

ACCELERATING REGIONAL CITY GROWTH IN VICTORIA: EVIDENCE AND POLICY APPROACHES¹

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ABSTRACT

Regional Cities are seen as an increasingly important element of the national settlement system – particularly in terms of a policy objective to accommodate a higher proportion of future population growth. However, there is a lack of evidence and analysis about the growth dynamics of these cities, and most appropriate policy levers to accelerate their growth. The objective of this paper is to assess the factors influencing the economic growth of Victoria’s regional cities and identify the strategic policy options to accelerate this growth. A benchmarking analysis and policy review shows that higher growth in Victoria’s cities is influenced by: increasing productivity and exports; lifting tertiary attainment and reducing the proportion of unskilled and semi-skilled workers; improving connectivity to external markets; and, improving accessibility to amenities and opportunities for social participation. The paper concludes by outlining a framework to guide future investment, and suggests a greater policy focus on human capital and business development to achieve stronger growth outcomes.

1 INTRODUCTION

The objective of this paper is to assess the factors influencing the economic growth of Victoria’s regional cities and identify the strategic policy options to accelerate this growth. The paper begins with a literature review of factors associated with the economic performance of regional cities², and the design features of successful policy responses. A benchmarking analysis informed by this literature review is then undertaken to identify the factors associated with higher economic growth outcomes, found to be:

- Increasing productivity and exports;
- Lifting tertiary attainment and reducing the proportion of unskilled and semi-skilled workers;
- Improving connectivity to external markets; and,
- Improving accessibility to social opportunities within the city.

An analysis of national and international approaches to regional city growth suggests a framework to guide future investment, policy, and institutional change to accelerate the growth of Victoria’s regional cities.

There is strong existing policy support to accelerate growth in regional cities between State and Local Government to fully exploit the potential for state growth. The recent Melbourne Metropolitan Planning Strategy discussion paper also identifies the opportunity to accelerate regional city growth through better integration with metropolitan Melbourne as part of a ‘state of cities’ concept (Department of Planning and Community Development 2012: 60). This reflects the policy position of Regional Cities Victoria (RCV), an alliance of ten cities in regional and rural Victoria, to facilitate additional population growth in regional cities and relieve some of the pressures and costs on Melbourne (RCV 2012a).

¹ The views presented in the paper do not necessarily represent any positions of the Victorian Department of State Development, Business and Innovation or of the Victorian Government.

² Referred to in the literature as ‘mid sized’ or ‘secondary cities’ (Budge and Butt 2009; Datu 2013). These cities are usually defined as major urban settlements outside of a primary or global metropolis. For example, the National Urban Policy defines medium sized cities as cities above 100,000 outside of the major capitals. In a Victorian context these are the ten regional cities defined by the Victorian Government’s Regional Cities Ministerial Portfolio: Latrobe City, Wangaratta, Wodonga, Shepparton, Mildura, Bendigo, Horsham, Ballarat, Geelong, and Warrnambool (see: <http://www.regionalcitiesvictoria.com.au/>)

2 LITERATURE REVIEW

There is now an emerging body of evidence available through the Organisation of Economic Cooperation and Development (OECD) (OECD 2009, 2012) that regional cities and rural regions make a significant contribution to national economic performance and that collaborative action by businesses, government, educational institutions and other organisations has accelerated growth in these regions. This section of the paper provides a review of the existing literature about the growth dynamics of regional cities with a focus on:

- Factors which are important to the economic growth and development of regional cities
- Policy framework and investments that is likely to accelerate growth.

This section also provides a framework for the empirical analysis in the following sections of the paper.

2.1 Regional cities – growth factors

Internationally there is an increasing attention on the importance of cities to national growth and competitiveness. This policy debate has tended to focus on larger metropolitan regions where businesses reap the benefits of the availability of large labour pools, diverse backward and forward linkages, and interactions resulting in knowledge spillovers (OECD 2006; Glaeser 2012). In Australia, this focus is also evident particularly due to the dominance of the larger mainland capital cities (Budge and Butt 2009). Regional cities have received less attention in this debate.

O'Connor, Stimson and Clower (1998) find that globalisation has tended to favour the larger cities of Melbourne and Sydney as centres of high-level producer services³. In a Victorian context the major patterns of demographic and employment change has been:

- Higher population growth in the outer-suburban and peri-urban areas of Melbourne (enhanced by international migration to Australia), and areas with high amenity values, particularly coastal proximity
- Population decline in inland rural areas like the Wimmera
- Consolidation of the inner and middle suburbs of Melbourne as a major cluster for producer services (finance, communications, property and business), and the shift of manufacturing and freight and logistics related activity to the outer suburbs
- The importance of tourism related services, mining and specialised agriculture to the growth performance and prospects of non-metropolitan regions (O'Connor et al, 1998).

Analysis of employment and business investment trends over the past decade in Victoria reveal the continuation of these patterns that were observed during the 1990s (Centre for Strategic Economic Studies 2012).

Although capital cities tend to dominate our settlement structure and policy conversation, regional centres have experienced comparatively strong population growth in recent times. Budge and Butt (2009) identify 26 medium sized cities in Australia defined as those outside of the State capitals with a population close to 50,000 people. These cities represent 19.2% of Australia's population and experienced an average annual population growth rate of 1.46% between 1996 and 2006 (compared to 1.27% for the State capitals). This is also supported by evidence across the OECD which shows mid sized cities have maintained or increased their share of national populations (OECD 2006).

O'Connor et al. (1998) argue that interactions with urban 'mega-regions' like Greater Melbourne that are linked into international value-chains are an increasingly important determinant of the prosperity of regional centres in closer proximity to the capitals. In a Victorian context this seems to be supported by demographic analysis which indicates higher levels of migration from Melbourne to Geelong, Ballarat, Bendigo and Latrobe than other regional centres (Budge and Butt 2009). This proximity may also have an economic spin off where regional cities experience the growth of businesses that are complementary to those

³ Knowledge-intensive services that generate high wage jobs such as business and professional, finance and insurance and real estate services.

located in the larger metropolitan area due to lower land and labour costs (OECD 2006). Recent analysis by the OECD (2009, 2011) finds that the economies of second tier and intermediate regions with a mix of urban and rural areas have generally grown quicker than larger cities. This may be due to processes of convergence as these regions ‘catch up’ to the productivity frontier.

Beer and Clower (2009) analyse the changing economic role and function of regional centres⁴ across Australia between 1996 and 2001, and test whether diversification or specialisation is a more effective growth strategy. The study found that these centres have tended to grow through the increasing specialisation of manufacturing and services that is linked to their resource base, infrastructure and locational endowment (Beer and Clower 2009). The role of these cities as centres for services and value added manufacturing to agriculture, forestry and mining in their hinterland is also identified as an important growth dynamic in the international literature (OECD 2006). Beer and Clower (2009) identify the following employment specialisations for Victoria’s regional centres (Table 1).

Table 1: Economic base and specialisation for Victoria’s regional centres

Economic base	Specialisation	Regional city
Manufacturing	Mining/ power generation	Moe-Yallourn, Morwell, Traralgon
	Agribusiness	Mildura
	High services	Shepparton, Echuca, Ballarat
Regional centres/ government and administrative services	Community services/ government administration	Sale
	Government Administration Services/ cultural services	Horsham
	Mixed regional centres with tourism	Bendigo, Warrnambool, Bairnsdale, Ballarat
	Tourism/ leisure	Ocean Grove- Barwon
	Defence	Wodonga
	Commuting	Bacchus Marsh

Source: Beer and Clower (2009)

The OECD (2006) identifies that there is a tendency for the growth of regional cities to be constrained by social costs of unemployment and the inability for manufacturing workers to transition into new employment. These human capital issues are identified as the most important factors to explaining growth performance with the largest impact on regional growth coming from increasing the proportion of people completing secondary school (Garcilazo and Martins 2011). This aligns with more detailed analysis about the shift in the economies of Ballarat, Bendigo and Geelong from manufacturing to service based employment (DPCD 2010). It found a strong recovery from the recession of the early 1990s with accelerating employment and population growth between 1996 and 2006. However, this has been accompanied by higher unemployment which may indicate that workers transitioning from manufacturing and lower skilled migrants have not been absorbed into the labour market.

2.2 Transformative Investments and Policy Change

In reviewing evidence from other mid sized city regions which have managed to accelerate their growth, the OECD (2006) identifies the following features of a successful mid-sized city growth strategy:

- a shared vision through collaboration (that build institutions which enables ongoing coordination between levels of government);
- increased role for universities in knowledge creation (improving business management and entrepreneurial skills);

⁴ Defined as urban settlements with a population of over 10,000 people outside of the capital cities and beyond the satellite cities such as Geelong and New castle.

- improved connectivity to large metropolitan regions (physical connections that reduce transport costs);
- protection and enhancement of natural endowments (sustainable use of natural capital linked to tourism, agriculture and forestry);
- managed growth and integrated investment in amenities (land use planning and investment in regional level facilities that can attract and retain skilled labour); and,
- enhanced capacity of small and medium sized enterprises to innovate and grow exports (facilitate technological transfer, diversification and access to new markets).

There is also an increasing body of evidence that emphasises the importance of human capital to the prosperity of cities (Glaeser and Saiz 2003; Florida 2002; Garcilazo and Martins 2011). These regional improvements in human capital can occur through inward migration and endogenous strategies to lift skills aspiration and attainment (OECD 2006). Lifestyle amenities such as theatres, sports and leisure facilities, specialised retailing and cinemas have been identified as important in retaining and attracting skilled people (Florida 2002; Ministry of Business, Innovation and Employment 2012). There is also increasing focus on the role of regional universities in building pathways and aspiration to increase attainment (OECD 2006), whilst analysis suggests there is currently a limited role for universities in regional development in Victoria (OECD 2010).

A thematic analysis of existing research about growth strategies for regional and mid-sized cities (City of Rochester 2003; OECD 2006; Ministry of Business, Innovation and Employment 2012; RCV 2012; Datu 2013) was undertaken by the authors and identified the following potential strategic actions and focus areas (Table 2).

Table 2: Potential Strategic Actions and Focus Areas

Strategic actions	Focus areas
Building human capital/ addressing the skills gap	<ul style="list-style-type: none"> • targeted skilled migration programs to address skills shortages • increasing the role of the university in lifting education aspiration and tertiary attainment • addressing low skills and social exclusion
Economic diversification	<ul style="list-style-type: none"> • attracting investment and supporting start-ups to enable value-adding to the natural resource-base/ locational endowment • new technologies, skills and capabilities to promote sustainable use of natural capital in the rural hinterland (water, soil, forestry) • attracting investment and promoting innovation to enable diversification and adjustment during periods of structural change
Urban transformation (metropolitan type planning)	<ul style="list-style-type: none"> • urban renewal opportunities (particularly CBD areas) • better planning and coordination in green-field sites • sustainable transport strategies to increase public transport, walking and cycling
Innovation and international engagement	<ul style="list-style-type: none"> • physical connections to ports, airports and major metropolitan hubs • strengthening international civic and cultural relationships • enhancing the innovative capacity of local entrepreneurs
Institutional capacity	<ul style="list-style-type: none"> • strengthening existing structures to integrate investment decision making between levels of government • pooled and more flexible approaches to regional programs and funding • investing in civic and business leadership and entrepreneurship

This literature review suggests that integrated investments in human capital, business innovation and international engagement, and infrastructure that build on the unique

competitive advantages of each city are likely to accelerate growth. Existing research suggests that these place-based approaches should focus on the following factors:

- protecting and enhancing natural endowments in the rural hinterland that provide the basis for tourism related services, forestry, mining and specialised agriculture
- supporting the growth of producer services and value –added manufacturing linked to these endowments
- improving access within the region and to external markets (centres closer to Melbourne will tend to have an advantage in terms of through the growth of complementary business activities and increased migration)
- enhancing the human capital endowment to meet new economy needs (through migration and lifting educational attainment).

The following sections of the paper will examine the contemporary empirical evidence in Victoria about factors associated with growth performance, and policy initiatives to accelerate growth.

3 METHOD

To evaluate the significance of the factors identified in the previous section for the economic growth and development of Victoria's regional cities the authors adopted a two-step approach:

- Victoria's regional cities were ranked in terms of their estimated Gross Regional Product (GRP) growth performance relative to the regional Victorian average over the ten year timeframe between 2001 and 2011⁵ to identify cities performing close to or above the Victorian average and a group performing significantly below the average;
- A benchmarking analysis was then undertaken for each group in regards to the various growth factors (e.g. human capital measures) that were identified in the literature review.

For the policy analysis the framework developed in Table 2 was used to guide a thematic analysis of key contemporary policy documents collected from Local and State Governments in regards to regional city growth.

4 FINDINGS

4.1 Growth factor analysis

Regional city economic growth is measured by the authors using estimates of Gross Regional Product (GRP). These estimates of GRP are drawn from a regionalised input-output model developed by the National Institute of Economic and Industry Research (NIEIR). Regionalised input-output models provide a means of undertaking detailed analysis of the process of production and the use of goods and services (products), and of the income generated in that production within an economy. These tables provide detailed information about the supply and use of products in the Australian economy and about the structure of and inter-relationships between Australian industries. Regionalised IO tables scale the national tables at the regional level using published guidelines (NIEIR 2013).⁶

The regional cities divided by GRP growth performance are shown in Table 3 below⁷. This table highlights that two of the larger cities - Greater Bendigo and Ballarat - had two of the strongest GRP growth performances over this timeframe. Interestingly some large regional

⁵ "High Growth Regional Cities" are defined as those with GRP growth performance near to or above the Victorian average for that timeframe; and "Low Growth Regional Cities" are those with GRP growth performance lower than 60% of the Victorian average. There are perhaps various ways of grouping growth of cities; grouping based on using population growth being one alternative. But analysing economic growth performance has become more important, particularly when issues related to competitiveness; structural transformation and the Asian century have come to the fore, all of which necessitate improved economic outcomes.

⁶ Refer Productivity Commission (September 2013) note for a discussion on regionalised input-output tables accessed from http://www.pc.gov.au/_data/assets/pdf_file/0008/128294/input-output-tables.pdf. Note that the paper also discusses some of the limitations of using multipliers generated using regionalised input-output tables, however, this paper has not made use of any multipliers, and is consequently, not a candidate for criticism on those grounds.

⁷ This analysis is based on overall economic growth performance and does not adequately capture the competitive strengths of some regions in selective industry sectors. A strong overall economic growth performance is essential though, to continue to grow incomes per capita and that too, evenly.

cities which contribute significantly to Victorian GRP levels (such as Latrobe) are not growing as fast as others. In contrast, smaller cities with relatively small contributions to regional Victorian growth (Warrnambool for instance), are growing rapidly. This finding suggests that forces of convergence are at play, at least for some regional cities; some larger regions are unable to sustain high rates of GRP, while some smaller regions are growing rapidly.⁸

Table 3: GRP growth and contribution to regional Victorian GRP growth (2001-11)

Regional Cities	GRP average annual growth (2001-11)	Classification based on GRP growth performance	Rank Based on GRP Growth
Greater Bendigo	3.40%	High growth	1
Wodonga	3.20%	High growth	2
Ballarat	2.80%	High growth	3
Greater Geelong	2.70%	High growth	4
Warrnambool	2.50%	High growth	5
Wangaratta	1.50%	Low growth	6
Horsham	1.35%	Low growth	7
Greater Shepparton	1.00%	Low growth	8
Latrobe	0.70%	Low growth	9
Mildura	0.45%	Low growth	10

Source: RDV analysis based on NIEIR estimates, 2012

Based on the literature review the growth factors important to regional city growth have been grouped into four broad categories:

- Industry and employment (industry mix, employment and innovation);
- Human capital (education and skills);
- Infrastructure and connectivity (transport, ICT, agglomeration); and
- Liveability (amenity and housing).

The performance of the high and low performing cities on each of these factors is assessed below.

Industry and Employment

The benchmarking analysis of industry and employment shows that cities which can grow exports and activate their labour market have higher growth performance. These findings indicate that work force activation (particularly young people), and improving export performance is likely to yield better growth performance (Table 4).

Table 4: Average Value of Selected Labour Market Indicators at the Regional Level

Growth Factor	Indicator	High growth regional cities	Low growth regional cities
Labour Market Factors	% of population aged 15-64	65.5%	63.7%
	Growth in employment 2002-12	2.3%	1.3%
	Worker hours per capita 2012	777	797
	Unemployment rate 2012	6.2%	6.6%
	% of population aged 15-19 not engaged in work or further education	6.8%	8.2%

⁸ Some larger regions would have had high levels of GRP in the base year (i.e. 2001) due to which growth in GRP between then and 2011 is not as high as that experienced by some other relatively small regions with relatively small GRP levels in the base year).

Growth Factor	Indicator	High growth regional cities	Low growth regional cities
Innovation & Exports	Share of employment in knowledge intensive industries 2012 ⁹	8.0%	6.1%
	% of population with science and technology qualifications 2011 ¹⁰	8%	7%
	Exports 2012 (\$m)	2,182	1,321
	Growth in exports 2002-12	1.7%	-0.4%
	Imports 2012 (\$m)	3,238	1,647
	Growth in imports 2002-12	3.7%	2.5%

Source: RDV analysis based on NIEIR and ABS Census 2011 data, 2013

The export performance of a city or region is acknowledged in the literature as important to growth performance (Stimson et al. 2006). The regional cities in Victoria with high GRP growth performance also tend to have a higher rate of growth in GVA and employment in exogenously driven industries, that is, those industries which are not tied to the population base of the city¹¹ (Table 5 and 6).

Table 5: Growth in Value Added for export-orientated industries for High and Low Growth Regional Cities, 2002-12

Selected Industries	High growth regional cities	Low growth regional cities
Accommodation and Food Services	2.8%	1.5%
Agriculture, Forestry and Fishing	4.2%	2.5%
Financial and Insurance Services	4.6%	0.8%
Information Media and Telecommunications	0.3%	-0.7%
Manufacturing	-0.1%	-1.6%
Mining	9.7%	9.4%
Professional, Scientific and Technical Services	4.0%	0.8%
Transport, Postal and Warehousing	2.4%	0.6%

Source: RDV analysis based on NIEIR data, 2013

Table 6: Growth in Employment for export-orientated industries for High and Low Growth Regional Cities, 2002-12

Selected Industries	High growth regional cities	Low growth regional cities
Accommodation and Food Services	0.6%	-1.0%
Agriculture, Forestry and Fishing	-0.7%	1.4%
Financial and Insurance Services	3.8%	-0.2%
Information Media and Telecommunications	-2.1%	-3.2%
Manufacturing	3.3%	3.1%
Mining	11.5%	10.3%
Professional, Scientific and Technical Services	1.5%	-1.1%
Transport, Postal and Warehousing	3.8%	3.3%

⁹ Knowledge intensive industries include Information Media and Telecommunications, Professional Scientific and Technical Services and Financial and Insurance Services.

¹⁰ Science and technology qualifications refer to information technology, natural and physical sciences and engineering and related technologies.

¹¹ Endogenous driven industries are those which grow due to the population needs of the region. Exogenously driven industries are those which are not necessarily tied to the population of the host region, but rather to export income.

These findings indicate that the growth of population based industry and employment does not necessarily lead to higher growth performance. Exogenously driven growth has less growth bounds compared to endogenously driven growth.

Human Capital

The benchmarking analysis of human capital shows that cities which can improve skills and population grow faster. Table 7 highlights the importance of tertiary attainment and the skills base of the population to growth performance. The finding on the skills base is reinforced by the importance of reducing the proportion of the population aged 15-19 not engaged in work or further education that was identified in the industry and employment analysis.

Table 7: Average Value of Selected Human Capital Indicators (2011)

Indicator	High growth regional cities	Low growth regional cities
% adult population with higher education qualifications	47.6%	42.7%
% population completed year 12 or equivalent	42.7%	36.0%
% population aged 15-19 attending secondary or above	75.4%	73.0%
% population aged 15-24 attending higher education institution	26.4%	16.5%
% adult population employed as managers and professionals	30.2%	31.2%
% adult population employed as machinery operators & labourers	18.4%	19.8%

Source: RDV analysis based on ABS Census 2011 data, 2013

Higher growth regional cities have also been able to attract more people from other parts of regional Victoria and metropolitan Melbourne - the corollary is that cities with a higher proportion of long-time residents tend to experience slow rates of GRP growth (Table 8).

Table 8: Place of Usual Residence Five Years Ago of Existing Residents of Cities with Different GRP Growth Performance

Regional Cities Classification	Place of Usual Residence Five Years Ago (as per 2006 Census)				
	Same LGA	Other parts of Regional Victoria	Melbourne Metro	Interstate	Overseas
High growth regional cities	80.7%	7.5%	4.3%	5.1%	2.3%
Low growth regional cities	85.0%	5.3%	3.4%	4.3%	2.1%
Regional Cities Classification	Place of Usual Residence Five Years Ago (as per 2011 Census)				
	Same LGA	Other parts of Regional Victoria	Melbourne Metro	Interstate	Overseas
High growth regional cities	80.5%	8.5%	4.3%	5.1%	1.6%
Low growth	84.5%	6.0%	3.5%	4.6%	1.4%

regional cities					
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Source: RDV analysis based on ABS Census 2006 and 2011 data, 2013

There could be several mechanisms linking lack of population mobility to lower growth including: inertia on the part of the long-time residents of a city to diversify economic activity; and the lack of infusion of new ideas, information, knowledge, and possibly capital (social, cultural and economic) that is usually transmitted with movement of people. These findings indicate the importance of providing land supply and infrastructure to facilitate population growth, and employment growth that continues to attract new migrants.

Infrastructure, Connectivity, and Liveability

The benchmarking analysis of infrastructure, connectivity and liveability shows that cities which can improve accessibility tend to grow faster. Higher growth is associated with connectivity to internet and communications technology (ICT); accessibility within the city and region, and to Melbourne; and, increasing population density and participation in social networks (Table 9).

Table 9: Average Value of Determinants of Growth at the Regional Level (infrastructure, connectivity and liveability)

Growth Factor	Indicator	High growth regional cities	Low growth regional cities
Infrastructure and connectivity	Road Density (km of road per 100 sq. Km of land area, 2012)	37	13
	Percentage of population living near public transport	73%	64%
	Percentage of households with Internet access	64%	59%
	Percent experienced transport limitations	22%	27%
Agglomeration	Accessibility To Melbourne (km from Melbourne)	178	281
	Accessibility To Melbourne (travel time to Melbourne)	138 mins	216 mins
Liveability	Median house price average 2002-2012	\$233,425	\$175,451
	Population density 2012	139	18
	Growth in population density 2002-2012	11.9%	4.6%
	People who help as volunteers 2008	37%	44%
	People who can get help from family/ friends/ neighbours when needed	94%	90%
	People who participate in decision making board or committee	19%	23%
	Pleasant environment, nice streets, well planned open spaces (% of population)	87%	82%

Source: RDV analysis based on ABS, DPCD 2006/2008 and VicHealth 2011, 2013

These findings indicate that better transport and communications infrastructure support growth by improving accessibility for residents to social opportunities, and access to clients and suppliers for its businesses. From a private sector perspective accessibility to Melbourne seems to be important for generating complementary business activities. High growth regional cities which are closer to metropolitan Melbourne in distance and time also have higher levels of inter-regional imports compared to low growth regional cities.

Summary findings

Based on the findings from the above analysis, this summary section identifies the growth enablers and constraints for improving the economic performance of Victoria's regional cities. Regional cities that have outpaced state-wide growth performance have been able to:

- Lift productivity and growth of export orientated industries – particularly increasing value added and employment in producer services, mining and tourism related services. Place-based strategies that aim to increase productivity through the supply chain, leverage complementary skills and capabilities to move up the value chain, and grow export markets are critical to accelerating regional city growth.
- Increase tertiary attainment and reduce the proportion of unskilled and semi-skilled workers – points to the importance of local initiatives to life education aspiration and attainment that link educational institutions and people to businesses and jobs where the city has a competitive advantage. This suggests that integrating effort through workforce development and population attraction strategies is likely to improve growth performance.
- Strengthen connectivity to external markets – this includes physical links to markets through the supply chain (transportation and ICT infrastructure) and international engagement to build civic, business and cultural links. This suggests that the regional cities need to ensure their local economic development and land use strategies have a clear international focus, and that State and national international engagement strategies recognise the unique advantages and capabilities of the cities.
- Improve access to social opportunities – this relates to investing in infrastructure and activities that improve access to social opportunities and amenities that attract and retain new residents. This suggests the importance of investing in infrastructure that improves access to services and opportunities for social participation.

The corollary is that cities which have not achieved simultaneous improvements in these factors have experienced slower growth. The following section will focus on evaluating the existing Victorian policy framework against these findings.

4.2 Contemporary policy analysis

This section provides an analysis of contemporary State and Local Government policies and initiatives to support the growth of Victoria's regional cities¹². Responsibility for investment in regional city growth is shared between the three levels of government. Key areas of responsibility include:

- Commonwealth Government – funding for major transport, water and communications infrastructure; recurrent funding for health, school education, and tertiary education; labour market programs; and regional migration initiatives
- State Government – strategic land use planning; policy and funding for key social services; transport planning and funding; funding for enabling economic and community infrastructure
- Local Government – local strategic planning and administration; facilities investment and maintenance; delivery of key social and municipal services; local economic development.

Current Victorian Government policy settings

The current Victorian Government's broader economic policy settings are focused on increasing productivity and growing export markets to ensure Victoria's prosperity as a non-resource based state (Victorian Government 2012). This strategy also has a spatial dimension with a 'Vision for Victoria' that includes an objective of accelerating long term population and economic growth in non-metropolitan areas of the State, particularly in the larger regional

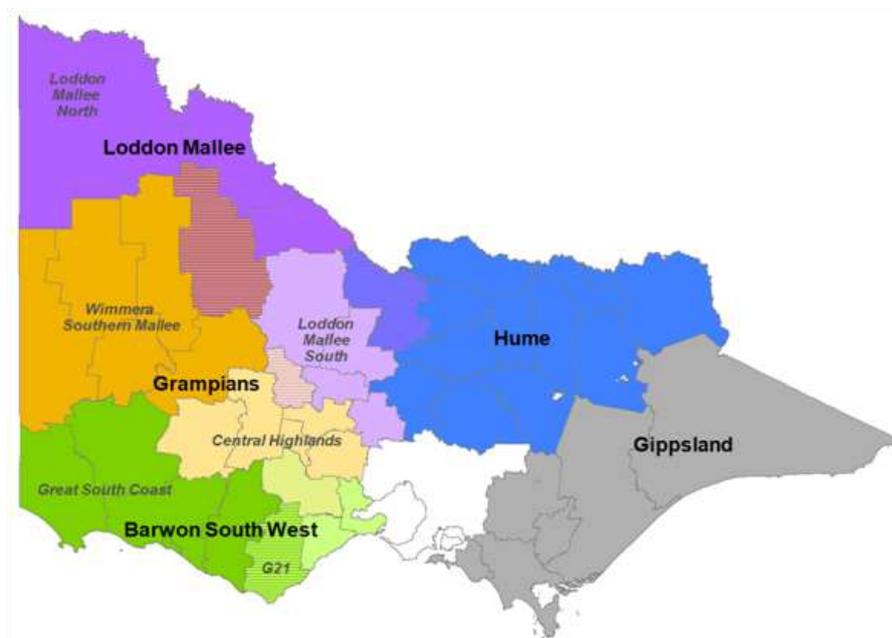
¹² The paper focuses on State and Local Government due to current policy uncertainty regarding the growth of regional cities at a national level.

cities (Walsh 2011; Victorian Government 2012). The Government has a place-based approach to regional development that provides specific funding, and provides for regional input to planning and decision making.

Specific regional funding is provided through the \$1 billion Regional Growth Fund (RGF) - the fund's first allocation of \$500 million is being made over the four years covering 2011/12 to 2014/15, and a further \$500 million will be allocated in the subsequent four years. The RGF is split into a number of program areas that provides grants funding for infrastructure, skills and capacity building projects. The majority of the funding is allocated to infrastructure projects. The Government also delivers a range of other regionally specific programs which focus on infrastructure (airports, roads, and health facilities), investment attraction, and attracting/retaining health professionals (RDV 2011).

Regional collaboration and input to decision making is facilitated through Regional Strategic Plans (RSP) that provide a framework by which Councils set regional level priorities in collaboration with industry, community organisations, and the State and Commonwealth governments. There are eight regional strategic planning groups across regional Victoria (Figure 1).

Figure 1: Victoria's regional strategic planning groups



Source: RDV, 2013

These Regional Strategic Plans also link with the five non-metropolitan Regional Development Australia (RDA) Committees. These committees are also advisory bodies to the Commonwealth. The objective is to create a more effective partnership between the Commonwealth and the State in regional development. Each region is now developing Regional Growth Plans (RGPs) to provide broad directions for future land use, which reflect the priorities articulated in each RSP.

The Government has also provided for a place-based focus to regional city investment through the Regional Cities ministerial portfolio. The Minister responsible for regional cities: coordinates Government action and responsiveness; and, advocates for regional cities within State and Federal governments (Naphine 2011). An example of this place-based approach is the Minister chairing a working of local business and civic leaders in Bendigo to identify ways local businesses, contractors and suppliers to work with one another and the project's lead contractor to deliver the Bendigo Hospital (Premier of Victoria 2012).

Local Government – Regional Cities Victoria

Local Governments Regional Cities Victoria (RCV) was established in 2011 and includes the municipalities of Ballarat, Greater Bendigo, Greater Geelong, Horsham, Latrobe, Mildura, Greater Shepparton, Wangaratta, Warrnambool and Wodonga. It encourages Federal, State and Local Governments to work together to deliver services and infrastructure for regional Victorians and has five key objectives:

- Define and develop long-term policies that support and encourage the growth of regional Victoria as a viable alternative to metropolitan Melbourne
- Encourage, enable and support governments to deliver those policies
- Ensure Regional Cities continue to develop quality services, amenities and transport networks
- Increase workforce capacity and employment opportunities in Regional Cities
- Continue to build awareness of RCV among government, media, business and RCV communities (RCV 2013).

In August 2012 the Government announced the development of a Regional Cities Growth Strategy for RCV to develop a strategic model for growth that will focus on the delivery of infrastructure over the next 25 years (Premier of Victoria, 2012). The Strategy will focus on four areas, including:

- economic and population drivers;
- strategic and statutory planning;
- urban and community infrastructure; and,
- governance and resources to support city growth.

Summary findings

This review of the existing policy settings indicates that there is a clear authorising environment to accelerate the growth of Victoria's regional cities. Responsibility for accelerating growth is shared between the three levels of Government which requires a collaborative approach that builds on the unique advantages and capabilities of each city. There is a range of existing programs in with a particular focus on infrastructure investment to promote regional city development. This suggests further policy and investment effort is needed in terms of business support, innovation and export development, and addressing human capital issues including lifting attainment and addressing skills gaps. This clear authorizing environment provides a unique opportunity for these cities to enhance these policy areas and improve the way investments are planned and delivered in these locations.

FINDINGS

The objective of this paper was to assess the factors influencing the economic growth of Victoria's regional cities and identify the strategic policy options to accelerate this growth. Regional cities which have been able to accelerate their growth over the past decade have achieved simultaneous improvements in terms of:

- lifting the productivity and growth of export orientated industries
- increasing tertiary attainment and reducing the proportion of unskilled and semi-skilled workers
- strengthening connectivity to external markets
- improving access to social opportunities within the city and its hinterland.

This supports the findings from existing research that city growth is dependent upon leveraging comparative advantages, moving up the value chain into producer services and specialised manufacturing, improving access to larger metropolitan centres, and enhancing human capital endowments to meet new economy needs. Influencing these factors is dependent upon a place-based approach that enables ongoing collaboration and investment coordination between levels of government.

There are a range of programs and investments already in place across the three levels of government to address these factors and future regional cities policy provides an opportunity to better target, coordinate and sequence these investments; and identify opportunities to value-add to this existing investment platform. Based on the preliminary analysis in this paper future investments might focus on ways to enhance the productivity and competitiveness of business, and develop human capital.

Table 12 draws this analysis together to identify place-based approaches to business and human capital development, infrastructure investment, community strengthening, and enhancing institutional capacity. This provides a suggested framework to guide future investment, policy and institutional changes to accelerate the growth of Victoria's regional cities.

Table 10: Indicative framework to accelerate growth

Improvement areas	Policy implication	Collaborative planning and engagement	Policy instruments
Lift the productivity and growth of export orientated industries	Enhancing the innovative capacity of trade-exposed firms	Regional Innovation Strategies	<ul style="list-style-type: none"> International technology transfer schemes Global networking of firms Cluster policies Pro-active brokers, matchmakers Innovation vouchers Regional networking of firms Incubators Innovation management training
	Support for business leaders and entrepreneurs		<ul style="list-style-type: none"> Management advice Mentoring programs Financial support for start-ups
Increase tertiary attainment and reduce the proportion of unskilled and semi-skilled workers	Addressing the skills gaps in key professions and trades	Workforce development planning (lifelong learning approach linked to local labour demand and transferable skills)	<ul style="list-style-type: none"> Proactive brokering and facilitation Promotion and incentives for skilled migrants Better information (training supply and labour demand)
	Addressing low skills attainment and lifting aspiration		
Strengthen connectivity to external markets	Expand international engagement	<ul style="list-style-type: none"> Corridor planning (transport/ land use) Digital economy strategies International engagement (trade and sister city) Regional infrastructure pipeline 	<ul style="list-style-type: none"> Efficient freight transport infrastructure Collaboration between universities Student exchange programs Trade fairs and missions Regional infrastructure planning Provision of information (e.g. demographics, land supply) Innovative financing and funding tools/ expert assistance
	Integrated regional infrastructure planning and investment (transport, ICT, energy, water)		
Improve access to social opportunities within the city and its hinterland	Integrated land use/ infrastructure planning for urban renewal and growth areas	<ul style="list-style-type: none"> Precinct structure/master planning Integrated Regional Transport 	<ul style="list-style-type: none"> Infrastructure coordination Expert assistance Funding and financing tools Brokering and facilitation Funding and finance

Improvement areas	Policy implication	Collaborative planning and engagement	Policy instruments
	Sustainable regional transport planning and investment	Planning	<ul style="list-style-type: none"> • Sustainable transport planning and infrastructure • Provision of information (performance/ demand)
Enhance institutional capacity (place-based approach)	Investing in civic leadership including international relations	Local Area Agreements Pooled funding arrangements	Leadership and skills development training Mentoring Place-based budgeting Brokering and facilitation

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