



THE ECONOMIC BENEFITS OF REGIONALISATION: A SOUTH AUSTRALIAN CASE STUDY

By Sasha Lennon

In 2022, SC Lennon & Associates was commissioned by Regional Development Australia Far North in South Australia to consider and assess the potential economic impacts of regionalisation (or decentralisation) of government services to South Australia's Far North Region.

The Far North Region has a population of 27,000, and covers an area of approximately 800,000 square kilometres, which is 80% of South Australia's land mass. Stretching from the Spencer Gulf to The Outback and the Flinders Ranges, the region takes in the local government areas of the Port Augusta City Council, The Flinders Ranges Council, District Council of Coober Pedy, and Roxby Downs Council, in addition to areas administered by the Outback Communities Authority (OCA).

The economic analysis undertaken on behalf of RDA Far North was informed by an overview of contemporary thinking on the subject of regionalisation in Australia, some assumptions about what quantum of government departments might potentially re-locate to the Far North from Adelaide and elsewhere, and economic modelling of the potential impacts. The analysis revealed that the potential economic

benefits of government-led regionalisation in South Australia could be substantial and if the Far North could capture its share, this would result in significant direct and indirect benefits in the form of public sector employment and economic activity, with flow-ons throughout all sectors of the regional economy.

'REGIONALISATION' DEFINED

According to the House of Representatives Standing Committee on Regional Development and Decentralisation (June 2018), 'decentralisation' (or regionalisation) can be broadly interpreted. For some, it refers to establishing or relocating public (and private) sector jobs and functions from metropolitan capital cities to regional or rural areas to create sustainable employment opportunities as part of a strategy to support prosperity in these areas.

Regionalisation may also include the establishment or presence of regional offices or out-posted offices in areas where services are needed, and have traditionally existed. In these cases, a head office may be located in a capital city with a network of rural or regional offices elsewhere.

In a July 2019 submission to the South Australian Government Department of Primary Industries and Regions (PIRSA), the Local Government Association of South Australia (SAROC) highlighted the importance of decentralisation as a key policy tool to assist with the growth and development of regional South Australia. The paper argues that regionalisation of government services provides benefits to the regions through enhanced service delivery and population growth, as essential ingredients of regional economic development.

It is argued that, as well as addressing population imbalance and providing employment opportunities in the regions, policies aimed at regionalisation, by locating a higher share of government sector jobs in regional locations, may bring government services closer to the people they serve, better align government agencies to specialist regional areas and resources, tap into the skills and experience of people living in the regions and reduce government operating costs.

The House of Representatives Standing Committee notes that only a small percentage of Australian Public Sector

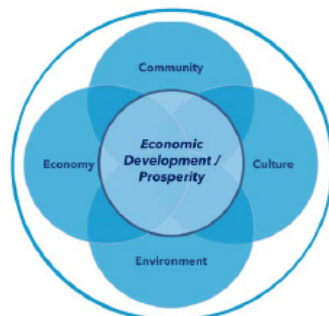
(APS) employees are located outside Australia's metropolitan areas. It states that 5.9% of the Federal Government's workforce are located in South Australia, while at the time of writing (March 2021) population data published by the Australian Bureau of Statistics showed that South Australia accounts for 7% of Australia's population. The State with the highest proportion of APS employees in regional areas is New South Wales, with 6%, while the lowest is South Australia, with only 0.2%.

The Committee states in its findings that public sector jobs should be more widely distributed throughout Australia, particularly in rural and regional areas and that Australians should not be prevented from joining the public service or having access to government career opportunities because of where they live. A collateral advantage of decentralisation is reducing congestion and population pressures on capital cities.

RATIONALE – THE CONTRIBUTION OF AUSTRALIA'S REGIONS TO NATIONAL PROSPERITY

Policies aimed at regional economic development and 'regionalisation' are justified by the important contribution Australia's regions make to national prosperity. 'Regional economic development' refers to the continuous process of growing a regional economy's level of income and capital (wealth) and distributing that wealth (through expenditure and jobs) to the community. It is defined by the mutually reinforcing and complementary relationship between improvements in economic activity, employment, community wellbeing, cultural diversity, a sense of 'place' and the environment. Ultimately, it is about improving quality of life or to capture the concept succinctly, it is about 'prosperity'.

FIGURE 1. 'REGIONAL ECONOMIC DEVELOPMENT' BROADLY DEFINED



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Australia's regions make a significant contribution to national prosperity. The Australian Government's *State of the Regions 2024* report (February 2024) shows that regional Australia is home to about a third of the Australian population. According to the Regional Australia Institute (2021), regional Australia accounts for around 40 per cent of national economic output while ABS Census data (2021) shows that Australia's regional workforce accounts for 31% of national employment.

Regional Australia also exerts a stabilising effect on Australia's economic performance through its collective economic diversity. For example, during the aftermath of the Global Financial Crisis of 2008, the economic growth of Australia's metropolitan areas slowed considerably while regional Australia's contribution to economic output actually increased as a proportion of the total. According to the Regional Australia Institute, productivity in regional Australia – as measured by output per worker – has gained on Australia's metropolitan areas across most industries.

Australia's regions are also highly innovative. In an increasingly globalised economy, innovation and greater productivity are arguably the most pressing challenges facing Australia over the next few decades and without improvements in the capacity of Australia's regions to produce, economic development and national prosperity could be compromised.

Collectively, Australia's regions represent a diverse portfolio of economic activity and opportunity and the importance of regional Australia to the national economy means that realising the potential of the regions is critical to securing Australia's future prosperity.

THE RETURN ON INVESTMENT IN REGIONALISATION

As noted by the Australian Government in its report *State of Australia's Regions 2024*, throughout Australia, "many regions report difficulty in attracting and retaining the qualified people required to deliver community services, particularly as remoteness increases, which affects quality of life and economic opportunity". This has an impact on the capacity to deliver those services as well as workforce capacity and business productivity across all sectors of the economy.

The contribution of Australia's regions to national prosperity reinforces the importance of governments taking a leading role in addressing Australia's regional economic development objective. One way that both the State and Federal governments can do this is through a strong commitment to regionalisation.

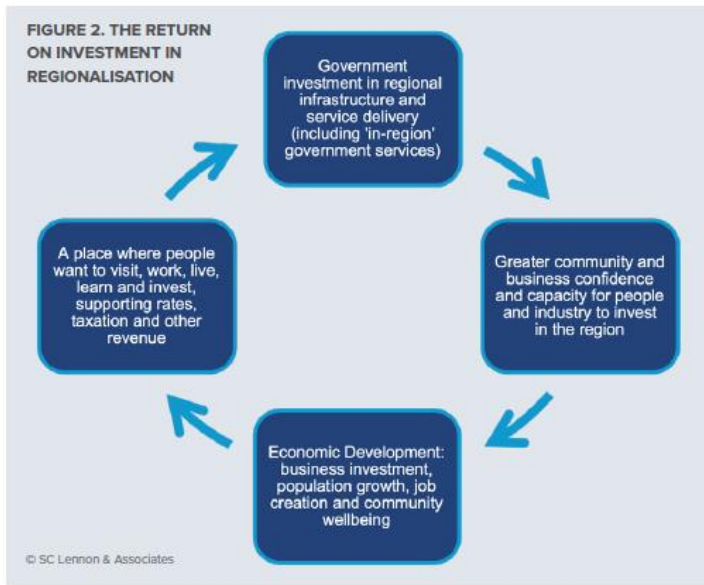
Policy efforts to promote improved local service delivery in the regions, coupled with strategies to invest in infrastructure, amenity (liveability) and human capital (people and jobs) will serve to make the regions more resilient. An increase in population will support further investment in local service delivery and attract more government funding and investment.

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A growing regional population will also serve to retain existing businesses and attract new investment as confidence in the regions grows. New investment will generate more opportunities for employment, creating a multiplier effect of more people, more investment and more jobs in the regions, along with wages growth and an increase in consumer spending.

Increased investment and expenditure will lead to further economic development. That means more rates for local Councils and taxation revenue for the State and Federal governments, which in turn leads to a virtuous cycle of more investment and expenditure in the regions.

Simply put, this is the government's (and the community's) return on investment in a strategic, informed and targeted approach to regionalisation.



QUANTIFYING THE POTENTIAL BENEFITS: ECONOMIC MODELLING ASSUMPTIONS

When considering the potential impacts of government regionalisation, it is important to understand that employment opportunities are not necessarily restricted to those within a relocated government department or agency. Rather, employment opportunities may arise from any increased spending in the regional economy by public sector employees and their families, and from any associated private investment that follows a public sector move to a non-metropolitan area.

Complementing government investments in regionalisation, corporate regionalisation (or decentralisation) offers opportunities for investment in regional Australia that benefits those regions, not only in terms of direct employment, but also in terms of indirect employment and development as a result of those investments.

The economic analysis undertaken on behalf of RDA Far North is driven by a number of assumptions regarding the quantum of government decentralisation to regional South Australia and the Far North Region specifically, using a target set by the Local Government Association of South Australia, that 30% of the State Government public service be based outside Greater Adelaide. This is used as a starting point for the analysis and assumes that 30% of State Government jobs could be located in regional South Australia.

This proposed shift to the regions represents an uplift of 21% of State Government jobs over and above current numbers that would be located in regional South Australia. This means regional South Australia's share of State Government jobs (at the time of writing) would increase from 1,399 jobs to 4,479 jobs, a direct increase of over 3,000 jobs. It is assumed that the Far North Region's

current share of regional South Australia's State Government jobs would increase slightly, from 13% to 15% of the total (of regional South Australia). This means there would be an initial uplift of 492 State Government jobs in the Far North Region over and above the existing 180 jobs.

To complement this ambitious State Government jobs growth target for regional South Australia, it is also assumed that regional South Australia's share of Federal Government jobs in South Australia would increase from 9% to 12% of the total, or from 545 jobs to 951 jobs. The Far North Region already has a healthy share of regional SA's Federal Government jobs. It is conservatively assumed then, that the Far North's current share of regional SA's Federal Government jobs would increase slightly, from 27% to 30% of the total, resulting in an initial uplift of 137 Federal Government jobs in the Far North over and above the 148 jobs currently located in the region.

The combined uplift in State and Federal Government jobs as a result of regionalisation under this scenario, would result in a direct increase of 629 public sector jobs in the Far North Region (that is, an additional 492 State Government jobs and 137 Federal Government jobs).



TABLE 1. ESTIMATED ECONOMIC IMPACTS OF REGIONALISATION, FAR NORTH (SA) REGION

	Direct Effects	Supply Chain Effects	Consumption-induced Effects	Total Impact
Output	\$123.26 million	\$15.22 million	\$43.31 million	\$181.79 million
Value-Added	\$77.91 million	\$7.38 million	\$26.60 million	\$111.88 million
Employment	629 jobs	58 jobs	180 jobs	867 jobs

Source: REMPLAN with interpretations by SC Lennon & Associates

The initial uplift in public sector employment generated by enhanced government regionalisation, will, using the assumptions stated above, result in a further economic stimulus to the Far North Region in the form of output, industry value-added and employment impacts, which will flow through all sectors of the regional economy. The associated quantum of corporate investment (regionalisation) is implicitly captured in the resulting increase in output, value-added and employment in these other industries.

To estimate the economic impacts of regionalisation, the assumed initial public sector jobs stimulus was modelled using the REMPLAN model of the Far North Region economy. The economic modelling shows the impacts, including all direct, supply-chain and consumption effects, is estimated to increase the Far North Region's output by up to \$181.79 million, industry value-added will increase by up to \$111.88 million and total employment will increase by up to 867 jobs. These results are summarised in Table 1.

The economic analysis demonstrates that the benefits of government-led regionalisation in South Australia could be substantial and if the Far North Region can capture its share, this would result in significant direct and indirect benefits in the form of public sector employment and economic activity, with flow-ons throughout all sectors of the Far North regional economy.

ADVOCATING THE CASE FOR REGIONALISATION

According to the Parliamentary Standing Committee's Regions at the Ready report, the purpose of regionalisation is two-fold: (1) to facilitate better government through the improved provision of services and

the development of policy; and (2) to create social and economic opportunities for communities.

To help any region progress its case for more government investment and to realise the potential economic benefits of regionalisation, a region's key agents of change, including RDA Committees, local Councils, advocacy groups and regional development organisations, can work together to establish their own region's case for regionalisation of government services as a means of establishing a shared policy position on the subject.

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An economic benefits analysis, similar to that which was prepared for South Australia's Far North Region, can be used as a key tool informing a region's advocacy efforts with State and Federal Government agencies, to present their case for regionalisation. Taking such an informed approach will serve to place regions on a strategic and co-ordinated pathway to pro-actively supporting the case for greater government and private sector investment in regional Australia.

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