. The trials are also expensive to undertake. DHS is attempting to overcome the financial impost of these trials by exploring more efficient and effective service delivery mechanisms in order to alleviate resources needed for local services – this should be encouraged.<sup>66</sup> However, the GFC has demonstrated a need in regional Australia for the provision of localised, coordinated and collective social services.

### **Recommendation 7**

**3.44 The Committee recommends that the Government increase funding to the Department of Human Services in order to expand its co-location site trials and increase its local service provision activities.**

3.45 In addition to the benefits derived from coordinated service provision, the Committee received evidence in Mandurah and Geelong citing the importance of locating government departments in regional centres to increase employment opportunities, thereby strengthening regional Australia's ability to withstand economic downturns:

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<sup>66</sup> Ms Moya Drayton, *Transcript 6 July 2009*, p. 49.

The relocation of the Victorian Transport Accident Commission (TAC) to Geelong has been a major success both for the G21 Region and for the TAC. For the region, it has broadened the base of professional skills making it easier for such staff to consider working in the region because they still have career options. Such organisations are not directly affected by problems such as the GFC, thereby providing a more stable base of employment and reducing the impact of external shocks. The larger pool of expertise also assists in attracting other professional organisations to the region. For the TAC, it has reduced their cost base and should reduce staff turnover and absenteeism, well established characteristics of regional workforces. The overall response of staff relocated with the TAC has been positive, with recognition of advantages such as lower housing costs and an excellent lifestyle.<sup>67</sup>

- 3.46 The Committee agrees that an increased government presence in the regions would be of great value. On several occasions, state government offices have been successfully relocated to regional areas – TAC being one example – and the Committee recommends that the Commonwealth Government examine options for locating government departments or functions of government departments into regional areas.

### **Recommendation 8**

- 3.47 **The Committee recommends that the Commonwealth Government examine options for locating government departments or functions of government departments into regional areas.**

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<sup>67</sup> G21, *Submission No. 33*, pp. 6-7.



## Impact of the GFC on local government

- 4.1 Local governments across Australia have been affected by the GFC. Indirectly, by its impact on local economies, and directly by its impact on council revenues. Specifically, councils have suffered from:
- decreases in income as property development slows;
  - decreases in rates revenue; and
  - reduced income from poorly performing investments.<sup>1</sup>
- 4.2 These effects have not been felt evenly across all local governments. In a similar manner to its impact on business, the GFC has disproportionately affected local governments in areas dependent on housing growth and single industries. It has also substantially impacted the balance sheets of local governments in NSW and WA that had council money invested in collateralised debt obligations (CDOs).<sup>2</sup>
- 4.3 Local governments source their income from rates, the sale of goods and services, government grants and various other sources.<sup>3</sup> There is an indication that rate revenue has slowed<sup>4</sup> and in some cases declined dramatically:

...rates have been declining rapidly as a result of a significant slowing in the housing market for Mandurah. The City's 2007/08 interim rates revenue was \$1.11m; however, 2008/09 Budget

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1 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission No. 153*, p. 5.

2 Mr Adrian Beresford-Wylie, *Transcript 14 August*, p. 65.

3 Australian Local Government Submission to Productivity Commission study into local government sources revenue, July 2007.

4 National Sea Change Task Force, *Submission No. 43*, p. 13 & City of Townsville, *Submission No. 68*, p. 13.

forecasts have been reduced to \$550,000 (Original budget \$1.05m - 48% reduction).<sup>5</sup>

- 4.4 Building and planning fees have, in some cases, been hit particularly hard. In Mandurah, where building activity has been strong for some time, their revenue from building and planning fees halved:

Our building application fees are about \$1.8 million a year. They have dropped to about half a million dollars a year. Our planning fees were about \$800,000 a year previously. They have dropped to about \$400,000 a year... at an inert waste disposal site, which takes just building rubble, where we were getting \$600,000 a year in revenue from it, we are getting about \$150,000 this year. So that is an indicator, again, of the lack of building activity that is occurring. Probably this financial year, there will be about a \$3 million impact on 2008-09. We suspect it will be \$4 million or \$5 million next year.<sup>6</sup>

A similar situation has occurred on the Gold Coast, another high growth area, where a range of cancelled developments has led to a reduction in council income.<sup>7</sup> Revenue reductions amounting to millions of dollars has a substantial impact on a council's operations.

- 4.5 The Shire of Busselton has found itself faced with a choice between decreasing services or increasing its rate structure. It has also considered cutting back on infrastructure spending and employee numbers.<sup>8</sup> Neighbouring shires have considered spending less on tourism and visitor servicing, ceasing staff appointments and instigating a wage freeze for the 2009-10 financial year.<sup>9</sup>
- 4.6 In an attempt to assist local governments around Australia weather the GFC, the Commonwealth Government brought forward a portion of 2010's Financial Assistance Grants payment 'to help councils manage cash flow'.<sup>10</sup> It is also expected that the Nation Building and Jobs Plan, Community Infrastructure Program and the Jobs Fund will stimulate local

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5 City of Mandurah, *Submission No. 49*, p. 4.

6 Mr Mark Newman, *Transcript 1 May 2009*, pp. 7-8.

7 Mr Grayson Perry, *Transcript 4 August 2009*, p. 13.

8 Councillor Wesley Hartley, *Transcript 30 April 2009*, pp. 2-3.

9 Mr Dean Unsworth, *Transcript 1 May 2009*, pp. 4-5.

10 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission No. 153*, p. 5.

economies, thereby assisting local governments to maintain revenue streams.<sup>11</sup>

- 4.7 In addition to the Commonwealth Government support provided to local communities, some councils have chosen to increase rather than reduce spending in the face of declining revenue. Gold Coast City Council has introduced a stimulus package to 'engender confidence within the local economy'.<sup>12</sup> Its stimulus spending is designed to target 'those projects that are "shovel ready" and will deliver on job creation, retention and economic growth'.<sup>13</sup>
- 4.8 Few local governments, however, have the luxury of introducing significant stimulus spending measures during economic downturns. Indeed, many councils have found that the money they already had is no longer contributing returns, as a result of declining interest rates and losses from investments.
- 4.9 The Committee received evidence indicating that some councils in Western Australia and NSW had exposure to investments which have declined considerably since the onset of the GFC because the investments were linked to the sub-prime mortgage market in the United States. Investment in CDOs, in particular, has been the main cause of the mark-to-market book losses of some councils in these states. CDOs are best explained by Michael Cole, author of the 2008 Review of NSW Local Government Investments report, commissioned by the NSW Government in response to council losses:

CDOs are a type of structured Asset Backed Security (ABS) that gain exposure to the credit of a portfolio of fixed income assets and divides the credit risk among different tranches, each with a different level of risk and return: senior tranches (rated AAA), mezzanine tranches (AA to BB), and equity tranches (unrated). The collateral for CDOs includes [mortgage-backed securities] MBS, ABS, leveraged loans and corporate bonds. By combining low rated sub-prime MBS with high rated collateral, originators were able to create highly rated CDOs that could be widely distributed to traditionally conservative investors such as commercial banks, insurance companies and pension funds.<sup>14</sup>

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11 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission No. 153*, p. 5.

12 Gold Coast City Council, *Submission No. 74*, p. 16.

13 Gold Coast City Council, *Submission No. 74*, p. 16.

14 Michael Cole, *Review of NSW Local Government Investments: Final Report*, April 2008, p. 7.

4.10 Evidence provided to this inquiry regarding council investment losses has come predominantly from NSW regional councils. Broken Hill City Council has had to write-down its investments in the last financial year by just over \$2 million and there is a probability that this financial year, the council will need to write-down the face value of its investments another \$1.5 million to \$2 million.<sup>15</sup>

4.11 This will have a substantial impact on the Council's service provision:

...we have had to defer some of our capital programs. We have set ourselves a long-term capital expenditure level of just over \$5.6 million, whereas last year and this year we spent or are aiming to spend over \$7.6 million. We have had to wind that back significantly for the future based on our ability to finance the works.<sup>16</sup>

4.12 Councils sought out investments with the 'highest return available', so long as they were consistent with the restrictions imposed by the NSW Local Government Minister's 2005 Ministerial Investment Order.<sup>17</sup> The councils in question were also 'aggressively sold these complex investment products' by suppliers, who, in some cases, were distributing the products as well as acting as advisers to councils.<sup>18</sup> Lehman Brothers, in particular, were active in the WA and NSW markets.<sup>19</sup>

4.13 It should be noted that these investment products were highly rated by ratings agencies and did adhere to the Minister's Investment Order. Councils, however, are 'governed by their fiduciary responsibility as trustees for the prudent investment of public funds'<sup>20</sup> and therefore, should have been less willing to accept the risk/return trade-off associated with these products.<sup>21</sup> Councils in NSW would have also been aware of Circular No. 06-70 issued in November 2006, which stated that:

Ratings in no way guarantee the investment or protect an investor against loss. Councils should not misinterpret prescribed ratings as an implicit guarantee of investments or entities that have such ratings.<sup>22</sup>

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15 Mr Desmond Bilske, *Transcript 7 July 2009*, p. 6.

16 Mr Desmond Bilske, *Transcript 7 July 2009*, p. 6.

17 Michael Cole, *Review of NSW Local Government Investments: Final Report*, April 2008, p. 9.

18 Michael Cole, *Review of NSW Local Government Investments: Final Report*, April 2008, p. 10.

19 Mr Adrian Beresford-Wylie, *Transcript 14 August*, p. 65.

20 Michael Cole, *Review of NSW Local Government Investments: Final Report*, April 2008, p. 10.

21 Michael Cole, *Review of NSW Local Government Investments: Final Report*, April 2008, p. 11.

22 NSW Department of Local Government, *Circular to Councils No. 06-70: Investment Requirements for NSW Councils*, 27 November 2006, pp. 2-3.



- 4.14 Stated responsibilities and advice from state governments was not sufficient in guiding council staff, who did not always take great care in examining investment products:
- ...if people had read the 50 to 100 pages of information that was provided behind each of the investment products, there would have been some concerns, generally, from staff in their advice to take on the higher-rate return on investments.<sup>23</sup>
- 4.15 The Cole report, presented in April of 2008, agreed, citing eight recommendations intended to strengthen and clarify the investment order provided to NSW councils. The final recommendation in the report called on the NSW Department of Local Government to release investment policy guidelines similar to those issued in February 2008 by the Western Australian Department of Local Government in response to council losses in WA.<sup>24</sup>
- 4.16 The NSW Government accepted all eight of Cole's recommendations, issued a revised Ministerial Investment Order in August 2008 and has drafted investment policy guidelines for local councils in NSW.<sup>25</sup> The Committee expects that revised investment guidelines issued in WA and NSW, will lead to a more conservative investment regime and help councils in both states.
- 4.17 The Committee is concerned, however, that within the draft NSW investment guidelines there is no guidance similar to that issued by the Director-general of the Department of Local Government under Circular to Councils No. 06-70, citing the danger of relying too heavily on the rating of an investment product. Perhaps this omission reflects a consistent policy. Within the same circular, it is suggested that despite the need for caution when assessing investment ratings, 'ratings provide the best independent information available'.<sup>26</sup> The role of rating agencies in the GFC should serve to highlight a need for policy change. At the very least, any new investment guidelines should encourage caution when assessing an investment product's rating.

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23 Mr Desmond Bilske, *Transcript 7 July 2009*, p. 6.

24 Michael Cole, *Review of NSW Local Government Investments: Final Report*, April 2008, p. 6.

25 See NSW Department of Local Government, *Draft Investment Policy Guidelines*, May 2009, <http://www.dlg.nsw.gov.au/DLG/DLGHome/documents/Information/draft%20investment%20policy%20guidelines.pdf>, accessed 24 September 2009.

26 NSW Department of Local Government, *Circular to Councils No. 06-70: Investment Requirements for NSW Councils*, 27 November 2006, p. 3.

- 4.18 The WA and NSW experience should also serve as a reminder to councils in other states. Although none were affected, the need to properly handle risk in investing public money is a lesson that should be heeded by councils across the country.

## Strengthening Australia's regions

- 5.1 The GFC is one event in a history of continual demographic, environmental and economic change in Australia's regions. Various governments have responded to these changes by implementing policies designed to develop the regions into strong, vibrant places to live. The GFC may be seen as an opportunity to examine the impact of change on regional Australia and test policy responses. The lessons learned will assist in strengthening existing regional development policy, which will help regional Australia withstand future downturns.
- 5.2 This chapter will apply some of the evidence noted in the previous chapters by framing the Committee's position on regional development policy within a discussion about current policy settings and possible future direction.

### **Regional development policy in Australia**

- 5.3 Governments in Australia and around the world have long recognised the importance of regional communities within the fabric of their societies. Since the beginning of the 20<sup>th</sup> century, regional policy has undergone several ideological progressions. This section will only note Australia's regional development experience from the mid-1980s until the present—what has been described by the Bureau of Transport and Regional Economics (now Bureau of Infrastructure, Transport and Regional Economics (BITRE) as the post-trade liberalisation era.<sup>1</sup> It will then discuss current policy settings before concluding with an outline of the Committee's preferred approach to regional development policy.

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1 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, p. 17.

## Regional development and the post-trade liberalisation era

- 5.4 Regional Australia was sheltered from global trends and international market conditions until the mid-1980s when the Australian Government began a policy of trade liberalisation. BITRE explains that this new policy 'meant that regional disparities [could] be felt more sharply in regions particularly vulnerable to the pressures of international competitiveness and global market shocks'.<sup>2</sup> Certainly the GFC has confirmed this assertion.
- 5.5 The Commonwealth Government responded to the disparate effects of trade liberalisation in regional Australia by introducing regional development policies aimed at encouraging community driven solutions, private sector participation and reduced unemployment through business incubators and regional employment initiatives and incentives. These initiatives were undertaken by the Country Centres Project and the Office of Labour Market Adjustment.<sup>3</sup>
- 5.6 Nevertheless, persistent unemployment in Australia's regions remained. The Commonwealth Government responded with an expanded Regional Development Programme, which provided funding for regional infrastructure projects and the establishment of community based Regional Development Organisations supported by Area Consultative Committees.<sup>4</sup>
- 5.7 These policies were a reflection of regional development theory which stressed rapid regional growth through:
- a relatively large stock of capital;
  - a highly educated population; and
  - an economic environment that favoured knowledge-intensive industries.<sup>5</sup>
- 5.8 This approach to regional development remained relatively consistent throughout the 1990s until 2001, when the Commonwealth Government

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2 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, pp. 17-18.

3 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, p. 24.

4 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, p. 24.

5 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, pp. 24-25.

released a regional policy statement titled *Stronger Regions, A Stronger Australia* which outlined the following broad goals for regional Australia:

- strengthen regional economic and social opportunities;
- sustain productive natural resources and environment;
- deliver better regional services; and
- adjust to economic, technological and government-induced change.<sup>6</sup>

- 5.9 One of the strategies for achieving these goals included taking a whole-of-government approach to regional development that promoted 'coordination between departments and agencies in implementing Commonwealth programmes'.<sup>7</sup> This approach was taken in recognition of the benefits which could be derived from coordinating regional policy across the federal government.
- 5.10 For the remainder of the period prior to 2007, regional development policy promoted partnerships between communities, industry and government under programs such as Regional Partnerships. The Area Consultative Committees, established in 1994 to develop local training, education and employment initiatives<sup>8</sup>, gained a more prominent role, focusing on the 'dissemination of information on Government priorities and programmes for the benefit of business and the community'.<sup>9</sup>
- 5.11 After 2007, regional development policies began to mix previous theory with some new approaches. Like its predecessors, the current government continues to stress the importance of delivering quality regional services, while enhancing the economic viability of regional communities.
- 5.12 Education has once again been highlighted as an important driver of regional development as has the provision of 'nation-building' infrastructure, including a national broadband network. A whole-of-government approach to regional development is supported but the philosophy has been extended to include cooperation between federal, state/territory and local governments as well as intra-departmental cooperation at the federal level. Local government, in particular, has been

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6 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, p. 25.

7 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, p. 25.

8 Bureau of Transport and Regional Economics, *Working Paper 55, Government Interventions in Pursuit of Regional Development: Learning from Experience*, June 2003, p. 24.

9 Regional Development Australia website, About the ACC Network, [http://www.rda.gov.au/about\\_the\\_acc\\_network/index.aspx](http://www.rda.gov.au/about_the_acc_network/index.aspx), accessed 25 September 2009.

singled out as playing an important role in the development of Australia's regions. This has best been displayed by the direct funding provided to all local governments through the Regional and Local Community Infrastructure Program, increased funding through existing programs and the establishment of the first Australian Council of Local Government.

5.13 The Area Consultative Committees (ACC) have been dissolved and replaced by the Regional Development Australia (RDA) network. Like the ACCs, RDA will continue to advise regional communities about government programs and promote those programs in the regions. It will also:

- provide advice to both Governments about regional issues;
- provide strategic input into Australian and NT government programs;
- help to coordinate regional planning and regional development initiatives; and
- establish links and cooperative alliances as appropriate by closely working with other regional development organisations, neighbouring RDA committees and local governments to promote regional development.<sup>10</sup>

### Three pillars of regional development policy

5.14 The Commonwealth Government was engaged in a significant re-alignment of regional development policy at the onset of the GFC. The crisis has highlighted the importance of regional development in abating the effects of economic downturns on regional communities and has made apparent the importance of continuing Commonwealth Government programs and policies that build infrastructure, encourage education and support the growth of business in regional Australia.

5.15 The Committee is supportive of a regional development policy underpinned by three pillars:

- Infrastructure;
- Education; and
- Business.

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10 The Hon Maxine McKew MP, Media Release, *Regional Development Australia – NT Appointments*, [http://www.minister.infrastructure.gov.au/mm/releases/2009/July/mm019\\_2009.htm](http://www.minister.infrastructure.gov.au/mm/releases/2009/July/mm019_2009.htm), accessed 25 September 2009.

- 5.16 In employing the pillar metaphor – a common approach to articulating regional development strategy – the Committee is concerned that a pillar in this context does not become synonymous with a silo. Each of the three pillars noted above should not operate in isolation from one another, rather they should be viewed as the foundation of an integrated policy platform allowing government to coordinate and adapt a suite of regional development programs. Nor should these pillars form the basis of a series of programs under which the regions become passive recipients. Recent regional development approaches stress the importance of encouraging ‘each individual region to reach its growth potential from within’<sup>11</sup>:

Greater growth occurs when regions are able to mobilise their own local assets and resources, rather than depend on support from the national government.<sup>12</sup>

By presenting a range of programs focused on key economic drivers (pillars), the Government will act as a catalyst for local action as regions discover ways to harness the benefits of government programs to advance their own endogenous assets. This is a process which is expected to take time, but if executed correctly, will have a positive impact on regional communities and national output.<sup>13</sup>

## Infrastructure

- 5.17 Amongst OECD countries, investment in public infrastructure has been a key policy response to the GFC<sup>14</sup> and there is evidence to suggest that the stimulatory effect of ‘quick-starting mid-scale’<sup>15</sup> infrastructure spending in Australia has been of assistance in maintaining employment and business income during this period.<sup>16</sup>
- 5.18 If there are benefits to be derived from the GFC, one may be the increased investment in regional infrastructure by the Commonwealth Government. Shortfalls in infrastructure can have profound effects on the economic viability and liveability of a region.<sup>17</sup> Social infrastructure protects the

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11 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 5.

12 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 5.

13 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 5.

14 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 6.

15 Dr Steven Kennedy, *Australia's Response to the Global Financial Crisis: A speech to the Australia Israel Leadership Forum*, 24 June 2009, p. 11.

16 Mr Greg Evans, Senate Economics References Committee, Reference: Government Economic Stimulus Measures, Transcript 28 September 2009, p. 54.

17 Andrew Beer, Alarci Maude & Bill Pritchard, *Developing Australia's Regions: theory and practice*, UNSW Press, 2003, p. 199.

living standards of people in regional Australia and ensures the future viability of regional communities by attracting and retaining individuals and businesses.<sup>18</sup> Hard infrastructure, such as roads, railways, ports, airports and power stations, contributes directly to the functioning of the economy. Investment in hard infrastructure in regional Australia can improve competitiveness by reducing capacity constraints and making regions more attractive places to do business.<sup>19</sup> The provision of educational infrastructure serves both purposes, simultaneously raising the living standards of regional Australians and the competitiveness of regional businesses by improving access to education.

- 5.19 The Committee has witnessed first hand how infrastructure can increase economic activity and protect regions from sharp economic declines. The Northern Territory has been impacted less by the GFC than other areas of the country. There are several reasons for this, one of which is the Territory's investment in strategic infrastructure prior to the GFC:

...we have been developing strategic infrastructure for a number of years in terms of East Arm Port, the railway, the business park and bulk mineral loading. The government has been investing in key infrastructure to grow our trade capacity...for a small jurisdiction that is a real leap of faith particularly going back 10 years ago when we were looking at spending \$200 million on a port where we had small trade areas. It was one of those 'build it and they will come' projects and they certainly have...there has been that investment to ensure that we were able to grow during the good times, which we certainly have.<sup>20</sup>

- 5.20 Evidence from around Australia points to the important role infrastructure provision plays in the development of regions. For example, access to high-speed broadband has been cited as a 'fundamental element to the attraction and retention of individuals and industry migrating to rural and regional areas':

...Critical services including emergency management, health services, and education are increasingly provided 'online'...For regional communities, broadband encourages innovation through development of new industries, encourages new investment as it

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18 Mid-Western Regional Council, *Submission No. 60*, p. 3.

19 Andrew Beer, Alarci Maude & Bill Pritchard, *Developing Australia's Regions: theory and practice*, UNSW Press, 2003, p. 199; and Mayor David Smith, *Transcript 30 April 2009*, pp. 5-6; Councillor Steven Dilley, *Transcript 30 April 2009*, p. 7; Councillor Steven Harrison, *Transcript 30 April 2009*, p. 9; Councillor Wesley Hartley, *Transcript 30 April 2009*, p. 18.

20 Mr Jeff Steward, *Transcript 28 September 2009*, p. 3.



becomes viable for existing industries to move to areas outside metropolitan centres therefore creating new jobs. Broadband allows regional businesses access to new (world) markets and assists in addressing population decline by enabling services such as education and training to be delivered anywhere, anytime. This allows people to remain well skilled and able to move freely and work (telecommuting) whenever they wish from wherever they are, meaning people do not have to reside in major cities for employment.<sup>21</sup>

- 5.21 In Geraldton, access to high-speed broadband may help the community secure a bid to build the world's largest radio telescope array. If they are successful, the project is expected to grow the region through the creation of more industry and enhanced competitiveness:

Broadband... is critical for us...there is the proposal for the square kilometre array radio telescope, which is proposed to be the largest radio telescope array in the world [SKA project]. That is to be built 350 kilometres east of here...[but]...needs connectivity back to Perth. Our broadband is pretty well non-existent...[and]...there is an opportunity to actually connect us to the rest of the world via Western Australia, and that can lever off the SKA project and make us more competitive. Broadband is very important. The SKA, for us, is one of those other elements in terms of creating a new industry here. It is all based on scientists, new technology and creative people. If you ever had a classic study on how to diversify an economy, then that project is it for us.<sup>22</sup>

- 5.22 The call for high-speed broadband was echoed by numerous witnesses and submitters to the inquiry throughout Australia, many of whom acknowledged the importance of the Government's National Broadband Network (NBN) initiative. The Committee understands that the NBN is 'expected to include a significant number of premises located in rural and regional Australia'<sup>23</sup> with those people who may not have access to the NBN, having 'access to the best new fixed, wireless and satellite technology'.<sup>24</sup> This is a significant step towards growing Australia's regions and **the Committee wishes to reiterate the importance of telecommunications infrastructure, and specifically access to high-speed**

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21 Municipal Association of Victoria, *Submission No. 26*, p. 11.

22 Mr Anthony Brun, *Transcript 29 April 2009*, pp. 14-15.

23 Department of Broadband, Communications and the Digital Economy, *Submission No. 25*, p. 2.

24 Department of Broadband, Communications and the Digital Economy, *Submission No. 25*, p. 4.

### **broadband services, to the growth and sustainability of regional Australia.**

- 5.23 Continued investment in regional infrastructure by all levels of government will assist in the development of Australia's regions, but infrastructure alone 'has no impact on regional growth unless regions are endowed with adequate levels of human capital and innovation'.<sup>25</sup> As one OECD policy brief succinctly states:

...infrastructure is a necessary, but insufficient, condition for growth.<sup>26</sup>

In other words, one pillar is unlikely to support an entire platform. More will be required. Education, therefore, represents the second pillar and the path to increasing the levels of human capital and innovation in Australia's regions.

## **Education**

- 5.24 All levels of education need to be supported regionally and nation-wide, however, it has been found that regions with a low rate of tertiary education uptake amongst their population are less economically vibrant than those with a high rate.<sup>27</sup> This may be because regional universities are 'makers of place' that have a role in 'actually constructing communities and bringing [them to] life'.<sup>28</sup> They are:

...centres of critical mass because intellectual inquiry and industry centres around them...they attract skilled people to [a] region, they promote innovation and...they are lubricants and catalysts of social endeavour.<sup>29</sup>

- 5.25 This evidence was consistently presented by regional universities around Australia. Deakin University advised that regional universities:

- generate economic activity;
- build skills for the future of their regional economies;
- form a connection to national and international ideas and knowledge and serve as a catalyst for innovation, and

25 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 6.

26 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 6.

27 OECD, *How Regions Grow: trends and analysis*, 2009, p. 69.

28 Professor Andrew Vann, *Transcript 3 September 2009*, p. 14.

29 Professor Andrew Vann, *Transcript 3 September 2009*, p. 14.

- contribute to the cultural and civic life of regional Australia.<sup>30</sup>
- 5.26 Regional universities are employers that create full-time and part-time jobs and their infrastructure spending injects capital into the regions, helping to boost local economies.<sup>31</sup> They provide sporting and cultural facilities that are available to the public and contribute to the human capital of a region through the development of local skills and a better educated workforce<sup>32</sup> by strategically engaging with regional industry and government. Deakin University, as a member of the Committee for Geelong and G21<sup>33</sup>, engages on regional planning and development issues in order to 'meet current and future regional skills needs through offering relevant courses'<sup>34</sup> and has linked with the Commonwealth Government on a number of skills development projects.<sup>35</sup> In Townsville, James Cook University is working collaboratively with the TAFE and VET sectors as well as local schools in order to raise participation rates and enhance the skills of the region.<sup>36</sup>
- 5.27 There cannot be a substantial university campus in every community across Australia; therefore, the development of partnerships between various education sectors also serves to deliver the benefits of a university to smaller communities, where there may be a TAFE presence. That is why Deakin University is in the process of developing study centres with a number of regional campuses that will deliver associate degrees.<sup>37</sup>
- 5.28 These kinds of collaborations may increase participation rates in regional universities as students are given study options which focus on local needs and allow them to stay in regional centres.<sup>38</sup> Participation rates in higher education by students in regional and remote areas have worsened in the last five years<sup>39</sup> and this decline needs to be arrested. In addition to

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30 Deakin University, *Submission No. 11*, pp. 1-2.

31 Mr Colin Dwyer, *Transcript 3 September 2009*, pp. 13-14.

32 Professor Sue Kilpatrick, *Transcript 22 April 2009*, p. 23.

33 G21 is a company established in 2003 by an alliance of five local government authorities (City of Greater Geelong, Colac Otway Shire, Golden Plains Shire, Borough of Queenscliffe and Surf Coast Shire) with the support of the State Government of Victoria and a wide range of local organisations. Membership spans all three levels of government, non-government organisations, commercial companies and community groups.

34 Deakin University, *Submission No. 11*, p. 2.

35 See Deakin University, *Submission No. 11*, p. 2.

36 Professor Andrew Vann, *Transcript 3 September 2009*, p. 15.

37 Professor Sue Kilpatrick, *Transcript 22 April 2009*, p. 24.

38 Professor Andrew Vann, *Transcript 3 September 2009*, p. 21.

39 Review of Higher Education: Final Report, p. 31, <http://www.deewr.gov.au/highereducation/review/pages/reviewofaustralianhighereducationreport.aspx>, accessed 21 October 2009.

the benefits students derive from a higher education, increased participation rates grow regional universities, making them viable entities which can contribute to the development of regions. For example, 'regions where universities, business and industry collaborate are more likely to be innovative and prosper'.<sup>40</sup> Several regional universities, including the University of Ballarat, have technology parks or precincts which further enhance regional innovation and skills leading to the creation of industry and jobs:

...some 1,350 people are employed in the Technology Park, half of whom hold University of Ballarat degrees. The strong associations between the University and prominent industry tenants – iconic tenants include IBM Ballarat; Emergency Services Telecommunication Authority; Rural Ambulance Australia; State Revenue Office; Global Innovation Centre; ID Research; IBM Regional Software Solutions Centre; etc – has won for Ballarat a national reputation as a telecommunication and IT hub. In this direct and very practical association with the development and application of needed skills, is found the strongest expression of regional, dual-sector education: it offers academic competency; vocational opportunity; skills-based applicability, community engagement; social responsibility; and economic leadership...in a regional setting.<sup>41</sup>

5.29 The Commonwealth Government recognises the economic and social contribution of regional universities to Australian communities:

Sustainable higher education provision, which is responsive to the specific needs of regional Australia, is essential to Australia's social and economic prosperity. Institutions have a vital role to play in local communities and economies, and students who study in regional areas are much more likely to stay in those areas, providing a vital skilled workforce in the regions.<sup>42</sup>

5.30 The Government is undertaking a series of higher education reforms, some of which are intended to strengthen regional education provision – a positive step supported by the Committee; however, some commentators have suggested that 'there needs to be a much stronger link between the

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40 Deakin University, *Submission No. 11*, p. 3.

41 University of Ballarat, *Submission No. 77*, p. 5.

42 Department of Education, Employment and Workplace Relations, *Strengthening Regional Higher Education Provision*, [http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-11\\_webaw.pdf](http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-11_webaw.pdf), accessed 6 October 2009.

resolution of issues about tertiary education provision and delivery in regional Australia with state and federal government policy on regional development'.<sup>43</sup>

- 5.31 This will occur once there is a recognition of the various ways in which universities contribute to the wellbeing and development of regional Australia. **The Committee acknowledges the importance of education to regional development and strongly urges the Government to view higher education reform as part of its regional development objectives.**

#### Regional leadership education

- 5.32 The growth of regional education also aids in the development of effective leadership. 'Leaders need realistic visions and these, in turn, require an understanding of situation, process, opportunity and competition' which can be gained through education.<sup>44</sup>

- 5.33 Community leaders can be found in a range of different quarters from local government and regional development associations to educational institutions and industry. Their presence and activity within communities is vital to the development of a region. For example, in Western Victoria a growing tourism industry has the potential to expand the economic viability of the region but is lacking the leadership to do so:

...one of the gaps that we have is leadership...Across the industry, we have a lot of networks that relate to local tourist organisations. There is a network of event managers. There are local town tourist organisations. At the moment, despite their best endeavours, they are often lacking leadership and also an understanding of the big picture and where they are meant to be paddling to. We are certainly looking at opportunities to provide leadership and governance training so that, as a total industry, we have a capacity to raise our professionalism, to have far more of our total population resource base going in the same direction and to have the tools that we need.<sup>45</sup>

- 5.34 Local Government is often viewed as the logical body to provide leadership within communities, particularly small ones. Many local governments have regional development staff and participate in regional collaborative bodies intended to grow and diversify a particular region.

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43 Professor David Battersby, *False start for national university*, Campus Review, 3 August 2009.

44 Professor Tony Sorensen, Parliamentary Library, Research Paper 26: 1999-2000, *Regional Development: Some Issues for Policy Makers*, 27 June 2000, p. 10.

45 Mr Chris Burchett, *Transcript 23 April 2009*, p. 40.

The capacity of local governments to provide the necessary regional development leadership varies, and therefore the Commonwealth Government has helped establish the Centre of Excellence for Local Government. The Centre will deliver leadership and development training<sup>46</sup> and encourage a focus on 'regionalisation, regional approaches and collaboration between councils'.<sup>47</sup> A consortium of organisations including several regional universities has been chosen to establish the Centre, which will provide its courses and services across urban, rural and regional Australia.

- 5.35 The establishment of the Centre of Excellence for Local Government is a positive step towards enhancing leadership capacity in the regions, but will need to be augmented by local leadership development opportunities. The Committee is aware that in at least one region, the Commonwealth Government, through the local RDA has partnered with local government to offer a community leadership program designed to enhance the leadership skills of people active in the sectors of environment, youth, sport and recreation, cultural or community development.<sup>48</sup> Local programs such as this are important and the Committee encourages the state, territory and Commonwealth Government, through RDA to continue promoting leadership development opportunities.

## Business

- 5.36 In the early 1990s, Burnie lost a pulp mill, Tioxide, the North West Acid plant, Tasmears and Blue Ribbon. Four thousand jobs were lost.<sup>49</sup> The same region now faces a loss of about 800 jobs as Caterpillar scales back its workforce. While a substantial amount, 800 jobs is not 4000 jobs. What has changed in Burnie between the recession of the early 1990s and the GFC that has reduced the impact of economic downturns on the region?
- 5.37 Representatives in Burnie attribute the comparatively reduced impact of the GFC on their community to economic diversification and a more skilled workforce.<sup>50</sup> Evidence suggests that the impact of the GFC has been lessened in areas where either the major industries have not been

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46 Prime Minister of Australia, Media Release, *New Australian Centre of Excellence for Local Government*, 24 June 2009.

47 Mr Adrian Beresford-Wylie, *Transcript 14 August 2009*, p. 64.

48 The program is offered by Volunteering Queensland and is supported by the City of Ipswich and RDA SEQ West. See, [www.qorf.org.au/.../CLP%20Nomination%20Form%202009.pdf](http://www.qorf.org.au/.../CLP%20Nomination%20Form%202009.pdf), accessed 22 October 2009.

49 Mr Paul Arnold, *Transcript 20 April 2009*, p. 2.

50 Mr Rodney Greene and Mr Paul Arnold, *Transcript 20 April 2009*, p. 7

affected or where the region has a diverse enough economy to withstand a downturn in one sector.

- 5.38 In order to diversify a regional economy, existing businesses in a region must grow and expand and new businesses need to emerge. The Committee's third pillar of regional development supports regional communities through the growth and diversification of regional business.
- 5.39 Expansion and diversification of business in regional Australia can occur organically as various entrepreneurs seek to grow their businesses or create new ones. By limiting the amount of available credit to these entrepreneurs, the GFC has revealed that private enterprise alone may not sufficiently drive business growth and diversification in regional Australia, proving there is a role for government in supporting regional business.
- 5.40 This is a lesson that was not lost on Burnie's local government after the recession of the early 1990s. There, the local council undertook a series of actions designed to stimulate the local economy and increase the liveability of the city:
- We had no cinema. The cinema we did have had failed; the private marketplace had failed miserably, so we built a cinema. We leased it out and then we sold it off. After we built it and operated it for a couple of years, we sold it off. We tried to stimulate the local economy with some entrepreneurial activities. For example, we got involved and bought the local airport and generated a lot of industrial land sales off that. In fact, the Vestas renewable energy company was based out there. We did everything we could to facilitate growth of opportunity – business, commercial, whatever.<sup>51</sup>
- 5.41 State and Territory governments have a number of business support programs and so too does the Commonwealth Government. This report has already noted some of the past and current Commonwealth Government programs intended to assist small, medium and large enterprises in regional Australia. As part of its deliberations, the Committee canvassed witnesses about Commonwealth Government support for businesses in their area, in an attempt to measure the effectiveness of government support. In response, the Committee was advised that the services offered by Enterprise Connect and the BECs were valued but in need of extension, particularly in light of the current situation:

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51 Mr Paul Arnold, *Transcript 20 April 2009*, p. 10.

We have a good working relationship with the Innovative Regions Centre, for example, which has been excellent to deal with, but it is a matter of getting more resources on the ground.<sup>52</sup>

- 5.42 In Broken Hill, the BEC 'works in really well with the ACC/RDA, Business Broken Hill, the community foundation and the other partnering organisations' but it is not considered 'the direct linkage into business that [Broken Hill] needs'.<sup>53</sup> Business Broken Hill has suggested that while the BEC there is supportive of new businesses, it does not have the capacity to assist existing small businesses during this period.<sup>54</sup>
- 5.43 The Committee discussed the coverage of various business support programs with the Department of Innovation, Industry, Science and Research at its public hearing in Canberra. It highlighted the concerns noted above, particularly regarding support for small business, and was advised by the Department that support for business in regional Australia is provided by many different agencies across government and industry.<sup>55</sup>
- 5.44 That may be so, but the Committee is aware that some small businesses may have problems accessing government business support programs. For example, tailored advisory services from Enterprise Connect cost a business \$20,000 – an amount many small business owners are not able to produce.<sup>56</sup> The inability to access business support services may lead to a problem whereby some regional businesses that are either very small or not in a particular industry are able to receive support while others are not.
- 5.45 AusIndustry offers five programs designed to address the needs of small business, and of those five programs, three are targeted towards the commercialisation of innovative products, the clothing, footwear and textile industry or IT skills development.<sup>57</sup> Only the Small Business Advisory Service and the Small Business Support Line are sufficiently general enough in their coverage to address the needs of a range of small businesses in regional Australia and both programs have been instigated as a result of the GFC. The Small Business Advisory Service, for example, has a two-year funding commitment. If it can be shown that there is a high demand for this service and the Support Line, then funding support for
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52 Dr Andrew Scott, *Transcript 22 April 2009*, p. 19.

53 Robin Edgecumbe, *Transcript 7 July 2009*, p. 23.

54 Robin Edgecumbe, *Transcript 7 July 2009*, p. 24.

55 Mr Paul Sexton, *Transcript 14 August 2009*, p. 30.

56 Mr Clyde Humphries, *Transcript 23 April 2009*, p. 32.

57 See <http://www.ausindustry.gov.au/SmallBusiness/Pages/home.aspx>, accessed 21 October 2009.



these initiatives should be continued. Therefore, the Committee encourages the Government to examine the uptake of its Small Business Support Line and Small Business Advisory Service with the intention of continuing funding support for these initiatives.

## Recommendation 9

5.46 **The Committee recommends that the Government examine the uptake of its Small Business Support Line and Small Business Advisory Service with the intention of continuing funding support for this initiative.**

5.47 Programs offered by AusIndustry provide various kinds of assistance to businesses ranging in size and across different industries. In regional Australia, AusIndustry has 15 representatives deployed to 'provide information, provide assistance awareness of AusIndustry business assistance programs'.<sup>58</sup> Nevertheless, not all are aware of the Commonwealth Government support available for small business.<sup>59</sup> This may be a result, in part, of the limited number of government representatives, such as those from AusIndustry, working in regional Australia.<sup>60</sup>

5.48 The Department of Innovation, Industry, Science and Research observed that AusIndustry representatives, operate in a manner intended to 'leverage off multiplier agencies':<sup>61</sup>

We do not do it alone; we also work with Austrade, IP Australia, state government agencies, Enterprise Connect people who are on the ground. So we are providing a whole-of-government approach...<sup>62</sup>

5.49 Furthermore, the Department noted that it could always be argued that there should be two or three [AusIndustry] people rather than one, but the current representatives 'do a fairly comprehensive job, given the funding [the Department] has'.<sup>63</sup>

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58 Mr Paul Sexton, *Transcript 14 August 2009*, p. 30.

59 See for example, Mr Peter Gordon, *Transcript 30 April 2009*, pp. 43-44.

60 Dr Andrew Scott, *Transcript 22 April 2009*, p. 19.

61 Mr Paul Sexton, *Transcript 14 August 2009*, p. 30.

62 Mr Paul Sexton, *Transcript 14 August 2009*, p. 30.

63 Mr Paul Sexton, *Transcript 14 August 2009*, p. 30.

- 5.50 The Committee does not question the comprehensive efforts undertaken by the existing AusIndustry representatives, however, given that there are almost two million small businesses in Australia and 85 per cent of them are in regional Australia<sup>64</sup>, it is questionable whether 15 representatives can provide the necessary coverage.

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**Recommendation 10**

- 5.51 **The Committee recommends that the Commonwealth Government increase the number of AusIndustry representatives in regional Australia.**

5.52 While the Government has acknowledged the importance of a whole-of-government approach to business support, it would be worthwhile ascertaining the degree upon which that support was coordinated in the regions as part of their regional development plans. Like higher education reform, business support in regional Australia will be more effective if it is undertaken within the framework of regional policy objectives.

5.53 In conjunction with a review into the success of the Small Business Support Line and Small Business Advisory Service and an increase in the number of AusIndustry representatives, the Government may also wish to examine the manner in which various government business support programs worked together in particular regions during the GFC and the potential role RDA may play in facilitating greater coordination between business support programs and integrating them into wider regional development frameworks in future.

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64 Mr Paul Sexton, *Transcript 14 August 2009*, p. 30 & ACC – South East NSW, *Submission No. 117*, p. 3.

## Recommendation 11

- 5.54 **The Committee recommends that the Government examine the manner in which various government business support programs worked together in particular regions during the GFC and the potential role RDA may play in facilitating greater coordination between business support programs and integrating them into wider regional development frameworks in future.**

## Facilitating regional cooperation

- 5.55 A recent OECD policy brief asked the question: how can regional policies mitigate the effects of the financial crisis?<sup>65</sup> Its answer stressed the importance of integrated regional policies based on 'well-developed mechanisms for co-ordination between the central and sub-national levels' that align local and national priorities.<sup>66</sup>
- 5.56 The question then for Australia is: how does the Commonwealth Government coordinate its infrastructure, education and business support programs on the ground in regional Australia and how does it ensure that those programs are working in collaboration with local and state objectives? One possible solution may be the better utilisation of Regional Development Australia.
- 5.57 The GFC has highlighted the importance of having a mechanism such as RDA, which can be used to facilitate better coordination between various government programs to achieve regional development objectives. Throughout the crisis, Commonwealth Government programs have been rolled out across Australia but administered by various departments.
- 5.58 In Canberra, the Committee was advised that cooperation amongst the departments responsible for regional programs is occurring. DEEWR is hosting an interdepartmental committee comprised of departments with funding programs, with the intention of 'pulling into one place information about all of the federal programs' so that the Department's LECs can relay that information in the regions.<sup>67</sup> The Department of

65 OECD, *Policy Brief: How Regions Grow*, March 2009, p. 6.

66 OECD, *Policy Brief: How Regions Grow*, March 2009, pp. 6-7.

67 Ms Stephanie Foster, *Transcript 14 August 2009*, p. 9.

Infrastructure, Transport, Regional Development and Local Government (DITRDLG) has been running a forum 'which puts together all of the federal agencies with regional programs to share information' and a similar forum is being coordinated between state and federal deputy secretaries to 'agree on some priorities and ways of working together' to make sure that programs are being maximised.<sup>68</sup>

- 5.59 In the regions, departmental representatives such as LECs and AusIndustry managers have been working with local and state organisations and each other to raise awareness about federal programs and available assistance.<sup>69</sup> The picture which emerged as the Committee spoke with representatives from various federal departments was one whereby their regional staff – be they a LEC, AusIndustry manager or Centrelink officer – were working with each other and local and state representatives to ensure that the regions had access to the assistance offered by government agencies.
- 5.60 While their efforts are an attempt to coordinate a whole-of-government response to the GFC, they do not represent a coordinated response of integrated regional policies that align local and national priorities beyond those brought on by the GFC. Indeed, it is the Committee's view that some of their activities are the antithesis of what needs to be occurring in regional Australia. The role of the LEC is a good example.
- 5.61 The Committee was advised that the LECs:
- ...have been tasked with developing a local employment plan for their region and, as part of that, they have been tasked with setting up a group within the local area to work together. They want representation on that group from various different bodies that would make it a functioning group within a region, who would then be able to work together to develop that plan. *Some of the regional development aspects will be key to developing that plan.*<sup>70</sup>
- 5.62 Rather than viewing regional development goals as a key component of a local employment plan, the Committee would argue that the local employment plan should be one component of an integrated development policy for the region. An approach of this nature requires a regional mechanism by which policies and programs can be coordinated to achieve

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68 Ms Stephanie Foster, *Transcript 14 August 2009*, pp. 9-10.

69 Mr Graham Carters, *Transcript 14 August 2009*, p. 20.

70 Mr Graham Carters, *Transcript 14 August 2009*, p. 20.

specific outcomes. RDA is well placed to be that mechanism because it brings all three tiers of government together.<sup>71</sup>

- 5.63 The need for such a mechanism predates the GFC. All around the country, local, state and federal representatives have long identified key priorities of development. In the North/East border region of Queensland and NSW, for example, 25 years of studies into the infrastructure needs of the region had not resulted in a coordinated plan. In the absence of a structure such as RDA, a consortium of 10 local governments from NSW and Queensland have finally 'aligned their objectives to pursue a cohesive and agreed regional plan'<sup>72</sup> called the Trans-Regional Amalgamated Infrastructure Network (TRAIN) project, which has the backing of state and federal members of parliament.
- 5.64 Similarly, transport in the Northern Territory has been identified as a key development issue and has been the focus of much state and shire planning; however, until the formation of RDA NT, there was not an opportunity to coordinate the plans into one Territory-wide strategy upon which to engage the Commonwealth Government.<sup>73</sup>
- 5.65 The tourism industry is seeking to engage in destination planning that requires the cooperation of federal, state and local governments across various industries and government portfolios.<sup>74</sup> The RDA network has the potential to be the gateway for coordinated planning of this nature.
- 5.66 RDA can also bring together different agencies and levels of government offering assistance to meet regional specific outcomes. In response to economic downturns, this could mean facilitating cooperation between the different agencies on the ground, rolling out the economic stimulus programs of the levels of government.
- 5.67 At the time of writing, the RDA network was in the process of being finalised nationwide. Its stated objective is to 'provide a strategic framework for economic growth in each region' and is underpinned by four key functions:
- provide advice on consultation and community engagement;
  - regional planning;

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71 Ms Stephanie Foster, *Transcript 14 August 2009*, p. 1.

72 Mr Mark Salmon, *Transcript 4 August 2009*, pp. 63-64.

73 Mr Damien Ryan, *Transcript 28 September 2009*, p. 30.

74 Mr Evan Hall, *Transcript 6 July 2009*, pp. 78-79.

- promoting whole-of-Government programs, policies and initiatives; and
  - community and economic development.<sup>75</sup>
- 5.68 The Committee is supportive of these objectives and encourages the Government to utilise RDA in generating region specific community and economic development planning that is supported by the region; maintaining productive levels of cooperation between the three tiers of government; and facilitating better cooperation between various agencies and government programs in the regions.
- 5.69 While the network has yet to fully function, indications to date suggest that RDA is intended to perform in a manner similar to the Committee's expectations. The Committee has been advised that 'RDA is meant to be a ground up initiative... [with]...the ability...to identify what is important in the community as part of [its] work program'. It is not intended to be 'rigorously prescriptive' and will allow regional development objectives to be 'tailored regionally as is appropriate, given different economic and social circumstances'.<sup>76</sup>
- 5.70 RDA has led to increased cooperation with the states, territories and local governments<sup>77</sup>, which are 'genuinely seeking to find arrangements which will incorporate federal interests.'<sup>78</sup> This level of cooperation must continue and be constantly reassessed to ensure that no one level of government dominates the agenda of an RDA board.
- 5.71 There will also be a challenge in ensuring that RDA, as regional representatives, are able to facilitate better cooperation between Commonwealth Government programs in the regions. DITRDLG has recognised that coordination amongst Commonwealth Departments is a challenge<sup>79</sup> but noted that there have been 'very positive responses from the other departments about their capacity to use RDA':<sup>80</sup>

There have been some discussions about the location of LECs potentially with RDAs. Broadband have been speaking to us about various program initiatives that can be assisted by the RDA

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75 Role of RDA, <http://www.rda.gov.au/index.aspx>, accessed 8 October 2009.

76 Mr Marcus James, *Transcript 14 August 2009*, p. 5.

77 Ms Stephanie Foster, *Transcript 14 August 2009*, p. 6 & Mr Adrian Beresford-Wylie, *Transcript 14 August 2009*, p. 62.

78 Ms Stephanie Foster, *Transcript 14 August 2009*, p. 6.

79 Mr Marcus James, *Transcript 14 August 2009*, p. 10.

80 Ms Stephanie Foster, *Transcript 14 August 2009*, p. 10.

network, because it will be a national network that will be available to help with programs.<sup>81</sup>

- 5.72 It would appear that some departments view RDA as an entry point into the regions. As a national network, RDA can be a useful tool through which various Commonwealth Government programs can access regional Australia. This should not, however, be its only role. **RDA should be utilised to facilitate better cooperation between various government departments in the regions to further local and national objectives.**
- 5.73 Having RDA undertake a facilitating role will ensure better coordination of government programs for region specific outcomes over the long term. For example, LECs have a two-year mandate to undertake their work and once that two-year period is up, it is not clear what will happen to the regional employment plans they have created, or the Keep Australia Working Advisory Committees they have established.<sup>82</sup> The Committee believes that the creation of employment opportunities in regional Australia should be closely linked to the ongoing business development and diversification plans of a region, and although RDA representatives sit on Keep Australia Working Advisory Committees,<sup>83</sup> there is a danger that LEC initiatives will lapse in two years time. In order to avoid this, the regional employment plans of LECs should be integrated into the regional development plans of specific RDAs, thereby allowing RDA to capitalise on the work of LECs well into the future. In those areas where a LEC has not been deployed, RDA should be developing regional employment plans.

## Recommendation 12

- 5.74 **The Committee recommends that the regional employment plans of Local Employment Coordinators should be integrated into the regional development plans of Regional Development Australia. In those areas where a Local Employment Coordinator has not been deployed, Regional Development Australia should be developing regional employment plans.**

81 Mr Marcus James, *Transcript 14 August 2009*, p. 10.

82 Local Employment Coordinator Fact Sheet, <http://www.deewr.gov.au/Employment/Pages/JobsFund.aspx>, accessed 19 October 2009.

83 Keep Australia Working, Final Report, p. 17, <http://www.deewr.gov.au/Employment/KeepAustraliaWorking/Pages/home.aspx>, accessed 19 October 2009.

## Conclusion

- 5.75 The GFC is a reminder of the importance of regional development policy. Regions which grow and diversify their economies and provide the social conditions which lead to greater liveability are in a better position to withstand the effects of a crisis such as this.
- 5.76 A regional development policy which focuses on building infrastructure, encouraging education and supporting the growth of business will assist in this regard and will be most effective if the Commonwealth Government can coordinate its infrastructure, education and business support programs in regional Australia in a way which ensures that those programs are working in collaboration with local and state objectives.
- 5.77 The GFC has highlighted the importance of having a mechanism such as RDA, which can be used to facilitate better cooperation between various government programs to achieve regional development objectives. If this occurs and regional policy is sufficiently coordinated across all three tiers of government, then there is real scope for growth in Australia's regions.

Catherine King MP

Chair

November 2009





## Appendix A – List of Submissions

- 1 Mr Bruce Evans
- 2 Murweh Shire Council
- 3 District Council of Karoonda East Murray
- 4 Mid North Coast Regional Development Board
- 4.1 Mid North Coast Regional Development Board Supplementary
- 5 ACC - Mid West Gascoyne
- 6 ACC - North Queensland
- 7 The Brolga Project
- 8 Narromine Shire Council
- 9 Regional Council Tamworth
- 10 School of Behavioural, Cognitive & Social Science
- 11 Deakin University
- 12 Mr Wally Lenyszyn
- 13 Corangamite Shire
- 14 VECCI Invigorating Business
- 15 Committee for Geelong
- 16 Wujal Wujal Aboriginal Shire Council
- 17 ACC - Peel
- 18 Geofabrics Australasia Pty Limited
- 19 City of Wodonga

- 20 Horsham Rural City Council
- 21 Hughenden Chamber of Commerce Inc.
- 22 Central Darling Shire
- 23 Rural City of Wangaratta
- 24 Southern Cross University
- 25 Department of Broadband, Communications & the Digital Economy
- 26 Municipal Association of Victoria
- 27 Australian Bankers' Association Inc.
- 28 Southern Cross University
- 29 Growcom
- 30 Southern Councils Group
- 31 Southern Mallee District Council
- 32 Manningham City Council
- 33 G21 - Geelong Region Alliance
- 34 ACC - Illawarra
- 35 Department of Resources, Energy & Tourism
- 36 Peel Development Commission
- 37 Latrobe City Council
- 38 Shire of Yilgarn
- 39 City of Albany
- 40 Glenelg Shire Council
- 41 National Farmers' Federation
- 42 RMIT University
- 43 National Sea Change Taskforce
- 44 Shire of Strathbogie
- 45 ACC - Mackay Region
- 46 Hurstville City Council
- 47 Qantas Airways Limited

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- 48 Albury City
  - 49 City of Mandurah
  - 50 Goldfields-Esperance Development Commission
  - 51 Burnett Mary Regional Group
  - 52 Central Goldfields Shire Council
  - 53 Kempsey Shire Council
  - 54 Urana Shire Council
  - 55 Regional Aviation Association of Australia
  - 56 Australia's Premier Peace Advocate
  - 57 Toowoomba Regional Council
  - 58 ACC - VIC Central Highlands
  - 59 National Growth Areas Alliance
  - 60 Mid-Western Regional Council
  - 61 Shire of Dumbleyung
  - 62 Wyong Shire Council
  - 63 Upper Lachlan Shire Council
  - 64 Greater Shepparton City Council
  - 65 Wakefield Group
  - 66 Darwin City Council
  - 67 City of Wanneroo
  - 68 City of Townsville
  - 69 Northern Rivers Regional Development Board Inc.
  - 70 The City of Newcastle
  - 71 Western Australian Local Government Association
  - 72 Shellharbour City Council
  - 73 Richmond Shire Council
  - 74 Gold Coast City Council
  - 75 Caterpillar Underground Mining Pty Ltd.

- 76 Oberon Council
- 77 University of Ballarat
- 78 Gosford City Council
- 79 Gippsland Local Government Network
- 80 ACC - Tasmania
- 80.1 ACC - Tasmania Supplementary
- 81 Shoalhaven City Council
- 82 Wide Bay Burnett ROC
- 83 Broken Hill City Council
- 84 InvestWEST Alliance of Councils
- 85 Alexandrina Council
- 86 Limestone Coast Regional Development Board
- 87 Far Western Regional Development Board
- 88 Shire of Flinders
- 89 ACC - NT
- 90 District Council of Cleve
- 91 Organising Principles Group
- 92 BREAZE Inc.
- 93 Sunshine Coast Regional Council
- 94 ACC - Sunshine Coast
- 95 Rockhampton Regional Development Limited
- 96 Interface Councils
- 97 ACC - Kimberley
- 98 ACC - Northern Rivers (NSW)
- 99 Ozeconomics Consulting
- 100 ACC - Central Murray
- 101 Wentworth Shire Council
- 102 Minerals Council of Australia

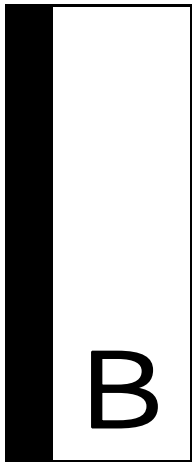
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- 103 ACC - Orana
  - 104 ACC - Greater Brisbane
  - 105 ACC - Gippsland
  - 106 Southern Grampians Shire Council
  - 107 Local Government of Queensland
  - 108 Griffith City Council
  - 109 ACC - Ipswich & Regional
  - 110 Economic Development Australia
  - 110.1 Economic Development Australia Supplementary
  - 111 Moree Plains Shire Council
  - 112 Regional Economic Development Corporation
  - 113 Goulburn Mulwaree Council
  - 114 ACC - Southern Inland Queensland
  - 115 Strathfield Council
  - 116 Shire of York
  - 117 ACC - South East NSW
  - 118 CONFIDENTIAL
  - 119 Nexus Consulting (Aust) Pty Ltd
  - 120 Townsville Enterprise Limited
  - 121 The Chamber of Minerals and Energy of Western Australia
  - 122 NSW Business Chamber
  - 123 Tasmanian Department of Economic Development and Tourism.
  - 124 Wellington Shire Council
  - 125 Australian Local Government Association
  - 126 Mortlake Employment Services
  - 127 ACC - Riverina
  - 128 Department of Agriculture, Fisheries and Forestry
  - 129 Geelong Chamber of Commerce

- 130 TAFE NSW - North Coast Institute
- 131 Geelong Manufacturing Council
- 132 Ararat Rural City Council
- 133 Grampians Pyrenees Regional Development Board
- 134 Grampians Tourism Inc.
- 135 Gunnedah Shire Council
- 136 Abacus - Australian Mutuals
- 137 Mr David Smith
- 138 Department for Environment, Water, Heritage and the Arts
- 139 Diamantina Shire Council
- 140 Bunbury Wellington Economic Alliance
- 141 Barcoo Shire Council
- 142 Peel Community Development Group
- 143 Mid West Development Commission
- 144 Barwon Darling Alliance
- 145 Northern Territory Government
- 146 NSW Government
- 147 Migration Institute of Australia Limited
- 148 NSW Legal Assistance Forum
- 148.1 NSW Legal Assistance Forum Supplementary
- 149 Eurobodalla Shire Council
- 150 Mount Isa Chamber of Commerce
- 151 Mildura Rural City Council
- 152 ACT Government
- 153 Department of Infrastructure, Transport, Regional Development & Local Government
- 153.1 Department of Infrastructure, Transport, Regional Development & Local Government Supplementary

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- 153.2 Department of Infrastructure, Transport, Regional Development & Local Government Supplementary
  - 154 Department of Human Services
  - 155 Tourism and Transport Forum (TTF Australia)
  - 156 Queensland Government
  - 157 Genworth Financial
  - 158 Business Broken Hill
  - 159 Far West Community Legal Centre
  - 160 Advance Cairns Limited
  - 161 Mrs Sherrie Wilkins
  - 162 Ms Margaret Kelly
  - 163 Ms Rebecca McIlveen
  - 164 ASPO Australia
  - 165 Logan City Council
  - 166 Gold Coast Tourism
  - 167 Department of the Treasury
  - 168 Nation Building Australia Pty Ltd.
  - 169 Department of Innovation, Industry, Science & Research
  - 170 Department of Education, Employment and Workplace Relations







## Appendix B – List of Exhibits

- 1 The Brolga Project  
"The Brolga Project"  
(Related to Submission No. 7)
  
- 2 VECCI Invigorating Business  
2008 Regional Business Convention Summary of Recommendations  
(Related to Submission No. 14)
  
- 3 VECCI Invigorating Business  
Policy Papers Skills, Education and Innovation  
(Related to Submission No. 14)
  
- 4 VECCI Invigorating Business  
Policy Papers - Climate Change and Water  
(Related to Submission No. 14)
  
- 5 VECCI Invigorating Business  
Policy Papers - Liveability and Leadership  
(Related to Submission No. 14)
  
- 6 VECCI Invigorating Business

Policy Papers - Infrastructure and Investment

(Related to Submission No. 14)

7 Central Darling Shire

Remote control communities

(Related to Submission No. 22)

8 ASPO Australia

An argument for greater priority to be given to spatial analysis on regional rail policy-making

9 RMIT University

(Related to Submission No. 42)

10 RMIT University

(Related to Submission No. 42)

11 RMIT University

(Related to Submission No. 42)

12 RMIT University

(Related to Submission No. 42)

13 Gold Coast City Council

Gold Coast Northern Growth Corridor

(Related to Submission No. 74)

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- 14 University of Tasmania  
Innovation: The European Journal of Social Science Research
- 15 Timber Communities Australia Tasmanian State Office
- 16 Launceston Ratepayers Association Incorporated
- 17 Tasmanian Small Business Council  
Presentation Notes - Launceston Public Hearing
- 18 Deakin University  
Economic modelling of improved funding and reform arrangements for  
Australian Universities  
(Related to Submission No. 11)
- 19 Area Consultative Committee - Geelong  
Gross revenue from sales
- 20 City of Bunbury  
Western Australia Auslink State Strategic Corridors  
(Related to Submission No. 137)
- 21 City of Mandurah
- 22 Tourism and Transport Forum  
Hotel job losses  
(Related to Submission No. 155)

- 23 Business Broken Hill  
Travel to Outback NSW  
(Related to Submission No. 158)
- 24 Tourism and Transport Forum (TTF Australia)
- 25 NSW Business Chamber  
Business Conditions Survey - July 2009  
(Related to Submission No. 122)
- 26 Gold Coast City Council
- 27 Chamber of Commerce & Industry Queensland  
General Comments - Global Financial Crisis
- 28 Mr David Kemp
- 29 Department of Resources Energy & Tourism  
Forecast - Tourism Forecasting - 2009 Issue 1
- 30 Australian Local Government Association  
Australian Local Government Association State of the Regions  
Supplementary Report 2008-09
- 31 Department of Resources, Energy & Tourism  
Cairns Watch 2009  
(Related to Submission No. 35)



## Appendix C – List of Witnesses & Public Hearings

### **Monday, 20 April 2009 - Burnie**

#### Advance Burnie

Mr Peter Symonds, Director

Mr Lee Whiteley, Director, Deputy Chairman

#### Australian Paper

Dr David Ryder, Group General Manager

#### Burnie Chamber of Commerce and Industry

Mr Andrew Barry, President

Mr Alan Berechree, Vice-President

Mr David Dwyer, Member

#### Burnie City Council

Mr Paul Arnold, General Manager

Mr Rodney Greene, Director, Community & Economic Development

#### Central Coast Council

Mr Michael Downie, Mayor & Councillor

#### Cradle Coast Authority

Mr Roger Jaensch, Executive Chairman

#### Kentish Council

Mr Don Thwaites, Mayor

Latrobe Council

Mr Michael Gaffney, Mayor

Tasmanian Regional Arts/Burnie Arts Council

Mrs Lynne Price, Vice President

The Advocate Newspaper Pty Limited

Mr Rodney Tremayne, General Manager & Chairman

University of Tasmania

Ms Janelle Allison, Director - Institute for Regional Development

**Tuesday, 21 April 2009 - Launceston**

ACC - Tasmania

Mr Simon Boughey, Board Director

Dr Tim Cory, Chair

Mr Michael Gordon, Board Director

Mrs Ally Mercer, Board Director

Mr Craig Perkins, Chief Executive Officer

Mr Gil Sawford, Board Director

Dorset Council

Mr John Martin, General Manager

Mr Peter Partridge, Mayor

Launceston Chamber of Commerce & ACC - Tasmania

Ms Louise Clark, Executive Officer (Chamber) & Deputy Chair (ACCT)

Launceston City Council

Mr Francis Dixon, General Manager

Mr Albert van Zetten, Mayor

Launceston Ratepayers Association Incorporated

Mr Lionel Morrell, President

Northern Tasmania Development

Mr Michael Steele, Director

Mr Robert Wallace, Chief Executive Officer

Northern Tasmania Regional Development Board

Mr Des King, Chair

St Helens & District Chamber of Commerce

Mrs Natacha Bennett, President

Mr Glen McGuinness, Member of Executive Committee

Tasmanian Small Business Council

Mr Geoff Fader, Chair

Timber Communities Australia Tasmanian State Office

Ms Eva Down, Northern Tasmanian Co-ordinator

Mrs Karen Hall, Member and North East Tasmania Branch Vice President

**Wednesday, 22 April 2009 - Geelong**

ACC - Geelong

Mr John Hansen, Executive Officer

City of Greater Geelong

Mr Terry Demeo, Co-ordinator, Statutory Planning

Committee for Geelong

Mr Peter Dorling, Executive Director

Deakin University

Professor Sue Kilpatrick, Pro Vice-Chancellor, (Rural & Regional)

G21 - Geelong Region Alliance

Dr Andrew Scott, Chief Executive Officer

Geelong Chamber of Commerce

Ms Lawrie Miller, Executive Director

Geelong Manufacturing Council

Mr David Sykes, Chairman

Geelong Otway Tourism

Mr Roger Grant, Executive Director

Golden Plains Shire

Mr David Spear, Manager Executive Projects

Gordon Institute of TAFE

Mr Grant Sutherland, Chief Executive Officer

**Thursday, 23 April 2009 - Ararat**

Individual

The Hon David Hawker, MP

AME Systems

Mr Christian Carthew, General Manager

Ararat Rural City Council

Councillor Gwenda Allgood, Mayor

Mr Stephen Chapple, Chief Executive Officer

Mr Clyde Humphries, Manager, Economic Development

Committee for Portland

Ms Anita Rank, Executive Officer

Grampians Pyrenees Regional Development Board

Ms Angela Hunt, Executive Officer

Grampians Tourism

Mr Chris Burchett, Chief Executive Officer

Grampians Tourism Inc.

Mr Ross Hatton, Board Chairman

Greater Green Triangle - ACC

Mr David Francis, Executive Officer



Horsham Rural City Council

Mr Tony Bawden, General Manager of Corporate Services & Economic Development

Cr Bernard Gross, Mayor

Northern Grampians Shire Council

Mr Glen Davis, Chief Executive Officer

Councillor Kevin Erwin, Mayor

Port of Portland Pty Ltd.

Mr Jim Cooper, Special Projects Manager

Mr Peter Gracias, Manager, Business Development

Mr Scott Paterson, Chief Executive Officer

Pyrenees Shire Council

Councillor Robert Vance, Mayor

**Wednesday, 29 April 2009 - Geraldton**

Central West TAFE

Mr Bert Beevers, Managing Director

City of Geraldton-Greenough

Mr Anthony Brun, Chief Executive Officer

Mr Ian Carpenter, Mayor

Geraldton Fisherman's Cooperative Ltd.

Mr Wayne Hosking, Chief Executive Officer

Mid-West Gascoyne RDA

Mrs Karen Godfrey, Executive Officer

Mid-West Development Commission

Mr Stephen Douglas, Chief Executive Officer

Mid-West Gascoyne - ACC

Mr Ian Wheatland, Committee Member

Shire of Northampton

Mr George Parker, Shire President

**Thursday, 30 April 2009 - Busselton**

Bunbury Wellington Economic Alliance

Mr Matt Granger, Chief Executive Officer

Busselton Chamber of Commerce and Industry

Mr Peter Gordon, President

Mr Ray McMillan, Chief Executive Officer

City of Bunbury

Mr Trevor Ayers, Economic Development Officer

Mr David Smith, Mayor

Donnybrook-Balingup Shire Council

Cr Stephen Dilley, Shire President

Shire of Augusta-Margaret River

Mr Gary Evershed, Chief Executive Officer

Cr Steve Harrison, Shire President

Shire of Busselton

Councillor Wesley Hartley, Shire President

Mr Andrew MacNish, Chief Executive Officer

South West Development Commission

Mr Donald Punch, Chief Executive Officer

**Friday, 1 May 2009 - Mandurah**

City of Mandurah

Ms Patricia Creevey, Mayor

Mr Ian Hill, Director, Community & Economic Development

Mr Mark Newman, Chief Executive Officer

Fairbridge Western Australia Inc.

Mr Mark Anderson, Chief Executive Officer

Peel Chamber of Commerce and Industry

Mr John Matthew, President

Peel Community Development Group

Ms Donna Selby, Regional Coordinator

Peel Development Commission

Ms Colleen Yates, Manager Regional Development

Shire of Murray

Ms Christine Thompson, Acting Shire President

Mr Dean Unsworth, Chief Executive Officer

Shire of Serpentine Jarrahdale

Ms Joanne Abbiss, Chief Executive Officer

Ms Denyse Needham, Shire President

Small Business Centre Peel

Mr Paul Buckley, Chief Executive Officer

**Monday, 6 July 2009 - Sydney**

Abacus - Australian Mutuals

Mr Mark Degotardi, Head of Public Affairs

Ms Louise Petschler, Chief Executive Officer

Aboriginal Legal Service (NSW/ACT)

Mr Jeremy Styles, Deputy Zone Principle Legal Officer, Central South Eastern Zone

Australian Bankers Association Inc.

Mr David Bell, Chief Executive Officer

Mr Stephen Carroll, Director - Regional & Rural Policy

Community Legal Centres NSW Inc.

Mr Alastair McEwin, Director

Ms Amanda Smithers, Board Member & Co-Convenor of Regional, Rural and Remote Committee

Genworth Financial

Ms Kristen Foster, Head of Government & Industry Affairs

Mr Peter Hall, Country Executive and Director

NSW Business Chamber

Ms Louise Southall, Policy Adviser, Regional Business Initiatives

NSW Legal Assistance Forum

Mr Alan Kirkland, Chair

The Law Society of New South Wales

Mr Joseph Catanzariti, President

Tourism and Transport Forum

Mr Evan Hall, National Manager, Tourism

Ms Fiona Landis, Tourism Manager

Mr Euan Robertson, National Manager, Research

**Tuesday, 7 July 2009 - Broken Hill**

Barrier Industrial Council Broken Hill

Mr Daniel O'Connor, President

Broken Hill City Council

Mr Desmond Bilske, Acting General Manager

Business Broken Hill

Mr Robin Edgecumbe, President

Far West Community Legal Centre

Mr Neville Gasmier, Coordinator

Ms Rebecca McIlveen, Principal Solicitor

Far West Credit Counselling Service

Mrs Sherrie Wilkins, Financial Counsellor

New England and Western Tenants Advice and Advocacy Service

Ms Margaret Kelly, Tenant Advocate

Pastoralists Association of West Darling

Mrs Susan Andrews, Vice President

Regional Development Australia - Farwest/Outback

Mr Scott Howe, Acting Chief Executive Officer

**Tuesday, 4 August 2009 - Beenleigh**

BDS Group of Companies

Mr David Kemp, Managing Director

Business GC Advisory Board

Mr John Witheriff, Chairman

Chamber of Commerce & Industry Queensland

Mr Tom Tate, Regional Chairman - Gold Coast & Hinterland

Gold Coast City Council

Ms Anne Norton-Knight, Advocacy Officer

Mr Grayson Perry, Manager, Economic Development

Gold Coast Tourism

Mr Paul Donovan, Chairman

Mr Martin Winter, CEO

Logan City Council

Mr David van den Brule, Manager, Economic Development

Marine Queensland

Mr Donald Jones, General Manager

Nation Building Australia Pty Ltd.

Mr Dave Cooke, Director

Mr Mark Salmon, Director

Scenic Rim Regional Council

Mr Anthony Magner, Director, Development Services

**Friday, 14 August 2009 - Canberra**

Australian Local Government Association

Mr Adrian Beresford-Wylie, Chief Executive

Department of Education, Employment & Workplace Relations

Mr Graham Carters, Deputy Secretary, Employment

Ms Margaret Kidd, Group Manager, Employment Reform Taskforce Group

Department of Human Services

Mr Greg Amie-Fong, Assistant General Manager, Child Support Program Enforcement Services, Business Analysis and Improvement

Ms Moya Drayton, General Manager, Education, Employment & Support Programs, Centrelink

Ms Jenny Thomson, Acting First Assistant Secretary, Families and Income Support Division

Mr Tim Bennetts, Business Manager, Rural and Climate Change, Rural Policy & Programs, Centrelink

Ms Catherine Rule, National Manager, Client Business, Centrelink

Department of Infrastructure, Transport, Regional Development & Local Government

Ms Stephanie Foster, Deputy Secretary

Mr Marcus James, General Manager, Regional Development Policy Branch

Department of Innovation, Industry, Science & Research

Mr Stephen Payne, Division Head, Manufacturing Division

Mr Paul Sexton, General Manager, Customer Services Branch, AusIndustry

Mr Richard Snabel, General Manager, Industry Policy & Economic Analysis, Industry & Small Business Policy Division

Ms Sue Weston, Deputy Secretary

Ms Judi Zielke, Head of Division, Enterprise Connect

Department of Resources Energy & Tourism

Ms Jane Madden, Head of Division, Tourism Division

Department of Resources, Energy & Tourism

Miss Lisa Chirio

Dr Chris Locke, General Manager, National Energy Market Branch, Energy and Environment Division

Ms Dianne McGrath

Mr Christopher Stamford, General Manager, Minerals Branch, Resources Division

National Farmers' Federation

Mr Charles McElhone, Manager, Trade & Economics

### **Thursday, 3 September 2009 - Townsville**

DS Enterprises

Mr Colin Dwyer

James Cook University

Prof Andrew Vann, Senior Deputy Vice-Chancellor

Townsville Chamber of Commerce

Mr Craig Stack, President

Townsville City Council

Mr Todd Barr, Strategic Policy Officer, Economic Development & Strategic Projects Unit

Mr David Lynch, Executive Manager, Economic Development & Strategic Projects Unit

Townsville Enterprise Limited

Dr Lisa McDonald, General Manager, Economic Development

**Monday, 28 September 2009 - Darwin**

Alice Springs Town Council

Mr Damien Ryan, Mayor

Darwin City Council

Mr Frank Crawley, General Manager, Corporate Services

NT Government

Ms Fran Kilgariff, Executive Director, Regional Development, Department of Regional Development, Primary Industry, Fisheries and Resources

Ms Cate Lawrence, Acting Senior Director, Infrastructure Strategy and Sustainability, Department of Planning and Infrastructure

Dr Sarah Louise Rummery, Director, Economic Policy, NT Treasury

Ms Marj Morrissey, General Manager, Sustainability, Strategic Planning and Policy, Department of Planning and Infrastructure

Mr Ian Prince, Acting Executive Director Economics and Policy, Business and Industry Development, Department of Business and Employment

Ms Valerie Smith, Acting Manager, Strategic Services, Tourism NT

Mr Jeff Stewart, Director, Trade and Investment, Department of the Chief Minister





## Appendix D – The Canadian Mortgage Bond Program

- 1.1 Canada's Mortgage Bond Program commenced in 2001 as part of Canada's longer-term efforts to reduce the cost of home borrowing. In the 1980's, the Canadian Government created the Canadian Mortgage Housing Corporation (CMHC), which in turn created the National Housing Act Mortgage-Backed Securities Program (NHAMBS) to 'facilitate the development of the securitisation of mortgages in Canada'.<sup>1</sup> Under the CMHC, the NHAMBS began providing an unconditional Canadian Government guarantee of timely payment of pools of government insured mortgages.<sup>2</sup>
- 1.2 Investors in these government insured mortgage-backed securities 'receive a monthly "pass through" cash flow comprised of interest, scheduled principal and unscheduled principal repayments'.<sup>3</sup> Investors will always receive this monthly cash flow because the Canadian Government will make the payment if the financial institution which has issued the security does not. This guarantee of payment costs issuers of the security a premium.<sup>4</sup>
- 1.3 The Canadian Government expanded its mortgage securitisation program in 2001 when it introduced the CMB Program, under which the Canadian Government issues a guaranteed bond – giving purchasers of the bond regular interest payments with principal paid at maturity – and uses the proceeds of the bond sales to purchase the mortgage-backed securities issued by the NHAMBS scheme.<sup>5</sup> The Government's intention was to

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1 Treasury, *Submission No. 167*, p. 1.

2 Treasury, *Submission No. 167*, p. 1.

3 Treasury, *Submission No. 167*, p. 1.

4 Treasury, *Submission No. 167*, p. 1.

5 Treasury, *Submission No. 167*, p. 2.

generate more investment in mortgage-backed securities by providing investors with options.<sup>6</sup> Both programs account for around four-fifths of mortgage securitisation in Canada and the vast majority of all securitisation activity, with the CMB program accounting for around three-quarters of investment in mortgage-backed securities.<sup>7</sup>

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6 Treasury, *Submission No. 167*, p. 2.

7 Treasury, *Submission No. 167*, p. 2.