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Cart before the horse in regional funding policy

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*It makes sense to invest in places where people have shown they want to live, say **John Daley** and **Annette Lancy**.*

What are the three fastest growing city populations in Australia? Perth, Brisbane and Melbourne? No, they are Hervey Bay in Queensland, Bunbury and Mandurah in WA, all growing at more than 4 per cent a year over the past five years.

Hervey Bay and Bunbury are economic and service hubs for their regions; Mandurah's growth is boosted by its popularity among mining workers flying in and out of the north.

The growth of these cities and of others like them provides a boost to the national economy. But a new Grattan Institute report, *Investing in Regions: Making a Difference*, shows that these regional centres are not always getting the services they need.

There are big differences between Australia's regions. The populations of some areas are growing slowly or even shrinking, yet coastal cities and centres within 150km of our biggest capital cities are growing even faster than the capitals.

It is a vital issue for the economy. The report shows that governments are spending more than $2 billion a year on programs for regional Australia that do not drive the economic growth with which they are badged. The Federal Government announced another $4.3 billion for regional Australia in the Budget and mining revenues will tip another $1.2 billion into the WA Royalties for Regions fund in 2011-12. But is the money focused on regions where it will make the most difference?

Satellite cities such as Bunbury, Hervey Bay and Ballarat in Victoria are not simply dormitories for commuters to the State capitals. They are growing as economic and service centres for their regions. Within an hour or two's drive, they are just close enough to build good relationships with the many potential suppliers and customers based in the capitals. Coupled with better infrastructure and more skilled workforces, they are growing quickly.

Yet the funding of fast-growing satellite cities doesn't always match their growth. In drawing up annual budgets, councils for satellite areas start behind. Their residents earn less on average and there are fewer taxable businesses. But when the Commonwealth provides financial assistance grants to support the costs of local government, inland councils in WA receive 10 times more per person than councils for satellite areas. Coastal satellite towns also risk getting less than their fair share for capital works under Royalties for Regions.

Even if towns like Port Hedland and Karratha grow to more than 100,000 people as envisaged under the Pilbara Cities plan, the vast bulk of WA's population growth will be in the south, where only a fraction of Royalties for Regions money has been allocated.

Across Australia, fast-growing capital city satellites are underfunded in part because regional policy has been driven by a desire for "regional equity" - the attempt to get slower-growing regions to grow faster. However, the Grattan Institute's report found economic development programs such as job attraction schemes, regional universities, local economic infrastructure and government decentralisation are all costly and do not lead to sustainable economic growth in slow-growing regions. Governments can't make economic water flow uphill.

Yet some of these policies might have a positive effect in fast-growing satellite regions. Governments can accelerate economic growth through better infrastructure and education where there are many well-trained workers with a large base of potential customers and suppliers nearby.

More recently, the Federal Government's "sustainable population strategy" suggested that spending on services in the regions might attract people away from capital cities, relieving their population pressures. This is only likely to work if services are improved in regions that are already growing fast.

There is a real danger that the "sustainable population strategy" will again be distracted by attempts to get inland cities to grow faster. Better services will not accelerate their growth. By and large, they are attractive places to live with cheaper housing and low population density. They often have higher levels of social connection. Inland cities are generally growing more slowly because they have fewer economic opportunities. No amount of spending to improve services will change this.

It is time for governments to be more candid about what their money can and cannot do in regional Australia. They need to justify their programs on equity grounds, rather than claiming that they are generating growth.

We need to start putting money where people and jobs want to go. The acid test for Australian regional policy is whether governments provide fairer access to services to support the growth of new and growing populations in regions such as Bunbury and Mandurah.

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