QUEENSLAND FUTURES INSTITUTE

BETTER CITIES, BETTER REGIONS

ENHANCING ECONOMIC DEVELOPMENT POLICY

NOVEMBER 2020

AEC
OUTCOME DRIVEN

INTRODUCTION & APPROACH

BETTER CITIES, BETTER REGIONS

Over several decades, Queensland's wealth base and key drivers of economic development have undergone significant change. A number of regional and remote areas face a range of challenges including low and declining populations; economic vulnerability due to reliance on a single industry sector and/or employer; capability and skill gaps; demographic and industry changes due to advancements in technology and other global trends; and dependency on local government (as the last provider) for services to preserve liveability.

Population metric driven policy responses have led to underinvestment in regions that generate the majority of the State's primary economic wealth. Population centric policy initiatives have skewed resources and capital spend towards centres that are heavily dependent on Government spending. With clarity, purpose and learnings from other jurisdictions, repositioning our current resources to support long term economic productivity in our industries and balanced population growth across Queensland can be an achievable goal.

A collaborative and cohesive approach to economic development is required across all levels of government to ensure long term growth and stability, service provision efficiency and improved socio-economic outcomes.

BETTER CITIES INITIATIVE

In December 2019, QFI established the Better Cities Initiative, focused on supporting economic and population growth outcomes across Queensland.

- **December 2019 –** Queensland's City Leaders, Builders and Service Providers Forum
- **March 2020 –** Qld Policy Leaders Series–The Future of Regional Queensland
- **April 2020 –** QFI launched a new independent research study investigating 'What Makes Businesses Start, Grow and Stay in Queensland?'. The research identifies key factors involved in driving and influencing business investment within the State.
- **July – November 2020 –** this project, 'Better Cities, Better Regions – Enhancing Economic Development Policy' – An independent research study assessing current State and emerging best practice in sustainable economic networks and policy frameworks.

The Queensland Futures Institute (QFI) is committed to encouraging the use of evidence-based research to test current thinking, policy boundaries and policy frameworks in order to improve economic and social outcomes for all Queenslanders.

In late 2019, QFI introduced it's Better Cities Initiative to identify the key opportunities to facilitate and sustain economic growth across the State, primarily through a focus on improved frameworks, enhanced policy, and efficient deployment of investment in Queensland's largest urban centres.

As part of this ongoing initiative, QFI commissioned AEC Group Pty Ltd to conduct the following research piece Better Cities, Better Regions – Enhancing Economic Development Policy.

ENHANCING QUEENSLAND'S APPROACH TO ECONOMIC DEVELOPMENT POLICY

The study explored the current State and future improvement opportunities, processes and structures required to develop more efficient, profitable and sustainable economic networks and policy frameworks across Queensland's cities.

REVIEW

The current State and effectiveness of Queensland's economic development framework and the role of key stakeholders in the current development ecosystem.

UNDERSTAND

Our true economic dependencies, policy levers and data to enable informed decisions that reflect our modern economic network and underlying infrastructure needs by isolating Government expenditure for 'real' economic wealth creation.

EXPLORE

Best practice models from other jurisdictions – global case studies on successful regional policy frameworks and potential applications to Queensland (New Zealand, Canada, United States).

IDENTIFY

Opportunities to improve systemic engagement and improved policy opportunities to deliver real change and value to the Queensland community.

KEY RECOMMENDATIONS

Recommendation 1:

Quantify service provision across the State to inform policy and efficiency gains.

The research revealed service levels were currently unable to be consistently and accurately quantified across the State. To ensure efficient service delivery and optimisation of socio-economic outcomes, measures of service level must consider not only the presence or lack of a service, but also, the expenditure of government (or private sector) on the delivery of the service, the appropriateness of services provided to meet the needs of the population and the efficiency of the delivery of the service provided. It is recommended a pilot survey of regional service levels be undertaken to understand the range of services provided.

Recommended actions:

1.1 Engage further with key statistics collators/ providers (government and agency) to identify any gaps which can be filled through existing internal datasets directly or via the use of appropriate proxies.

1.2 Identify remaining gaps and run pilot user and provider surveys in selected areas to capture this data.

1.3 Facilitate a sentiment survey to understand the prevailing satisfaction with relative service levels across the State.

Recommendation 2:

Refocus Queensland economic development frameworks on economic networks.

Queensland has an opportunity to adopt international best practice in economic development by defining economic development regions based on industry interconnectivity, as well as clearly defining the roles and responsibilities of participants in economic development. This will empower and enable government to work with stakeholders along the industry supply chain to deliver economic development across the economic network, rather than competitively within a geographic boundary.

Recommended actions:

2.1 Run a pilot program to understand the value proposition of primary data collection to better inform inter-regional supply chain development analyses and policy development positions.

2.2 Analyse resulting supply chains and identify appropriate regions to be used as economic networks (and the geographical boundaries for economic development activities).

2.3 Extend education, awareness and skills development programs for economic development practitioners, federal, State and local government to better understand how to drive growth by leveraging State and local networks.

Recommendation 3:

Integrate public and private sector in economic development planning and delivery.

A more co-operative and collaborative approach to economic development planning and delivery is required in Queensland, which is in keeping with international best practice models. From a government perspective, vertical co-operation and collaboration (across all levels of government) ensures consistent approaches to economic development and effective information dispersal throughout and across regions.

The private sector has a role as a valued participant in, and driver of, the identification of economic opportunities and strategic planning. Private sector participants can bring to the table detailed knowledge of industry needs, competitive and comparative advantages and challenges for businesses to be considered in economic development activities. The strategic decision making, and implementation of economic development initiatives should include representatives of federal government, State government, local governments and private sector participants.

Recommended actions:

3.1 Develop a guiding framework surrounding the roles and responsibilities for all participants to ensure the efficient and effective collaborative deployment of available resources surrounding:

3.1.1 Economic development planning and implementation.

3.1.2 Embedding economic development into an integrated local and State government strategic and operational planning framework.

3.1.3 Project approvals processes.

3.1.4 Funding and co-funding projects.

Recommendation 4:

Streamline existing grants and funds into fewer but more targeted buckets, with clearer, measurable outcomes.

The total value of grants and funds available to business and local government in Queensland is likely adequate to achieve material and lasting beneficial change. However, access to these resources is resource intensive, requires specific skills and, by in large, does not result in material on-ground change. Accessibility to available resources and their associated impact for economic development could be improved to facilitate greater economic, social and industry outcomes.

Recommended actions:

4.1 Identify and define the core policy outcomes sought through the deployment of grant-based funds. These policies should incorporate clear objectives that can be measured and assessed.

4.2 Streamline the existing funds and grants on offer in Queensland into a smaller number of but larger scale and longer term strategic grants.

4.3 Collate all funding information into one location, which is easily navigated.

KEY RECOMMENDATIONS *cont.*

Recommendation 5:

Increase use and leverage of existing under-utilised capital and funding sources.

Queensland is not attracting its fair share of resources from existing federal programs aimed at attracting overseas capital to invest in businesses, assets and technology. For example, Queensland's share of the visa migration investment scheme is less than 10% of the $900M flowing into Australia.

There is clear evidence that Australia's poor record of processing applications and the lack of a proper client management framework in Queensland has led to a lack of coordination and investor experience when compared to places such as NZ, Canada and Greece. In addition, leveraging national tax driven structures by lobbying the federal government to broaden asset definitions will support and promote regional investment, which could support the delivery of an initiative similar to the US Opportunity Zone policy.

Recommended actions:

5.1 Investigate methods for Queensland to increase the use and leverage of existing under-utilised capital and operational funding sources.

5.2 Run a pilot regional investment fund to demonstrate the pathway and process to facilitate greater private sector investment into the regions to drive direct and sustainable socio-economic change.

5.3 Lobby Federal Government to broaden definitions of assets under aligned investment programs (e.g. early stage venture capital partnership program) to enable investment in regional or other economically challenged areas.

Recommendation 6:

Re-direct capital funding based on areas that act as economic engines.

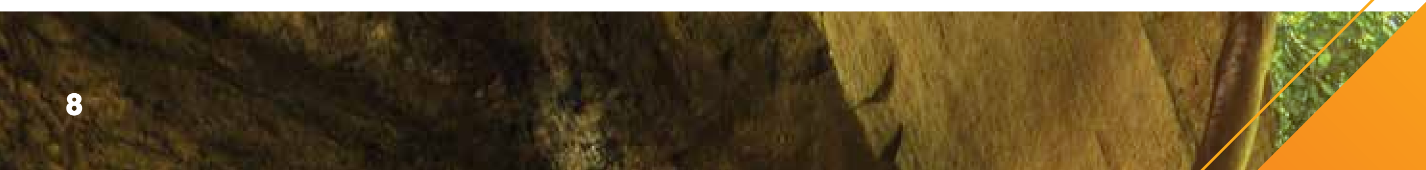
Traditional, population mass-based, metrics have disproportionately benefited the key population centres of the State. Population centres in Queensland are not necessarily the main economic engines of the State.

A review of the approach and underlying metrics used to drive capital investment decisions to ensure long-term economic outcomes will likely result in a re-balancing of capital investment across the State, ensuring economic infrastructure investment (beyond maintenance and upgrades to existing infrastructure) is directed towards areas with significant leading economic drivers.

Recommended actions:

6.1 Review the existing distribution of capital investment for economic infrastructure and the degree to which this distribution has been impacted by population mass rather than economic outcomes.

6.2 Redefine the input parameters for economic infrastructure capital investment decision making, including the use of regional economic activity data as a primary driver.



Recommendation 7:

Engage the private sector in using a framework that better allocates risk and rewards for the effective delivery of economic infrastructure.

Public Private Partnerships (PPPs) remain relatively controversial in Australia, particularly in Queensland where several high-profile PPP infrastructure asset delivery programs have been considered as failures, however, under the right circumstances PPP's can drive strong infrastructure outcomes.

To support the success of these projects, a detailed framework for correctly identifying infrastructure projects appropriate for PPP's and the allocation of risks between the private and public sectors is essential. There is also an opportunity to build a better engagement framework with the private sector in this process.

Recommended actions:

7.1 Publish learnings from key stakeholders to clearly define the factors for successful Australian PPPs in other States (e.g. South Australia) and the key factors contributing to the failure of unsuccessful Queensland PPPs in the past.

7.2 Develop a clear framework to outline the preconditions required to deliver a successful PPPs in Queensland based on the above analysis including risk expectations and tolerance levels for key target asset categories.

7.3 Identify appropriate partners and priority infrastructure to be delivered through this framework.

Recommendation 8:

Develop and maintain socio-economic and financial report cards to enable identification of competitive advantages and changes in the economic environment at a local government level.

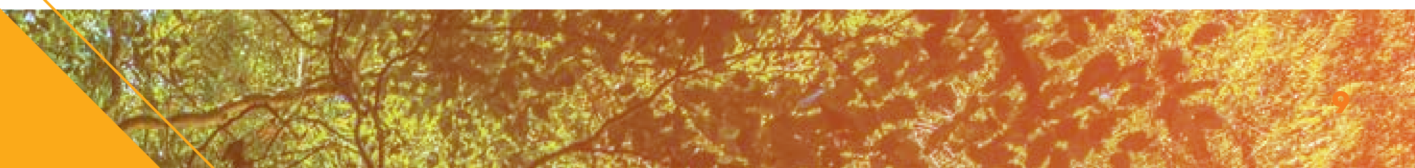
Understanding the existing socio-economic and financial position of local government areas is essential to identifying the needs and requirements of economic development practices. Developing and maintaining a consistent, comparable and up-to-date dataset for all local governments in Queensland from published and internal sources will also enable local governments (or groups of) to measure their progress against economic development targets and goals.

Recommended actions:

8.1 Research and investigate potential datasets to inform the development of the socio-economic and financial report cards.

8.2 Engage local government and other government agencies in filling identified data gaps to ensure consistency and comparability of data.

8.3 Maintain and regularly publish the report cards to facilitate evidence-based decision-making at all levels of government and enable the evaluation of policy performance and outcomes achieved.

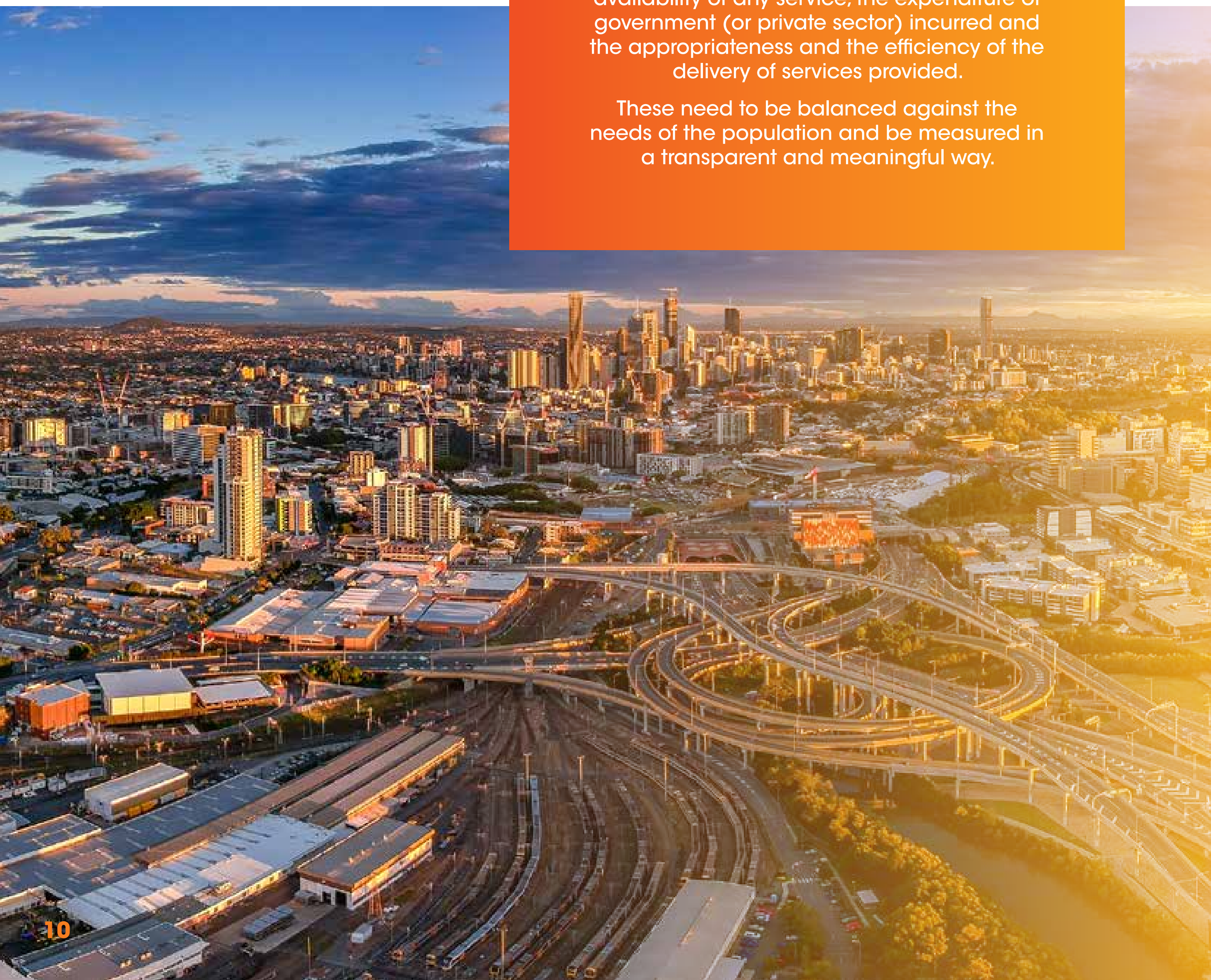


1: QUANTIFY SERVICE PROVISION ACROSS THE STATE TO INFORM POLICY AND EFFICIENCY GAINS

KEY RESEARCH FINDINGS

Measures of service levels must consider the availability of any service, the expenditure of government (or private sector) incurred and the appropriateness and the efficiency of the delivery of services provided.

These need to be balanced against the needs of the population and be measured in a transparent and meaningful way.



SERVICE DELIVERY THROUGH AN EVIDENCED-BASED POLICY FRAMEWORK

- Service delivery in Queensland (and nationally) has historically been based on a theory of equality, attempting to ensure the same level of access to services for all Queenslanders. Given the wide geographic distribution and variability in population density across Queensland, this approach does not seek to link need, quality of service and cost of service delivery. This approach is clearly unsustainable and moving forward a new model needs to be developed to ensure service availability is delivered based on consistent, measurable and appropriate criteria.
- Consistent, comparable and appropriate metrics of presence, quality and appropriateness of service delivery across Queensland are not currently readily available, which makes any evaluation of service delivery ineffectual.
- Queensland is not unique in facing this challenge, as this data is typically lacking both nationally and globally. Existing methods for disaggregating state-level expenditure estimates (ABS, 2020a; Productivity Commission, 2020b) are, in and of themselves, flawed measures of the above parameters and were considered inappropriate for inclusion in the analysis due to the higher cost of service provision in lower density areas which is not necessarily reflective of increased quality, need or relevance of the underlying service provision.
- Reconsidering the service provision framework across the State will require the development of a baseline assessment of service need, sustainability and the appropriateness of maintaining uneconomic areas across the State. Gaps in data provision can be closed through:

- Better use of internal agency datasets: Consistency in capturing, measuring and analysis of agency and provider data in order to inform policy formulation, evaluate outcomes and accurately assess the effectiveness, appropriateness and relevance of past, current settings and future policy options to build, improve and target specific outcomes to meet the relevant needs of any geographic area. Further engagement with statistics collators/ providers (government and agency) is required.
- Benchmarking assessments: Comparison of the existing level of service provision in one location can be compared to other locations of a similar population size and socio-demographic base. The benchmarks need to take into account inherent biases driven by population size, geographic spread etc. Existing approaches have tended to simplify the assessments where the inherent biases associated with the benchmarks limit the usability and effectiveness of the benchmarks. These benchmarks should not be limited to artificial boundaries such as electorates or statistical areas, but rather reflect the minimum viable economic activity level to sustain a target population size.
- Provider/allied provider surveys: Surveys of direct providers and allied providers to better understand existing services and additional services required.
- User surveys: Surveys of populations to identify the range of services available, the range of services they require for the area's population and economic activity, key service gaps, community satisfaction, appropriate service access and cost.

2: REFOCUS QUEENSLAND ECONOMIC DEVELOPMENT FRAMEWORKS ON ECONOMIC NETWORKS

KEY RESEARCH FINDINGS

Queensland has an opportunity to adopt emerging international best practice in economic development by defining economic development regions based on industry interconnectivity rather than artificial boundaries.

PURSUING ECONOMIC NETWORKS AND COLLABORATION IN ECONOMIC DEVELOPMENT

- International literature indicates regional economic development and competitiveness depends on a range of dynamic capabilities and success factors, which are fundamental prerequisites for achieving and sustaining growth. These include government reputation, dedicated and integrated economic development/ industry/ sectoral policies, infrastructure access, business environment, and access to investment capital.
- Queensland's economic activity and supply chains extend beyond local government, catchment or electorate boundaries and, as a result, so do economic development challenges and opportunities. International case studies in Canada and New Zealand suggest horizontal co-operation (working across jurisdictional boundaries) is a cost-effective method for delivering economic development to, across and between regions with integrated supply chains and similar socio-economic and demographic environments.
- The identification of appropriate boundaries for economic development is a fundamental aspect of the recommended re-design of the Queensland economic development framework. Anecdotal evidence from New Zealand suggests regions were identified based on inter-industry supply chain connectivity, where no single geographic or artificial (electoral, local government, statistical, catchment) boundary suits all economic networks and sectors. A similar approach should be considered for adoption in Queensland.
- Such a model is in keeping with the leading and emerging trends in other states, for example, the New South Wales State Infrastructure Strategy (Infrastructure New South Wales, 2018) also focusses on the creation of economic networks rather than limiting policy settings on artificial boundaries. This process will result in increased investment in regional centers, that can then support their surrounding communities.
- Quantitative data relating to the inter-regional supply chains, connectivity and dependencies are not readily available in Queensland and are, in some instances even at the national level, quite outdated. Currently, the regionalisation data gap is filled through a mathematical extrapolation process based on national economic tables.
- There is an opportunity to run a pilot study to test and improve the accuracy of these methodologies through targeted ground truthing using empirical primary data collection. Where material variances emerge, appropriate systems can be developed to ensure any theoretical resource allocation is tested against real world activity through a transparent, defensible and repeatable primary data collection process.


SOUTHERN
CROSS
SOUTHERN
CROSS

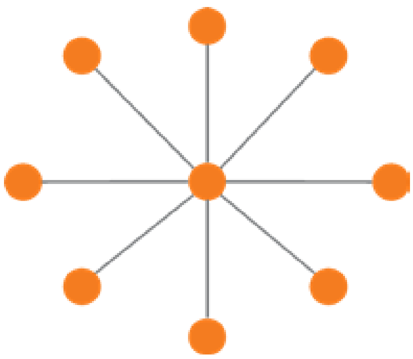
DRIVERS OF ECONOMIC OUTCOMES

KEY LEVERS AND SUCCESS FACTORS

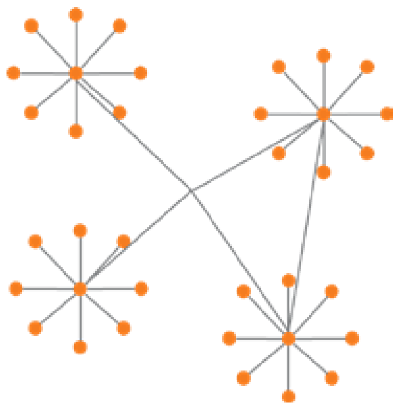
Factor	Description	Impact
GOVERNMENT REPUTATION	The capacity of governments at all levels to deliver relevant, consistent policy and economic support to enable access and approvals in a timely and cost-efficient manner.	Poor record of policy stability, governance, and support activities vis a vis other competing locations or opportunities reduces private sector engagement and confidence in terms of both investment and participation.
DEDICATED ECONOMIC DEVELOPMENT/ INDUSTRY/ SECTORAL POLICIES	The level of incentives (tax, export, employment, co-investment, grants and other support tools) mechanisms aimed at reducing transaction costs, improving risk/reward structures to attract new investment or to lower existing participants cost of business and/or to improve competitive positioning.	The EU has identified tax and employment policies as being the single biggest driver/ impediment to regional economic growth. The combined incentive package reduces both the risk and cost of private sector projects which will drive greater tax proceeds over the longer term as the size and volume of economic activity grows.
INFRASTRUCTURE ACCESS	Linkage infrastructure to support social (e.g. education, health, community etc.), transport, ICT (Information and Communications Technology) and service support activities that enable and underpin commercial operations.	The inability to attract staff, support family groups, treat injuries in a timely manner, move products, conduct business or access information are all elements that make economic development harder. The greater the friction created by infrastructure/service gaps, greater the net economic value generation capacity is diminished.
BUSINESS ENVIRONMENT	Market access, concentration, barriers to entry, labour access and general market conditions influence investment appetite and risk profile for private and public sector stakeholders. Poor business environment increases the risk of failure and cascading impacts on infrastructure access and reputation.	Economic vulnerability, capacity to respond to market changes/ external shocks (resilience) and market opportunity drive investment confidence and consumer sentiment. The more volatile the business environment, the less likely long-term capital investment and expansion will occur.
ACCESS TO INVESTMENT CAPITAL	Access to timely, cost effective investment capital (equity and debt) is critical in being able to take advantage of market opportunities and emerging market trends.	Poor capital access limits growth and in turn reduces the potential economic value of current and future activities.

Australian regional development policies have followed a traditional two model approach that has not materially evolved since the industrial revolution over 100 years ago. This current model involves a centralised approach to service delivery to drive economies of scale, and/ or a decentralised approach to service delivery to drive economic/ service reach. However, both these traditional models are likely to lead to deteriorations in productivity over time. A move to a distributed network approach, which is observed as emerging overseas best practice, is recommended.

NETWORK MODELS

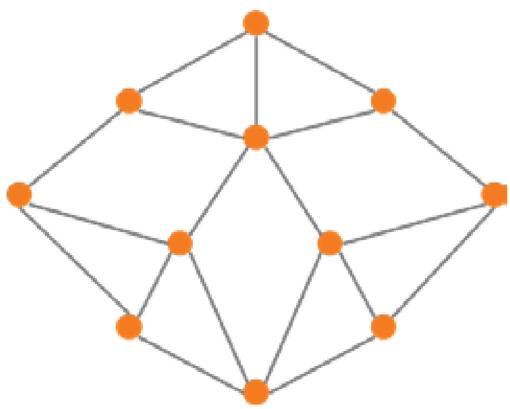


Centralised to drive economies of scale



Decentralised to drive economic/ service reach

Traditional Models



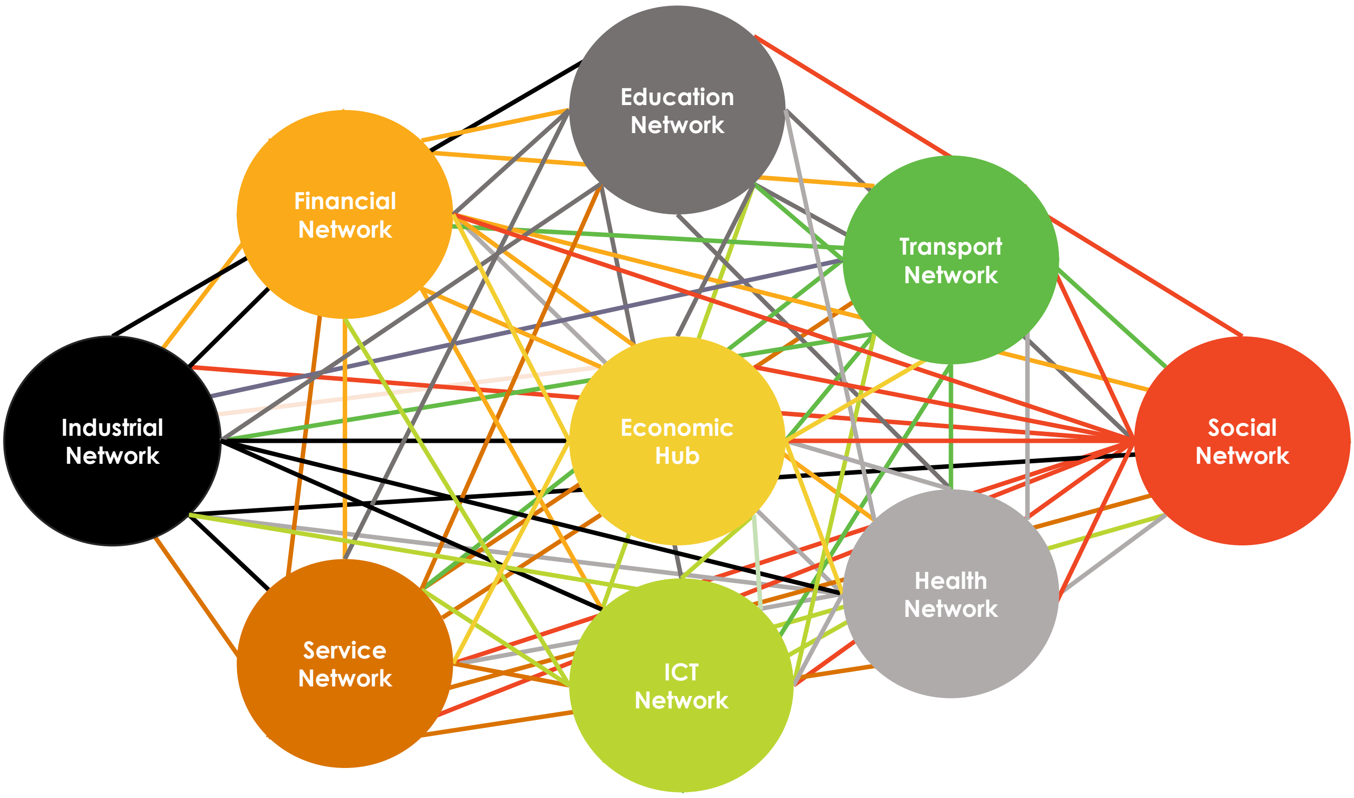
Distributed network approach to direct resources into areas which support and improve connectivity and reliance

Emerging Model

ECONOMIC NETWORK DEPENDENCIES

- The distributed network approach considers the economy as an intersection of interactions, access, demand and consumption that combine to support the socio-economic framework of the region. This economy is not defined by geographical, electoral or statistical boundaries. Each network (presented right) is dependent on each other and each network node (and sub-network) can be quantified in terms of dependence (connectivity), size and importance (reliance).
- This emerging model adopts a distributed network approach to identify the need and direct resources into those areas that can support and improve connectivity, reliance and output. Both need and response can be evidence based, linked to economic and social outcomes that can measured and evaluated in terms of impact, resilience, growth and competitiveness.
- The mapping of these interlinkages has historically been done through economic models aimed at mathematically extrapolating these relationships between different sectors using industry classifications and Australian Bureau of Statistics and other statistical reports (typically in a transaction table framework).

The fundamental primary data collection to verify this information has not occurred for many years with some regional transaction table primary data collection dating back over 20 years. This is a significant data gap and risk in terms of policy formulation if the model accuracy is not verified on a regular basis.



3: INTEGRATE PUBLIC & PRIVATE SECTOR IN ECONOMIC DEVELOPMENT PLANNING AND DELIVERY

KEY RESEARCH FINDINGS

The strategic decision making, and implementation of economic development initiatives should include representatives of State government, local governments and private sector participants.

INTEGRATE PUBLIC & PRIVATE SECTOR IN ECONOMIC DEVELOPMENT PLANNING & DELIVERY

- Currently, a broad range of government and private organisations work together in various ways to govern, promote, and facilitate the economic development of regional communities.
- Although each operates differently, has different end goals and holds different powers and functions, each has an important role to play. The table, right, outlines the various tiers of government as well as the private organisations that contribute to regional economic development.
- One challenge with the current structure is that there is no clear line of responsibility of authority and accountability for outcomes.
- A further challenge is the lack of integration between the different stakeholders with multiple agencies responsible for components of service delivery and no evidence to demonstrate consistent planning, approval and coordination across stakeholders.
- There is an opportunity to facilitate greater co-operation and collaboration in the Queensland economic development sector to ensure a more consistent approach is applied.
- Recommendations regarding the roles and responsibilities of key economic development practitioners going forward were informed through analysis of three international case studies.

STAKEHOLDERS CONTRIBUTION TO ECONOMIC DEVELOPMENT

AUSTRALIAN GOVERNMENT	Supports activities at the State, regional and local levels through taxation, funding, regulation and establishment of independent bodies (Regional Development Australia).
QUEENSLAND GOVERNMENT	Economic Development Australia is the Queensland Government unit that facilitates economic development activities in Queensland, through developing infrastructure and urban, residential, industrial and commercial areas.
LOCAL GOVERNMENT & REGIONAL ORGANISATIONS OF LOCAL GOVERNMENTS	Though not considered a function of Local Government, economic development has become a defining feature of how many Local Governments operate. Aggregations of Local Governments (e.g. RoCs) support economic development across regions.
REGIONAL ORGANISATIONS	The Regional Economic Development Group and Remote Area Boards contribute to economic development activities at the regional level, through acting on economic priorities and facilitating and delivering various infrastructure and place-based projects.
PRIVATE BODIES	Private bodies aim to support Local Government and influence policy and regulation of the State and Australian Government to drive positive economic development outcomes.

INTERNATIONAL BEST PRACTICE – THREE CASE STUDIES

Three international case studies, New Zealand, Alberta and California, were analysed and implications for Queensland economic development determined. The case studies included:

- **The Business Growth Agenda –** A broad and long-term economic development platform implemented in 2012 in New Zealand and delivered through regional development plans and supported by the Provincial Growth Fund. This case study highlights the New Zealand government's strategic focus on decentralising economic growth across the country.
- **The Regional Economic Development Alliance (REDA) –** A structure supporting vertical government co-operation (State and municipality) and engaging the local private sector to support economic development outcomes in Alberta, Canada.
- **The USA Opportunity Zone Initiative (California) –** A tax incentive designed to support the delivery of low-cost housing to locations of socio-economic disadvantage across the United States of America.

Key findings of the case studies are provided overleaf, with a detailed analysis of each of these case studies provided in **Appendix A.**

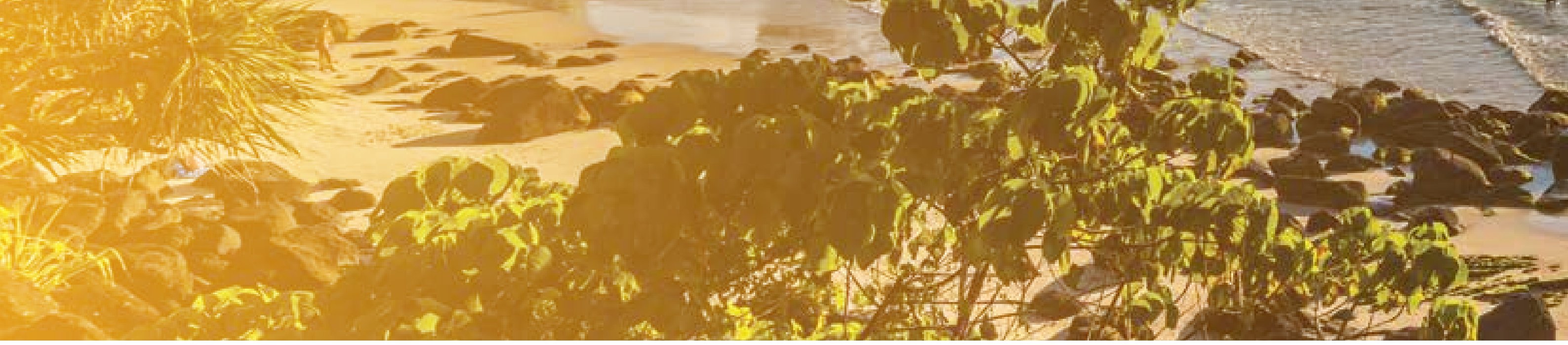
NEW ZEALAND

ALBERTA, CANADA

CALIFORNIA, USA

INTERNATIONAL BEST PRACTICE – LEARNINGS FROM THREE CASE STUDIES

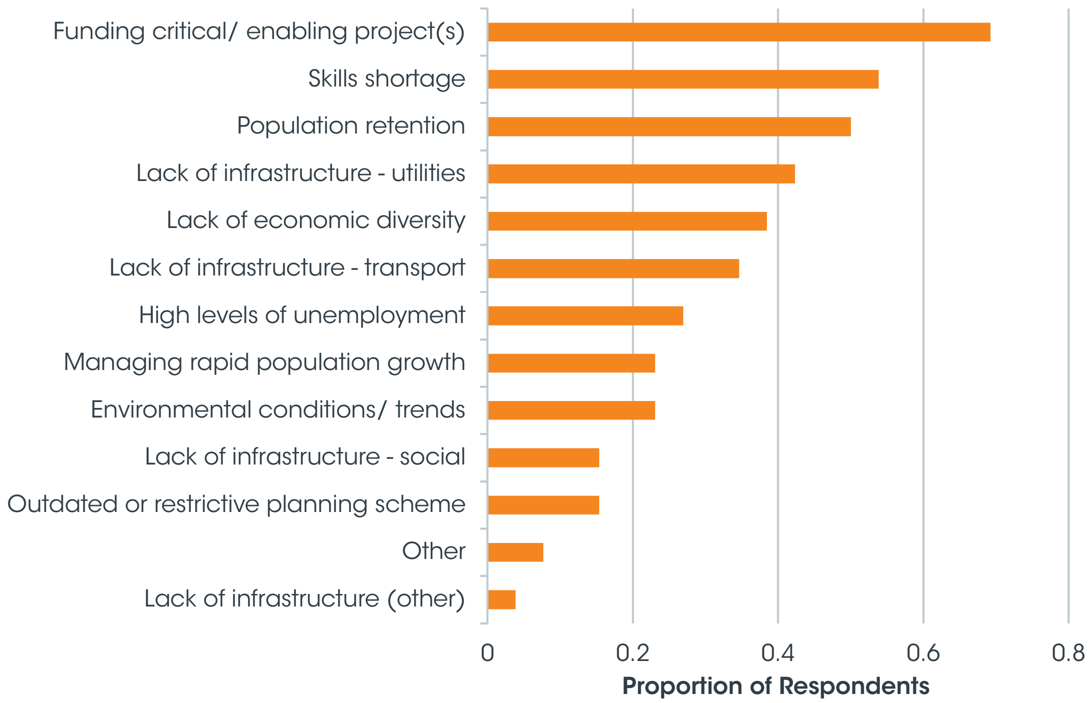
- Co-ordination between all levels of government is fundamental for success in economic development. It is considered this structure implicitly enables higher levels of government to ensure identified opportunities and investments are in keeping with overarching strategic goals and objectives as well as ensuring any required documentation in support of these opportunities is widely available and competently completed.
- Formalised inclusion of the private sector in economic development, including strategic development, planning and implementation phases. Private sector participants can bring to the table detailed knowledge of industry needs, competitive and comparative advantages and challenges for businesses to be considered in economic development activities.
- Strategic objectives and goals need to be clearly defined from the start and should be measurable using publicly available metrics. Regular updates on progress against these metrics should be published, providing transparency to investors, businesses and the local community.
- Streamlining incentive programs through one all-encompassing fund with simple and easy to understand objectives at a high level (i.e. national or State-level) will more effectively support business investment. This provides investors with a level of certainty and removes the use of incentives to drive geographical location decisions (potentially lifting the attractiveness of regional/remote areas).
- Industry specific incentives can be effective in generating investment provided they are appropriately designed to meet existing needs and requirements (based on early engagement with target communities and socio-economic data), there is a solid framework for matching investors to investments, project outcomes are measured against a predetermined range of performance metrics and implementation of the program includes considerations for information dispersal and investor hand-holding.



LOCAL GOVERNMENT CONSULTATION FINDINGS

In addition to the international case studies, a selection of regional Local Governments in Queensland were engaged to build a more complete picture of the current state of regional development activities and roles, to assist in identifying opportunities to improve the framework in Queensland. The findings of this assessment were:

- Similar to the approach undertaken by New Zealand and Canada, local government would prefer to see regional economic development policy in Queensland developed using a bottom up approach, with long-term commitments to a set of priorities across all three levels of government.
- Local government currently often face lengthy approval processes for relatively short-term commitments.
- Infrastructure access was identified as the most important component of achieving long term regional economic growth.
- A separate survey of economic development officers across Australia, found similar outcomes, with the top three challenges identified by respondents as funding for critical/ enabling projects (69.2% of respondents), skills shortages (53.8% of respondents) and population retention (50.0% of respondents).



Source: AEC (2020)

Summary of the recommendations from Local Governments to improve economic development in Queensland:

- Provide Local Government with access to current and accurate data about its region, where it sits relative to other regions, and competitive strengths (supported by State Government) to focus on.
- Change the economic development framework to a bottom up approach where Local Government identifies need, appropriate projects and directs funding with assistance from an independent (de-politicised) economic development coordinator.
- Greater direction, engagement, and support from the State and Federal Government.
- Provide Local Government with clear information and processes regarding project approval and delivery with improved alignment of State and Federal processes.
- Move away from singular points of economic development within defined geographies to an economic network model (to avoid playing Local Governments off against each other).
- Map current and potential networks of the regions.
- Learnings and measures of current policies and projects documented and accessible.
- Greater provision of information on access to industries/ stakeholder and investors.
- Data Gaps identified by local governments included:
  - Consistently available data relating to local government effectiveness and efficiency.
  - A local government disaggregation of COFOG (Classification Of the Functions of Government) data or other data on provision of, appropriateness of and quality of government (and private sector services) across the State.
  - Understanding of cross-local government supply chains to inform appropriate groupings of local governments.
  - Measurements for key performance indicators which are consistent across the State.

4: STREAMLINE EXISTING GRANTS & FUNDS INTO FEWER BUT MORE TARGETED BUCKETS WITH CLEARER, MEASURABLE OUTCOMES

KEY RESEARCH FINDINGS

Accessibility to available resources and their associated impact for economic development could be improved to facilitate greater economic, social and industry outcomes.

STREAMLINE GRANT & FUNDING PROGRAMS TO ENHANCE FUNDING ACCESS & OUTCOMES FROM THE EXISTING RESOURCE POOL

- A broad range of grants and incentives are available to Queensland business and local government (refer to pages 27 to 28). Information on these programs is disparate and each program operates in a discrete manner, requiring applicants to complete various application processes, which may or may not be applicable to other available programs. It is therefore difficult for businesses and local governments to easily identify the programs best suited to their needs. Further, developing applications for these programs can be costly, with many requiring social, economic and/ or financial analysis.
- The total value of grant and other funding available in Queensland appears to be adequate, however, programs are generally small and not reflective of the scale required to achieve a material economic impact. An opportunity exists for government to focus on streamlining the existing funds into fewer, less specific funds, but with greater emphasis on core objectives and measurable outcomes delivered to provide greater access and stability for project funding.
- It is apparent from the survey of economic development practitioners (AEC, 2020), local government interviews and key stakeholder discussions that access to grant program information across Queensland is difficult with multiple agencies and multiple levels of Government responsible for the numerous grant programs available to both public and private sector stakeholders.
- The consolidation of available programs and better integration of federal and State programs will:
  - Reduce the burden and cost of grant applications for all stakeholders.
  - Reduce grant access complexity through a reduction in number and increase in scale of grant programs.
  - Make approval and allocation decisions more transparent.
  - Improve coordination and alignment of grant programs at both State and Federal levels.
  - Enable more targeted, consistent, life-cycle based grant programs to be developed.
  - Enable better ex-post evaluation of socio-economic outcomes by sector and region.
- New Zealand presents an international best practice solution to funding provision through the Provincial Growth Fund. The Provincial Growth Fund is the cornerstone of the New Zealand government's economic development plan (which is focused on decentralising economic growth in New Zealand) and was announced in 2017 (Grow Regions, 2020).

  The NZ$3 billion fund is considered international best practice, and supports regions, sectors and infrastructure with all projects assessed on the same criteria, focused on specific outcome measures: productivity, value add (and removing duplication), meeting regional priorities and project management and delivery. The program is also specifically aimed at regional areas of New Zealand, with businesses in the three largest New Zealand cities ineligible for funding.
- The funding program has been highly successful. Disparity in economic outcomes across the country (measured by GDP per capita) has narrowed (OECD, 2019) and investment in research and development from the private sector (a focus of the strategy) has increased by 50% from 2016 (Stats NZ, 2020c). The program has been further tweaked to facilitate economic recovery from Covid-19 and is (at the time of writing) fully subscribed.
- There are genuine opportunities for Queensland to adopt a similar fund framework to support better investment decisions. Consolidation of existing programs into larger, more targeted programs with clear, measurable economic outcomes that can be identified and separated into productivity based, social infrastructure and/or maintenance will facilitate the evaluation of program outcomes. This focus will also drive a need for better decision-making information and more transparent funding access/allocation decisions across the State will deliver tangible, measurable economic outcomes.
- Queensland has an opportunity to cost-effectively improve its leveraging of existing avenues that are not fully exploited, such as the opportunities presented by the Significant Investor Fund. Reducing processing times and improving certainty for applicants is considered a low-cost method for increasing investment in the State in the short term.

CURRENT INCENTIVE AND POLICY INSTRUMENTS ON OFFER IN QUEENSLAND

QLD GRANTS AND SUBSIDIES

There are currently over 30 funds and subsidies on offer in Queensland, however, there is no streamlined process, making it difficult for businesses and local governments to easily identify the programs best suited to their needs.

NAME	DESCRIPTION
GENERAL FUNDS AND SUBSIDIES	
Building our Regions Funds (Queensland Government)	The program provides funding for regional infrastructure projects that create flow-on economic development opportunities and jobs. The program works with eligible councils to identify projects that will deliver local growth, support local businesses and create more liveable regional communities throughout Queensland.
Business Development Fund (Queensland Government)	The Business Development Fund (the Fund) is the Queensland Government's $80 million angel and venture capital fund available to Queensland businesses. The intention of the Fund is to support the growth of innovative businesses and the creation of high-value jobs as well as attract both interstate and international investments in Queensland, thereby strengthening Queensland's entrepreneurial and start-up eco-system.
Innovation & Improvement Fund (Queensland Government)	The Innovation and Improvement Fund (Fund) has been established by the Queensland Government acting through the Department of State Development, Manufacturing, Infrastructure and Planning (department), to promote planning improvement and innovation across Queensland. It provides local governments with opportunities to explore and deliver planning innovation and improvement projects that will contribute to creating a better planning system for all Queenslanders.
Jobs & Regional Growth Fund (Queensland Government)	The $175 million Jobs and Regional Growth Fund (JRGF) aligns with the Queensland Government's Advancing Queensland Priorities, specifically to increase private sector investment and create jobs.
Regional Growth Fund (Australian Government)	The Regional Growth Fund provides grants of $10 million or more for major transformational projects which support long-term economic growth and create jobs in regions, including those undergoing structural adjustment.
Transport Infrastructure Development Scheme (TIDS) (Queensland Government)	The Transport Infrastructure Development Scheme (TIDS) is the grants program through which the Department of Transport and Main Roads provides funding to local governments, as members of Regional Roads and Transport Groups, for targeted investment in transport- related infrastructure.
Future Ready Incubation Package (Australian Government)	The recent Smart Cities and Suburbs Program provides funding to support projects that apply innovative technology-based solutions to urban challenges to improve the liveability, productivity and sustainability of Australian cities, suburbs and towns.
Ignite Ideas Fund (Queensland Government)	The Ignite Ideas Fund supports Queensland based small to medium businesses that have high-growth potential to undertake commercialisation projects that will strengthen key industries in Queensland, diversify the Queensland economy, compete in domestic and global markets, engage and/or benefit regional Queensland, create new jobs, now and into the future.
Business Growth Fund (Queensland Government)	Funding of up to $50,000 (excluding GST) may be provided for eligible businesses to purchase and implement highly specialised equipment or services, and enable them to move to the next stage of growth. Successful applicants must provide a co-contribution of between 25% and 50% of the total project cost. The government contribution will be determined by an assessment panel.
Payroll Tax Rebates (Queensland Government)	From 1 July 2019 until 30 June 2021, the Government is introducing a rebate of the payroll tax on additional employees that businesses can demonstrate they have employed over and above their original level of full time employees (i.e a net increase in full time positions over the financial year). The rebate will be paid in the subsequent year and will be capped at $20,000 annually per employer.
Regional Employment Trials (Australian Government)	A Local Employment Initiative Fund of $10 million is available across the 10 Regional Employment Trials regions, providing grants of between $7,500 and $200,000 to local stakeholders for employment related projects.
Local Government Grants and Subsidies Program 2019-2021 (Queensland Government)	The primary aim of this program is to provide funding assistance to support Local Governments to deliver priority infrastructure and essential services that meet the identified needs of their communities.
Works for Queensland 2019-2021 (Queensland Government)	The Works for Queensland (W4Q) program supports regional Councils to undertake job-creating maintenance and minor infrastructure projects.
Rural Economic Development Grants (Queensland Government)	The Rural Economic Development (RED) Grants Scheme has been funded to an amount of $10 million over three funding rounds. These grants will fund projects which provide unique opportunities to generate economic and employment opportunities related to primary production across rural and remote Queensland.
Indigenous Councils Critical Infrastructure Program 2016-2021 (Queensland Government)	The aim of the Indigenous Councils Critical Infrastructure Program is to support Indigenous councils to implement projects and infrastructure works relating to critical water, wastewater and solid waste assets, and provide a basis for the long-term strategic management of essential assets.
Queensland Government Financial Aid 2019-2020 (Queensland Government)	Funding to support indigenous councils provide essential public infrastructure and services.

NAME	DESCRIPTION
INDUSTRY-BASED SUBSIDIES AND FUNDS	
Sustainability Program–Primary Industry Productivity Enhancement Scheme (Queensland Government)	The purpose of assistance under the sustainability program is to enable a primary producer to implement systems and management practices that enhance the sustainability of the primary producer's primary production enterprise.
Research and Development Tax Incentive (Australian Government)	The Research and Development Tax Incentive is designed to assist businesses in offsetting some of their research and development costs.
Made in Queensland Program (Queensland Government)	The Made in Queensland (MIQ) program is a Queensland Government initiative supporting small to medium manufacturers increase international competitiveness, productivity and innovation via the adoption of new technologies, and generate high-skilled jobs for the future.
First Start Program–Primary Industry Productivity Enhancement Scheme (Queensland Government)	The purpose of this scheme is to provide finance to an applicant in the first years of establishment of a primary production enterprise
Industry Technology Fund (Queensland Government)	The program provides financial incentives to larger scale co-funded projects that accelerate the development and deployment of significant and highly collaborative industry based platform technology projects.
Regional Arts Development Fund (Queensland Government)	The Regional Arts Development Fund (RADF) promotes the role and value of arts, culture and heritage as key drivers of diverse and inclusive communities and strong regions. RADF is a flexible fund that supports local councils to invest in arts and cultural priorities, as determined by local communities, across Queensland.
Biofutures Industry Development Fund (Queensland Government)	The fund is a $5 million repayable fund to help well-advanced industrial biotech proponents to get large-scale projects through the final stage of financial due diligence to secure financing from investors.
Resource Recovery Industry Development Program (Queensland Government)	$100 million has been committed over three years to provide funding to Queensland's resource recovery industries through support for projects and initiatives that divert waste from landfill, reduce stockpiling and create jobs.

NAME	DESCRIPTION
WEATHER EVENT SUBSIDIES AND FUNDS	
Get Ready Queensland (Queensland Government)	Get Ready Queensland is focused on providing funding to assist in managing the extreme weather and natural disasters in Queensland. Its aim is to make Queensland the nation's most disaster resilient State.
Queensland Disaster Resilience Fund 2019-2020 (Queensland Government)	The Queensland Disaster Resilience Fund (QDRF) supports projects to strengthen the resilience of Queensland communities and help them better prepare for disasters.
Drought Assistance (Australian Government)	The Drought Communities Programme (DCP) is designed to deliver benefits in targeted drought affected regions of Australia. The Australian Government is providing $35 million over four years, commencing in 2015-16, to fund local infrastructure initiatives that provide employment for people whose work opportunities have been impacted by drought.

NAME	DESCRIPTION
TOURISM RELATED SUBSIDIES AND FUNDS	
Queensland Destination Events Program (Queensland Government)	The Queensland Destination Events Program (QDEP), formerly the Regional Development Program (RDP), seeks to leverage the crucial link between events and the destinations in which they are staged, extending the flow of the economic, marketing and social benefits of events throughout metropolitan and regional Queensland.
Attracting Tourism Fund (Queensland Government)	The $48.6M Attracting Tourism Fund (ATF) is a key initiative under the Queensland Governments Growing Tourism, Growing Tourism Jobs policy. This fund aims to increase economic contribution, jobs and international overnight visitor expenditure (OVE) to the State by generating new tourism investment. This includes investment in landmark new attractions and major new international aviation linkages to position Queensland as the leading tourism destination in Australia.
Year of Outback Tourism Events Program (Queensland Government)	In 2019 and 2020, grants will be available for new events or to extend existing events, which contribute to enhancing the profile of Outback Queensland and attract new or increase the number of visitors.

5: INCREASE USE & LEVERAGE OF EXISTING UNDER-UTILISED CAPITAL & FUNDING SOURCES

KEY RESEARCH FINDINGS

We have an opportunity to partner with the private sector to get a fair share of existing inbound capital investment through partnership and proactively managing investor relationships.

WE CAN LEVERAGE EXISTING FEDERAL PROGRAMS MORE EFFECTIVELY

- The Australian Government has a number of tax driven programs aimed at promoting investment in venture capital, technologies and start up companies.
- These programs are often supplemented by grant programs aimed at supporting early stage companies or manufacturing operations.
- Unfortunately, these programs are not linked to other initiatives, such as Queensland innovation and manufacturing hubs, and the asset definitions are not reflective of economic areas that could benefit from using innovative investment structures to drive long term economic outcomes.
- There is often a disconnect between the maturity level of the companies seeking assistance and those investors looking to participate in the private equity and venture capital sectors.
- Better integration of State and federal programs aimed at stimulating industry development should be focused on establishing clear transition models to move established industries to more innovative platforms, some of which may be disruptive. This would enable industries to target complementary grant schemes that could be used as a basis to support private investment.
- Broadening the definition of assets and enabling geographic incentives within the existing programs such as the Early Stage Venture Capital Partnership would stimulate private capital attraction into regional areas. This capital flow will stimulate investment in a similar manner to that of the US Opportunity Zone program and lead to a more diversified economy and more resilient employment.
- Programs need to be focused on export markets and targeted at improving productivity of our industries. Leveraging programs such as the Significant and Premium Investor schemes, which are designed to attract business entrepreneurs with operations outside of Australia to partner with local businesses could in turn drive export outcomes to their countries of origin.

INVESTMENT ATTRACTION SHOULD BE RELATIONSHIP BASED AND COMMUNICATION STREAMLINED

- The Federal Government's Investor Visa Program generated almost $1b in investment inflows in 2019-20. These inflows predominantly went to NSW and Victoria, with Queensland accounting for just under 10% of the funds coming into Australia. Under this scheme, Significant Investor Visa Applicants (SIV) ($5m investment) are required to invest $5m for a minimum of 4 years and 3 months and are unable to access the capital or income distributions during this period. Given Queensland represents just under 19% of the Australian economy, Queensland is under-performing in attracting SIV and the premium investors to the State.
- Under the current policy, which is being reviewed by the Federal Government, SIV's have to invest in an SIV compliant fund (i.e. combined assets over $100M) and must allocate those investments into emerging industries (10%), small and medium enterprises (30%) and the balance of funds into other complying investments. These investments exclude any family residences. There is no requirement under the federal policy framework to invest in the same location as your residence.
- Australia as a whole lags other countries in the speed of processing applications and does not have a clear strategy to manage these high net worth applicants. Australia does not publish standard processing times for the 188 class of visa, however, there is strong evidence that the average processing time is at least 15 months and can be up to as much as 3 years. In comparison NZ has a target of 3 months for the same investor pool and delivers a much more coordinated customer management process for applicants.
- Based on feedback from sector participants both in Australia and overseas, there is an opportunity to partner with industry, improve the client experience and in turn the flow of funds into regional economic development.

SIV APPLICATION LODGED BY NOMINATING STATE

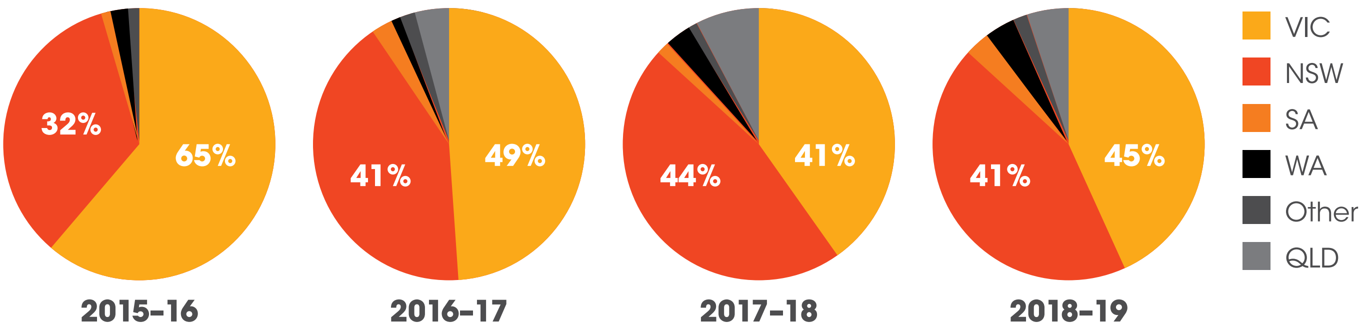
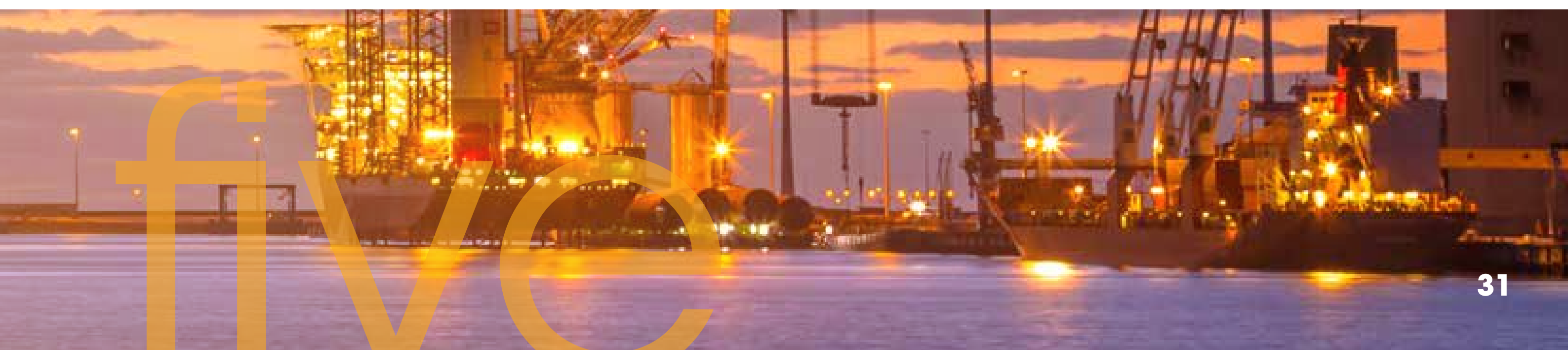


Chart: Investment Migration Insider *Source: Ministry of Home Affairs Australia



6: RE-DIRECT CAPITAL FUNDING BASED ON AREAS THAT ACT AS ECONOMIC ENGINES

KEY RESEARCH FINDINGS

Reconsidering the approaches and considerations used to inform capital investment decisions to ensure long term economic outcomes is likely to result in a re-balancing of capital investment across the State, ensuring economic infrastructure investment is directed towards areas with significant leading economic drivers.

DIRECT CAPITAL FUNDING TO AREAS DRIVING SUSTAINABLE ECONOMIC OUTCOMES

- Greater Brisbane, as the population and economic centre of Queensland, has traditionally been the focus area for capital and infrastructure investment. However, in the last decade an economic shift has been underway in Queensland, with regional Queensland now contributing a greater share of Queensland's economic growth than Greater Brisbane (ABS, 2019c). Fundamentally, this reflects the increased presence of leading economic sectors (agriculture and resources) in regional Queensland, as well as the strong influence of State government expenditure on the Greater Brisbane economy.

  The use of population mass as a leading driver of investment decisions has resulted in a disproportionate amount of government investment being directed towards Greater Brisbane, reflecting an investment in population presence rather than economic activation opportunities. Removing the impact of Government spending from Greater Brisbane and Regional Queensland, the relative contribution changes dramatically, with regional Queensland contributing an inferred GDP estimate of 1.4 times the capital region's contribution to the overall Australian GDP.

- The latest Queensland Government capital expenditure estimates highlight approximately 40% of the $13.9 billion budget will be spent in the Greater Brisbane area (Queensland Treasury, 2020b). Approximately 10% is allocated to cross-government projects across the regional State areas and around $34 million allocated to the regional growth fund, which is designed to increase jobs and private investment. This does not mean that the Queensland Government is not spending significant funds in regional areas, almost 60% of the total capital works plan is focused on Regional Queensland but the bulk of these funds (over 70%) is focused on infrastructure maintenance/upgrades and social infrastructure (as opposed to new (or expansion of existing) economic productive capacity/capability).

- Different approaches are required for capital investment decision-making between social (health care, education and community services) and economic infrastructure (power, transport, communications etc). Population growth and the economic activity associated with population growth is an appropriate driver for social infrastructure decision making. However, recognition of the primary economic drivers that underpin sustainability of population centres (e.g. agriculture, resources, tourism etc) must be the primary driver of investment and delivery decisions surrounding 'true' economic infrastructure.

ESTIMATED GDP CONTRIBUTION

Region	1990s	2000s	2010s	Most Recent Year	1989-90 to 2017-18
Sydney	29.80%	17.10%	25.90%	25.10%	22.80%
Regional NSW	11.10%	5.50%	6.00%	4.40%	6.60%
Melbourne	15.00%	19.10%	22.20%	27.70%	19.50%
Regional Vic.	7.90%	2.50%	2.00%	1.10%	3.00%
Brisbane	10.50%	12.90%	8.40%	10.70%	10.60%
Regional QLD	8.50%	12.60%	9.10%	11.40%	10.90%
Adelaide	5.10%	4.20%	2.60%	4.70%	3.70%
Regional SA	1.00%	1.60%	0.30%	-0.60%	0.90%
Perth	6.00%	11.50%	9.60%	7.90%	9.70%
Regional WA	4.20%	7.40%	8.80%	1.80%	7.40%
Tasmania	0.10%	1.60%	0.90%	1.80%	1.20%
Northern Territory	-0.50%	1.60%	1.90%	0.90%	1.60%
Canberra	1.20%	2.40%	2.50%	3.00%	2.20%
Australia	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Totals may not sum to 100% due to rounding. Source: ABS (2019c).

7: ENGAGE THE PRIVATE SECTOR USING A FRAMEWORK THAT BETTER ALLOCATES RISK & REWARDS FOR THE EFFECTIVE DELIVERY OF INFRASTRUCTURE

PRIVATE SECTOR CONTRIBUTIONS TO INFRASTRUCTURE INVESTMENT

- Economic development theoretical models have shifted over the last century. A middle ground between pure classical economic theory (government's play a key role in economic development) and neo-classical theory (market forces should have a little intervention as possible) has developed. In this environment, it is now considered both governments and private sector participants have a role to play in economic development and infrastructure investment, and the emergence of formal structures accommodating this, such as Public-Private Partnerships (PPPs).
- Australia's dedicated Infrastructure and PPP governance occurs at the State level, rather than the national level (National PPP Development Centre, undated), which is unusual in the global context. Australia applies a common law framework for PPPs, which is guided by the National PPP Policy and Guidelines. The framework is endorsed by the Australian Government and all State and territory governments. However, all states and territories have developed supplementary policies and guidelines. At its most basic traditionally, there are two types of PPP models in Australia (PWC, 2017):

• Social Infrastructure PPPs: Where the private sector's revenue stream takes the form of a payment (availability payment) from the Government. The model is typically used for schools, hospitals and other 'social infrastructure' developments.

KEY RESEARCH FINDINGS

Public Private Partnerships (PPPs) remain relatively controversial in Australia, particularly in Queensland where several high-profile PPP infrastructure asset delivery programs have been considered as failures, however, under the right circumstances PPP's can deliver strong infrastructure outcomes.

- Economic Infrastructure PPPs: Where the private sector's revenue takes the form of charges paid by the users of the infrastructure (e.g. tolls).

- Queensland PPPs have traditionally taken the form of Social Infrastructure PPPs. This structure results in the Government shouldering the burden of demand risk (because it only pays the proponent for making the asset available, rather than for the use of the asset) and, in doing so, removes significant risk for the private sector proponent (National PPP Development Centre, undated). In contrast, New South Wales PPPs have traditionally taken the form of Economic Infrastructure PPPs, where the government will contribute funds to the construction of the asset (reducing the financing risk for the proponent), providing the construction meets core performance indicators, but the proponent shoulders the burden of the demand risk (as the user pays per use of the asset) (National PPP Development Centre, undated).

- Different approaches across Australia have resulted in divergent outcomes across the nation. In particular, road infrastructure investments such as the Brisbane Airport Link Road and the Clem7 in Queensland and New South Wales' Lane Cove and Cross City tunnels have been reported as failures. Demand, and subsequently revenue, in these examples has underperformed resulting in a critical view of these PPPs (King, S., 2013). Failures in the PPP process are not unique to transport, with other perceived failures in water-based infrastructure and school precinct developments (PWC, 2017; Sullivan, P., 2018). However, there are some high-profile PPP success stories such as Ravenhall Prison, AAMI Stadium, the Victorian Comprehensive Cancer Centre and the Melbourne City Link (Sullivan, P., 2018). A number of factors have been identified as supporting their outcomes, including the significant experience of the private sector proponents, use of highly experienced and qualified contractors and extensive risk analysis and due diligence (Sullivan, P., 2018).

- In response to depleted private sector appetite for traditional PPP structures, in recent years State governments have begun using PPPs in a social bond context to support investments in community improvements, in which government takes the burden of 'unforecastable' risk off the private sector and transfers this risk across to the private sector gradually as the risk profile becomes more palatable to private sector investors (Purves, D, 2015). Queensland contracted three Social Benefit Bonds pilot programs in 2017 (Queensland Treasury, 2020a).

- Though controversial, it is envisaged that well-managed PPPs could play a key role in infrastructure delivery within Queensland. In order to support the success of these projects, a detailed framework for correctly identifying infrastructure projects appropriate for PPP and allocation of risks between the private and public sectors is essential. In order for PPP's to be successful, an analysis and understanding of the success factors for PPP's in other jurisdictions, and a clear framework of preconditions is required, as well as identification of appropriate infrastructure delivery partners.

8: INTEGRATE PUBLIC & PRIVATE SECTOR IN ECONOMIC DEVELOPMENT PLANNING AND DELIVERY

KEY RESEARCH FINDINGS

Developing and maintaining a consistent, comparable and up-to-date dataset for all local governments in Queensland from published and internal sources will also enable local governments (or groups of) to measure their progress against economic development targets and goals.

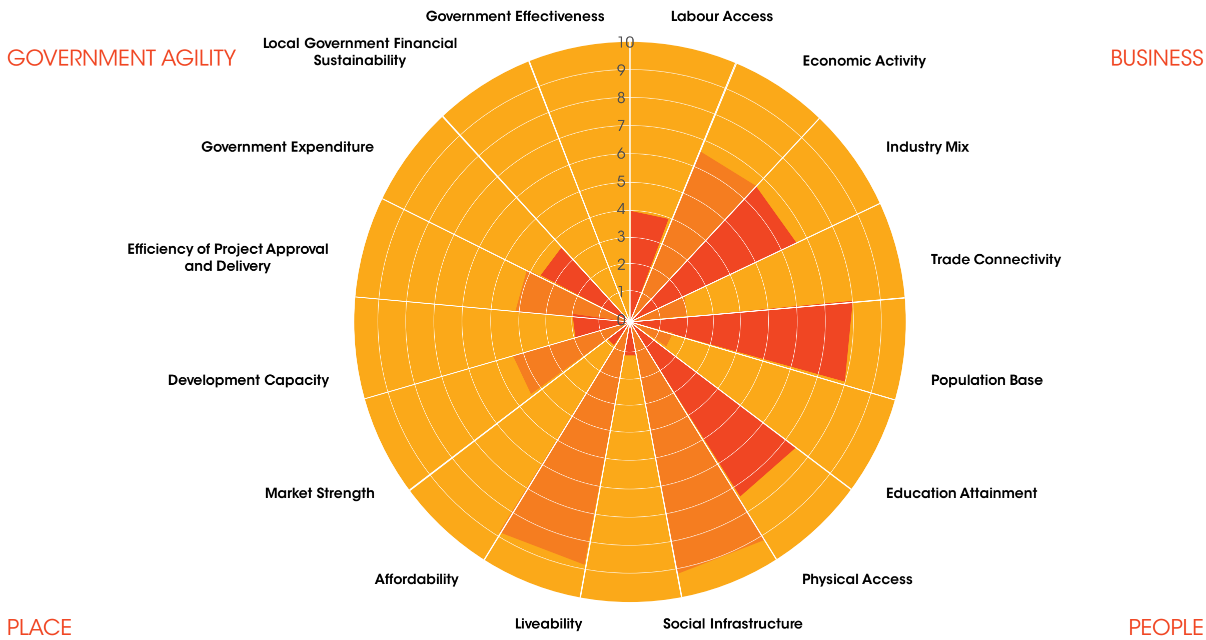
QLD LGA ECONOMIC REVIEW & DATA

- A report card system of socio-economic and financial data was developed to understand the scope of the existing challenge and identify local government areas with similar social, economic and governmental challenges.
- Locating state-wide, comparable and consistent data enabling the development of a full compliment of data was challenging, particularly in terms of government effectiveness.
- Benefits of these report cards are:
  - Gap analysis can identify the critical areas for economic and social policy focus and incentives.
  - Identifying need and response can become evidence based, linked to economic and social outcomes that can measured and evaluated in term of impact, resilience, growth and competitiveness.
  - When linked to the economic network evaluation framework, clear time-series based changes/ impacts of programs can be measured.
  - Decisions can be made with clear objectives with measurable outcomes in terms of effect.

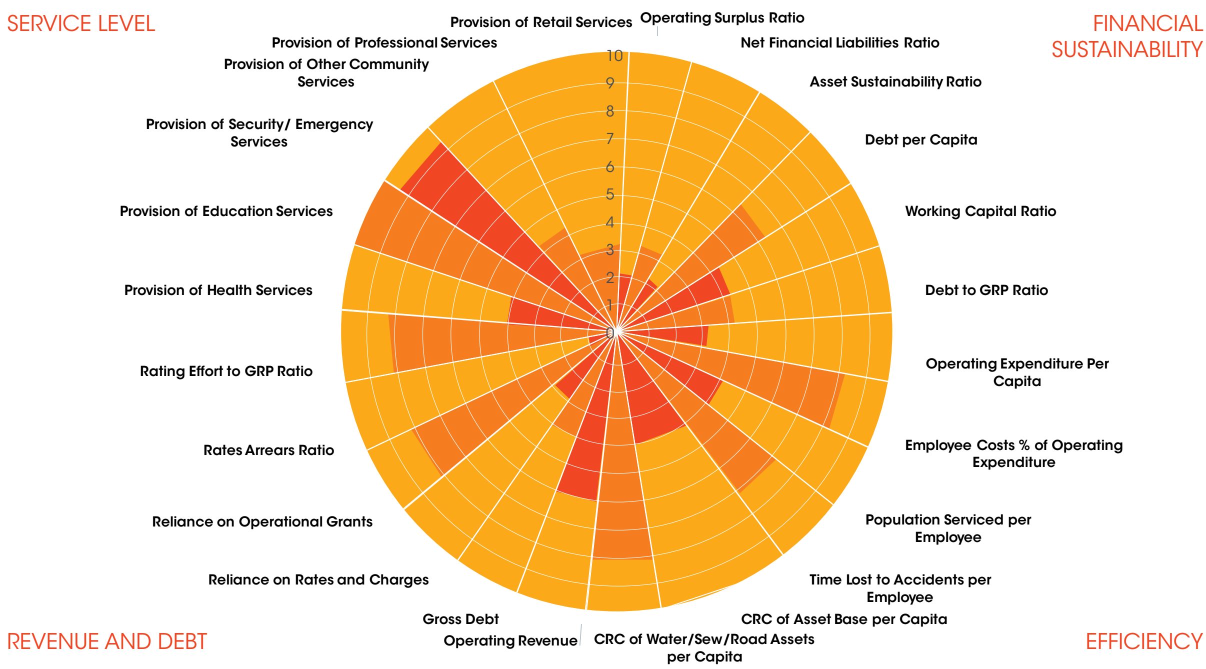
INDICATORS USED

Government Agility	Efficiency of Project Approval and Delivery	Current Projects	
	Government Effectiveness	Consultations.	
	Government Expenditure	Local Government Expenditure	
	Local Government Financial Sustainability	Operating Surplus Ratio	Debt per Capita
		Net Financial Liabilities Ratio	Working Capital Ratio
		Asset Sustainability Ratio	Debt to GRP Ratio
Business	Economic Activity	Employment Per Capita	GRP Growth
		Employment Growth	Business Activity
		GRP Per Capita	Economic Vulnerability
	Industry Mix	Economic Diversity Indicator	Employment Growth Service Sectors
		Employment Growth Primary Sectors	Industry Reliance
		Employment Growth Processing Sectors	Employment Growth Knowledge Sectors
	Labour Access	Local Skills to Local Jobs Match	Employment Self-Sufficiency
		Employment Self-Containment	Labour Force Participation Rate
		Unemployment	
	Trade Connectivity	Exports % of Supply	
		International Exports (% of Total)	
People	Population Base	Working Age Population % of Population and Growth	Average Age
		Dependency Rates Indicator	
	Education Attainment	Year 12 Completion Rates	Access to Education Services
		Non-School Qualifications	
	Physical Access	Low-Wage Jobs Accessible in LGA	Registered Motor Vehicles
		High-Wage Jobs Accessible in LGA	Public Transport Users
	Social Infrastructure	Access to Health Services	
		Access to Security/ Emergency Services	
Place	Liveability	Self-Assessed Health	Household Income Inequality
		Crime Rates	Internet Connection
	Affordability	Mortgage Stress	Rent Assistance Payments
		Rental Stress	
	Market Strength	Median Property Values	
	Development Capacity	Land Area	Non-Residential Building Approvals Growth
		Residential Building Approvals Growth	

ECONOMIC PERFORMANCE



FINANCIAL PERFORMANCE



SOURCES OF FUNDING

- Rates and Annual Charges **48.4%**
- User Charges and Fees **3.1%**
- Interest and Investment Revenue **1.2%**
- Other Revenues **0.5%**
- Grants Contributions Provided For Operating **16.4%**
- Grants Contributions Provided For Capital **20.8%**
- Miscellaneous **9.6%**

APPENDIX A: International Case Studies

Case Study One – New Zealand
Case Study Two – Alberta, Canada
Case Study Three – California, United States of America

NEW ZEALAND

ALBERTA, CANADA

CALIFORNIA, USA

CASE STUDY ONE – NEW ZEALAND

REGIONAL CONTEXT

- New Zealand is Australia's geographical neighbour and is considered to have a similar social, cultural and business environment to Australia. As is the case in Australia, New Zealand is a constitutional monarchy with a parliamentary system of government.
- In contrast to Australia, New Zealand has two tiers of government: central government and local government. Central government is responsible for maintaining health services, education services, national infrastructure, security, defence, public policy and economic regulation. Local governments are responsible for providing local services such as waste, public spaces, local libraries, local public transport, processing development applications and collecting rates (New Zealand Now, 2020). This structure likely enables greater economic policy consistency across the country.
- In addition to the flat structure promoting greater consistency in terms of economic policy, the New Zealand taxation system is also streamlined. New Zealand ranked number 2 in the world on the Tax Foundation International Tax Competitiveness Index 2019 (Tax Foundation, 2019). New Zealand ranked highest in terms of individual, consumption and property taxes, but ranked relatively low in terms of corporate taxes. Australia ranked 7th on the list, with high scores in terms of consumption and property taxes, but relatively low in terms of individual and corporate taxes. New Zealand has a relatively high company tax rate, of approximately 28% (Inland Revenue, 2020), but Australia's corporate tax rate is amongst the highest in the world.
- The New Zealand economy and society is of a similar size to that of Queensland, recording a population of 4.9 million residents in 2019 (Stats NZ, 2020a) and Gross Domestic Product (GDP) equivalent to $284.0 million (in current Australian dollars) in 2018-19 (Stats NZ, 2020b; RBA, 2020).

  The New Zealand economy has a different economic structure to Queensland, with approximately 36% of the local economic activity stemming from the rental, hiring and real estate services, professional, scientific, technical, administrative and support services and manufacturing sectors (Stats NZ, 2020b).
- By comparison, these sectors formed approximately 20% of Queensland's economic activity (AEC, unpublished). The New Zealand economy has diversified in recent years reducing its reliance on the manufacturing sector and increasing services activity.

Table A. 1. Tax Comparison, New Zealand and Queensland, 2019-20

Tax Type	New Zealand	Queensland
Corporate Income Tax	28%	30%
Goods and Services Tax	15%	10%
Individual Income Tax (Top Tax Bracket1)	33%	45%

Note: New Zealand top tax bracket comes into effect for incomes over NZ$70,000 (and applies to the proportion of income above that amount). Australian top tax bracket comes into effect for incomes over AU$180,000 (and applies to the proportion of income above that amount). A lower tax rate of 27.5% is also available to some Australian companies.

Source: Inland Revenue (2020a, 2020b), ATO (2020a, 2020b).

REGIONAL CONTEXT *cont.*

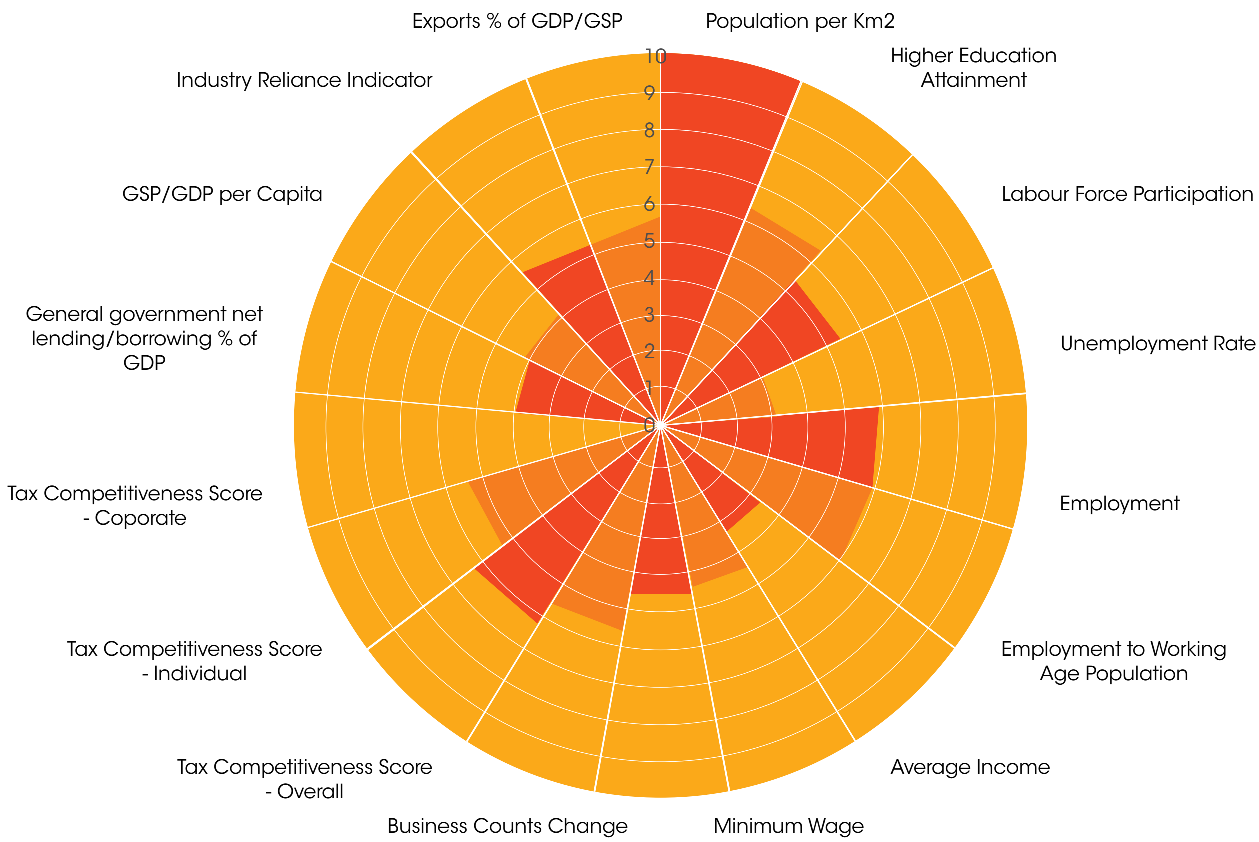
- New Zealand's economy is heavily export focused with exports accounting for approximately 30% of GDP (New Zealand Now, 2020). Australia and China are New Zealand's most prominent export partners. New Zealand's exports are strongly focused on dairy, fish, animal products, fresh produce, tobacco and beverages and together these groups comprise 34% of the country's exports (OECD, 2019a). This export reliance results in the economy being vulnerable to external factors and shocks. Coupled with the small size of the local economy, the high reliance on exports can result in greater economic volatility in New Zealand than other macro economies. By contrast, it is estimated that Queensland exports account for approximately 26.5% of Queensland's Gross State Product (ABS, 2019c). However, generally New Zealand's employment has a lower level of reliance on its top sectors than Queensland.
- Both Australia and New Zealand run an investor visa program which aims to attract high net worth residents to the country. New Zealand has a quota of 400 investor visas per year for investors with a minimum of NZ$3 million (category 2) in available funds or assets to invest, and unlimited visas for those with NZ$10 million to invest (category 1) (Salter Brothers, 2020). In the last three years, investor revenue in the significant investor visa has reached above NZ$1 billion (Immigration New Zealand, 2020). New Zealand approved approximately 169 category 2 applications and 66 category 1 applications in 2018-19. Australia's equivalent program (SIV) received a total of 452 applications in 2018-19 of which 191 visas were approved–lower than New Zealand's outcome, despite the New Zealand population being equivalent to the size of Queensland on its own (Department of Home affairs, 2020). In total, since inception in Australia, approximately 2,213 SIV visas have been awarded, with only 106 of those located in Queensland – the lion's share of applications and approvals are located in New South Wales and Victoria.

Table A. 2. New Zealand (2020) and Queensland (2018-19) GDP/GSP by Industry

INDUSTRY	NEW ZEALAND	QUEENSLAND
Agriculture, Forestry and Fishing	5.8%	2.7%
Mining	1.3%	15.0%
Manufacturing	10.3%	6.9%
Electricity, Gas, Water and Waste Services	2.9%	3.6%
Construction	6.9%	8.9%
Wholesale Trade	5.5%	4.0%
Retail Trade and Accommodation	7.9%	7.8%
Transport, Postal and Warehousing	4.7%	6.0%
Information Media and Telecommunications	3.8%	1.5%
Financial and Insurance Services	6.4%	6.9%
Rental, Hiring and Real Estate Services	14.5%	3.3%
Professional, Scientific, Technical, Administrative and Support Services	11.2%	10.3%
Public Administration and Safety	4.9%	6.0%
Education and Training	4.1%	5.6%
Health Care and Social Assistance	6.3%	8.5%
Arts, Recreation and Other Services	3.4%	3.2%
TOTAL	**100.0%**	**100.0%**

- Prior to the 2020 economic downturn, access to labour was problematic in New Zealand, with reportedly high rates of qualification and skills mismatches, and a low unemployment rate at around 4% (RBNZ, 2019).
- The economy also recorded relatively low levels of business investment and research and development activity than peer nations (OECD, 2019a), contributing to relatively low productivity outcomes (compared to other OECD-assessed nations).
- New Zealand records a considerably lower unemployment rate and higher level of employment than Queensland, despite having a lower GDP per capita. The local population has a tendency to be more highly educated than Queensland with greater labour force participation. In 2018, New Zealand recorded a net government lending surplus, compared to a small level of debt in Australia.

Figure A. 1. Socio-Economic Comparison, New Zealand and Queensland[1]



Note: The ratio between the New Zealand outcome and the Queensland outcome is presented, where an outcome of '1' indicates the same outcome as Queensland, an outcome above '1' indicates a higher outcome than Queensland and an outcome below '1' indicates a lower outcome than Queensland. All data used pre-dates the coronavirus pandemic.

Source: ABS (2017, 2019a, 2019b, 2019c, 2020b, 2020c), AEC (unpublished a, unpublished g), Stats NZ (2019, 2020a, 2020b, 2020e. 2020f, 2020g), Tax Forum (2020), Fair Work Australia (2020), New Zealand Government (2020), IMF (2020).

REGIONAL ECONOMIC DEVELOPMENT STRATEGY

Rationale and Framework

- In 2012, following the economic implications of the Global Financial Crisis, the New Zealand Government announced the Business Growth Agenda, which focused on attracting investment to the regions of New Zealand by addressing key impediments to business activity. This agenda has continued to drive economic development activities in New Zealand.
- In 2014, as part of the Business Growth Agenda, the Regional Growth Programme was established (Ministry for Primary Industries, 2017). Initially, the plan specifically targeted regions of New Zealand which were underperforming (Northland, Bay of Plenty, East Coast/Hawkes Bay and Manawatū-Whanganui) but was eventually expanded to all regions in New Zealand (except Auckland).
- Whilst the structure of the plan has changed over time, the following table outlines the key incentives which are associated with New Zealand's economic development. The Provincial Growth Fund, is currently the key fund associated with regional economic development in New Zealand, supporting projects and opportunities identified under the Regional Growth Programme. A key feature of these packages is their national nature, rolled out consistently across the nation. Essentially this removes any policy incentive to investment in any particular region and can work towards simplifying investment location decisions.

Table A. 3. New Zealand Incentives and Policy Framework (2020)

INCENTIVE/PACKAGE	OBJECTIVE	DESCRIPTION
The Provincial Growth Fund	To support regional development.	The cornerstone of the regional development focus of the government's plan, announced in 2017. This is an NZ$3 billion fund to support regional economic development. The fund applies to all regions, except the three largest cities. The fund has three tiers: • Regions and capability building • Sectors (particularly food and beverage, tourism and forestry) • Infrastructure (particularly transport and digital). Projects are assessed on the following basis: • Does the project lift regional productivity? • Does the project bring additional value add and avoid duplication? • Does the project support regional priorities and are local stakeholders supportive? • What is the plan for management and delivery of the project?
The Research and Development Tax Incentive	To encourage research and development activity in New Zealand.	A 15% tax credit on invested funds in eligible research and development in New Zealand. Businesses generally must spend between NZ$50,000 and NZ$120 million per annum to qualify, though businesses investing less than NZ$50,000 may still claim the incentive if they work with an approved provider. The aim of this incentives package is to lift research and development spending to 2% of GDP by 2027 (from approximately 1.2%).
Elevate NZ	To encourage and support innovative business.	A new venture capital fund to support innovative industry in New Zealand and improve local productivity. The fund is specifically designed to support investments in local companies which are beyond the 'start up' phase, but require capital to further develop. This type of funding had been identified as a gap which previously encouraged local businesses to transfer offshore. The fund will receive funding of NZ$300 million over the first four years.
New Zealand Green Investment Finance	To encourage green investment activity.	A 'green' investment bank tasked with accelerating investment in low-emissions activities. The bank is focused on supporting opportunities in transport, process heat, agriculture and the built environment.

Source: Grow Regions (2020), New Zealand Government (2020), Callaghan Innovation (2020), NZ Super Fund (2020), RDTI (2020), NZGIF (2020).

Strategy and Objectives

- The objective of the Regional Growth Programme was to decentralise economic outcomes to the regions of New Zealand. Specifically, increasing investment attraction, incomes and employment opportunities were key to the strategy. In doing so, it was anticipated that overall New Zealand's economic growth would be supported, lifting national exports and wealth.
- Success of the Business Growth Agenda strategy was defined by the following characteristics in place by 2025 (Ministry of Business, Innovation and Employment, 2017):
- A New Zealand economy where all regions and our people have the opportunity to grow and prosper
- New Zealand is one of the most highly-skilled countries in the world, with ambitious business leaders who make the best of our diversity of talents and ideas
- New Zealand businesses add greater value to their goods and services – attracting a premium from our natural resources, intellectual edge and industry know-how
- New Zealand is more internationally connected to reduce the impacts of distance, and seen as a real hub of talent and ideas for the Asia-Pacific region
- A market based economy that reflects Kiwi attributes – agile, resourceful, innovative and world-beating.

Implementation Framework

- The Regional Growth Programme encouraged each of the regions to assess themselves and identify strategies and actions to support their own economic development which would be supported by Central government funding. An investment of NZ$44 million was committed over four years to the program. Whilst the program received significant government support and engagement, it was anticipated the implementation of the identified initiatives would be led by the private sector.
- Development of the strategies was initially focused on identifying economic opportunities for each of the regions. Once economic opportunities were identified, a detailed action plan was developed (Ministry for Primary Industries, 2017). Each region of New Zealand has their own key focus areas and objectives (Grow Regions, 2019).
- Tai Tokerau/Northland: Enabling economic growth through improved transport and digital infrastructure, skills and capabilities and water resources. Key projects identified for the region are clearly mapped to these goals, including funding for irrigation, broadband expansion, education facilities, road infrastructure, and mapping of land resources.
- Waikato: Increasing household incomes and GDP per capita by improving the regions location advantage, growing global industries, reducing compliance costs, improving access to skills and improving access to information about the region. Key projects for the region have included road infrastructure, investment in a logistics and lifestyle hub, developing a labour market strategy, developing a Māori agenda and action plan, implementing education programs and supporting the dissemination of the local story.
- Bay of Plenty: Focus on key industries of agribusiness, aquaculture and education and skills.
- Gisborne/ Tairāwhiti: Increasing production and value add in key sectors, growing tourism, improving infrastructure connectivity, building local skills. Key projects for the region have included conduct of key project feasibility studies, development of key employment strategies, working with industry to identify skills gaps and growing tourism capacity and capability.
- Hawke's Bay: Improving employment outcomes for residents, support for existing businesses, promoting productivity and innovation, attracting business, investment and skills. Key outcomes have included improved access to local port infrastructure and expanding the National Aquarium.
- Taranaki: Focus areas include food, energy, visitor economy and Māori economy (Jones, S., 2018).
- Manawatū-Whanganui: Focus on tourism, optimisation of land uses, food-based agriculture and manufacturing, aged care, call centres and support for Māori potential.
- West Coast: Growing the West Coast visitor economy; making it easier to invest and do business; supporting economic diversification; improving connectivity and infrastructure; and better economic development support.
- Canterbury: Focus on regional transport, digital connectivity, water access, improving value added activity, education and training, welcoming new residents, tourism.
- Southland: Diversifying the regional economy, growing the population and strengthening local business.

ROLE OF GOVERNMENT AND PRIVATE SECTOR

- Economic opportunities for development were identified by regional governance groups, comprised of local and regional government representatives, private sector stakeholders, Māori and iwi representatives and a Central (New Zealand) government representative (Ministry for Primary Industries, 2017; Connelly, S. et al, 2019). The resulting plans focused on key existing sectors of the economy and tourism development.
- Following the identification of economic opportunities, regional leaders developed supporting economic action plans which identified specific activities which would increase employment opportunities, household income and investment. Central government support is ongoing throughout implementation of the plans with a Senior Regional Official appointed to each region, this role is filled by a deputy chief executive from a government agency who advocates for the region and coordinates government support (Ministry for Primary Industries, 2017). Senior Regional Officials meet with representatives from Regional Economic Development Ministers (Central government support) monthly, to ensure communication between Central government and local economic development officers remains open and transparent (Wood, J., undated) and focus action on regional issues. The aim is co-ordinated action from all parties regarding economic development.
- Key roles of participants in managing and delivering projects associated with the Provincial Growth Fund are outlined in the figure below.

Figure A. 2. Roles and Responsibilities, Provincial Growth Fund

CENTRAL GOVERNMENT

Providing funding to major project proponets and supporting business investment in New Zealand

LOCAL AND REGIONAL GOVERNMENT

Working with stakeholders to identify key focus area, economic opportunities and action plans for local economic development of the region

PROPONENTS AND PRIVATE SECTOR

Individuals, non-government organisations, iwi, companies and charities can apply for funding and pursue major projects under the PGF

Source: Grow Regions (2020)

RECENT ECONOMIC HISTORY

Base Prior to Introduction

- The Business Growth Agenda was unveiled in 2012. In this year, global economies were still emerging out of the Global Financial Crisis and concerns around debt levels in Europe and the risk of members leaving the European Union were rife among global markets (RBNZ, 2012). At the same time, economic growth in China was softening, weighing on demand for Australia and New Zealand's exports (and, as a result, Australia's demand for New Zealand exports). The local agricultural sector had benefitted from strong production, however, the weakening in global prices (as well as the global rise in production) had further weighed negatively on New Zealand's export sector.
- New Zealand recorded modest GDP growth in the year to June 2012, driven primarily through domestic demand (rather than export demand). In particular, housing construction strengthened, somewhat supported by reconstruction of infrastructure and buildings following the Canterbury earthquake (RBNZ, 2012).
- Employment growth stalled in New Zealand from 2010 to 2012. The New Zealand unemployment rate had been around decade-high levels since 2010 and was recorded at 6.1% in 2012 (Stats NZ, 2020d). As a result of the weaker economic conditions, local households and businesses were exercising caution. Households prioritised saving over spending and business capital expenditure levels were weak (RBNZ, 2012). In the same year, the number of businesses in operation in New Zealand fell by approximately 720, the third consecutive year of negative business growth (Stats NZ, 2020e).

Claimed Outcomes

- Officials associated with the Business Growth Agenda have suggested the program has encouraged empowerment of local stakeholders, social capital development and will provide a solid foundation for further economic development activities within the country through building local trust and capability (Wood, J., unpublished). They have also indicated the approach is resulting in unique and bespoke regional plans for each area.

Quantifiable Changes

- Since 2012, the New Zealand economy has experienced significant economic growth. The strategy was unveiled to specifically support economic growth in the economy following the Global Financial Crisis and the European Debt Crisis. Within this period, some global economic recovery took place, resulting in a positive growth environment for New Zealand, a small and open economy with a high reliance on exports. Whilst the following economic outcomes have taken place over the 2012 to 2019 period, it should be acknowledged that a portion of these outcomes are likely a result of the global growth environment of the time and not fully attributable to the regional economic development strategy adopted by the New Zealand government.
- A core focus of the strategy has been to support private sector investment in research and development. Since 2012, the level of business investment in research and development has increased significantly, from approximately NZ$971 million in 2010, to approximately NZ$2.4 billion in 2019. Supporting this growth has been a significant lift in the proportion of funds allocated to businesses for research and development activity, from 8.4% in 2010 to 11.7% in 2019 (Stats NZ, 2020c).
- Employment outcomes for New Zealand residents was also a key focus of the strategy. Over the 2012 to 2019 timeframe, the unemployment rate in New Zealand has dropped considerably, from 6.1% in the year ended June 2012 to 4.1% in the year ending June 2020 (Stats NZ, 2020d). Over this time frame, the unemployment rate dropped in all reported regions, with the exception of Taranaki, which already had one of the lowest unemployment rates in the country in 2012.
- Since the Business Growth Agenda came into effect, the disparity in economic outcomes (measured by GDP per capita differentials of those in the best performing and worst performing regions) across the regions of New Zealand has narrowed, and is now the most consistent in the OECD countries (OCED, 2019). Much of this improvement has been contributed to by a lessening GDP per Capita for Taranaki (the best performing New Zealand region) over the period, resulting from macro-economic factors associated with key industries, however, consistent growth has also occurred in Northland (the worst performing region).
- In the most recent ranking of global economies by ease of doing business, New Zealand ranked number 1 (World Bank, 2019), an improvement from its ranking of 3 in 2012 (World Bank, 2012). The index compares 190 economies globally in terms of starting a business, ease of getting a location, accessing finance, dealing with day to day operations, operating in a secure business environment.

FEEDBACK FROM STAKEHOLDERS

Success Factors

- Though regions across New Zealand remain 'tribalistic' in their economic development activities, this has become far less pronounced towards external businesses. This is due to the solid management of perceptions of local economic development activities.

Impediments

- A core focus of the strategy is to support economic growth across the nation. Whilst this is an admirable goal, researchers suggest a potentially more appropriate focus for the strategy is to appropriately manage the likelihood of population decline, particularly for smaller areas (Wood, J., undated). Demographic change is a fundamental consideration for economic development. The dual forces of population decline, and ageing population tend to result in shifting local demand factors and available incomes. Appropriately planning for this change, through identification of appropriate economic opportunities, will enable these regions to meet these changing needs over the longer term.
- There is a need for economic development activities to be appropriately and adequately matched to a range of key economic indicators. Rather than focusing solely on GDP per Capita measures to track improvement, it has been recommended New Zealand seek to develop a range of clearly defined and explicit measures to track progress, including the development of regional wellbeing indicators (Wood, J., undated). The appropriateness of GDP per Capita as a proxy for wellbeing has come under significant scrutiny. Analysis from the OECD (Boarini, R., Johansson, A., and Mira d'Ercole, M. 2006), suggests that whilst the indicator is an accurate measure of changes in economic resources, it does not adequately reflect non-monetary wellbeing factors, such as happiness, life-satisfaction or social conditions.
- Prioritisation of the opportunities has also been recommended as a method of implementation. This prioritisation was recommended to be developed in consultation with local communities to ensure investments meet the actual needs and desires of residents, rather than those of the steering committee (Wood, J. undated).
- Critics of the plans indicate that the final plans delivered under the Regional Growth Programme focused on building existing industry and had little consideration for economic diversification opportunities, and the involvement of private sector stakeholders in the development of the plans resulted in the development of plans which reflected the business interests of those on the committee (Connelly, S. et al, 2019).

CASE STUDY TWO – ALBERTA, CANADA

REGIONAL CONTEXT

- Canada is a constitutional monarchy with a parliamentary system of government. Canada has a tiered system of government with a federal government, provincial and territorial governments and municipal governments. The federal government is responsible for enacting legislation which impacts on the whole country. Provincial and territorial governments are responsible for education, health care, some natural resources and road regulations. Municipal governments are responsible for libraries, parks, community water systems, police, roadways and parking (Parliament of Canada, undated). In addition to these levels of government, there are also band councils which govern First Nations communities.
- Canada ranked number 15 in the world on the Tax Foundation International Tax Competitiveness Index 2019 (Tax Foundation, 2019). Canada ranked relatively well in terms of consumption taxes but ranked 20 or below in terms of corporate rate, individual taxes and property taxes. Potentially weighing on Canada's rankings in terms of tax performance is the differing taxation rates (sales, individual and corporate) as well as the need for Canadians to often pay taxes to both State and federal governments (individual income tax, and corporate tax). Many provinces participate in corporation tax collection agreements with the Canada Revenue Agency which enables businesses to lodge one tax return. However, Alberta does not participate in this arrangement. Alberta's corporate tax rate is considerably lower than all other provincial and territorial rates (Government of Canada, 2020a). Though Australia is thought to be a more expensive location to undertake business, largely due to the higher costs associated with labour the more favourable business tax conditions should be considered when comparing the two locations.
- Located within the Western Provinces of Canada is Alberta. In the year ending June 2019, Alberta reported a population of approximately 4.3 million residents (Statistics Canada, 2019a). Alberta recorded a relatively similar level of economic activity in the 2019 calendar year, the equivalent of AU$404 billion (Statistics Canada, 2020b; Statistics Canada, 2020c; RBA, 2020). The province has a strong mining and resources sector, with activity associated with mining, quarrying, and oil and gas extraction comprising approximately 26.1% of the economy in 2019 (compared to 15% of the Queensland economy in 2018-19). Other prominent sectors of the economy in 2019 included real estate, rental and leasing, construction and manufacturing (Statistics Canada, 2020b).

Table A. 4. Tax Comparison, Canada and Queensland, 2019-20

Tax Type	Alberta	Canada	Queensland
Corporate Income Tax	8%	38%	30%
Goods and Services Tax	5%	-	10%
Individual Income Tax (Top Tax Bracket1)	15%	33%	45%

Note: A lower tax rate of 27.5% is also available to some Australian companies. Source: Government of Canada (2020a), Alberta Government (2020a, 2020b), Retail Council of Canada (2020a), ATO (2020a, 2020b), Turbotax (2020)

REGIONAL CONTEXT *cont.*

- Traditionally, exports have comprised a large proportion of Alberta's economic activity (The Pembina Institute, 2002). Alberta's most prominent export markets are China and the United States, and are primarily comprised of energy, agriculture and agri-foods, oil and gas (and associated technologies) and aerospace and defence (Alberta Government, 2019). Though exports as a proportion of GDP information was unavailable for Alberta, it is expected this outcome would be strong.
- There are a number of clear similarities between the Queensland and Alberta economies, particularly in terms of the labour market, with similar levels of employment reliance on key sectors, as well as similar levels of unemployment, employment and labour force participation rates. However, despite such strong economic outcomes in Alberta (in terms of GSP per capita), business attraction to the region in recent years has underperformed by comparison to Queensland.

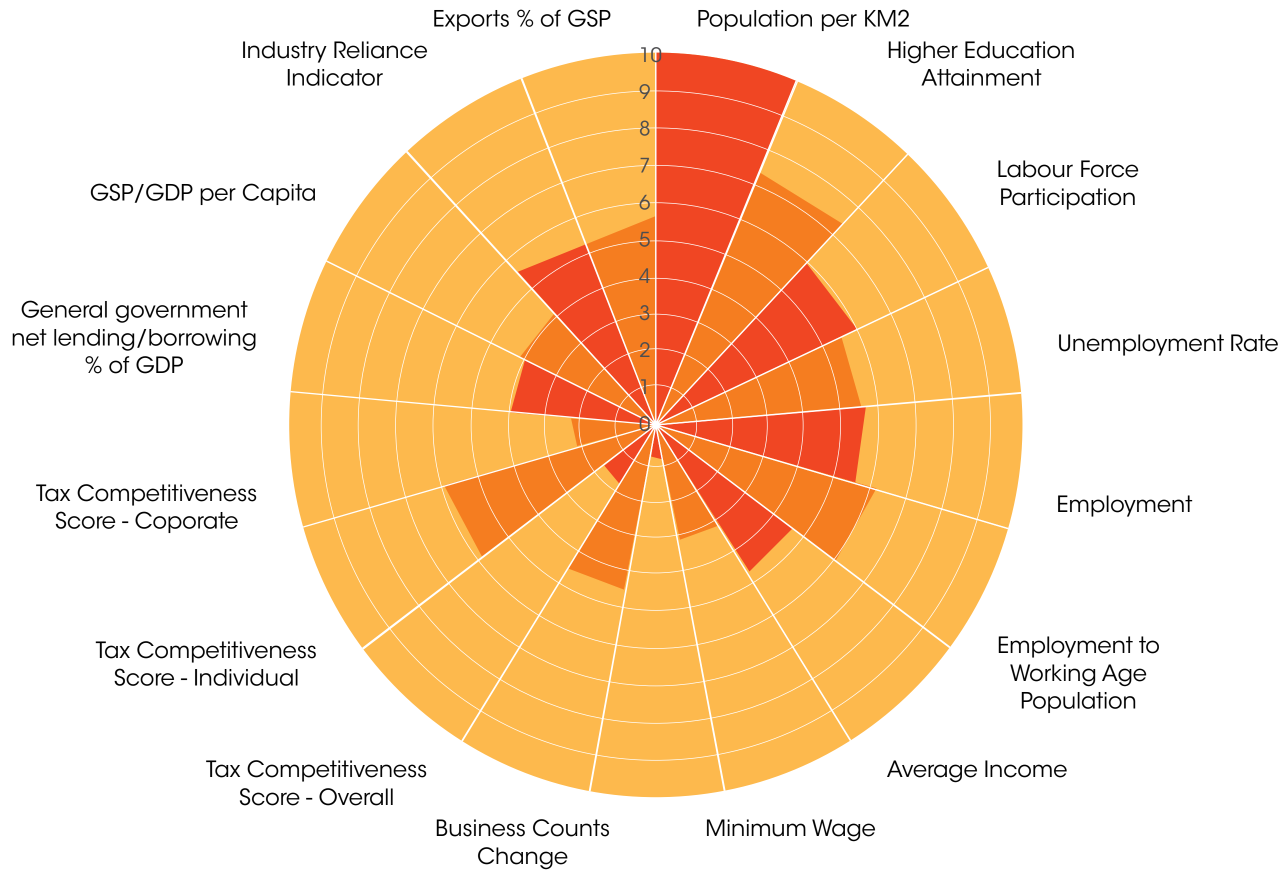
Table A. 2. New Zealand (2020) and Queensland (2018-19) GDP/GSP by Industry

INDUSTRY	NEW ZEALAND	QUEENSLAND
Agriculture, Forestry and Fishing	1.8%	2.7%
Mining	26.1%	15.0%
Manufacturing	7.4%	6.9%
Electricity, Gas, Water and Waste Services	7.5%	8.9%
Construction	4.2%	4.0%
Wholesale Trade	4.0%	4.8%
Retail Trade and Accommodation	2.1%	3.0%
Transport, Postal and Warehousing	4.8%	6.0%
Information Media and Telecommunications	2.2%	1.5%
Financial and Insurance Services	3.9%	6.9%
Rental, Hiring and Real Estate Services	10.3%	3.3%
Professional, Scientific, Technical, Administrative and Support Services	4.9%	6.4%
Public Administration and Safety	4.6%	6.0%
Education and Training	3.7%	5.6%
Health Care and Social Assistance	5.7%	8.5%
Arts, Recreation and Other Services	0.5%	0.9%
Other	6.3%	9.8%
TOTAL	**100.0%**	**100.0%**

Note: to align industries the following industry classifications have been allocated to 'Other': Electricity, gas, water and waste services (Queensland), Administrative and support services (Queensland), and other services (Queensland), Management of companies and enterprises (Alberta), Administrative and support, waste management and remediation services (Alberta), Utilities (Alberta) and Other Services (Alberta).

Source: AEC (unpublished), Statistics Canada (2020b)

Figure A. 3. Socio-Economic Comparison, Alberta and Queensland[1]



Notes: (1) The ratio between the Alberta outcome and the Queensland outcome is presented, where an outcome of '1' indicates the same outcome as Queensland, an outcome above '1' indicates a higher outcome than Queensland and an outcome below '1' indicates a lower outcome than Queensland. (2) Data pertaining to exports as a proportion of GSP was not available for Alberta at the time of writing.

Source: ABS (2017, 2019a, 2019b, 2019c, 2020b, 2020c), AEC (unpublished a, unpublished g), Tax Forum (2020), Fair Work Australia (2020), Statistics Canada (2017, 2019a, 2020a, 2020b), Retail Council of Canada (2020a), Alberta Government (2020c), IMF (2020).

REGIONAL ECONOMIC DEVELOPMENT STRATEGY

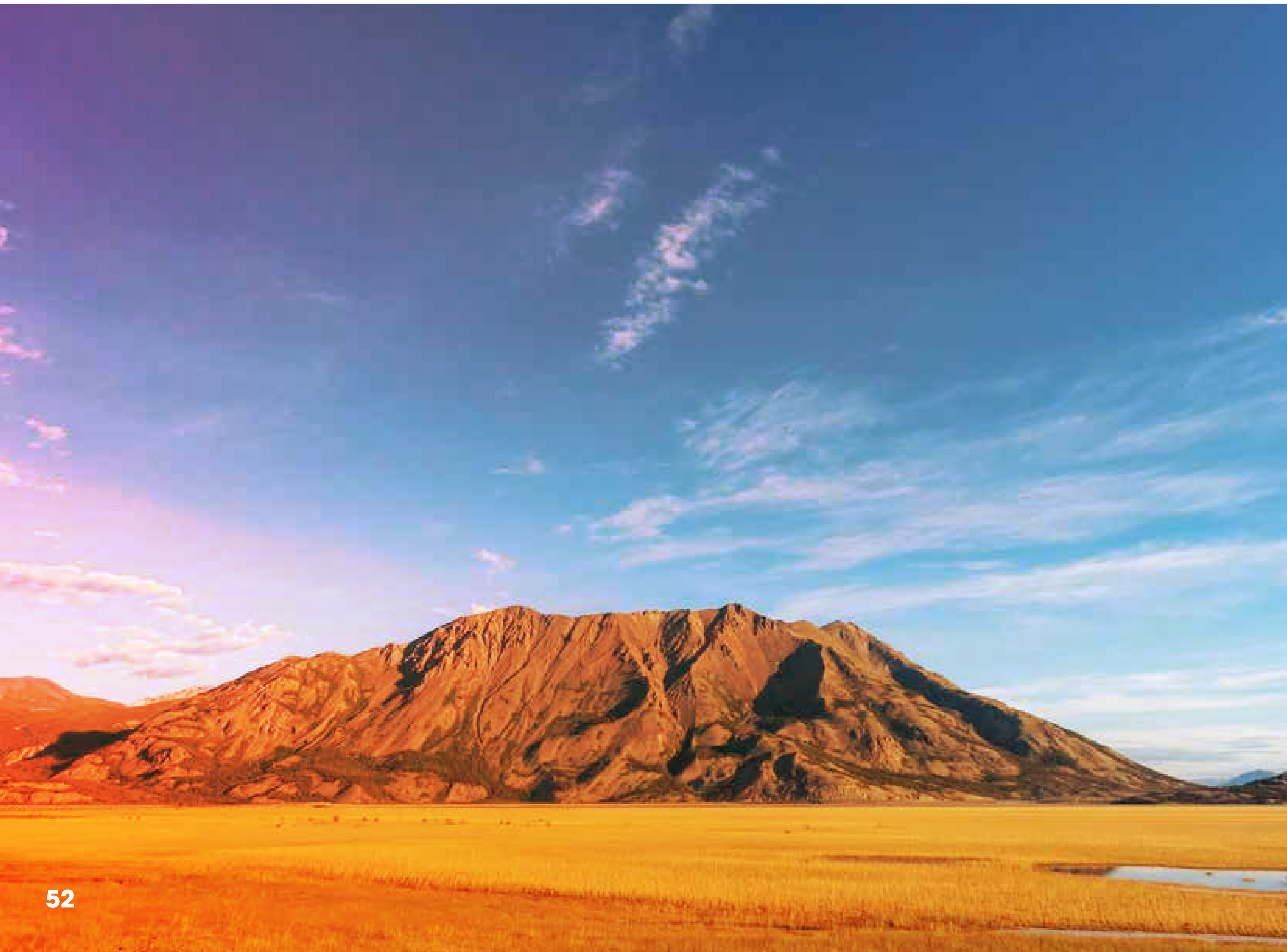
Rationale and Framework

- Regional economic development activities in Canada are supported by Federal and provincial government agencies. The Federal Government supports economic development of regions (aggregated provinces) through the Regional Development Agency (RDA) network (Government of Canada, 2020b).

  There are six RDAs across the country, including the Western Economic Diversification Canada RDA, which covers the whole Western Canada region – Alberta, Saskatchewan, Manitoba and British Columbia. The Western Diversification Canada RDA has been in operation for 30 years and is tasked with improving the quality of life for Western Canadians through diversification of the economy (Government of Canada, 2020c).

- The Alberta Provincial government established the first Regional Economic Development Alliance (REDA) in 1999 (Regional Economic Development Alliance, 2009).

  There are currently nine REDAs in Alberta. All are independent, non-profit organisations which are comprised of member communities and regional stakeholders. They are tasked with promoting the long-term economic development of their region. The REDAs are supported by a Regional Economic Development Services specialist, who provides economic development practitioners and business service providers with advice and guidance.



Strategy and Objectives

- Implementing the REDA strategy was intended to assist in stimulating long-term economic development and growth in Alberta, and specifically wealth creation for all communities (Peak Solutions Consulting, 2013). Most REDAs focus on (Regional Economic Development Alliance, 2009):
  - Capacity building
  - Business retention and growth
  - Marketing
  - Opportunity identification and investment attraction.
- In 2008, the REDA framework was reviewed through a consultation process. The review resulted in the development a of set of 12 recommendations for the future of the REDAs:

1 Work towards developing a shared vision of REDAs' reaching their potential

2 Formalise shared goals for REDAs with the Government of Alberta

3 Further develop the leadership role of REDAs in strategic economic development planning

4 Further develop REDAs as a voice for their region's economic issues

5 Develop REDAs as regional economic information hubs

6 Further enhance REDAs as a model for networking and partnerships

7 Further enhance services and supports to REDA members

8 Improve marketing and promotion of REDAs

9 Continuously improve REDA communications

10 Maintain/Secure resources to support REDAs

11 REDA Operational Plans are focused and include performance measures

12 AFE to support REDAs evolution to the Next Level.

Implementation Framework

- Initially, the Alberta government and Alberta Economic Development Authority were involved in the process, to ensure the plan was implemented across the State, but each REDA is independent and specifically focused on their own region. Memberships of each of the REDAs were self-determined by the REDAs themselves and vary considerably between the existing REDAs.

  All REDAs include members of local municipalities but also key local businesses and associations and First Nation communities (Peak Solutions Consulting, 2013). The collaborative approach enables participants to enter into projects which would not be possible on their own. The REDAs have flexibility to identify their own direction and priorities for their own region.
- The Alberta government, through the Regional Economic Development Branches, supports the REDAs by providing advice and guidance, financial resources (on a co-funding basis) and staffing, developing economic development information, providing economic and statistical data and hosting conferences for industry and community leaders.
- Though not explicitly outlined in the documentation reviewed, it is considered the advice, guidance and funding provided by the Alberta government in each of the REDAs enables the State government to ensure activities undertaken by the REDAs is consistent with state-level policy, ensures the appropriate completion of any funding documentation and other administrative tasks required.

ROLE OF GOVERNMENT AND PRIVATE SECTOR

- The framework and structure of the REDAs has been guided by State government. However, the boards and members of each REDA are a mixture of representatives from municipalities and local businesses.
- In addition to the above responsibilities, the Alberta government have a range of incentive programs to stimulate regional economic development, including (Alberta Government, 2020d):
- Agrivalue Processing Business Incubator: Providing assistance to the local agribusiness sector by helping new businesses start up, attracting the development of new products and processes which will support existing businesses, and providing a centre of excellence for up-scaling agribusiness ventures.
- Alberta Investor Tax Credit: A 30% tax credit for eligible businesses (now obsolete).
- Community and Regional Economic Support (CARES) program: Providing funding to eligible economic development programs which can be delivered within 2 years.
- Alberta Community Resilience Program: Funding to develop long-term resilience to flood and drought events.
- Capital Investment Tax Credit: Tax credit of 10% of a corporation's eligible capital expenditures (up to $5 million)
- Community Economic Development Corporation Tax Credit: a 30% tax credit for eligible businesses (now obsolete).
- Alberta Export Expansion Program: funding for businesses undertaking outbound international travel to promote Alberta exports or bringing international buyers to Alberta.
- Coal Community Transition Fund: supporting municipalities impacted by the phase-out of coal in Alberta.
- Community Initiatives Program: support for organisations to deliver community development in their region.

Figure A. 4. Roles and Responsibilities, REDA Structure

PROVINCIAL GOVERNMENT

Established REDA structure, provides advice, information, funding and support for the REDA's

▼

MUNICIPAL GOVERNMENT

Board members and contributors to each REDA's strategic priorities

▼

PRIVATE SECTOR

Members of the REDA who are able to guide economic development and project delivery within the REDA boundary

Source: Peak Solutions Consulting (2013)

RECENT ECONOMIC HISTORY

Base Prior to Introduction

- The Alberta economy is highly reliant on the mining and resources sector, which has consistently contributed approximately a quarter of economic activity in the province since 1997. In 1999, when the REDAs strategy was announced, the mining and resources sector formed approximately 31% of economic activity Statistics Canada (2020b). Local resources centre on oil and gas extraction, as well as coal and precious gemstones mining (Canadian Mining & Energy, 2020). The strong reliance on a single industry and the nature of the resources industry (being highly elastic to global growth conditions) has resulted in significant economic volatility for Alberta, with periods of strong real GSP growth followed by periods of contraction. Following the mining sector, in 1999, were manufacturing (chemical product and petroleum and coal product manufacturing) and real estate, rental and leasing activities as contributors to GSP activity. In 1999, the local economy was buoyant, and had experienced significant economic growth over the 1990s (The Pembina Institute, 2002).
- GSP per capita in 1999 was approximately CAD$66,725 (Statistics Canada, 2020a; Statistics Canada, 2020b). GDP per capita had also been on a strong upward trend through the 1990s, as the resources boom supported local economic activity (The Pembina Institute, 2002).

Quantifiable Changes

- Since 2000, when the REDA structure was implemented, economic diversification has taken place in Alberta. The resources sector has remained a key contributor to local economic outcomes and recorded average annual growth of approximately 2.0% per annum between 2000 and 2019. Growth in other sectors of the economy, has resulted in the sectors reduced prevalence within the economy. Strong growth sectors of the economy over this time frame have primarily been service sectors (real estate and rental and leasing, administrative and support, waste management and remediation services, retail trade and health care and social assistance), supported by population growth and economic growth within Alberta. GDP per capita in Alberta recorded strong growth between 2000 and 2019, to approximately CAD$76,805 (Statistics Canada, 2020a; Statistics Canada, 2020b). Alberta is the most productive province in Canada, measured by GSP per worker (OECD, 2019b).

FEEDBACK FROM STAKEHOLDERS

Success Factors

- In 2014, a study (Dunmade, I., 2014) was undertaken to understand the efficacy of the rural-urban partnerships structure to economic sustainability, specifically for rural townships. Overall, the finding was that municipalities involved in regional or inter-municipal partnerships reported better socio-economic outcomes than those not involved.

  The study found participating rural towns in two REDAs (SouthGrow and the then Calgary regional partnership) within the State of Alberta had experienced improved provision of social services (waste water management, health care provision and emergency services, solid waste management, transit system and information systems). The study found the partnerships were of benefit to rural townships where the following factors existed:

- Explicit guidelines for the governing structure and strategies
- Transparency
- Trust
- Common goals
- Effective cost management and distribution
- Clearly defined areas
- Explicit guidelines and framework for identifying priorities and reaching agreements
- Supportive provincial/ Federal policies and incentives.

- A key success factor of the structure of the REDA's is the ability for groups of local municipality governments and key businesses to work together to support economic development in their region. This likely supports co-operation and cost savings for the municipalities as well as the ability for key businesses to discuss potential opportunities.

  Other businesses in the region all have access to consistent information regarding grants and funding support regardless of which REDA or municipality their business was located in.

Impediments

- The REDAs are a voluntary system and since inception some REDAs have been disbanded. Notably, the Calgary Regional Partnership officials noted that the system was not appropriate for them as it essentially created another level of government (Dunmade, I., 2014). It is likely that the structure has a greater benefit for smaller, geographically rural areas than larger regional townships. In a voluntary agreement environment, the cost of partnership for the larger townships may be perceived as outweighing any benefit to them.

CASE STUDY THREE – CALIFORNIA, USA

REGIONAL CONTEXT

- The United States of America (the United States) is a constitutional federal republic (Braddock Communications, 2004), where the President is both the head of State and government and is directly elected by the people. Similar to Australia, the United States has a tiered system of government consisting of Federal, State and Local governments. The constitution (the supreme law of the United States) provides the framework for how the Federal and State governments are structured, as well as defines their powers. The Federal government has a role in regulating commerce between the States, providing for national defence, controlling money supply through open market operations, regulating immigration and naturalisation, and entering treaties with foreign countries.

  Each State operates under its own constitution, having primary responsibility for education, social welfare, assisted housing and nutrition, homeland security, transportation, and emergency response. Local government is charted according to the States' constitutions, and can be in the form of counties (responsible for recordkeeping, administration of elections, construction and maintenance of roads, zoning, building code enforcement and law enforcement), municipalities (responsible for public safety, maintenance of city streets, parks and recreation, waste-water treatment, rubbish removal, zoning and building code enforcement, fire and rescue services, animal control, public transport, etc.) and special district governments (each for a specific purpose such as fire prevention or water supply).

- The United States ranked number 21 in the world on the Tax Foundation International Tax Competitiveness Index 2019 (Tax Foundation, 2019). The United States ranked relatively well in terms of consumption taxes (where it ranked number 5 in the world), however, scored poorly in terms of property taxes (rank of number 29 in the world) international tax rules (rank of number 28 in the world), individual taxes (rank of number 24 in the world) and corporate taxes (rank of 21 in the world).

  Particular weaknesses weighing down these rankings include the progressive nature of income tax where the top rate is significant, the partial territorial system which does not exempt foreign capital gains income, and having a real property tax burden among the highest in the OECD.

- Unlike Queensland, California residents are faced with each tax at each of the State and Federal level (i.e. corporate income tax is taxed at 9% at the State level in addition to 21% at the federal level to make an effective tax rate of 30%). In California, approximately 85% of the State's own source revenue comes from personal income tax, sales and use tax, corporation tax, and major motor vehicle-related levies. State taxes in California tend to be higher than other States (Sacbee, 2020). Overall, California's effective tax rates are higher than that of Queensland (excluding the goods and services tax).

Table A. 6. Tax Comparison, California, United States (Federal Tax) and Queensland, 2019-20

Tax Type	California	USA	California Effective Rates	Queensland
Corporate Income Tax	9%	21%	30%	30%
Goods and Services Tax	7%	-	7%	10%
Individual Income Tax (Top Tax Bracket1)	13%	37%	50%	45%

Note: California's corporate income tax is 8.75% for 2020 whilst the goods and services tax is 7.25%, and the top personal income tax rate is 13.3%; these have been rounded in the table above. A lower tax rate of 27.5% is also available to some Australian companies

Source: ATO (2020), Trading Economics (2020), Tax Foundation (2020), Smart Asset (2020), Tax Brackets (2020).

REGIONAL CONTEXT *cont.*

- Located within the United States and stretching from the border of Mexico along the Pacific, is California. As of July 1st, 2019, California reported a population of approximately 39.5 million residents, placing it as one of the United States most populated areas (United States Census Bureau, 2020). Consistent with the larger size of the population of California (by comparison to Queensland), the State recorded economic activity of approximately AU$4.5 trillion (Bureau of Economic Analysis, 2020; RBA, 2020). In 2018, the top employing sectors in the State were healthcare and social assistance, State and local government, retail trade and professional scientific and technical services (Bureau of Economic Analysis, 2020). In 2019, the finance, insurance, real estate, rental and leasing sector comprised the highest share of total gross State product (22.0%), followed by arts, entertainment, recreation, accommodation, and food services; and professional, scientific and technical services (Bureau of Economic Analysis, 2020).

- As of 2019, California's GSP per capita was 1.6 times that of Queensland's. California's exported products represent an estimated 5.8% of the State's total economic output (World's Top Exports, 2020). In 2018, general government net lending/ borrowing as a proportion of GDP was 6.0 times higher in the United States than in Australia (IMF, 2020). Manufactured goods comprise the majority of the State's total exports (86.6% in 2018) (National Association of Manufacturers, 2018), particularly in transport equipment, machinery, miscellaneous manufactured commodities and chemicals (Office of the United States Trade Representative, 2018). Socio-economic disadvantage is widespread in California, with approximately 3,500 low-income communities and a poverty rate of 16.1% (Opportunity DB, 2020). The average income in California was approximately $970 (AUD) in 2019, lower than in Queensland where is was approximately $1,420 (AUD). Minimum wage falls in line with this trend, reported as approximately $710 per week in California in 2019, compared to $750 for Queensland.

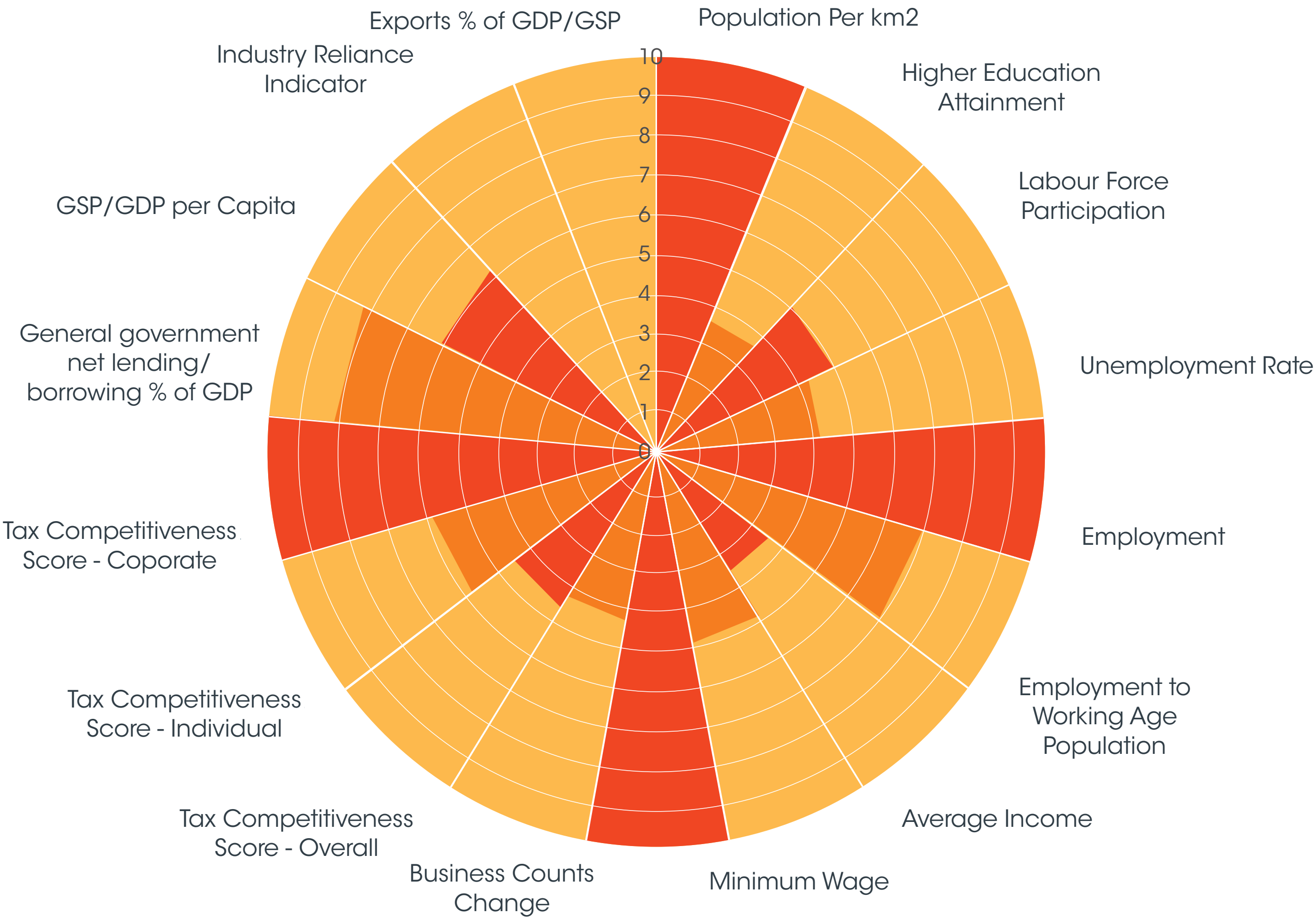
Table A. 7. California (2019) and Queensland (2018-19) GSP by Industry

INDUSTRY	CALIFORNIA	QUEENSLAND
Agriculture, forestry and fishing	1.2%	2.7%
Mining	0.3%	15.0%
Manufacturing	10.3%	6.9%
Construction	3.8%	8.9%
Wholesale trade	5.3%	4.0%
Retail trade	5.1%	4.8%
Transport, postal and warehousing	2.8%	6.0%
Information media and telecommunications	9.5%	1.5%
Finance, insurance, real estate, rental, and leasing	22.0%	10.2%
Professional, scientific and technical services	13.7%	6.4%
Educational services, health care, and social assistance	7.4%	14.1%
Arts, entertainment, recreation, accommodation, and food services	4.4%	3.9%
Other(1)	14.2%	15.9%
TOTAL	**100.0%**	**100.0%**

Note: To align the industries the following industry classifications have been allocated to the indicated group:
- Utilities, other services, and government and government enterprises (California) has been allocated to 'Other'.
- Financial and insurance services, and rental, hiring and real estate services (Queensland) have been allocated to 'Finance, insurance, real estate, rental, and leasing'.
- Education and training, and healthcare and social assistance (Queensland) have been allocated to 'Educational services, health care, and social assistance'.
- Arts and recreation services, and accommodation and food services (Queensland) have been allocated to 'Arts, entertainment, recreation, accommodation, and food services'.
- Electricity, gas, water and waste services; administrative and support services; public administration and safety; and other services (Queensland) have been allocated to 'Other'.

Source: AEC (unpublished), Bureau of Economic Analysis (2020).

Figure A. 5. Socio-Economic Comparison, California and Queensland[1]



Notes: (1) The ratio between the California outcome and the Queensland outcome is presented, where an outcome of '1' indicates the same outcome as Queensland, an outcome above '1' indicates a higher outcome than Queensland and an outcome below '1' indicates a lower outcome than Queensland. (2) Due to the large population and economic size of California, some metrics extend beyond the limits of the figure, including population per km2 (outcome of 50.9), employment (outcome of 10.9), business counts change (outcome of 3.9), and general government net lending/ borrowing % of GDP (outcome of 6.0), (3) The higher education attainment for Queensland has been modified to account for only those people older than 25 years of age, to ensure consistency with the California statistics. This means the estimate will not align with that reported in other sections.

Source: ABS (2017, 2019a, 2019b, 2019c, 2020b, 2020c), AEC (unpublished a, unpublished g), Tax Forum (2020), Fair Work Australia (2020), United States Census Bureau (2020), Bureau of Economic Analysis (2020), United States Census Bureau (2020), Bureau of Economic Analysis (2020), RBA (2020), Department of Industrial Relations (2019), Statista (2020), LiveStories (2017). Employment Development Department (2020a,b), IMF (2020).

REGIONAL ECONOMIC DEVELOPMENT STRATEGY

Rationale and Framework

- The United States Economic Development Agency (EDA) is the Federal government agency focused on regional economic development. EDA is structured within the Department of Commerce and aims to drive economic development in regions across the United States by promoting innovation and competitiveness (EDA, 2020a). EDA uses the mechanisms of providing/ directing funding and technical assistance to communities, including leading the integration of economic development resources from all sources (i.e. Federal, State, Local and philanthropic organisations).

  EDA aims to support all communities in their economic development endeavours, however, also has specific tools and support mechanisms available to distressed communities where they need it. There are six regional offices which serve the interests of various States, including those located in Seattle, Denver, Austin, Chicago, Philadelphia and Atlanta. California is served by the Seattle regional office.

- EDA offers a range of programs and multi-agency initiatives to stimulate economic development across the States, including The Opportunity Zone Initiative (EDA, 2020b). The Opportunity Zone Initiative was created under the 2017 Tax Cuts and Jobs Act, signed into law by President Donald Trump, with the goal of stimulating economic development and job creation by incentivising long-term investments in low-income neighbourhoods (EDA, 2020b). An opportunity zone is classified as an economically distressed community where private investments, meeting certain conditions, may be eligible for capital gain tax incentives (i.e. lower capital gains taxes on investments made in the designated zones).

  Opportunity zones effectively work as micro-economic development zones, where the lower taxes on investment supports economic growth and opportunity. The first set of opportunity zones were designated in April 2018, and now there are more than 8,760 designated qualified opportunity zones located across the United States (EDA, 2020b; IRS, 2020). EDA provides strategic investments in opportunity zones (through competitive grants) to foster job creation and attract private sector investment to further support development in economically distressed communities.

Strategy and Objectives

- The implementation of qualified opportunity zones was designed to stimulate economic development and job creation through tax incentives for new capital investors. Whilst the overarching objective of the strategy at the Federal level was to improve struggling communities, stimulate investment in new business and create jobs, many governors defined more detailed objective themes. These themes aimed to:
- Create affordable and workforce housing
- Support small businesses and entrepreneurship
- Seed neighbourhood revitalisation
- Drive innovation
- Improve resident health outcomes
- Revitalise rural communities
- Develop research facilities and tech incubators
- Create hospitals and medical facilities
- Create manufacturing and logistics hubs
- Drive university growth and student housing
- Drive military base research
- Develop education and social infrastructure
- Maximise opportunities near existing transit hubs
- Partner with anchor institutions and local government

Implementation Framework

- Qualified opportunity zones are defined by census tracts submitted by State Governors to the United States Department of Treasury that meet one of two requirements; (1) the census tract is a low income community, or (2) the census tract is contiguous with a low-income community (IRS, 2020). Each State's governor can nominate up to 25% of their State's census tracts for designation as an opportunity zone. Low income communities (i.e. requirement 1) are defined as those where:
- The census tract has a poverty rate of 20 percent, or
- The census tract has an average family income that falls below 80% of the area median income (midpoint of the census tracts income distribution).
- Census tracts that are contiguous with a low-income community are also eligible, defined by having an income of less than 125% of any neighbouring low-income tract (IRS, 2020). California has 879 designated opportunity zones, including 871 low-income communities and 8 non-low-income contiguous tracts (Institute of Local Government, 2020). California represents the largest single State in terms of number of qualified opportunity zones, where nearly 4.2 million residents live (California Budget & Policy Centre, 2019)..
- Qualified opportunity zones stimulate economic development through tax incentives for investors. Capital gains tax (the tax levied on the profit from the sale of a capital asset) in the United States is implemented at both the Federal and State level; therefore, in many States there is a double tax on capital gains. Evidently, there are significant savings to be earned for investors because of the tax relief provided by opportunity zones. In December 2019, the IRS published the final opportunity zone regulations/ implementation framework. Currently, all States conform to the Federal opportunity zone provisions (i.e. investors will receive State tax incentives similar to those available at the Federal level), with the exception of California, Mississippi, New Hampshire, North Carolina and Pennsylvania (Novogradac, 2020b). Investors in States that do not conform to the Federal opportunity zone provisions will only receive tax incentives for Federal capital gains tax.
- The first tax relief mechanism provides investors the opportunity to defer tax on any prior eligible gain to the extent that a corresponding amount is timely invested in a qualified opportunity fund (IRS, 2020). The deferral of the gains tax lasts until the earlier of the date on which the investment in the qualified opportunity fund is sold/ exchanged, or the year end 2026. There are also benefits in terms of the length of the investment held; the longer the investment is held, the greater the exclusion (i.e. percent reduction) on the deferred gain.

  In addition, the amount of eligible gain to include is decreased to the extent that the amount of deferred gain exceeds the fair market value of the investment in the qualified opportunity fund. The second tax relief mechanism provides investors who hold the investment in the qualified opportunity zone for at least 10 years, with an adjustment in the value of the qualified opportunity to the fair market value on the date the investment is sold/ exchanged (i.e. the appreciation in the qualified opportunity fund investment is never taxed).
- Qualified opportunity funds are vehicles for investment in opportunity zones (IRS, 2020). Any corporation or partnership with capital gains can create an opportunity fund to invest in opportunity zones, if it is within 180 days of sale/ exchange (Forbes, 2019). Qualified opportunity funds holding cash must deploy their funds into an opportunity zone project within a relatively short period of time, measured by two semi-annual deadlines – June 20 and December 31. These deadlines have been extended due to COVID-19. A qualified opportunity fund must hold at least 90% of its assets in the qualified opportunity zone property stocks or partnership interest held in the fund; this ensures that the investment goes directly to the businesses/ projects located within the opportunity zone.

ROLE OF GOVERNMENT AND PRIVATE SECTOR

- Though established at the Federal level, the opportunity zone initiative in the United States utilises a bottom up approach. Local governments identify potential projects for investment, which they then market through investment prospectuses. The State government provides technical assistance in attracting investments, through enacting further legislation to make investment in opportunity zones even more attractive. The private sector manages the opportunity zone funds and assists investors in deciding which projects to allocate their funds to.
- The Federal government established the opportunity zone initiative, and has the role of providing the regulatory structure, advice, information and support for investors seeking to engage in the initiative. Upon announcement of the initiative, opportunity zones were nominated by the governor of each State. Selections were tailored by the governor to the needs and potential of the communities within each State, and relied heavily on public and local government engagement, analytics, peer-learning, and collaboration with agencies (Economic Innovation Group, 2020a). Once nominated, the United States Department of Treasury then certified the qualified opportunity zones.
- Throughout the duration of the initiative, States have a continuing role to use the various tools in their pocket to effectuate actions that benefit their communities located within opportunity zones. This includes enacting further legislation to magnify the effects of opportunity zone investment for low-income communities and to make investment in opportunity zones even more attractive. Despite not conforming to the capital gains tax incentives at the State level, the California government has a range of incentive programs designed to couple with the Federal opportunity zone initiative to stimulate regional economic development, including (California Government, 2020):
  - California Competes Tax Credit
  - Enhanced Infrastructure Financing Districts
  - Community Revitalisation Investment Authorities
  - Industry Development Bonds
  - Electric Program Investment Charge
  - California Sustainable Energy Entrepreneur Development Initiative
  - Transformative Climate Communities
  - Affordable Housing and Sustainable Communities.

Figure A. 2. Roles and Responsibilities, Opportunity Zone Structure

FEDERAL GOVERNMENT

Established opportunity zone structure, provides advice, information and support for the opportunity zones

▼

STATE GOVERNMENT

Nominates opportunity zones, can conform at the State level, ensures initiative aligns with State ideals, proved technical assistance in attracting investment

▼

PRIVATE SECTOR

To invest and create/manage opportunity zone funds

▼

LOCAL SECTOR

Collaborates with leaders, economic development groups and community based organisations to identify potential investment projects, to then market through investment prospectuses

Source: Institute for Local Government (2020).

RECENT ECONOMIC HISTORY

Base Prior to Introduction

- Over the period between 2000 and 2016, the disparity in economic outcomes (measured by GDP per capita differentials of those in the best performing and worst performing regions) recorded an increase across the regions of the United States (OCED, 2019c). This was particularly evident in terms of community support, access to jobs, and health outcomes. In California, GDP per capita in 2019 was approximately $114,225 (Bureau of Economic Analysis, 2020).
- Prior to the establishment of opportunity zones, approximately 32.8% of the 8,057 census tracts in California were reported as economically distressed (low-income) communities, qualified by the opportunity zone eligibility requirements (Opportunity DB, 2020). In addition, 10.1% of the 8,057 census tracts in California were reported as contiguous to low-income communities. The median household income of the low-income census tracts was reported at approximately $50,858, compared to $69,549 on average across all census tracts in California.

  California was ranked the fourth highest of all States in terms of income inequality (ZIPPIA, 2018). In line with this, the poverty rate was also significantly higher (20.7% for low-income census tracts compared to 16.1% for all census tracts across California). These low-income communities were also struggling to attract capital and sustain economic opportunity for their residents, with an unemployment rate of 10.3% compared to 9.0% on average across California.

Claimed Outcomes

- Reporting or measuring outcomes in terms of the economic and community impact is not required under the opportunity zone initiative policy framework, and hence has not been carried out. The overarching objective of the strategy at the Federal level was to improve struggling communities, stimulate investment in new business and create jobs. However, studies (including that conducted by the Urban Institute, 2020) suggest that opportunity zones have fallen short of the community and economic development goals; there has been minimal job creation, and minimal stimulation of economic activity or community change as a result.

Quantifiable Changes

- Opportunity zone investments and associated outcomes are not yet publicly reported by the Internal Revenue Service or Department of Treasury; however, various private organisations have attempted to quantify the results. Novogradac (2020a) provides the most extensive privately tracked opportunity zone investment database in the nation, regarding who is raising equity, where their funds are being deployed, and the type of projects they are delivering. The limitations of this data include that it is self-reported by opportunity zone funds, and the funds tracked are not all-encompassing (only represent a slice of the opportunity zone marketplace). Despite this, Novogradac data provides the best quantification of opportunity zone investment. As of April 2020, approximately $10.09 billion in equity had been raised by the 406 opportunity funds in the United States tracked by Novogradac. Approximately 47% of this was invested in residential, 39% in commercial, 10% in hospitality, 2% in renewables and 2% in operating businesses (Novogradac, 2020a).
- Opportunity funds which invest in California have only raised approximately $672.5 million since December 2018 (NCSHA, 2020). Due to extensions of the timeframe that opportunity zone funds are required to deploy their funds into projects, there has been minimal activity in project completions to date. As a result, it is difficult to quantify changes that can be attributed to the opportunity zone initiative. Findings have, therefore, been based on feedback from stakeholders and studies/ surveys completed (see 'Feedback from Stakeholders' section overleaf).

FEEDBACK FROM STAKEHOLDERS

Whilst little evidence is available to provide insight into the outcomes of the opportunity zone initiative (due to the lack of reporting requirements), the Urban Institute (2020) has recently undertaken a study on opportunity zones activity and results to date. This involved conducting 70 interviews with a range of stakeholders working on mission-oriented opportunity zones across the United States. The overall findings from the interviews are summarised in the sections below.

Success Factors

- Desktop research has revealed a range of success factors:
- Policy framework designed to extend investment interest to investors that had not previously invested/ shown interest in low-income communities
- Local government dedicated positions for opportunity zones to connect investors with projects
- State level investment programs to direct investment where it is most needed
- Measuring/ reporting outcomes
- Engaging the community early on in the process.

Impediments

- The Urban Institute (2020) study has revealed a series of impediments to success of opportunity zones, including:
- As capital gains tax deferral and relief is used as an incentive for opportunity zone investment, mission-oriented projects (i.e. those aiming to drive both economic and community development in low-income communities) struggle to compete for attention with higher-return projects.
- The 10-year investment parameters of the opportunity zone initiative is mismatched with the type of investment needed by mission-oriented projects, as mission-oriented projects will typically seek to support community assets with a lifetime well beyond the 10-year time horizon.
- The majority of opportunity zone capital investment is flowing into real estate (particularly luxury rather than affordable housing), not into operating businesses, due to the undesirability of selling equity from both the business owners' and investors' perspective as well as the return factor.
- The definition of a 'low-income community' is broad enough to include areas that are skewed by having large concentrations of students (e.g. those near the University of California at Berkeley), as well as areas that are adjacent to low-income communities, but are not low-income communities themselves. These zones are likely to attract a significant share of opportunity zone investment (CBPP, 2019)
- Struggle to connect projects to capital due to lack of connections, limited track record and experience, transaction costs, deal size and return – one State-wide investment coordinator interviewed by the Urban Institute (2020) was only able to get 1 out of 200 projects to closing as of June 2020.
- Opportunity zone investments often need to be paired with other subsidy sources.
- The program mechanisms do not guarantee local residents will benefit, as there is no rule or test requiring the beneficiaries to make investments that produce local community benefits.
- Opportunity zones are incentivising gentrification.
- Opportunity zones are more so being used to accelerate existing plans within local governments, not create them.
- These impediments reveal that the incentives need to be redesigned to more effectively allocate government dollars to help project sponsors achieve the targeted economic and community development outcomes (i.e. creation of quality jobs, affordable housing, community-oriented amenities, etc.).

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