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Providing Local Economic Stimulus and Promoting Local Economic Development: Possibilities for Councils in South Australia

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Executive Director's Note

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This paper continues discussion on the theme of local and regional economic development with a particular focus on the role and importance of local government in local, regional and state-wide economic development. Promoting local and regional economic development is integral to the objective of community development; international best practice confirms the importance of "bottom-up partnerships" involving the community and business leaders in mobilising and strengthening local assets and consistently applying long-term economic development strategies.

The authors of this paper are Assoc Professor Michael O'Neil (Executive Director), Emeritus Professor Cliff Walsh (Senior Research Associate), Anthony Kosturjak (Senior Research Economist) and Mark Trevithick (Research Economist) of the SA Centre for Economic Studies. The paper draws from a number of recent research papers prepared by SACES and our Research Associates. The views expressed in the report are the views of the author.

Michael O'Neil
Executive Director
SA Centre for Economic Studies
October 2013

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Overview

Key Findings and Conclusions

- There are two distinct roles that local governments in principle can play in maintaining and enhancing the economic performance of their local economies and hence the prosperity of members of their communities:
  - they can provide a temporary economic stimulus to their local economies when an economic downturn reduces economic activity and employment levels; and
  - they can enhance the economic performance of their local economies through implementing economic development strategies and initiatives;

Providing an Economic Stimulus

- In relation to local governments providing a temporary stimulus to their local economies during economic downturns, we conclude that their ability to do so is negligible for two interrelated reasons:
  - local governments expenditures on goods and services (and rates revenue collections) are small relative to the total value of economic activity in their local economies (in the case of expenditures, less than 1.5 per cent on average): as a consequence, any stimulus they could realistically provide through temporarily increasing their expenditures on goods and services, or reducing their revenue collections, would be comparatively small;
  - in addition, part of the potential stimulatory effect would "spill out" of the local economy, including through part of income increases resulting from the stimulus being spent on goods and services produced outside the local economy, part paid in taxes to central governments and part saved;
- Overall, even very large, likely infeasible, local government stimulus measures would have an impact on local economic activity measured in tenths of one per cent – virtually no impact at all;

Promoting Local Economic Development

- In relation to the ability of local governments to enhance the long-run economic performance of their local economies through economic development strategies we conclude that not only can they do so effectively but also that it is important that they actually do so:
  - they can do so because, for example, they have the power to make their localities attractive places in which to live, work and do business, they can use their land use planning powers strategically to attract new business investment and they can use a wide variety of other measures to stimulate new business investment by existing business and new business start-ups by local people and to attract new sources of business investment;
  - it is important that local governments actually do so both because promoting economic development is integral to achieving their core objective of enhancing community development and because effective local economic development strengthens regional economic development which, in turn enhances state economic development;
- Overlooking the importance of local economic development risks the loss of substantial benefits to the state as a whole, as well as to local communities;

What councils say they do

- From a survey of a small number of councils, it appears that many, if not most, councils in South Australia are likely to be falling well short of achieving their full potential for economic development and growth:
  - while councils may have economic development strategies as part of their overarching Strategic Plans this is not always translated into a long-run strategic approach to local economic development: many appear to adopt economic development initiatives opportunistically rather than strategically;
- To change an economy's economic trajectory requires that strategies and initiatives be applied consistently and in a long-run sustained way to overcome the inertia created by their economic, social and cultural histories.

Introduction

Local governments are widely acknowledged to be of fundamental importance to building and sustaining strong, cohesive and resilient communities which are the building block of a strong, vibrant national society. Indeed, for several decades local governments' expenditure on the provision of social and community services has grown faster than their expenditure on the delivery of their traditional property-related services. In some cases, local governments have become community service delivery agents for the Commonwealth as well as for State governments.

However, despite providing and maintaining essential local infrastructure that supports the development of businesses, local governments often are regarded as having little or no role in securing economic stability and promoting economic development even in the localities in which they operate, let alone at wider regional, state and national levels. In this Report we explore the extent to which local governments can appropriately, effectively and legitimately contribute to economic stability in their local areas during periods of adverse economic conditions and contribute to enhancing the economic prosperity of their communities and the wider regions in which they exist.

Local Economies and the Roles of Local Government in them

Local economies, delineated by the boundaries of local government areas of jurisdiction, in South Australia and elsewhere in Australia are small to very small, measured by the total value of economic activity that occurs within them. They also are very open, in the sense that substantial volumes of goods and services continually move into them (imports) and out of them (exports) from and to intrastate, interstate, national and overseas markets and likewise there are substantial two-way flows of people across their borders, for example, by workers employed out of their home locations, by visitors for shopping or entertainment, and by tourists. Importantly, too, all local economies in South Australia are substantially smaller in area than the natural (or functional) economic regions of which they are part.

What goes on in local economies that defines them as economies is essentially the same as for state and national economies. The essential elements of them include businesses producing goods and services, employing workers and other inputs to do so; consumers purchasing goods and services, and local governments and agencies of state and national government acting as suppliers of infrastructure and public sector services.

Within their local economies, the roles of local governments include the provision and maintenance of local infrastructure and the delivery of property-related and social and community services, purchasing goods and services and employing council officers to enable them to do so. They are also responsible for land use planning and for assessing development applications.

From an economic perspective, local governments can be seen as big individual businesses in their local economies, but their expenditures on goods and services are small relative to the total value of economic activity in their economies – less than 1.5 per cent on average across the State, higher in some, lower in others. Much of what local governments do as part of their core functions affect local economic activity, if only incidentally to some other purposes. More directly, through strategic land use planning, local governments can have a substantial impact on the business investment appeal of a local area; they are also, in effect, participants in the early stages of business development projects through their role in development approvals; they provide the local infrastructure that facilitates business activity within their local area; and they often provide assistance for business development through, for example, support for business advisory services provided by local chambers of commerce, marketing and promotion of their local areas and tourism attraction. Local governments typically also are partners in developing and implementing regional economic development strategies, plans and projects which also contribute to economic development in their local communities.

Australian local governments are responsible for providing a lesser range of services than many local governments overseas and have a smaller range of taxes and regulatory functions than some of them. As a consequence, the ability of local governments in Australia to influence local economic development is less than for local governments elsewhere, but it is not insignificant.

Providing an Economic Stimulus

As the term is used by public sector policy analysis and practitioners, an economic stimulus initiative is a discretionary, temporary measure aimed at increasing an economy’s economic activity level and employment level during an economic downturn. A stimulus is usually applied by temporarily increasing public sector expenditures compared to what they otherwise would be, or reducing public sector tax collections compared to what they otherwise would be, for the duration of the downturn, withdrawing the stimulus progressively as economic conditions improve.

When they are used, discretionary economic stimulus measures add to the stimulatory effects that so-called automatic fiscal stabilisers provide to an economy during a downturn through automatically reducing taxes collected from an adversely affected location and automatically increasing incomes in that location through the payment of unemployment benefits (Newstart Allowances) to the newly unemployed people resident in it. The stimulatory effect of the automatic stabilisers occurs more-or-less contemporaneously with the downturn, is proportional to the magnitude of the downturn and progressively diminishes as economic activity eventually increases.

Acting alone, a local government could provide an economic stimulus to its local economy by temporarily increasing its own-purpose outlays on goods and services it uses in providing local services or temporarily reducing its own-source revenue collections from rates and other sources such as fees and charges.

The initial effect of an expenditure increase by a local government would be to increase sales by relevant private sector businesses, leading to increased employment by them and increased incomes of those newly employed as a consequence. This, in turn, leads to further rounds of increased spending out of the increased incomes, stimulating further increases in employment and in the incomes of those additionally employed, adding so-called multiplier effects to the initial increases in employment and incomes. As a result, the final impact on economic activity, employment and incomes is substantially larger than the initial impact on them.

However, in a small, open local economy, part of increased incomes created by an economic stimulus "spill out" through, for example, increased purchases by local business and/or residents (imports) of goods and services produced elsewhere, the payment of increased taxes to central governments and increased savings by local residents. This reduces the magnitude of the multiplier effect of an economic stimulus compared with what it otherwise would be and hence reduces the magnitude of the final impact on local economic activity and employment.

Local governments' expenditures in South Australia on goods and services are small relative to the aggregate value of economic activity in their local economies – less than 1.5 per cent of the total value of economic activity on average. Consequently, the logistically and politically feasible size of a temporary increase in a local government's expenditure on goods and services (or of reduced rates revenue collections) will be small and so, as a result, will be the final impact of the initial stimulus on local economic activity and employment levels. In fact, the final impact on local activity and employment will be measured in tenths of one per cent – a negligible impact by any standard.

The only way a local government could achieve a substantial local economic stimulus would be by obtaining from a central government a substantial temporary grant to be quickly spent locally by the local government on goods and services or a temporary increase by the central government in *its* own-purpose outlay in the local area. But, in that event, the substantial size of the impacts of the economic stimulus on local activity and employment would be entirely due to the contribution of the central government.

Central governments are resistant to providing support for local governments to offset the potential consequences of an economic downturn, other than in exceptional circumstances: they apply the principle that localities should (learn to) be resilient in the face of changes in their economic circumstances, whether the source of the changes are cyclical or structural in nature.

The only possible conclusion must be that, acting alone, local governments have very weak – essentially negligible – ability to provide an economic stimulus to their local economies when their economies experience an economic downturn.

Promoting Local Economic Development

The term economic development refers to the process by which economies evolve and change over time. In favourable circumstances, economic development and growth occurs naturally through existing businesses exploring and exploiting profitable opportunities to expand their production and sale of goods and services and with new businesses looking to displace old ones or to find new profitable opportunities.

Enhancing and accelerating economic development relative to what it otherwise would be has become an objective of governments responding to the desires of their citizen/voters for ever increasing levels of employment, incomes, wealth and wellbeing. Economic development strategies and initiatives are deliberately designed interventions directed at increasing the future economic performance of an economy in order to provide employment opportunities, incomes and well-being at levels or growth rates higher than they otherwise would be. Governments themselves do not drive economic development – business investment, innovation and entrepreneurship drive it – but governments can be enablers and facilitators of economic development and sometimes can stimulate it.

How governments have approached promoting regional and local economic development has changed substantially over time, beginning with a top down approach driven by central governments, a central feature of which was the provision of financial and other incentives to attract business investment to lagging regions. By contrast, the approach which nowadays is internationally regarded as best practice – the so-called place-based approach – involves promoting the economic development of regions and localities through bottom-up partnerships (supported by government but not initiated) between, especially, community leaders and business leaders.

The place-based approach particularly emphasises that enhanced economic development and growth is possible in all localities if they take the lead in mobilising and strengthening their local assets (physical, human, financial and social) and their resources, and that their development and growth is likely to be stronger if they do so rather than relying on support from central governments; that human capital is the single most important factor in enhancing economic development and growth, with reducing the proportion of people with low skills appearing to be more important than increasing the proportion with high skills; and that innovation capabilities and activities and adequate and strong infrastructure also play an important role.

Contrary to the views of some, local governments can effectively promote local economic development, it is important that they do so and the place-based approach is a particularly valuable way in which to do so.

As a matter of fact, local governments invariably do play a role in local economic development simply by undertaking their core functions, which include the provision of local infrastructure which facilities business activity in their local areas. Moreover, through the strategic use of their role in land use planning they can influence the business investment appeal of a local area and they are, in effect, participants in the early stages of business development applications.

In addition, local governments can make their localities more attractive to invest in, as well as to live and work in, by doing better and more effectively all the things that are among their core functions; they can encourage and facilitate investment in “enabling” hard and soft infrastructure; and, if they chose to (and some do despite evidence that it is rarely successful), they can use financial and other incentives to encourage new investment in their localities by existing or new businesses.

There are, of course, some limitations on the ability of local governments in Australia to promote economic development that they have to live with or work around, including the fact that they do not have direct control over some public sector services that have emerged as being important to local economic development and that they have inadequate resources to be able to themselves invest in the provision of enabling infrastructure and must rely on persuading other spheres of government to make the investments.

It is important that local governments promote local economic development because economic development is integral to the achievement of what, arguably, is their core purpose and objective – the promotion and enhancement of community development: the development of an economic strategy should begin by examining what is required to support the strengthening of community development.

Critical to the effective promotion of local economic development by councils in South Australia are the lessons to be learned from evaluations of strategies that have been used elsewhere. These especially include that:

- achieving the potential benefits of implementing economic development strategies takes substantial periods of time: it involves hard work and strategies have to be applied in a consistent, sustained way, probably being adjusted (strengthened) from time-to-time to ensure that they continue having a significant influence;
- some of the most important policy measures for improving local economic performance are not themselves under the direct control of councils – local amenities are, but school completion rates and crime reduction are not – so it is important, arguably vital, that local governments seek and obtain the cooperative support of relevant state public sector agencies for economic as well as social reasons; and
- overall, the conclusions lend strong support to the particular importance of what might be termed “getting the foundations right”, whatever else councils might choose to do to attempt to strengthen the economic performance of their local economies.

There are strong prospects for enhancing local economic development for all councils and the evidence suggests that the prospects will be best realised by using a place-based approach. This involves councils empowering members of the business and education sectors, other local organisations and the community at large to be partners with councils in fully identifying the assets the local economy has that can be drawn on and strengthened, in the development of visions, strategies and plans for promoting a stronger economic performance and in monitoring the implementation and outcomes of initiatives undertaken.

Achieving as much integration as possible with regional-scale strategies unquestionably adds to effectiveness of local strategies and to the economic strength and resilience of the regions and of the State. In fact, although it often goes unrecognised, or at least is not sufficiently acknowledged, strong local economies collectively are the backbone of strong regional economies which are the foundations of strong state economies. Local economic development cannot be treated as of a second or lower order of significance without risking foregoing substantial economic benefits to the state as a whole as well as to local communities themselves.

What Councils in South Australia say they do

The councils included in the survey undertaken for the preparation of this Report for the most part interpreted the phrase "providing an economic stimulus" to, in effect, mean promoting economic development, so no information was provided about whether, and if so how, councils had attempted to increase economic activity and employment levels during economic downturns.

The surveyed councils identified a wide range of initiatives that they regarded as contributing to stimulating local economic development, including adjusting procurement policies to increase the amount of work going to local businesses, although only one said that it had a specific price-preference policy favouring local businesses. Some councils included among what they regarded as economic development initiatives advocacy for spending by the State and Commonwealth governments for the provision of community infrastructure among other things, reflecting the relatively limited financial resources of local governments.

Almost half of the respondent councils indicated that they offered specific incentives for developers or new businesses in their localities, either in the form of direct financial assistance or through the provision of land and/or associated infrastructure. However, one council said it had ceased to operate a business attraction scheme on the basis that it was administratively inefficient, inequitable to existing businesses who were typically the largest source of investment activity in the region and usually had little effect on the business decisions about where to locate.

A large majority of surveyed councils indicated that they did not have specific policies on "economic stimulus, helping regional business or economic development" despite all saying that they had specific economic objectives set out in their overarching Strategic Plans, suggesting that many councils were pursuing economic development opportunistically rather than strategically. This runs counter to one of the most important lessons from studies of economic development strategies – they require strategic long term, consistent, coordinated and sustained effort to make a significant difference to an area's economic performance.

This clearly suggests that many councils in South Australia have lessons to learn about how to most effectively promote economic development in their local economies. By doing so, they will not only increase the well-being of their local communities but also contribute to building a stronger State economy for the benefit of all South Australians.

Section 1: Introduction – The Purpose of this Report and a Guide to its Contents

In this Section, we discuss the terms of reference and scope of this Report, outline the methodology used in its preparation and provide a guide to the specific contents of later Sections. To clarify the reasons for a broadened scope of the Report beyond consideration of the use by councils of their purchases of goods and services as a tool for providing a local economic stimulus, preliminary definitions of two concepts central to an understanding of its scope and content are given: on the one hand *Local Economic Stimulus* and on the other *Local Economic Development.* Our reasons for believing that providing economic stimulus as we define it is not likely to be effective at a local area level are also foreshadowed.

1.1 The local economic stimulus project: terms of reference and scope

This Report, prepared by the SA Centre for Economic Studies (SACES), was commissioned by the Local Government Association of South Australia (LGA) expressly as a component of LGA's *Local Excellence: Councils Working Together* project. The Work Program for the Local Excellence project identified ***16 – Economic Stimulus*** as a subject for inclusion under Financial Reform issues and explained its purpose in the following terms:

> The purchase of goods and services by Councils represents a large part of its expenditure. There are opportunities for Councils to enter into collective or regional arrangements to facilitate the growth of local and regional businesses by offering longer term agreements, merging service/goods purchasing capacity. A small group of Councils are invited to explore how they can assist small business by having their own economic stimulus program.

In its response to LGA's request for a proposal and in subsequent discussions, SACES proposed, and LGA accepted, that the subject matter of the Report should be broadened to include consideration of:

(i) in what ways, additional to purchases of goods and services, councils could provide a short-run *economic stimulus* to their local economies; and

(ii) how councils might most effectively promote the longer run *economic development* of their local economies including, potentially, through the use of their procurement budgets.

Although there can be some degree of overlap, the distinction between economic stimulus and economic development in this context is an important one and concerns both objectives and time frames.

An economic stimulus initiative is one *primarily* aimed at achieving an economy's full *current* economic potential, measured principally by levels of economic activity, employment and incomes. Even in an economy in good long-term economic health, indicated by a reasonable growth rate and low unemployment, fluctuations around the trend can occur. In a downturn in economic activity levels and rising unemployment, essentially temporary measures are often implemented to help return the economy to its trend growth path faster than it otherwise would. These are what are referred to as economic stimulus initiatives: they are designed to be temporary and to wind back as the economy returns towards its trend growth path.

An economic development initiative, on the other hand, is *primarily* aimed at increasing an economy's *future* economic performance in order to provide employment opportunities and incomes (and quality of life) at levels or growth rates higher than would occur without deliberately designed interventions. It is inherent in economic development strategies that they need to be long-term in nature and targeted at influencing trends in economic performance, not at fluctuations around the trends. Ideally, an economic development *initiative* would be part of an integrated package of measures designed to implement an overarching economic development *strategy*.

It is obviously possible to construct scenarios in which short-run economic stimulus measures can be designed to also contribute to longer term economic development objectives. The most typically cited examples involve bringing forward already planned "shovel-ready" infrastructure projects (and/or accelerating projects already in progress) but in practice this has rarely been achieved effectively, largely because of logistical constraints.

Although it will be explored and explained in more detail later, since it is part of the reason SACES proposed a broadening of the scope of this Report, it is worth saying at the outset that is hard to conceive of practically relevant circumstances in which local governments' procurement of goods and services could be used as a substantial and effective economic stimulus measure in the sense meant here. The way a council might use its procurement decisions to give a temporary economic stimulus to its local economy which would essentially automatically wind-down over time would be to bring forward some of its planned purchases, and to do so in a way skewed towards local suppliers. There are clearly a variety of technical, logistical, probity, political and other issues that would come into play. But the central fact is that, while it is true to say that local governments' purchases of goods and services are a large part of their expenditure – about 68 per cent *on average* across local governments in South Australia – it is also true to say that their expenditure on goods and services is small relative to size of their local economies, and smaller still in terms of their direct impact on local economic activity. As is demonstrated in Section 3 of this Report, local governments by themselves have a very weak capacity to provide an effective economic stimulus to their local economies during temporary economic downturns.

When it comes to the use by councils of their procurement processes to promote economic growth and development in their local economies, the potential impact in financial terms would also be small. But it might be able to be used strategically to help at least some local businesses to increase their capabilities and become more competitive out-of-locality as well as in it. Even so, using their purchasing power would have to be only a part of broader package of measures used by local governments to be seen to significantly contribute to an effective economic development strategy. This Report considers what that contribution might be but as part of a broad ranging discussion of the many things councils might do to promote higher levels of economic performance of their local economies.

1.2 Methodology

In its proposal for preparing this Report, SACES indicated that it would use a three-stage process.

The first stage was to involve the LGA, with respective Councils, doing an audit of purchases to derive a baseline of "local or in the region" expenditure relative to "out of region" for a given financial year. The audit would also involve whether Councils have a policy of local tenders being used to support the supply of goods and services from local businesses. The LGA was to take the lead on this component as it has considerable expertise in this area. The results for each Council were to be supplied to SACES.

A second stage was to involve a brief survey of participating councils to be compiled and administered by SACES to assess the extent of activities used to support local businesses, encourage new enterprises, promote opportunities for expenditure in the region and whether strategies are in place to match consumer/purchaser needs with supplier activities/capacity. The third stage was to examine the results of the audit and the survey and to prepare a summary and implications of the findings from data/material gathered.

In the event, the first stage was rolled into the second and the extended survey results are reported together in the Report. The survey was undertaken with thirteen councils participating, of which two were large metropolitan councils and the remainder were non-metropolitan councils ranging from relatively small rural councils to urban regional councils. An overview of the survey results is contained in Section 5 of the Report.

An extensive literature review was undertaken and lessons and ideas from it have informed many issues covered in the Report. It is to be noted, however, that the vast bulk of the available literature is of European and North American origin where local governments play a larger and wider role in service delivery than local governments in Australia and often have access to a wider variety of own revenue sources. By comparison, the Australian literature on the roles of local governments in economic development is sparse – possibly because local governments' more limited capacity to promote local economic development than their overseas counterparts has been considered to reduce the interest of policy-makers in the topic. Nonetheless, what Australian literature there is has informed the development of parts of the Report.

Several other components of the LGA's Local Excellence project have some bearing on the subject matter of this Report. While ideas or issues raised in the other Reports have been taken into account, this Report has been written as a stand-alone analysis.

In addition to those specific sources of information and ideas, SACES has drawn on its knowledge and expertise resulting from extensive work undertaken on local and regional development, elsewhere in Australia as well as in South Australia.[1]

1.3 A guide to the contents of the rest of the report

In Section 2, **The Nature of Local Economies and the Roles of Local Governments in them**, we first set out important features of local economies delineated by the geographical boundaries of local government jurisdictions, which mostly are only part of larger regional economic catchments (natural economic regions). Particularly relevant is the fact that local economics are both small-to-very small and very open. We then turn to a preliminary examination of the roles that local governments play in their local economies, including the roles they play in local economic development incidentally to their core functions, and those that they can play by choice in promoting future local economic development. This Section foreshadows, and provides background to, later Sections. It also provides some comparisons with the roles and functions of local governments overseas which identifies limitations on councils in South Australia which they must work with or try to work around in promoting local economic development.

In Section 3, **An Economic Stimulus: What it is and what Local Governments can do to provide one,** we begin by explaining what is meant by an economic stimulus as the term is used by public sector policy analysts and practitioners and draw a clear distinction between providing an economic stimulus to a local economy and promoting the economic development of a local economy. We then examine the way(s) in which providing an economic stimulus will affect economic activity, employment and incomes in local economies and explore the ways in which local governments could give an economic stimulus to their local economies. with a particular focus on the consequence and effectiveness of a local government using its purchases of goods and service to provide the stimulus. The key objectives of this Section are to make clear the distinction between providing a local economic stimulus and promoting economic development, to identify what factors determine the likely degree of effectiveness of providing a local economic stimulus and to suggest which types of stimulus are likely to have the greatest impact on a local economy's economic activity levels.

In Section 4, **Promoting Local Economic Development: Contemporary Approaches and their implications for Local Government Strategies,** we turn to consider whether, and if so how, local governments have the capacity to play a more substantial – and sustainable – role in promoting the long-run economic development and growth of their local. We define the term economic development and examine the roles that governments in general and local governments in particular can play effectively in promoting economic development. We then explain what nowadays are considered to be best-practice economic development strategies at regional as well as local levels and develop a framework within which local governments might usefully think about the desirable content of local economic development strategy. We combine this with a review of what empirical analysis has identified to be policy measures that have proven to be strong facilitators of local economic development and those that have not or even might have hindered it.

In Section 5, **What Councils in South Australia say they do: An Overview of Survey Responses,** we provide a brief overview of the results of a survey of selected councils in South Australia.[2] It identifies whether and in what form(s) councils currently develop and apply some or all of economic development strategies, policies, implementation plans and practical initiatives. The survey responses do not enable us to evaluate how successful (effective) councils have been in promoting the economic development of their local economies.

In Section 6, **Conclusions: Strengthening Local Economic Development in South Australia,** we briefly restate the conclusions of Sections 3 and 4, putting them in broader context.

Section 2: The Nature of Local Economies and the Roles of Local Governments in them

Key Points

- local economies, delineated by the jurisdictional boundaries of local governments, are small to very small measured by the total value of economic activity that occurs within them and they constitute only part of larger natural economic regions;
- local economies are also very open in the sense that substantial volumes of goods and services flow into them (imports) and out of them (exports) from within the State as well as from interstate and overseas:
  - likewise, there are substantial two-way flows of people across their borders, for example by workers employed outside their home location, by visitors for shopping or entertainment and by tourists;
- the roles of local governments within their local economies include the provision and maintenance of infrastructure and the delivery of property-related and social and community services, purchasing goods and services and employing council officers to enable them to do so:
  - they also are responsible for land-use planning and for assessing development applications;
- from an economic perspective, local governments can be seen as big individual businesses, but their expenditures are small relative to the total value of economic activity in their local economies;
- much of what local governments do as part of their core functions affects local economic activity, including providing the land and local infrastructure that facilitates business activity;
- more directly, through strategic land use planning, local governments can have a substantial impact on the business investment appeal of a local area:
  - they are also, in effect, participants in the early stages of business development projects through their role in development approvals;
- local governments typically also are partners with other governments and business and community leaders in developing and implementing regional economic development strategies and plans which also contribute to economic development in their local communities;
- Australian local governments are responsible for providing a lesser range of services than many local governments overseas and have a smaller range of taxes and regulatory functions than some of them,
  - as a consequence, their ability to influence local economic development is less than for local governments elsewhere but it is not insignificant.

In this Section, we first set out some important features of local economies delineated by the geographical boundaries of local government jurisdictions, which mostly are only part of larger regional economic catchments (natural economic regions). Particularly relevant is the fact that local economies are both small-to-very small and very open. We then turn to a preliminary examination of the roles that local governments play in their local economies, including the roles they play in local economic development incidentally to their core functions, and those that they can play by choice in promoting future local economic development. This Section foreshadows, and provides background to, later Sections. It also provides some comparisons with the roles and functions of local governments overseas which identifies limitations on councils in South Australia which they must work with or try to work around in promoting local economic development.

2.1 The nature of local economies

Measured by the value of economic activity that occurs within local governments' jurisdictional boundaries, local economies in South Australia, as elsewhere in Australia, are small to very small compared to the size of the State economy as a whole and more so compared to the size of the national economy. We do not have readily available reliable data on the size of South Australia's local economies, and for the purpose of this Report it does not matter very much, but it is worth bearing in mind that the *population* size of local jurisdictions is not a reliable indicator of even the *relative* size of their economies. For example, a rural council area with a small population might produce a large volume and value of agricultural products, thus having a high value of output per resident person, while a metropolitan council with a large population which consists largely of "dormitory suburbs" for people working in the CBD might have a comparatively low value of economic activity within its boundaries, thus having a low value of output per resident person. Capital City (CBD) councils almost invariably have high values of economic activity per resident person because the workforce employed in them is many times larger than the number of people who live in them.

An economy in simple terms is an area within which:

- local producers invest financial capital in the area to produce goods and services to sell, purchasing inputs (labour, materials and so on) to enable them to do so, thus generating jobs and incomes; and
- consumers purchase goods and services from businesses with incomes they have available to them.

Of course, in practice, there are more economic actors and activities that make up an economy and impact on it, directly or indirectly. Most relevant to our purpose, there are also local governments which gather revenue from taxes and charges on local residents and businesses and employ workers and purchase goods and services in order to provide local economic and social infrastructure and social and property related services to local residents and there are also State government agencies which provide major “enabling” economic and social infrastructure to and/or through local areas and deliver State controlled and funded services, such as law and order, health, education and skills training.

Looked at from an assets perspective, local economic activity is underpinned by transport, utilities and other infrastructure assets, business and public sector investments in facilities (structures) and plant and machinery, human capital assets embodied in people in the form of knowledge and skills, natural resource assets and environmental assets. The economic performance of local economies will also be influenced by the vitality of its social networks and linkages (its social capital) and of business networks and linkages that might form, including linkages with universities and research institutions (knowledge and information sharing networks).

Typically, local councils will be one of, if not the largest individual businesses in their local area. However, from a business *sector* perspective, the local government sector often will be among the smallest – very much smaller than, for example, the manufacturing sector, the agriculture, forestry and fisheries sector, the transport sector, the wholesale and retail sector, the building and construction sector, the financial services sector, the business and professional services sector and the personal services sector – although this might be less true for smaller, more remote council areas than for others.

The employment and incomes earned in local economies are derived from two principal sources:

(i) production or provision of goods and services for ***in-area local use***, either in production or consumption – for example, retail or wholesale selling to local residents or businesses; production of food or other inputs to local consumption or production; construction of local houses; other building or engineering construction; government services (local, State, or Commonwealth); passenger and/or freight transport services; business services (e.g., legal, financial or accounting services and maintenance of facilities and/or vehicles); and personal or home services (e.g., restaurant, hotel, banking and hairdressing services and home or vehicle repairs and maintenance);

(ii) production or provision of goods and services supplied (exported) to ***out-of-area*** businesses or people (nationally or overseas) – for example, manufactured or semi-manufactured goods; agricultural, forestry or fishery products; tourism services; and other services supplied to out-of-area businesses, individuals or households.

In all local economies, a particularly large proportion of inputs required to meet local consumption needs and for local production activities will be “imported” from outside the area. For example, virtually all products sold in local supermarkets, and in shops selling electrical goods, hardware, clothes and books and fuel and other products sold in local service stations and so on will be supplied from out-of-area sources. The value-added in the local economy – and hence incomes earned – will largely come from employment of managers and sales staff within the local shops and other local businesses, though in very small local economies even some of the workers might live and spend part of their incomes outside the local area.

Similarly for local production activity, whether farming, mining, manufacturing or service provision. While the producers might be substantial local employers, a large proportion of other inputs – such as plant and equipment, raw materials and semi-finished goods, fuel and energy and consumables – will be sourced from outside the local area. In this case, it is also likely that a large part of their outputs – such as food, minerals, manufactured goods and tourism services – will be sold to out-of-area users, adding to local incomes which will be higher than they otherwise would be.

It is in this sense that small local economies are not only small but also very open economies – a large part of inputs into local consumption and production will be purchased from outside the local area, and hence local economy, and a large part of the outputs produced locally may be sold to out-of-area markets or to residents of other areas visiting the local economy for shopping or tourism etc. Some local areas may be net importers and others net exporters.

Diagram 2.1 provides a simple depiction of key elements of a local economy and its income and capital leakages (imports) and injections (exports).

Diagram 2.1: Key Elements of a Local Economy and its External Linkages

THE LOCAL ECONOMY:
KEY LOCAL ACTORS

- local businesses producing goods and services for final consumption locally and/or export;
- local businesses producing intermediate goods and services (business inputs) for local use and/or export;
- local residents as workers;
- local residents as consumers/shoppers;
- local government as purchasers of inputs and suppliers of infrastructure and services to properties and people;
- local agencies of other governments supplying public sector services.

Leakages of Incomes and capital from the local economy (Imports)

- purchases by local businesses of consumer goods for local selling produced elsewhere;
- purchases by local businesses and local government of inputs from elsewhere;
- incomes of workers commuting from outside areas (net of local spending);
- spending by local residents on goods and services elsewhere (shopping visits, online purchases);
- spending by local residents on visits/ holidays elsewhere;
- profits/dividends paid to out-of-area owners/shareholders;
- savings of local residents;
- taxes paid to State and Commonwealth governments;
- investments elsewhere by local businesses and residents.

Injections of Incomes and capital from outside the local economy (Exports)

- sales elsewhere by local businesses of goods and services produced locally;
- sales to out-of-area shoppers by local businesses;
- sales of visitor/ tourism services;
- incomes of local welfare beneficiaries/ pensioners from Commonwealth and State governments;
- incomes (net of purchases elsewhere) of local residents working elsewhere;
- interest income paid to local residents and/or savings and withdrawals by them;
- investments locally by out-of-area businesses or people;
- borrowings by local business or residents;
- grants from State and Commonwealth governments.

Local imports, which can be regional, national or international in origin, represent a *leakage* of incomes out of the local economy, while exports which also can be regional, national or international in destination, represent an *injection* of incomes into the local economy. The net balance of imports and exports determines whether local economic activity, local employment and local incomes are augmented or diminished by inter-economy trade.

While local residents, and workers, businesses and local government will obviously welcome the boost to local economic activity, employment and incomes injected into the local economy by exports, they often express concern about the level of imports, regarding them as being a consequence of their local economy having an insufficiently diversified economic base and search for means to increase its degree of diversification. In principle, and likely in practice, this is sometimes a mistaken view. Like for trade between nations, two-way trade at local economy level can raise standards of living by allowing the local economy to concentrate on the production of goods and services in which it has a comparative advantage exporting part of its production of those goods and services and importing goods and services in which it has a comparative disadvantage. Economic development strategies may be able to strengthen a local economy's competitive advantages, including in the production of goods and services that it previously has imported, but setting diversification of its economic base as a primary objective of economic development strategies is not invariably an effective way of increasing local economic prosperity. Greater diversification might sometimes be an outcome of best-practice local economic development initiatives but it might not. It is especially unlikely that diversification will be an optimal strategy for many small local economies.

The fact that local economies are very open – have significant import and export flows – has important implications for the effectiveness of initiatives designed to give them an economic stimulus and for the design of local economic development strategies. Why this is so and its implications are explained in Sections 3 and 4, respectively.

2.2 The roles of local governments in their local areas and their local economies[3]

All local governments in Australia, those in South Australian included, under State Local Government Acts nowadays have the authority to provide for "good governance" of their local community through powers of general competence conferred on them: that is, they are able to take on any role not precluded by other legislation. They also are designated as responsible authorities for undertaking functions and providing services on behalf of other governments and they undertake a number of functions and services jointly with other governments, most notably in health and social services.

In broad terms, the principal roles of local governments in Australia include:

- representation of local interests;
- governance and advocacy;
- planning and community development;
- regulation;
- provision of infrastructure; and
- delivery of property-related and community-related services.

They have legislative and regulatory functions defined in statutes that enable them to make and enforce local laws within their jurisdictional area, Particularly important for present purposes, local governments are also responsible for undertaking land-use and environmental planning decisions and for assessing approving development applications – although in these regards their decisions can be shaped, or constrained, by planning legislation and other State-wide strategies and plans drawn up by State governments.

There are significant differences in the patterns of expenditures by local governments between States as well as within them, for a variety of reasons. The only structural difference between Australian States arises from the fact that in some parts of Queensland, Tasmania and New South Wales, local governments remain involved in the provision of sewerage and water supply services. Other differences arise from historical and geographic circumstances and choices made by States and their local governments about services to be delivered by local governments. For example, councils in Western Australia and Queensland are required to maintain a larger than average network of roads; the Brisbane City Council, covering the whole Brisbane Metropolitan area, provides urban public transport services; and a significant proportion of councils in Victoria provide some health and community services on behalf of both the national and Victorian governments.

As a general observation pertinent to this Report, there would seem to be little or nothing, resource constraints apart, that would preclude local governments in Australia from taking on whatever role they might wish to play in providing economic stimulus or promoting economic development within their local economies.

We now turn to examine the roles and functions that councils in South Australian have chosen to play and to attempt to identify what of their chosen roles might be considered to be directed at, or at least associated with, local economic development. A further sub-section provides a brief discussion of the differences in roles played by local governments overseas compared to those in Australia and what significance there might be in those differences in enabling or constraining local governments to promote local economic development.

2.2.1 The roles played by local governments in South Australia

While there is no need for our purposes to examine in detail the roles and functions of local governments in South Australia, some high-level facts and data, and observations based on them, will help to begin the process of pointing towards the roles local governments do play, can play and arguably should play in promoting local economic development.

Table 2.1 sets out the service delivery functions the South Australian Local Government Grants Commission (SALGGC) identifies as material to its assessments of how the Commonwealth's General Purpose funding for local governments in South Australia should be distributed to achieve as high a degree of fiscal capacity equalisation as is possible with the quantum of funds available while providing all councils with a specified minimum grant as required by Commonwealth legislation. While it does not include all service delivery functions, it covers the major functions and provides a finer-grained picture than is available from the Australian Bureau of Statistics (ABS) Functional Classification of Government Outlays. Using what research undertaken by SALGGC has identified as the principal drivers of expenditure needs for each council for each type of service, the list has been sorted between "traditional" property-related services that have been the core business of local governments since their establishment and the social (people and community-related) services that have become an increasingly large part of the roles played by local governments since the mid 20th Century.

Table 2.1: Principal service delivery functions and operating expenditure drivers for councils in South Australia identified by the South Australian Local Government Grants Commission

Service Delivery Functions	Principal Drivers of Operating Expenditure Needs
Property Related Services	
• Waste Management Services	No. of residential properties
• Stormwater Drainage Maintenance	No. of urban properties[1]
• Local roads, footpaths and kerbing, etc.; maintenance and renewal[2]	Kms of roads, footpaths and kerbing[2], etc.
• Planning and Building Control	No. of new developments and additions
• Public Order and Safety[3]	Total no. of properties, all types
People/Community Related Services	
• Aged Care Services	Population 65+ years
• Services to Families and Children	Population 0-14 years
• Community Support Services[4]	Adjusted residential population[4]
• Library Services	No. of library visitors
• Sport and Recreation Services[5]	Population 5-64 years
• Health Inspection	No. of establishments to inspect
Other Services (where applicable)	
• Cultural and Tourist Services	Expenditure needs assessed to be either high, medium or low[6]
• Environmental and Coastal Protection Services	
• Jetties and Wharves Maintenance	No. of jetties and wharves
• Bridge Maintenance	No. of bridges

Notes:
1 All residential, industrial and commercial properties, including rates-exempt properties.
2 For each council, expenditure categories are subdivided into (e.g.) sealed/unsealed, formed/unformed, built-up area/not built-up, and are also adjusted for soil type, rainfall, drainage and materials haulage, to reflect the different drivers of costs per km for maintenance and renewal of road and related infrastructure. Expenditures recorded in this category also include operating outlays on traffic management, bus shelters, car parks, street-cleaning, street-lighting and street-scaping.
3 Includes, among other things, emergency services, fire protection, crime prevention and dog and cat control.
4 Includes preventative and other health services, various uses of community centres and halls, and provision of community transport and/or town bus services, as well as broader community assistance and support. Population numbers of each council are adjusted by a SEIFA Index of Advantage/Disadvantage to reflect the likely differential effects of the socio-economic characteristics of council areas.
5 Includes maintenance of parks and gardens (and public conveniences) as well as use of indoor and outdoor sport and recreation facilities.
6 For these services, and a number of other cost-driving factors which differ significantly between council areas, SALGGC makes judgements about their likely influence on councils' expenditure needs based on experience, evidence submitted to it and knowledge gained through Commission visits to council areas.

Source: Adapted and modified from South Australian Local Government Grants Commission, *Annual Report 2010-11*, pp. 15-16.

SALGGC does not publish the expenditure data it gathers from councils against each of these service delivery functions. However, data published by the Office of State/Local Relations, presented in Table 2.2, provides broad orders of magnitude for some of the largest groupings of functions, representing, in total, more than half ($957 million) of total operating outlays ($1,724 million) by local governments in South Australia in 2010-11.

Not surprisingly expenses for maintaining and renewing roads, footpaths and kerbing is by far the largest source of operating expenses, but other categories, notably sports and recreation and community services and public safety, are not completely dwarfed by it.

Sitting behind the provision of services to properties and to people is some $19.1 billion worth of physical assets (valued at depreciated replacement cost) owned and managed by local governments, not the least being the huge networks of roads, footpaths and stormwater drains. Table 2.3 identifies the principal forms of non-financial assets owned and/or managed by councils, while Figure 2.1 indicates the shares of different physical asset types in the total value.

Table 2.2: Total Operating Cost of Selected Council Services: 2010-11 (all councils combined)

Selected Council Services	Total Operating Cost ($m)
Maintaining and renewing roads, footpaths and kerbing	313
Recreation and sport	200
Community services and public safety	193
Waste recycling	143
Libraries and culture	108

Source: Office for State/Local Government Relations, *Local Government Finances: Financial Performance and Position*, (available at www.localgovt.sa.gov.au/local_government_finances).

Table 2.3: Principal forms of non-financial assets (i.e. infrastructure and other physical assets) held by councils

- Land constituting council reserves, including land held for real estate developments;
- Land improvements including, for example: footpaths; car park seal or pavement and kerbing; playground equipment; fencing on reserves; reserve furniture; sports courts/facilities; irrigation equipment reserves; landscaping reserves; and other structures;
- Infrastructure, especially roads and footpaths and stormwater drains;
- Buildings and other structures, including offices, libraries, sport and recreational facilities etc., and investment properties;
- Plant and Equipment;
- Furniture and Fittings;
- Library Books; and
- Inventories, including work-in-progress.

Source: various, including councils' annual reports.

From the perspective of the role of councils in promoting economic development, several points can be made.

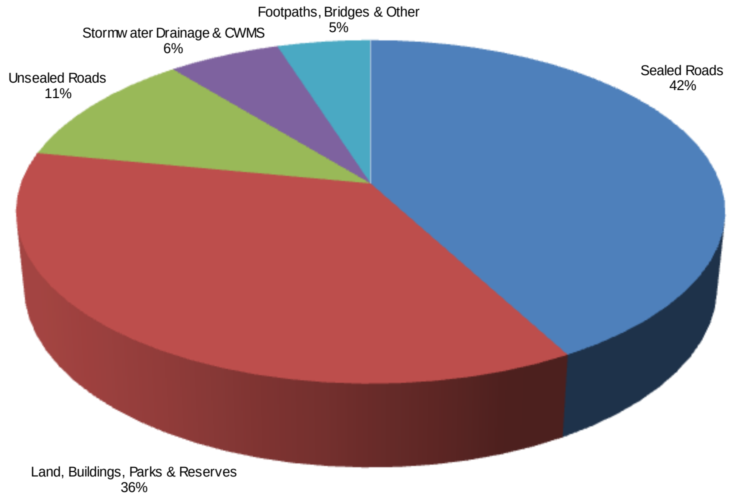
The first point is that the operating outlays and related services identified in Table 2.1 that SALGGC takes into account in assessing the appropriate distribution of Commonwealth General Purpose grants among councils does not include what might be termed Economic Development Services. In a methodology review undertaken by SALGGC in 2006-07 expenditures on Economic Development Services were identified and modelled to assess whether their inclusion in the Commission assessments would make a material difference. A decision was made not to include them, on the grounds that their inclusion would not make a material difference to SALGGC's assessments.

That councils' expenditures in aggregate across the State which are attributable to economic development services are, indeed, small is confirmed by data from the functional classification of outlays by local governments in South Australia, set out in Figure 2.2.

At only 3 per cent of total operating expenses by all councils of $1,724 million in 2010-11, spending on economic development amounted to only $51.7 million spread across 68 councils, with the large metropolitan councils likely accounting for a particularly substantial share.

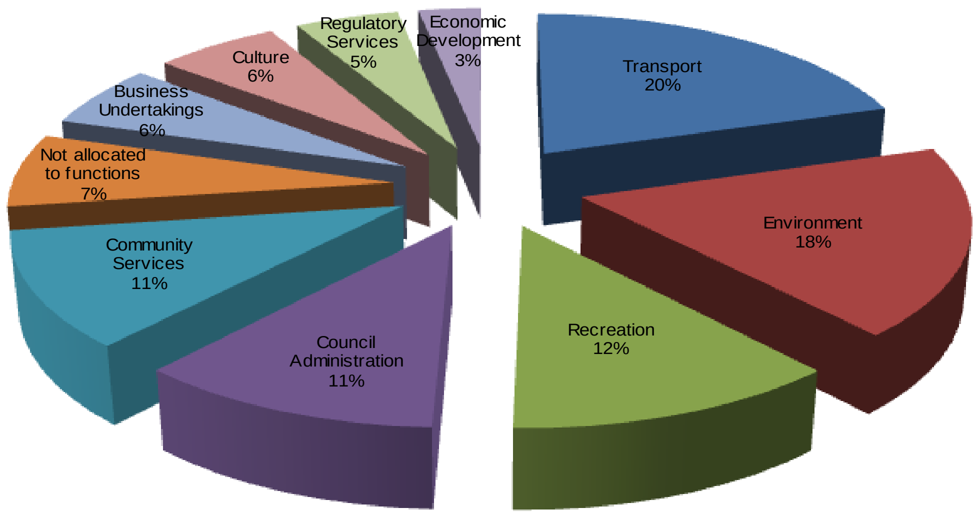
However, this should not be taken to necessarily mean that economic development activities by councils are nugatory. The survey of selected councils undertaken for preparation of this Report (see Section 5) suggests that only the largest of councils employ an Economic or Business Development officer (but councils support Business Development officers and functions through their contribution to RDA funding); that the costs of many of the economic development policies and initiatives they adopt will show up in other functional areas' operating expenses rather than in a consolidated economic development budget (e.g., the cost of giving preferences to local suppliers in procurement decisions); and that the costs of some activities they undertake which probably do get recorded in economic development expenses are small to very small (e.g., promoting 'buy local' campaigns, providing information and marketing about their local economy and/or providing support for the provisions of business advice). Moreover, for relatively modest financial contributions to their regional RDAs, local governments benefit from the contributions of other governments in developing regional strategic plans and from the funding of initiatives in their regions from Commonwealth and State regional development grant funding, even if the initiatives are not geographically located in their area of jurisdiction. For particularly large strategies and initiatives, moreover, councils may be able to attract State (and possibly Commonwealth) financial and/or in-kind support: this is particularly likely when an area has suffered sustained adverse economic circumstances or where it is central to State government plans for, for example, population growth or promoting economic diversity or contributing to the seven State strategic priorities.

Figure 2.1: Local Government Infrastructure and other physical assets in South Australia
Depreciated replacement cost at 30 June 2011 – $19.1 billion
Per cent of total by asset type



Source: Office for State/Local Government Relations, *Local Government Finances: Financial Performance and Position*, (available at www.localgovt.sa.gov.au/local_government_finances).

Figure 2.2: Operating Expenses by Local Government Function in South Australia, 2010-11



Source: Office for State/Local Government Relations, *Local Government Finances: Financial Performance and Position*, (available at www.localgovt.sa.gov.au/local_government_finances), from data provided by the South Australian Local Government Grants Commission.

Equally important, if not more so, as we will have reason to explain at length in Section 4, some of the most effective – and cost-effective – things local governments can do to help increase the economic health and prosperity of their local areas amount to focussing on doing better what they already do as part of their core function. For example, improved strategic planning, strengthened community and business engagement in the development of visions, strategies and plans, greater consultation with RDAs and other governments, making fuller use of their natural attributes and/or natural resources, providing more adequate and/or higher quality local infrastructure, services and amenities and more strategic and flexible zoning and streamlined development applications processes, among other things that "get the foundations right", can help make their locality a more attractive place to live, work and invest in, irrespective of what more targeted economic development initiatives they might, or might not, pursue.

So, the bottom line so far as this first point is concerned is that small budgets specifically designated for economic development do not necessarily signify a lack of commitment to promoting local economic development and much can be achieved with relatively modest funding.

The second point to be made about the fact that councils currently appear to provide few dedicated resources to local economic development, related to part of the first point, is that much of what councils do as part of their core functions will affect local economic activity, even if only incidentally to some other purpose.

At the broadest level, strategic land use planning, which is a significant responsibility of local governments, can have a substantial impact on the business investment appeal of a local area by ensuring that adequate and appropriate land is available for business and industrial development. Local governments are also, in effect, partners in the early stages of business development projects through their role in development approvals. And, of course, they provide the local infrastructure that facilitates business activity, especially roads, drains and the like.

Of more direct impact on local economic activity are local governments':

- expenditures on goods and services for the provision and maintenance of services to residents (especially the extent to which supply contracts go to local rather than out-of-area businesses);
- expenditures on asset renewal/replacement and on new/upgraded assets (again, especially the extent to which supply contracts go to local rather than out-of-area businesses);
- rate setting policies and fees and charges related to business activities, which can influence business activity levels and types of business activity;
- planning and approvals processes, including especially land use and town planning and building approvals, which can influence whether and what types of business activity can occur in their local areas (commercial, industrial, etc), and whether and to what extent there is residential and/or other building and construction activity occurring in their local areas;
- promotional activities of benefit to local businesses (e.g., tourism promotion through advertising, community festivals etc); and
- whether and to what extent local governments themselves engage in commercial activities (e.g., land development, or running local airports, caravan parks, abattoirs or sale yards, or recycling etc.) which would not otherwise have occurred and which use local labour and other inputs.

It is also the case that local governments may be able to influence local economic activity levels to the extent that they are able to influence local spending by the Commonwealth or State governments for their own purposes – for example, capital expenditures on State or national roads or on school and police buildings that employ local inputs or where other governments' agencies locate staff and purchase local inputs for service delivery purposes.

All that said, the fact that local governments' local economies are typically only part of larger natural or functional economic regions dictates that they should participate in the development and implementation of economic development strategies and plans cooperatively at appropriate regional scale, and embed their local-area-specific strategies and initiatives within them, in order to achieve maximum effective. Regional organisations of councils and RDAs provide vehicles for doing so – differently for different purposes – and in the case of RDAs access to significant amounts of Commonwealth funding for infrastructure projects is made available. Although not always seen to do so, the development of RDAs has arguably drawn local governments more firmly into economic development strategy and given greater prominence to the importance of localism as the foundation for economic development decision-making by central governments.

The decision of the South Australian State government to withdraw from core funding is, in our view, a retrograde step which flies in the face of modern thinking about and practice of local and regional economic development promoted by the OECD and other international expert authorities. We have more to say about this in Section 4.

2.2.2 The roles of local governments overseas

As measured by expenditures, local governments in Australia have a much more limited scale and scope of local activities than those in virtually every other part of the developed world. The ratio of aggregate outlays by local governments to GDP in Australia is about 2.5 per cent. In other mature federations (Canada, Germany, Switzerland and the USA), local government outlays range from about 6.5 per cent to about 10 per cent of GDP. Looked at in terms of taxation revenues, local government revenues in Australia constitute less than 3 per cent of total taxation revenues collected by all governments, compared with about 8 per cent in Canada and Germany and almost 15 per cent in the United States. In most developed economies with essentially unitary systems of government, the functions delegated to local government generally involve even larger ratios to GDP – for example, about 14 per cent in the United Kingdom and about 37 per cent in Denmark, with most somewhere in the teens (though note New Zealand as an outlier at only 4.5 per cent) . The differences between Australia and elsewhere reflect the facts that:

- in other federations, local governments have some expenditure functions that are reserved to State level in Australia, most notably primary and secondary education, health including hospitals, police and justice services, and utilities, though variable across countries; and

- in unitary systems, local governments tend to be a hybrid, with even more of what are State level functions in most federations and sometimes even some of what are central government functions in most federations.

What makes the differences particularly significant from an economic development perspective is that, (as further analysed in Section 4 of this Report) along with the quality of local amenities, the variables that have been demonstrated to most strongly and consistently explain differences in the economic prosperity of different localities are high school completion rates (high completion rates lead to higher economic prosperity) and crime rates (higher crime rates lead to lower economic prosperity). In other countries, local governments have a capacity to directly influence those important variables whereas in Australia localities rely almost entirely on State government agencies to achieve the desired outcomes. This is a matter of substantial significance where a cooperative place-shaped approach between local governments and the relevant State agencies in South Australia could have substantial pay-offs, State-wide.

On the revenue raising side, there are obviously related differences, too. However it is notable (though unsurprising) that a large part of the difference in scope and scale of local government expenditures between Australia and other countries is funded by larger grants from other levels of government. For example, while the best estimate of Commonwealth and State grants to local governments in Australia is that they represent about 17 per cent of local government total revenues (PC 2008), in the USA grants to local governments represent about 40 per cent of local government total revenues. The gap between own-source revenues relative to GDP in Australia and the USA is significantly smaller than the gap between own-purpose outlays relative to GDP (5 percentage points vs. 6 percentage points). At the same time, local governments elsewhere also sometimes have a wider range of own-source revenue-raising powers. Again, the difference between Australia and the USA is most notable among federal countries. In the USA over 13 per cent of local government own-source revenues are raised from sales taxes (over 10 per cent) and personal and corporate income taxes (about 3 per cent) compared with property taxes representing about 28 per cent of total revenues. This gives local governments in the US *different* ways of influencing local economic activity through revenue raising strategies and arguably more effective ways of doing so.

The greater capacity of local governments elsewhere to influence local economic development and growth does not derive from them having a specific instrument or set of instruments for doing so. Rather, like for central governments, it derives from them using their fiscal and regulatory powers to influence activity. Their influence is potentially greater than for local governments in Australia because of the size and scope of their fiscal and regulatory powers. Also, importantly, especially in recent years local governments elsewhere (in the UK and Europe in particular) have used partnerships between themselves, businesses and their communities to help develop and implement *strategies* to promote local economic development – similar in intent to what RDA Committees are attempting *at a regional level* in Australia. In some cases – particularly in larger cities – the partnership activities have been formalised and institutionalised through the establishment of local development agencies to implement the collaboratively agreed strategies, often with names (e.g., Invest Toronto) that reflect the essence of the strategy.

The increased use of partnerships including participation by the business sector as well as community representation reflects recognition of at least two facts. One is that mobilisation of endogenous local resources to enhance local economic development and growth requires participation by the business sector. The other is that, even if they have economic development officers and economic development strategies, business and economic development is not a core competence of local governments.

The latter point is a very important contextual matter. Local governments are democratically constituted entities charged with protecting and enhancing the lives, and representing the interests, of their constituents. Their principal roles and core competencies lie in:

- representation of the interests of their communities and accountability to them;
- service delivery and land use planning to meet community needs;
- management of the supply of amenities and services; and
- environmental management at a local level.

If local governments want to achieve objectives and outcomes that lie outside these core roles, they need to draw in and engage with those who have the competences that local governments themselves naturally lack – or at least have no comparative advantage in providing. This is especially the case with promoting economic development and growth where the principal actors with the required knowledge skills are businesses. Partnerships with the business community provide the vehicle through which local governments can have an effective influence on local economic development.

Section 3: An Economic Stimulus: What It Is and What Local Governments Can Do to Provide One

Key Points

- as the term is used by public sector policy practitioners, an economic stimulus initiative is a discretionary, temporary measure aimed at increasing an economy's economic activity and employment levels during an economic downturn,
  - a stimulus is usually applied by temporarily increasing public sector expenditures or reducing tax collections for the duration of the downturn, withdrawing the stimulus progressively as economic conditions improve;
- discretionary economic stimulus measures add to the stimulatory effects that automatic fiscal stabilisers provide to an economy during a downturn through automatically reducing taxes collected from an adversely affected locality and automatically increasing incomes in the locality through the payment of unemployment benefits,
  - the stimulatory effect of the automatic stabilisers occurs more-or-less contemporaneously with the downturn, is proportional to the magnitude of the downturn and progressively diminishes as economic activity eventually increases;
- acting alone, a local government could provide a discretionary economic stimulus to its local economy by temporarily increasing its own-purpose outlays on goods and services or reducing its own-source revenue collections;
- the initial effect of a stimulus provided by a local government would be to increase sales of relevant private sector businesses leading to increased employment and increased incomes of those newly employed;
- however, in a small, open local economy, part of increased incomes and expenditures created by an economic stimulus "spill out" through increased purchases by local businesses and/or residents of goods and services produced elsewhere (imports), the payment of increased taxes to central governments and increased savings by local residents,
  - this reduces the magnitude of the multiplier effect of an economic stimulus and hence the magnitude of the final impact on local economic activity;
- local governments' expenditure on goods and services are small relative to the aggregate value of economic activity in their local economies – less than 1.5 per cent of the total value of economic activity on average, somewhat lower for some local governments and higher for others,
  - consequently, the logistically and politically feasible size of a temporary increase in a local government's expenditure on goods and services (or of reduced revenue collections) will be small and so, as a result, will be the final impact of the initial stimulus on local economic activity;
  - in fact, the final impact on local activity will be measured in tenths of one per cent – a negligible impact by any standard;
- the only way a local government could achieve a significant local economic stimulus would be by obtaining from a central government a substantial temporary grant to be quickly spent locally or a temporary increase by the central government in *its* own-purpose outlays in the local area,
  - however, central governments are resistant to providing that type of support for local governments other than in exceptional circumstances: they generally apply the principle that localities should (learn to) be resilient in the face of changes in their economic circumstances;
- the only possible conclusion is that local governments have negligible capacity to provide an effective economic stimulus to their local economies.

In this Section, we begin by explaining what is meant by an economic stimulus as the term is used by public sector policy practitioners and draw a clear distinction between providing an economic stimulus to a local economy and promoting the economic development of a local economy. We then examine the ways in which providing an economic stimulus will affect economic activity, employment and incomes in local economies and explore different ways in which local governments could give an economic stimulus to their local economies, with a particular focus on the consequence and effectiveness of local governments using their purchases of goods and service to provide the stimulus.

3.1 The meaning and nature of "providing an economic stimulus" to a local economy

Although the term economic stimulus often appears to be used in an alternative way with a substantively different meaning, among public sector policy practitioners it refers to a short-term, temporary (i.e. time-limited) policy initiative primarily intended to provide a boost to employment levels when an economy is experiencing a downturn in its level of economic activity. Box 3.1 provides a more detailed explanation of the nature of an economic stimulus initiative defined in this way.

The alternative use of the term economic stimulus that is often made aligns it more with economic development policy initiatives, applied in a sustained way, which are designed to improve (boost) the *long-run* economic performance of an economy, raising its trend rate of economic and employment growth. A more complete overview of the nature of economic development initiatives and strategies is provided in Box 4.1 in Section 4. It is clear from the results of the survey conducted as part of the preparation of this Report that this is the interpretation councils have generally put on the term economic stimulus in their responses. As a consequence, the results of the survey are more pertinent to the discussion in Section 4 of this Report than to this Section.

Box 3.1: The nature of economic stimulus initiatives

A local economic stimulus initiative is one that is discretionary, temporary (i.e. time-limited) and *primarily* aimed at achieving a local economy's full *current* economic potential, measured by economic activity levels, employment and incomes. This type of initiative, at national level, is referred to as a macroeconomic management initiative, or a demand management initiative. Even in an economy that is in good long-term health, with a reasonable trend rate of economic and employment growth, fluctuations around the trend can and do occur. When a substantial downturn occurs in economic activity levels and there is a substantial rise in unemployment, a *discretionary* decision is sometimes made to implement *temporary* stimulus measures to help return the economy to its trend growth path faster than it otherwise would. The most recent example in Australia at national level was during the Global Financial Crisis and was, in fact, explicitly referred to as a stimulus initiative: *the Nation Building – Economic Stimulus Plan*. It consisted of increased Commonwealth government expenditures comprised largely of two tranches of cash payments to individuals and families and funding for new capital works programs, principally for schools and community infrastructure. To achieve maximum effect, the increased expenditures were not even partially offset by tax increases but, rather, funded from borrowings allowing the Budget to go into deficit. The initiative was expressly designed to be time-limited and to wind-down progressively as the economy returned towards its trend growth path.

The national economic downturn that the *Economic Stimulus Plan* aimed to moderate was caused by the global flow-on effects of the financial crisis in North America and Europe. A local economic downturn can occur as a result of adverse national trends reducing demand for locally produced products or as a result of more localised events, such as a period of drought.

Although it is possible that some policy initiatives could be designed to provide both sorts of boost – applied in the short-run and sustained in the long-run – it will be helpful and preferable to reserve the term economic stimulus initiatives to those that are aimed at meeting short-term economic objectives and designed to be wound down and eventually withdrawn when more normal levels of economic activity are restored. Accordingly, we leave discussion of the alternative meaning attached to the term economic stimulus until Section 4, which is concerned with local economic development.

3.2 How an economic stimulus initiative works and what determines its likely impacts and effectiveness

Before turning to consider how an economic stimulus to their local economies might be provided by local governments, we explain in broad terms how an economic stimulus works, especially in local context: knowing how it works is important to deciding whether providing an economic stimulus is worthwhile and, if so, what types of stimulus are likely to be most effective.

3.2.1 The basics, with multiplier effects

To keep things simple initially, suppose a local government area facing a substantial economic downturn in its economy received temporary assistance to boost economic activity and employment from the State government through a grant to be spent on a local infrastructure project (e.g. road upgrades or new community facilities) and that the local government was well-placed to begin spending on the project rapidly because it had been thoroughly scoped and pre-planned and was awaiting a budget allocation by council. Also suppose for convenience (though somewhat unrealistically) that the labour force for the construction project is fully sourced locally from among workers who were unemployed or underemployed and that material suppliers also take on additional unemployed local workers.

As a consequence of the start-up of the stimulus initiative, achievement of the prime objective of the State government in providing the grant-funded stimulus begins to be achieved: local employment increases and unemployment falls. Then, when the workers and business owners spend their wages and incomes, so-called multiplier effects begin: local shops, service providers and the like make increased sales and begin to purchase new stock, and at least some might take on additional employees. This in turn results in further increases in local economic activity, employment and incomes in increasingly diverse business sectors.

Whether an economy that receives a stimulus is large or small, and open or closed to trade, there are two factors that invariably limit the magnitude of the multiplier effects that follow the initial impact of the stimulus initiative on employment and incomes. One of those factors is that the increased incomes and expenditures that flow-on from the implementation of the initiatives are subject to taxation which flows out of the economy into government coffers. At each stage in the multiplier process the increase in disposable incomes is less than the increase in pre-tax incomes and less than at the previous stage. The second factor is that, out of the additional disposable incomes they receive, at least some people will add to their savings (possibly more so than usual because of the uncertain economic future) so that at each stage of the multiplier process the additional expenditure is also less than the additional disposable income. Both the additional taxes paid and the additional savings made out of the incomes generated by implementation of the stimulus initiative are leakages from the flow of additional incomes and the higher they are, the lower is the multiplier effect and the smaller is the final total impact of the initiative on economic activity and employment.

The hope (expectation) is that by the time the temporary spending initiative that gave the stimulus to the local economy in the first place comes to an end, the adverse circumstances that had given rise to the local economic downturn will have faded so that the slack which would otherwise occur when the time-limited stimulus comes to an end will be picked-up by the return of local economic activity to its more normal level.

3.2.2 The consequences of the openness of local economies

The discussion to this point has set aside one of the central features of local economies identified in Section 2. That is, they are very open, with many goods and services consumed within them imported from other areas and locally produced goods and services exported for sale in other geographical areas.

A consequence of this openness is that some of the potential local benefits of an economic stimulus will “spill-out” of the local economy, additional to the leakage of taxes and savings noted earlier, reducing the final impact of the stimulus initiative on local incomes and employment on that account. This would clearly be the case if some of the increased incomes resulting from the stimulus are spent, for example, on goods and services imported by local supermarkets or if some of the additional employment opportunities are filled by workers who commute from other nearby jurisdictions and spend part of their earnings where they live rather than where they work. But many other potential sources of spill-outs are likely to come into play, too, as indicated in Diagram 3.1.

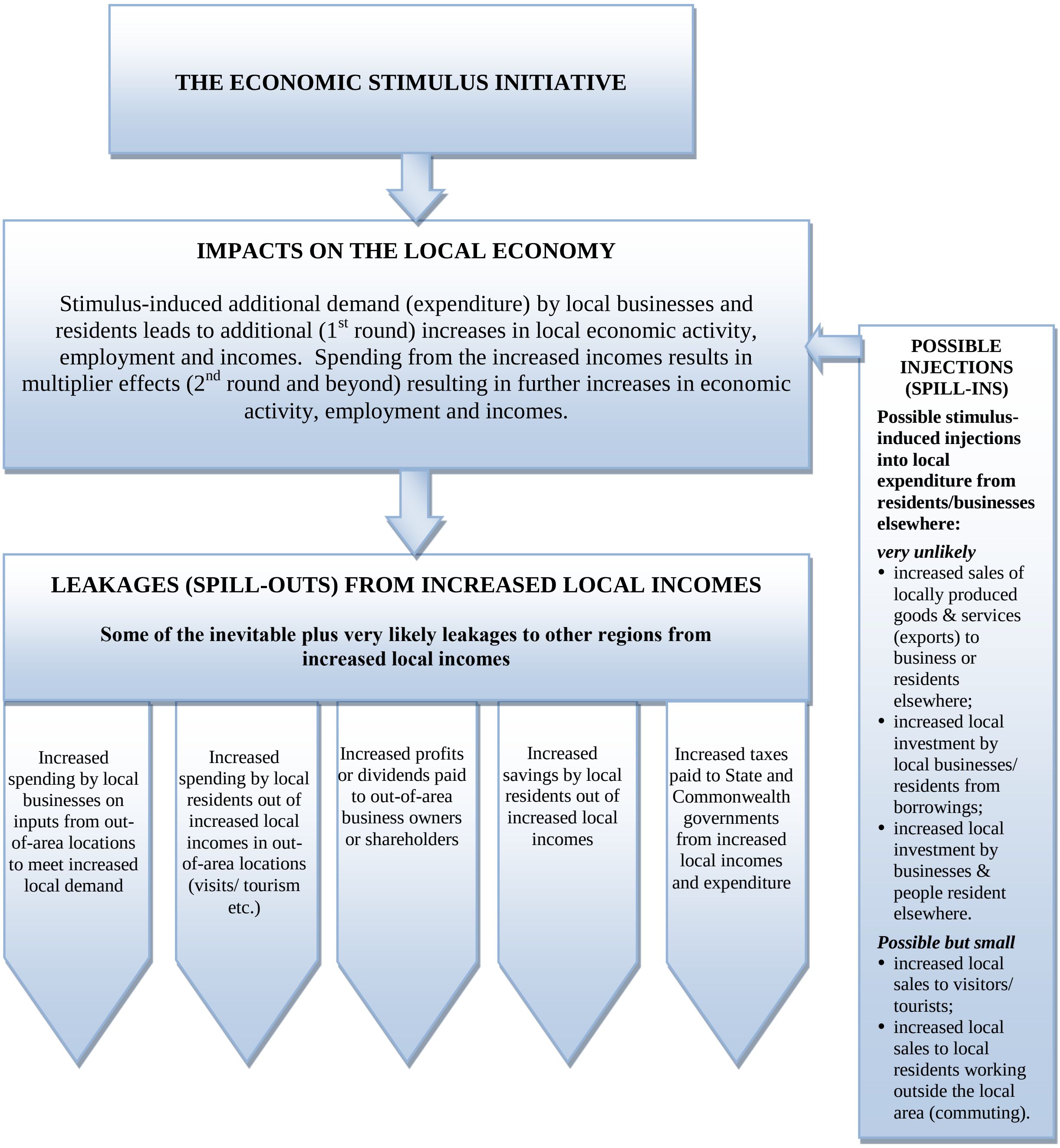
On the other hand, the effects of the stimulus might also include inducing “spill-ins” of expenditures locally out of incomes earned outside the local economy. For example, a revitalised local area might prove more attractive (again) to visitors from surrounding areas and/or tourists, and local residents or businesses might have restored confidence to take out loans to fund local investments and business activity. However, the local stimulus *per se* will not change the external economic conditions faced by local businesses: it will not, of itself, result in increased export demand for locally produced goods and services, save perhaps from nearby areas whose local economies directly benefit from increased demand (the spill-outs) from the increased activity levels in the revitalised local economy. So, on balance, it is highly likely that the spill-outs that occur from a local economic stimulus initiative exceed the spill-ins induced by it.

This is the local economy counterpart of a long-recognised fact that attempts by State governments to engage in “macroeconomic management” of their economies are likely to prove to be of limited effectiveness because there will be substantial leakages (spill-outs) to other States (and overseas) of expenditure from increased incomes in the State where an economic stimulus is applied and these leakages from increased Statewide incomes and expenditures are likely to be only very partially offset by increased injections of expenditure into the State from external sources induced by its implementation of the economic stimulus. The effectiveness of applying an economic stimulus to a local economy will almost invariably be much less than applying one to a State economy. Given their small size and relatively less diversified economic bases, local economies are even more reliant than State economies on imports of goods and services (interregional plus interstate plus overseas), even more subject to other income outflows (taxes to the State as well as the national government and profits and dividend payments to out-of-area State residents as well as to residents of other States and overseas; for example) and even less likely to induce injections of increased expenditure from out-of-area sources as a result of applying a local economic stimulus measure.

Of the course, the magnitude of the final impact on a local economy of a stimulus initiative when all the multiplier effects and spill-outs and spill-ins work their way through depends, among other factors, on the magnitude of the initial stimulus and the nature of the initial stimulus (for example, whether it involves increased public sector expenditure or reduced taxes and if it is an expenditure increase what type of expenditure) as well as on the degree of dependence of the particular local economy on imports of goods and services and the scale of other income outflows.

Whether a local economic stimulus initiative is funded by the local government or by the State or national government makes a difference, too. However, before examining what difference it makes, we briefly discuss the role of so-called automatic stabilisers of economic activity levels.

Diagram 3.1: Economic Impacts of Local Economic Stimulus Initiatives



3.2.3 The national tax-transfer system as an automatic economic stabiliser mechanism

In any circumstances in which an economy – whether national, regional or local – experiences a downturn in economic activity and employment levels, a fiscal mechanism *automatically* kicks-in which reduces the extent to which disposable incomes fall, helping to partially offset what otherwise would be the magnitude of reductions in expenditures, with flow-on effects that include reducing the extent to which general economic activity and employment fall. The mechanism is not explicitly designed for that purpose, but, rather, is a beneficial consequence of the interaction between the progressivity of the national government's tax system and elements of the "welfare" benefits system.

Other policy settings unchanged, if incomes fall in a particular locality because unemployment increases, aggregate tax collections from that locality automatically fall as a result of the reduced taxable incomes of at least some people and of the consequent reduced aggregate consumption expenditure otherwise subject to indirect taxation (GST, excise duties etc.). At the same time, aggregate public sector expenditure in the locality is likely to automatically increase as a result of increased numbers of people receiving income support (unemployment benefits) provided by the national government and/or increased spending on job search, employment and training programs provided (variously) by the national government and State governments to all who meet universally applied eligibility criteria. As a result, aggregate disposable incomes and expenditures in adversely affected localities fall less than they otherwise would, supporting higher levels of economic activity and employment than otherwise would be the case. The stabilising effect can be substantial – large enough to avoid a general economic downturn becoming a source of substantial economic distress in localised pockets.

One of the particular benefits of the operation of the automatic stabilisers is that they are inherently counter-cyclical and generally timely in their effects. That is, they provide a stabilising effect only in circumstances in which one is needed, do so more-or-less precisely when it is needed, have an effect proportional to the magnitude of the downturn, and wind-back their influence more-or-less contemporaneously with improvements in underlying economic conditions. Major challenges for the design and implementation of *discretionary* economic stimulus initiatives include anticipating the right timing (start and finish) and being able to match implementation of the initiative with the desired timings, and applying a stimulus of the appropriate nature and magnitude. In practice, stimulus initiatives have often been:

- slow to make an impact because of time taken to decide on the contents of the initiative and further time taken to start them up;
- delayed in having effects once the initiatives have been implemented because of unanticipated delays in reaching milestones set for the release of further tranches of funding to parties undertaking components of stimulus activities;
- smaller or larger and/or shorter or longer than necessary to achieve the intended outcomes because the magnitude and extent of the downturn is less deep or deeper than anticipated and/or longer or shorter in duration than anticipated; and
- pro-cyclical rather than counter-cyclical towards the end of the implementation phase because the economy has returned to more-or-less full employment while the stimulus is still being applied, continuing to put upward pressure on demand, leading to the risk of inflationary pressures arising and destabilising the economy in its new growth phase.

3.3 The potential effectiveness of local economic stimulus initiatives funded and implemented by local governments themselves

At national government level, there are two potentially effective tools available for implementing discretionary economic stimulus initiatives – monetary policy settings (interest rate levels) and fiscal policy settings (taxation and expenditure patterns and levels). At local (as well as State) government level only their own fiscal policy settings (own-source revenues and own-purpose outlays) provide a *potentially* effective, flexible tool available to them to implement economic stimulus initiatives at their own discretion. Our discussion will be focussed primarily on what local governments can themselves do for their local economies, though some consideration will be given to whether and how intergovernmental cooperation might help to increase the effectiveness of local stimulus initiatives.

In broad terms, **the only two ways** in which local governments could hope to provide a significant economic stimulus by themselves to their local economies are to increase their own-purpose outlays or reduce their own-source revenue collections (or some combination of the two), financed by increased borrowings or sales of financial and/or physical assets.[4]

Since we have already established in the preceding section that the effect of spill-outs, net of spill-ins, resulting from a local economic stimulus initiative are likely to be large, the most important remaining objective is to get at least a feel for the likely magnitude of the strictly local impact of a local stimulus initiative. We attempt to do so with particular reference to the use of local governments' purchase of goods and services.

3.3.1 Using local government budgets to stimulate local economic activity and employment: expenditure increases

Local governments' expenditure on goods and services is very diverse. Table 3.1 sets out the typical content of major categories and subcategories of types of goods and services that are the principal components of a procurement budget at local government level.

Clearly, procurement expenditure reaches into many business sectors and for some local firms that are regular suppliers, councils' purchases might constitute a high proportion of their business activity. The extent and spread of councils' purchases of goods and services are probably more extensive than for other businesses in small local economies.

Importantly, however, purchases of some types of goods and services are almost inevitably and invariably from firms that are based outside councils' jurisdictions, with only a modest part of their expenditure on delivering local services representing local content. SACES has been unable to obtain reliable estimates of what procurement expenditures by councils are on local content. We do have some limited data relevant to this from the survey conducted for preparation of this Report, but only for individual categories of purchases, not the total. It should be said, however, that the councils included in the survey cannot safely be considered to constitute a representative sample, including because the two metropolitan councils were unable to provide data on the local content of their purchases. Table 3.2 present what data the survey did provide.

Table 3.1: The Principal Contents of Local Government Procurement Categories

	MAJOR PROCUREMENT CATEGORIES								
	Construction	**Utilities**	**Equipment**	**Fleet**	**Asset Mgt**	**Professional Services**	**Materials**	**Operations**	**ICT**
PROCUREMENT SUB-CATEGORIES	Building	Electricity	Hardware	Fuel	Building	Consultancy	Concrete	Environment	Hardware
	Civil	Water	Irrigation	Heavy Fleet	Carpentry	Engineering	Construction	Pool	Network
	Concrete	Gas	Landscaping	Light Fleet	Cleaning	Environment	Gas	Street Cleaning	Phones
	Electrical		Parks	R&M	Electrical	Finance	Landscape	Street Lighting	Software
	Irrigation		Parts	Registration	Engineering	Insurance	Office Supplies	Waste Collection	
	Landscape		Plant Hire	Tyres	Fencing	Legal	Quarry	Waste Management	
	Pipelines		PPE		Hygiene	Architect	Signage	Water	
	Road reseal		Pumps		Landscaping	Training	Bins		
	Sculpture		R&M		Linemarking	Labour Hire	Pest Control		
	Walls				Locksmith	Planning			
					Maintenance				
					Painting				
					Paving				
					Plumbing				
					Pools				
					Signage				
					Tank cleaning				
					Waste Mgt				
					Weedspraying				

Source: Modified from PMMS Consulting Group, *Riverland Regional Spend Analysis and Procurement Opportunities Report*, April 2013 (prepared for the Riverland Councils and LGA (SA)).

Table 3.2 indicates a very substantial range of differences across councils which, among other things, probably reflects whether local suppliers in some categories exist in a council's area as much as whether potential local suppliers are capable of successfully competing on price with out-of-area suppliers. It is most likely that smaller, more remote councils will be at the lower end of the range of local content proportions for many of the expenditure categories while larger regional councils will likely be at the higher end of the range in more expenditure categories. Although not relevant to our immediate consideration of purchase of goods and services, it is interesting that even for non-metropolitan areas, some councils have as much as 50 per cent of their employee costs spent on employees who do not live in their council areas but, rather, commute to work across council boundaries so part of their incomes will represent leakages of locally earned incomes into expenditure elsewhere, a factor which contributes to leakages from the impact of economic stimulus initiatives in council areas that employ them.

As a considerable note of caution, we have good reason to believe that the data supplied by councils probably represent over-estimates of the degree of local content of their purchases of goods and services, materials etc. What councils might easily be able to record is whether the (centre of) operations of their suppliers are in their local area or not. What they are very unlikely to know is where the local suppliers themselves source their supplies of materials, labour, fuel etc.: it is virtually certain that in all cases at least some proportion will be imported into the local economy and in some cases this might be a high proportion. On the flip-side, some contracted suppliers of goods and services to councils which are headquartered outside a council's area might (probably will) purchase some of their inputs (materials, fuel and possibly labour, for example) from within the council area. So the *net* local content will differ from the data in Table 3.2. It seems most likely that the data in the table represent overestimates of actual value of local content, particularly at the top end of the ranges.

Table 3.2: Estimates provided by councils including in economic stimulus survey* of local content of expenditure by category and per cent of local spend

CATEGORIES OF EXPENDITURE	($) Dollars	% Spent locally (low – high)
Capital expenditure, Non-current assets – Property, plant and equipment		
Land improvements (1)	0 - 10,706,000	30 - 100
Buildings/structures	17,189 - 6,843,000	40 - 95
Infrastructure (2)	1,187,210 - 14,268,341	1 - 100
Plant, machinery and minor plant	280,000 - 2,287,583	0 - 90
Office equipment	$6,000 - 435,854	0 - 100
Library books	15,989 - 133,000	0 - 100
Other	3,163,498 - 28,310,618	0 - 60
Employee costs		
Salary and wages	1,550,690 - 32,819,000	50 - 100
Other materials, contracts and expenses		
Contractors	420,615 - 26,517,000	2 - 90
Maintenance	434,413 - 4,575,548	25 - 95
Legal expenses	13,365 - 556,513	0 - 11
Parts, accessories and consumables	330,605 - 3,883,538	8 - 90
Professional services	12,000 - 892,000	0 - 50
Other	60,228 - 10,243,000	22 -90

Note: * Does not include the two metropolitan councils. They were unable to provide estimates.
Source: SACES calculations from data provided by surveyed councils.

The economic impact on local economies of increases in local governments' expenditures on purchases of goods and services, materials etc. depends on the magnitude of their expenditures relative to the total scale of economic activity within their local economies and on the degree of local content in the goods and services purchases as well as on the magnitude of the expenditure increase. These will vary, possibly substantially, between councils. A very important general point to be made is that, while local governments might be large individual "businesses" within their local economies, their expenditure as a sector of their economies is invariably small compared to that of other sectors – such as personal and financial services, agriculture, forestry and fisheries, manufacturing, wholesale and retail trade, building and construction and so on – and hence small relative to the total scale of economic activity in their economies.

There is no reliable data on the size of local economies in South Australia. However, we can use aggregate local government expenditure in South Australia relative to Gross State Product (GSP) – a measure of total economic activity in South Australia – as a starting point. This would reflect the average ratio of councils' expenditure to the scale of their local economies in South Australia and illustrative examples can then be provided for councils with larger or small ratios.

In 2011-12, for local governments in South Australia, outlays on

- employee expenses;
- other operating expenses[5]; and
- gross fixed capital formation,

totalled $1,961m.[6] This was equivalent to 2.1 per cent of GSP of $91,928m.

The category "other operating expenses" – primarily expenses on goods and services, materials etc. – totalled $719m and the category gross capital formation – principally capital investment expenditure on replacement/renewal of existing non-financial (physical) assets and on new/upgraded assets – totalled $616m. The total of those two categories, representing local government expenditures on purchasing goods and services, materials and the like, was $1,435m, amounting to 68 per cent of total local government expenditure. The total value of those purchases was equivalent to 1.43 per cent of GSP.

The two ratios – 2.1 per cent for total expenditures relative to GSP and 1.43 per cent for expenditures on goods and services relative to GSP – can be interpreted as the ratios to the total value of local activity of the hypothetical average council in South Australia, denoted Council A in Table 3.3 following. We can then examine the economic impact of an increase in expenditures on goods and services on the level of economic activity in Council A and compare that with the impact of an equivalent increase in expenditures by a council which has a higher ratio of total expenditure to the total value of its local economic activity (Council H) and another which has a lower ratio (Council L). In constructing Table 3.3 we assume that Council H has a 25 per cent higher ratio of total expenditure to the total value of local economic activity than Council A, and that Council L has a 25 per cent lower ratio. But we assume, nonetheless that for all three councils the proportion of their total expenditure that is on goods and services is the State-wide average of 68 per cent. We also assume that they are able to rapidly, temporarily increase their expenditure on goods and services by 20 per cent – a probably unrealistically large increase compared to what is both logistically and politically feasible.

Table 3.3: Local economic impacts of increases in councils' expenditures on goods and services

	Council A* (Per cent)	Council H (Per cent)	Council L (Per cent)
Total expenditures on goods and serves as ratio to total economic activity	1.43	2.08	1.07
20 per cent increase in total expenditure on goods and services as ratio to total local economic activity	+0.29	+0.42	+0.21
Total impact on local economic activity with			
• a multiplier of 1.5	+0.43	+0.63	+0.32
• a multiplier of 2.0	+0.58	+0.84	+0.42

Note: * Council A has the mathematical State-wide average of Councils' total expenditure on goods and services relative to the size of its local economic activity. Council H has a 25 per cent higher ratio of total expenditure on goods and services to total local economic activity. Council L has a 25 per cent lower ratio.
Source: SACES calculations based on ABS estimate that total local government expenditure is equivalent to 2.1 per cent of GSP and that 68 per cent of that is expenditure on purchases of goods and services.

In the case of Council A, a 20 per cent increase in its expenditure on goods and services increases the ratio of its total expenditure to the initial level of its local economic activity by 0.29 per cent – less than three-tenths of one per cent. The final impact on economic activity levels depends on the size of multiplier effects, which depend on the extent of leakages from increased local incomes into, for example, additional tax payments, additional savings and additional expenditure on imports. For illustrative purposes we apply two multiplier values – 1.5 and 2.0 – from within the range estimated to apply to the total government sector (local plus state plus national) in different regions of South Australia. At least the upper end of this range is highly unlikely for economies as small and open as are those constituted by local government areas. The estimates for Council A are that final impact on local economic activity would be to increase it by between a little over four-tenths of one per cent and a little under six-tenths of one per cent. These are insignificant impacts which would add little or nothing to local employment and, moreover, they arise from an assumed increase in councils' expenditure that is likely to be very much greater than could realistically be achieved.

Effectively by construction, the impacts are substantially lower for Council L and substantially higher for Council H. But even in the best-case outcome – for Council H with a multiplier of 2 – the impact is a less than 1 per cent increase in local economic activity.

Given the likelihood that the key assumptions underlying these estimates – that local governments could rapidly, temporarily, increase their expenditures on goods and services by 20 per cent and that multipliers might take values as high 2 – are excessively optimistic, it is difficult to see that there would be any net benefits worth the effort and the complexities involved in local governments, acting alone, providing an economic stimulus and to economies through a temporary increase in (bringing forward of) expenditures on goods and services. Since the automatic stabilisers will be working to moderate any decline in local economies and jobs, it arguably would only be in particularly severe circumstances that local governments should seriously consider discretionary application of temporary expenditure increases as a stimulus measure, and even then what benefits there are might come more from their actions building confidence about future prospects than from the impacts of the measures themselves.

There may be circumstances in which such modest stimulus, additional to the cushioning effect of the automatic fiscal stabilisers, would be considered worth aiming to achieve. **However, the unavoidable overall conclusion has to be that, using their own-purpose expenditure power, local governments have very weak capacity to provide a stimulus to their local economies during cyclically adverse economic conditions.**

3.3.2 Using reductions in revenue collection as a stimulus measure

The alternative way in which local governments could attempt to provide a stimulus would be to (temporarily) reduce their revenue collections. Cutting rates in the dollar across all property classes would have the broadest based effect and would be the most administratively convenient option.

This case can be dealt with very briefly because the fact of the matter is that reducing revenue collections would be unlikely to be more effective and generally could be expected to be *less* effective than an equivalent increase in expenditure on goods and services as a local economic stimulus initiative. The first round effect of a reduction in rates is to free-up income in the hands of ratepayers to spend on goods and services or to save. The “or to save” possibility is important to the conclusions. In the case of an expenditure increase as a stimulus measure, the full amount of the increase is spent on goods and services. In the case of reduced revenue collections as the stimulus measure there is a high probability that at least part of the extra disposable incomes of rate-paying households and surpluses of rate-paying businesses will not be immediately spent but rather added to savings, at least temporarily. On that account, the first-round stimulatory effect of a revenue-side stimulus provided by a local government can be expected to be smaller than the first round effect of an equivalent expenditure-side stimulus measure.

The other potential source of difference between a revenue-side stimulus measure and an expenditure-side measure concerns what the extra first-round expenditure is spent on and where. In both cases, part of the additional expenditure will spill-out (leak) through purchases of goods and services produced elsewhere. It is not self-evident what differences in the extent of spill-outs there might be between the two types of stimulus, although there is some possibility that local governments would have the capacity to target (skew) their expenditure cuts to items that have relatively high local content. In any event, in the grand order of things, any differences that there might be in the impacts on local economies between the two types of stimulus measures would involve small differences in the inevitably small overall impacts of stimulus measures that the expenditures side analysis has revealed to be measured in tenths of a percentage point of local demand – hardly any stimulus at all.

3.3.3 The possibility of cooperative implementation of stimulus measures between governments

The possibility clearly exists for governments to cooperatively implement economic stimulus initiatives in an attempt to increase their effectiveness. In local government context, there are two distinguishable possibilities: cooperative action by a group of geographically contiguous local governments[7] or cooperative action between a local government (or group of local governments) and either the State or the national government or both of them.

For groups of local governments acting cooperatively, there would be differences in the economic impacts of coordinated stimulus measures depending on the composition of the group – in particular, depending on the degree of complementarity between their local economies. However, in the best-case scenario this would involve a small increase in the very small economic impacts of each local government operating independently. The consequences of the small scale of each local government’s expenditures relative to the size of its local economy effectively pre-determines that, even in the most favourable groupings of local governments, the capacity of the local government sector to provide a significant economic stimulus is (very) low.

The *potential* local benefits of the implementation of cooperative stimulus initiatives between a local government and a central government (its State or the national government), on the other hand, are much more substantial – though how much more so is determined almost entirely by how substantial a contribution the central government is willing to make through grants to the local government, or through increased own-purpose outlays by the central government in the local government’s area. All that can be said by way of generalisation is that for any given size of stimulus a local government provides on its own account, the additional stimulus to the local economy from a central government contribution will be larger the larger is the central government contribution – a statement of the obvious.

In practice, discretionary, location-specific contributions by State and national governments to providing an economic stimulus purely for counter-cyclical purposes appear to be rare. In most cases, cooperative local-state or local-national initiatives that have the effect of providing a local economic stimulus are part of packages of measures the central purpose of which is to moderate the effects of *structural* change. Except when a State-wide or national economic downturn is unusually severe *and* the economic impacts are particularly heavily concentrated in some locations more than in others, central governments generally rely on the automatic fiscal stabilisers built-in to their tax-transfer systems to provide locationally-different levels of support during economic downturns.

3.4 Concluding observations

The clear conclusion of analysis of this Section of this Report is that local governments, using only their own taxing and spending powers, have insignificant capacity to provide an economic stimulus to their local economies in periods when they face significant adverse economic circumstances that cause local economic activity and employment levels to fall substantially below their potential levels for an extended period of time. They will, however, invariably receive some support as a result of the operation of the so-called automatic fiscal stabilisers that arise from the interaction of the national tax system with the national welfare (income support) system. This will provide a level of support that is higher the deeper is the local economic downturn and will do so autonomously in a way that is more-or-less fully aligned with the timing and intensity of the downturn, but will provide only partial offsets to reduced local economic activity and employment.

Beyond this, the principal roles in providing an additional short-term economic stimulus to adversely affected local areas, if any is to be provided, would have to rest with other spheres of government (state and national) which have much larger budgets relative to the size of their state or national economies than local governments do relative to the size of their local economies. In appropriate circumstances, in addition to providing an economy-wide stimulus during an economic downturn, central governments might provide selective, location-specific initiatives to provide most support to localities suffering the greatest degree of adverse economic circumstances. This sort of selective economic stimulus support from State and/or national governments is not generally made available except in a few specific circumstances, in particular when a downturn in a local area is caused by an extended period of drought and as a result becomes a "declared" area eligible to receive a generic package of support for farmers and the communities to which they belong or if an area is suffering significant economic disruption as a result of substantial structural change.

The general principle adopted by central governments is that regions and localities should learn to be resilient in the face of adverse economic changes, whether cyclical or structural in nature, because they are continuing fact of economic life.

Section 4: Promoting Local Economic Development: Contemporary Approaches and their Implications for Local Government Strategies

Key Points

- economic development refers to the process by which economies evolve and change over time: in favourable circumstances, it occurs naturally through businesses exploring and exploiting profitable opportunities to expand their production and sale of goods and services;
- promoting and strengthening economic development has become an objective of all spheres of governments pursued through strategies aimed at increasing the future economic performance of an economy in order to provide greater employment opportunities, incomes and well-being;
- governments themselves do not drive economic development – business investment, innovation and entrepreneurship drive it – but governments can be effective enablers and facilitators;
- the place-based approach to economic development is internationally regarded as best-practice: it involves promoting the economic development of regions and localities through a bottom-up approach in which partnerships between community leaders, business leaders and governments collaboratively develop visions, strategies, plans and initiatives;
- the place-based approach particularly emphasises that enhanced economic development and growth is possible in all localities if they take the lead in mobilising and strengthening their local assets (physical, human, financial, social, economic and natural): human capital has been identified as the single most important factor in enhancing economic development and growth;
- contrary to the views of some, local governments can effectively promote local economic development, and it is important that they do so because economic development is integral to the achievement of their core objective – the promotion and enhancement of community development;
- local governments invariably do play a role in local economic development simply by undertaking their core functions, which include the provision of local land and infrastructure which enable business establishment and operation, and through the strategic use of their role in land use planning they can influence the business investment attractiveness of a local area;
- local governments can make their localities more attractive to invest in, as well to live and work in, by doing better and more effectively all the things that are among their core functions; they can facilitate investment in "enabling" hard and soft infrastructure; and they can use a variety of incentives to encourage additional business investment in their localities by existing or new businesses;
- there are some limitations on the capacity of local governments in Australia to promote economic development that they have to work around including by advocacy with other spheres of government: these include the fact that they do not have direct control over some public sector services that are important to local economic development and that they have inadequate resources to be able to themselves invest in the provision of enabling infrastructure;
- critical to the effective promotion of local economic development by councils in South Australia are the lessons to be learned from evaluations of strategies undertaken elsewhere. These especially include that achieving the potential benefits of implementing economic development strategies takes substantial periods of time; strategies and initiatives have to be applied in a consistent, coordinated, sustained way, adjusted from time-to-time to ensure that they continue having a significant influence;
- achieving as much integration of local initiatives as possible with regional-scale strategies adds to effectiveness of local strategies and to the economic strength and resilience of the regions;
- in fact, ultimately, local economies collectively are the backbone of strong regional economies which, in turn, are the foundations on which state economic development and growth is built.

In this Section, we consider whether, and how, local governments have the capacity to play a more substantial – and sustainable – role in promoting the long-run economic development and growth of their local economies than they have in providing an economic stimulus to them. We define the term economic development and examine the roles that governments in general and local governments in particular can play in promoting economic development. We then explain what nowadays are considered to be the preferred, most effective economic development strategies at regional and local levels and develop a framework within which local governments might most usefully think about the desirable content of a local economic development strategy. We combine this with a review of what empirical analysis has identified to be policy measures that have proven to be strong facilitators of local economic development and those that have not, or even might have hindered it.

4.1 The meaning and nature of economic development

In its broadest sense, the term economic development refers to the *process* by which economies evolve and change over time, with particular attention usually focussed on changes in their economic structure, rate of technological change and overall rate of growth (or decline) of activity levels and employment opportunities. Understanding those processes and their outcomes provides the basis for economic development *strategies* which draw lessons from favourable previous experiences of economic development to help develop initiatives to promote future increases in standards of living, through increasing levels of employment and income and life-opportunities more broadly.

An important lesson from studies of economic development processes is that economic development is what is termed "path dependent". That is, the future economic development of a nation, region or locality is strongly shaped by the economic path it followed to where it is today. Empirical studies aimed at explaining differences in the current economic performance of different regions or localities consistently find that one of, if not the largest explanator of differences between localities in current economic performance is the difference in economic performance a decade or more before, irrespective of what policies the different localities might have pursued in the meantime. The lesson to be learned is not that economic development strategies cannot make much of a difference, but rather that they take substantial periods of time to make a difference and need to be developed with the long term in mind and to be applied strongly and consistently in a sustained and strategic way.

There would not appear to be any reason for regarding local economic development as somehow occurring differently from economic development at regional, national or international level. It will be affected by the local area's resources, history and culture, for example, but in the end is subject to the same economic, technological and other external forces as everywhere else.

4.2 What are the roles of governments in economic development?

In favourable circumstances, economic development and growth occurs naturally through businesses exploring and exploiting profitable opportunities to expand their production and sale of goods and services, with innovation in products, production processes and business models playing a large part in determining how successful they are in doing so. Even in those favourable circumstances, and more so when they are not so favourable, enhancing and accelerating economic development has become an important objective of governments responding to the desire of their citizen/voters for ever increasing levels of employment, incomes, wealth and well-being for themselves and their families.

It is critically important from the outset in formulating economic development strategies to keep clearly in mind that governments do not themselves drive economic development. The drivers of sustainable economic development are business investment and innovation, and entrepreneurship. Governments can be enablers and facilitators of economic development, and sometimes can stimulate it. But they do not drive it.

It is also important to bear in mind that, though it is now somewhat dated, the McKinsey Report, *Lead Local, Compete Global*,[8] estimated that, on average, some two-thirds of additional business investment in local and regional economies over time comes from existing local businesses and new start-ups by local people rather than from new businesses being attracted to a locality. Existing businesses form the backbone of regional and local economies and shape the strength and resilience of the localities in which they operate. Local start-ups reflect entrepreneurial spirit, bringing new lifeblood to local and regional economies and adding to the vibrancy of local communities. Supporting established businesses and creating a culture that encourages entrepreneurship are clearly central to an effective economic development strategy, whatever else might be part of it.

4.2.1 The nature and objectives of economic development strategies

Although it can be defined in various ways, the essence of an economic development strategy is that it is a deliberately planned, on-going *process* intended to strengthen the capacity of a (national, regional or local) economy to increase living standards through the growth of employment, incomes and wealth.

The particular focus on employment and incomes in this definition reflects the reality of what it is that economic development strategies of themselves can hope to achieve directly. The bigger picture is that a successful economic development strategy contributes to increasing community well-being in all its dimensions, including health, education, social interaction and environmental quality for example, by increasing the resources available to people and governments to spend on the services that underpin and increase well-being more broadly. Box 4.1 provides a brief explanation of the nature of economic development initiatives and strategies.

Box 4.1: The nature of economic development initiatives and strategies

An economic development initiative is *primarily* focussed on increasing an economy's *future* economic performance in order to provide employment opportunities and incomes (and quality of life) at levels or growth rates higher than would occur without deliberately designed interventions. They are aimed, initially, at encouraging and facilitating expanded business activity and investment by existing firms and/or investment by new businesses leading to growing job opportunities and rising incomes. It is inherent in individual economic development initiatives that they need to be targeted at influencing trends in economic activity, not at fluctuations around the trends. Ideally, to ensure maximum effectiveness, an economic development *initiative* would be part of an integrated set of measures designed to implement an overarching economic development *strategy*.

4.2.2 Older and more contemporary approaches to economic development strategies

Since it became a particularly significant economic policy issue in the late 1940s, thinking by public policy analysts about strategies for promoting economic development, has gone through at least three distinguishable phases. [9]

In the first phase, the principal focus was on attempting to close the gap between leading and lagging regions by raising the economic performance of the lagging regions. Common characteristics of the approach included attempting to attract new businesses as well as to retain established businesses through subsidised infrastructure, the assembly and subsidised provision of land for business use and the provision of direct incentives – usually direct subsidies or tax concessions. In this phase, the approach by governments predominantly was top-down, with central government agencies more-or-less unilaterally determining the strategies and initiatives and often implementing them, with regional and/or local governments playing a minor support role.

The second phase, representing a partial transition to the current phase, developed an emphasis on soft and hard financial, technological and knowledge infrastructure. Rather than put primary emphasis on lowering (subsidising) business costs and assembling land for business estates, the objective became to establish a flexible and supportive environment to foster capacity building, especially for small and medium sized businesses rather than large mass-production manufacturers employing large workforces. Technology transfers from Universities and other research institutions, the provision of public venture capital funds, the development of business parks and/or incubators and the provision of job training were particularly emphasised. This was the period in which business clusters also came into vogue. The approach was still predominantly top down and principally focussed on lagging regions, but with regional and local governments playing a larger role in implementation of initiatives.

The third, current phase that has developed over the last decade or two has more firmly shifted focus toward human capital (obtained through education and skills training) and quality of life and also posits that highly mobile business capital and workforce talent will be attracted by locations with the richest amenities and quality of life. The attraction of talented people in particular through creating desirable locations in terms of amenities and quality of life was seen as involving people who either would become local entrepreneurs or would attract employers to take advantage of the talent pool.

Importantly, in this phase, the approach is explicitly intended to apply to all regions, not just lagging regions and it involves a bottom-up approach giving “permission” to local communities, their local governments and local businesses to take the lead role in developing the vision and supporting strategies, with central governments working with them not just doing things to them.

4.2.3 The new way of thinking in action: a place-based approach to regional and local economic development

Internationally, the new way of thinking was initially presented by the OECD in the early 2000s, and has been progressively adopted in most OECD countries.[10] This now includes Australia ***at the national level*** through the establishment of a nationwide network of Regional Development Australia (RDA) Committees and the adoption by them of a particular model of regional governance to achieve economic development and growth objectives. Victoria, through Regional Development Victoria (RDV), was an early adopter in using the OECD approach.

The new approach to local and regional development – now commonly referred to as a **place-based approach** – particularly emphasises the identification and mobilisation ***by all regions*** of their distinct endogenous assets, consisting, among other things, of their human capital, their financial capital, their social capital and their natural capital, to enable them to achieve their economic and social objectives and aspirations to the fullest extent possible. Particularly important to regions’ abilities to achieve their full potential are considered to be:

(i) the development of partnerships between governments and businesses and communities leaders to collaboratively develop and implement local and regional visions and strategies; and

(ii) a strong emphasis on the skills, knowledge and innovation-capabilities of regions (where innovation refers to non-technological as well as technological bases for increased productivity).

The new approach also stresses:

- the need for strategies that are bottom-up – locally design and locally owned – which will be different in different places;
- the importance of integrating policies and strategies for land-use, infrastructure and business support;
- the particular significance of so-called “soft” factors, such as high-level workforce skills and innovative capabilities of businesses in promoting economic development and growth; and

- equally importantly, the need for governments to work with, in and for regions, not to do things to them that are not shaped by local visions and strategies.

Diagram 4.1 – *A Framework for Regional and Local Prosperity* – illustrates how the place-based approach is intended to work. It indicates that an effective, successful approach must first start with local leadership and with local communities contributing to finding local solutions to local issues. It involves a bottom-up approach: local needs and aspirations are the starting point – the foundation for all else. Where governments – local, state and national – come in is as partners in the development of regional strategies and as facilitators of the implementation of the strategies through the provision of enabling infrastructure and the delivery of services which underpin the development of skilled workforces and help build strong communities where people want to live and work and businesses want to invest.

Diagram 4.1: A Framework for Regional and Local Prosperity

Localism, Leadership and Vision	**In the Region**	Starts in the region, identify and develop vision Local solutions to local issues Localism for Regional Priorities
Objective		Prosperity and a high quality of life for individuals, families, communities in regional South Australia
Through	**Strategic Framework**	Economic: economic activity, employment, incomes Social: strong social institutions, participation Environment: sustainable use of natural resources and protection of environmental assets
Regions	**Our Region**	Geographical/spatial, interdependent, RDA based on state uniform regional boundaries
Location Specific	**We Will Do These Things**	Set of regional policies that build/strengthen: Physical capital: (infrastructure, buildings, roads, utilities) Human capital: (skills, education, qualifications) Natural capital: (resource endowments, land use)
Building Competitiveness	**To be Competitive**	Enablers, promote a competitive environment, get the fundamentals right, Regional economies are competitive locally, nationally, globally, open, export oriented, attract investment, focus on key drivers • inputs: innovation, skills, entrepreneurship, resources/inputs, leadership, population • institutions: education, health, housing, community services, etc • infrastructure and services: road, rail, communications, shipping, energy, water
Key Drivers	**Role of RDAs**	Business investment/business activity source of sustainable regional development/growth Supported by human and social capital built from high performance institutions, identify key drivers
Role of Government	**Role of State and Local Government**	Governments have supportive roles through collaborative agency actions, commitment to partnerships, work with regions, advocacy, set out a plan (SASP), 7 key priorities, engage with regions/people

The framework then loops back so that State and local governments play a supportive role through partnerships, improved service delivery, advancing the key priorities further strengthens regions and builds a virtuous cycle.

This approach poses particular challenges for central governments. For one thing, their conventional *modus operandi* has been to exert control over regional development strategies and initiatives with local consultation more window dressing than of substance and cooperation with other spheres of government often perfunctory.[11] For another thing, the standard approach of public sector agencies has been to organise the delivery of services to regional and local areas in ways that best suit administrative convenience and usually for different agencies to do so in different ways. The place-based approach requires that regions and localities not only get the services they need but also get them in the (often different) ways in which they need them to be consistent with and support their economic and social development aspirations and strategies.[12]

The use of place-based approaches had been being extensively and successfully applied in Europe substantially before their recent adoption at national level in Australia. While there are notable differences between Australia and Europe – demographically, geographically, politically, culturally and socially – there seems no fundamental reason for believing the differences are likely to make the approach any less effective in Australia than elsewhere. Indeed, the essence of the approach, which insists that “locals know best what they want, what they have and what they are capable of”, makes it adaptable to any circumstances.

4.3 The multiple roles of local governments in economic development: supportive and substantive

The contemporary place-based approach applied at regional level brings local governments into economic development as both

- a partner to community business, education and other leaders and representatives of other governments in the development of regional development visions and strategies; and
- the provider of local services and infrastructure, and agent of local land use planning, intended to be shaped and delivered at local level consistent with the requirements of the agreed regional development plan.

The engagement of local governments at the regional scale of economic development in those ways makes complete sense in a South Australian context because most local economies are only part of broader “natural” regional economies within which there are strong economic linkages which cross local government jurisdictional boundaries: the linkages almost demand collaborative regional approaches to many issues in some way. The advantage of the RDA model, at least from a regional economic development perspective, is that it empowers communities, not governments with often conflicting interests, to take the lead in developing strategies and searching for local solutions to local problems.[13] The fact that the RDAs are a conduit for Commonwealth funding for strategic regional infrastructure projects based on regionally agreed priorities also serves the interests of the local governments that are partners in them, even when their particular local area is not the direct beneficiary of the funding.

In our view, it is of a very high order of importance that local governments *do* participate cooperatively in the development and implementation of *regional* economic development strategies and plans rather than only going it alone: stronger regions make for stronger local communities as well as for a stronger State.[14] This is not to say, however, that we agree with the view put by many commentators that participation at regional scale is as far as local governments can or should go in promoting *local* economic development. The arguments advanced by those who do hold that view usually include claims that:

- economic development strategies developed and implemented at less than regional scale are likely to be ineffective and a waste of valuable resources;
- local governments do not have sufficiently broad powers and policy instruments to have an effective and sustained influence on the development of their local economies; and
- the core role of local governments is to promote and enhance community development and ratepayer resources should be devoted to that alone, leaving the better resourced State government to promote local economic development as part of its overarching responsibility for State and regional economic development.

We believe those sorts of views are misguided for a number of reasons, of which we mention just three:

1) In undertaking their central roles and functions, local governments have an inevitable impact on their local economies and it would seem strange for them not to use that strategically in the interests of their resident/ratepayers. At the broadest level, strategic land use planning, which is a significant responsibility of local governments, can have a substantial influence on the business investment appeal of a local area by ensuring that adequate and appropriate land is available for business and industrial development. Local governments are also, in effect, partners in the early stages of business development projects through their role in development approvals. And, of course, they manage or influence the management of economic assets that deliver services to local businesses as well as people and they purchase goods and services, and labour and materials from their local economies to deliver services and to build, maintain and refurbish infrastructure assets.
2) Whatever might be regarded as their core responsibility, it is the responsibility of local governments to represent all of the interests of all of their resident/ratepayers and, as part of this, have an obligation to ensure that local economic development supports and strengthens social and community development. Doing so effectively might involve a large measure of regional development cooperation but there likely will be points at which local economic developments interests are different from or go beyond those encompassed in regional strategies and it is in the interests of local residents that they should be promoted.

3) Ultimately most importantly, accepting that the core role of local government is, in fact, to promote community development, it is profoundly mistaken to view economic development as something separate or separable from community development. Economic development is not pursued for its own sake but rather for what it contributes to community well-being in all its dimensions.

The intrinsic linkage between local economic development and local community development is made clear by definitions of the nature of a place-based economic development strategy and that of a place-based community development strategy.

The effective promotion of local economic development is said to involve

> communities planning to build on and strengthen the assets they have available to them to promote economic development – physical assets (including infrastructure and buildings), human assets (including people and the skills they possess), social assets (including networks and bonds between people) and natural assets (including land and natural resources).

Community development, on the other hand, is said to involve

> a planned effort to produce assets that increase the capacity of residents to improve their quality of life. The assets include many forms of community capital – physical, human, social, economic and environmental.

Clearly, in those definitions the same assets are to be built, or built-on and strengthened, to promote what might sound like different objectives but which, in fact, are closely related by the definitions of what is required to meet them.

A council’s Strategic Plan is, or ought to be, the foundation stone for consistent, integrated strategies for each of its (interdependent) component parts – particularly its inter-related community development, economic development and environmental management dimensions. The chosen overarching strategy should then lead to clearly articulated economic development policies and supporting plans for specific initiatives expected to promote the Strategic Plan’s objectives.

4.3.1 Framing and forming a local economic development strategy

When it comes to framing a local economic development strategy and associated policies, plans and initiatives consistent with their overarching Strategic Plan, local governments are not entirely free to determine how they promote economic development in their local economies. In addition to legislative constraints, they are subject to or encompassed in a variety of State-wide strategies and plans ultimately determined by the State government. Some are overarching, encompassing all, or a wide set, of policy areas and issues, while others are policy-area specific.

Box 4.3 lists the three overarching strategies, plans and statements and no less than eleven policy-area-specific strategies and plans identified in the main text of South Australian government’s 2012 Draft Regional Statement as applying to regional South Australia, which in practice means local governments in regional South Australia. All of them are pertinent to local economic development.

Box 4.3: State Strategies, Plans and Statements relevant to local economic development

OVERARCHING STRATEGIES, PLANS AND STATEMENTS

- The South Australian Strategic Plan
- The State Government’s 7 Strategic Priorities
- The Premier’s 2012 Economic Statement on South Australia’s Prospects for Growth

SELECTED POLICY-AREA-SPECIFIC STRATEGIES AND PLANS

- Strategic Infrastructure Plan for South Australia
- Planning Strategy for South Australia
- Prosperity through People – Population Policy for South Australia
- Education Plan
- Health Plan
- Skills Strategy for South Australia
- Manufacturing Works
- Agribusiness Strategy
- Natural Resource Management Plan
- Water for Good
- Tourism Strategy

Source: Draft Regional Statement, *Growing Sustainable Regions*, Department of Primary Industries and Regions SA (PIRSA), 2012.

Not all of these State strategies will be likely to significantly constrain local governments’ decision-making but they all are expected to at least guide it. Since consultation with local governments during the preparation of them was limited and none were developed through a bottom-up process or even a mixed top-down/bottom-up process, it is near to certain that the state strategies and plans will result in some aspects of local governments' economic (and social) development plans having to be different from what they otherwise would have chosen.

Within constraints imposed by State legislation and limitations arising from State Plans, at least some of the principles and practices of the place-based approach to regional development could, and arguably should, be applied equally to the development of local economic strategies and associated policies, programs, plans and initiatives. This includes the clear articulation of a strategic vision and the direct engagement and empowerment of community, business and other non-government leaders in the development of the vision and the supporting strategies and plans. Engagement with the business sector is especially important in relation to local economic development because issues relevant to business development are not a core competence of local government politicians and senior officials and few council officers, if any, are likely to have any depth of expertise or experience in economics or business.

There is no single best working model for promoting local economic development within the place-based approach. What is the best model and strategy depends on a variety of considerations, including[15]:

- the nature and strengths of each local area's endogenous assets, which shape an area's comparative economic advantages and point to what is necessary to convert comparative advantages into a competitive advantages for local businesses attempting to sell their products in competition with others in regional, state, national and international markets;
- the degree of diversity and maturity of each local area's economy – including, for example, whether it is narrow or diversified and the degree to which its councils' strategy and plans for enhancing development can be built on additional investment by existing businesses or will require the attraction of new sources of business investment;
- the economic and business development services offered by non-government local organisations, such as local chambers of commerce, the relevant RDAs and lead-members of any business clusters based in their local area;
- the nature and extent of councils' financial resource levels and competences in business and economic development; and
- importantly, the chosen strategic vision and direction determined cooperatively between the council and its community, including its business and other non-government sectors.

Developing and implementing a local economic development strategy, policies and plans also requires councils, including elected members, to:

- clarify what roles they can and want to play in economic development and the directions in which they want local economic development to take them;
- develop a comprehensive understanding of the regional context in which they operate and how their local economy fits within and interacts with the regional economy;
- determine a structure and staffing for their local economic development services delivery function that will most effectively promote the desired outcomes of their economic development plans and initiatives; and
- develop policies and implementation plans that are strategic, not opportunistic and project-driven, if they are to achieve sustained enhancement to their local economy's economic performance: grasping at every opportunity that presents itself is antithetical to the achievement of a coherent, integrated path towards stronger local economic performance and prosperity.

Councils need to be particularly clear about:

- what economic development functions they can take on and what instruments they can assume – that is, what legislative freedom they have and legislative constraints they face under the Local Government Act and the Planning Act in particular, but also under other legislation;
- what State government strategies, plans and policy priorities they are required, or at least expected, to operate within and whether and how they either constrain or enable council's economic strategies, plans and priorities;
- who are the key local actors especially relevant to economic and business development and what their potential contributions are to council's economic development aspirations; and
- what economic and business development expertise and experience is directly available to them and/or how it can be augmented.

Box 4.4 sets out in brief what types of local economic development policies local governments might choose to adopt. They range from essentially non-interventionist – doing better what councils do as part of the core roles and functions in order to make their local area an attractive place to live, work and invest in – to heavily interventionist – councils attempting to determine the direction of the future characteristics of their local economies by picking what they consider are likely to be winners.

Box 4.4: Possible Elements of Local Economic Development Policies and Initiatives

Type of Policy/Action/Initiative	Rationale
Essentially Non-Interventionist Setting the Strategic Direction and Getting the Foundations Right.	Doing better and more effectively what councils normally do makes locations more attractive places to live, work and invest in.
Mildly Interventionist Support for promotion and marketing of the locality and for events development or attraction and support for business advisory services.	Promotion, marketing and events can generate a positive image of the locality that can attract new business investment, visitors and consumers. Support for business advisory services can help to retain existing businesses and encourage new start-ups by local people.
Moderately Interventionist Investing, or facilitating investment, in enablers of growth.	Strategic investments in e.g. infrastructure and education and skills training provides a non-selective boost to economic development and growth creating more attractive locations for existing and new businesses.
Heavily Interventionist Tilting the playing field/playing the role of principal actor or agent in shaping the economy's structure.	Providing financial and other incentives to selected existing or new businesses to invest in the locality may provide at least a short to medium term boost to local growth.

Source: Heavily modified from UK Council for Employment and Skills (2011), *Rebalancing the Economy Sectorally and Spatially: An Evidence Review.*

More detail about what might be involved in practice in the essentially non-interventionship approach is contained in Box 4.5.

Box 4.5: Key Components of a Non-Interventionist "Getting the Foundations Right" Approach

• Clearer strategic vision, stronger leadership and more integrated strategic and implementation planning.	• Greater engagement and consultation with other governments, RDAs and the business, education and community sectors.
• Applying sound rate setting principles and fully cost-reflective fees and charges.	• More adequate provision of and/or higher quality local government infrastructure, services and amenities.
• Strategic and flexible zoning and streamlined development application processes.	• More effective exploitation of local natural attributes and use of natural resources.
• Strengthened community and business engagement in the development of strategies and plans	

In practical terms, the different types of intervention are not mutually exclusive: councils can do something of all of them if they so choose. Indeed, the literature on best-practice place-based economic development under the so-called new paradigm envisages that all but heavily interventionist measures will often be part of an effective strategy. The heavily interventionist approach, however, is characteristic of the old approaches to economic development, rejected in principle, if not always in practice, under the current approach.

Several things can be said about the choice by local governments of which approach or what combination of approaches to adopt. First, whatever *additional* types of interventions might be pursued, failure to fully pursue the elements of the essentially non-interventionist approach would represent an important missed opportunity. The evidence about what works in attracting new businesses and the investment that comes with them suggests that the basic characteristics and amenities of different locations have a substantial influence on business location decisions, other things equal, though some characteristics might matter more than others – and differently for different types of businesses. The same is true for attracting talented people to provide a skilled workforce, bring entrepreneurial inclinations and create a more vibrant society. The energy and effort to begin to improve local decision making and decisions might be substantial but the financial costs are low and the potential pay-offs are significant.

Second, what is termed light intervention is something local governments almost invariably do in any event and it makes sense for them to do so, usually working with and supporting local business organisations for which those things are part of their core business.

Third, the moderately interventionist approach presents a significant challenge for local governments. They often are not financially able to themselves invest in (fund) the provision of enabling infrastructure such as improved highways, energy infrastructure and so on. And it is state governments not local governments that undertake delivery of enabling forms of education and skills training. The best that local governments can hope to do is to encourage state governments to make the required "hard" infrastructure investments and equally importantly, to deliver education and training and other services in ways that best suit local circumstances and local aspirations for their future economic development.

Finally, the heavily interventionist approach can be costly and ultimately futile. It will usually be the case that local governments offering inducements in cash or in-kind to attract businesses to their area will be in competition with other locations doing the same thing, bidding up the cost to the eventual winner. It can also result in councils paying to attract a business that would have settled in their area anyway. Often the expectation of those bidding to attract a particular business is that it will become a source of attraction of other, related, businesses and this often proves to be not the case. Moreover, if the businesses open to being attracted by location incentives are fairly footloose – that is can relocate at relatively low cost – there is a risk, probably a substantial chance, that they will be open to being induced to relocate once the initial incentives end or become of less value than they can obtain by relocating again. This form of competitive bidding for businesses – often referred to as involving cut-throat competition or a race to the bottom – has from time-to-time been seen to happen at state level and to some extent it goes on continually, albeit in an understated way. The budgetary costs have proved to be high and obligations on attracted businesses to meet employment or other targets most often are not fully delivered. And, if followed opportunistically, attracting new business investment by offering fiscal inducements can result in drawing economic development in a direction in which a locality has no comparative or competitive advantage and comes at high economic cost in terms of alternative, more viable and sustainable opportunities foregone for growing local jobs and incomes.

Using local government procurement to promote local economic development

Particularly pertinent to this Report is the question of whether local government procurement can be an effective tool for enhancing local economic development.

The default position that should be applied to local governments' procurement is that value-for-money should be the guiding principle, preferably explicitly required by a formal council policy. Among other things, this is on the grounds that ratepayers have a right to expect that councils' budgets deliver preferred levels of services at least cost and also that the value-for-money approach aids enforcement of transparency and accountability of choices of tenders. What is required to achieve best-value among competing bids when, for example, whole-of-life cost considerations are involved is not straightforward to determine, but the guiding principle is still relevant. The *Local Government Act 1999* places a specific requirement on councils for "obtaining value for expenditure of public money".

The responses to the survey of councils conducted as part of the preparation of this Report indicated that most councils do *not* have an explicit policy giving preference to potential local suppliers. They do, however, attempt to encourage and/or facilitate local supplier participation in tendering and sometimes do so by helping local suppliers to position themselves. Collaborative procurement by groups of councils is one strategy used by some groups of councils to try to help local suppliers to achieve economies of scale in their provision of goods and services to better position themselves to compete against out-of-area businesses which already have the advantage of scale economies

The approach of encouraging and facilitating local supplier participation and facilitating improved local supplier competitiveness would not be likely to be challenged as being inconsistent with national competition policy principles: it involves only light handed indirect support.

However, one council indicated that it goes further and has an explicit local preference policy, in the form of a price preference provision. This had been approved at the political (council) level not at management level and the council had expressly stated that the degree of preference should be balanced and "assessed by council to be reasonable and … not constitute an unnecessary or unreasonable cost burden on ratepayers". It was not made clear in the survey response by the relevant council whether the price preference was formulaic (e.g., a limit of *x* per cent price preference) which could be routinely applied by procurement managers without requiring formal approval by council or more flexible with, say, tenders by local businesses that would require a price preference of greater than *y* per cent to make the local suppliers bid competitive being presented to council for consideration when procurement managers consider that there might be reasonable grounds for doing so. This approach to procurement policy also arguably *might* not offend national competition policy principles which make provision for approving what, on the face of it, are anti-competitive regulations or processes where it can be demonstrated that they promote other socially and economically desirable objectives. The approach would, however, appear to violate Australia's non-discrimination obligations under free-trade agreements, although in practice challenges are unlikely when the degree of local preference is modest and/or the context is unlikely to attract competition from overseas businesses.

More broadly, the international literature on local government procurement has suggested that, as a matter of democratic principle, it should be open to local governments to pursue a multiple bottom-line approach, if supported by their resident/ratepayers, which would include a mixture of value-for-money and local economic development objectives (and also, as is increasingly so among local governments overseas, environmental objectives). The critical question is what local governments can do through procurement policies that makes a meaningful, effective and sustainable difference to the competitiveness of local businesses and the economic performance of local economies. Although not always articulated in these terms, the answers in the literature could be seen as involving promotion of innovation in local businesses to help them to fundamentally improve their competitiveness to provide goods and services not just to local governments but also to other spheres of government (regional and national) and also, where feasible, to private sector markets nationally and internationally. The innovations encompass both technological and non-technological forms.

The technological innovation initiatives often involve local governments being willing to act as first-users (market makers) for improved or new products or services or existing products or services using new or improved production processes, giving businesses somewhat greater confidence that technological innovations will be marketable and profitable. It might include helping businesses to make contacts and partnerships with research and development bodies and possibly also with other businesses with potential interests in using the products or services resulting from the innovations. This strategy is more likely to come through collaboration among councils with common interests in the products or services. It also would be likely to require the relevant local governments to be advised by experts with the competences relevant to assessing the potential viability of the innovations for and beyond local government needs. Councils which have established Economic Development Agencies engaged with the business sector would have a framework for helping to obtain the relevant advice.

Non-technological innovations would especially include new ways of managing businesses or the delivery of goods and services, or the development of new business models. These could generally be expected to help local businesses to increase their competitiveness in private sector markets rather more than in local government procurement. They, too, would require local governments to enlist the help of people with relevant expertise, possibly through chambers of commerce or other business organisations which provide member services encompassing assistance in the development of business strategies and plans. Local governments might either financially support the engagement of local businesses with the relevant business advisory organisations or act as a catalyst for business organisations to provide such services.

Unfortunately, as yet there are no evaluations of whether or to what extent these procurement-related innovation strategies have been successful in promoting regional and local economic development. At least in part, and possibly in whole, this is because the literature on such strategies and adoption of them by local governments is relatively recent. The ideas have emerged from recent developments in the literature on regional and local innovation as a source of enhanced economic performance which has increased attention on the significance of overt demand for innovation as a source of incentives for businesses to pursue innovation. The literature previously saw innovation as only being supply-side driven as a result of businesses looking to give themselves a competitive edge.

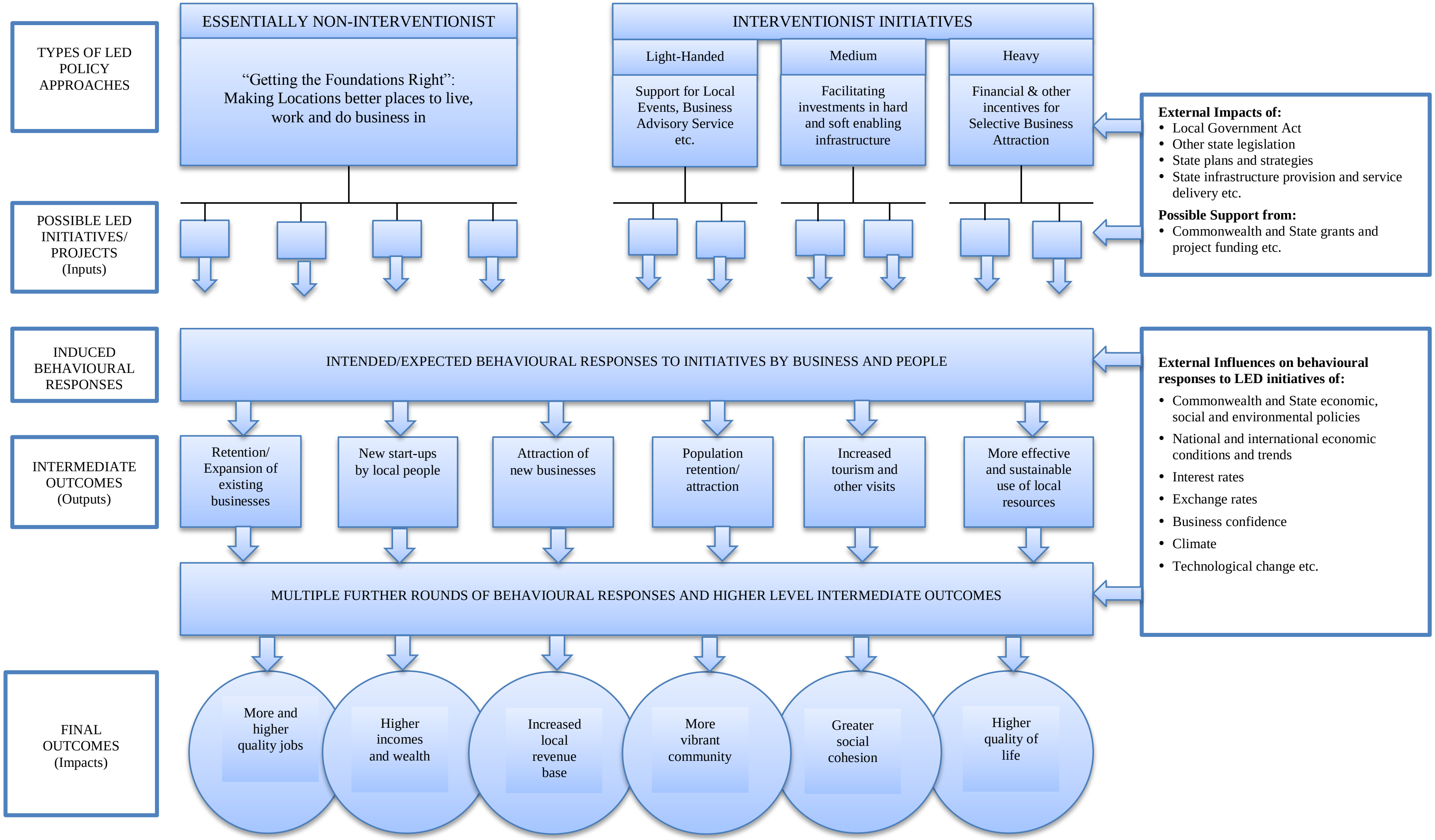
In a South Australian context, the use of councils' procurement of goods and services to promote local economic development appears to be less extensive and at a lower level of sophistication than that being promoted overseas. This almost certainly reflects the fact that the range of services provided by local governments in Australia is less broad than for local governments overseas and provide more limited opportunities to be used to facilitate local business development. It is also the case that councils in South Australia have limited internal expertise to identify potential opportunities to help to promote enhanced local business development through councils' approaches to procurement and to follow through by supporting local businesses to take advantage of opportunities that might exist.

4.3.2 Implementation and evaluation

Diagram 4.2 on the following page sets out schematically what is involved in the process of implementing an economic development strategy, beginning at the stage where strategy and policy development has led to the identification of a range of possible initiatives consistent with meeting the economic development strategy's objectives.

The bottom row in the Diagram, labelled *Final Outcomes* (sometimes referred to as Impacts) identifies the sorts of high-level, long-run outcomes that economic development strategies are aimed at achieving over time. The top row, labelled *Types of LED Policy Approaches* consists of the policy approaches identified earlier in Box 4.4. Each local government might choose to adopt just one, several or all of the approaches. Whatever approach or approaches it chooses, associated with each is a range of possible initiatives to be implemented consistent with the relevant policy approach identified in an implementation plan. In practice, the chosen initiatives would be tightly defined so that precisely what is to be done (and by who) is clearly identified. There usually would be some sequencing of their implementation both for strategic and logistical reasons and often follow-on initiatives would be identified intended to reinforce the strength and direction of change.

Diagram 4.2: The Local Economic Development (LED) Process



Local governments do not have a completely free hand in choosing initiatives to implement and the box to the right hand-side of the top two rows indicates what some of the constraints on the choice of initiatives might be (in terms of various pieces of legislation, requirements of state plans and so on), and also indicates that a local government might win financial or other support from the state and/or national government for implementation of its projects.

The middle part of the diagram represents the **logic** of the implementation plan. Implementing the initiatives obviously does not mechanistically lead to the desired long-run outcomes eventually being achieved. The purpose of implementing the initiatives is to attempt to induce favourable responses in decisions made by businesses and people from both inside and outside the local area that will start to strengthen the economic performance of the local area. If successful, this will induce further favourable responses so that cumulatively what is needed to achieve the desired long run outcomes will occur.

This is the trick, and the tricky part, in the successful formulation of policies and plans to implement an economic development strategy. Chosen initiatives have to be based on *expectations* about what behavioural responses to the initiatives there will be by private sector decision-makers (local and from elsewhere), residents, potential residents, pass-through traffic, potential visitors or tourists, other governments as regulators or service delivery providers or sources of funding and so on. Expectations also have to be formed about how strong and sustained the behavioural responses are likely to be. If the expected responses do not happen, happen only weakly or rapidly fade-away, the strategy will fail to deliver its intended outcomes to a greater or lesser degree.

Evidence from the implementation of similar initiatives elsewhere, or other previous experiences can provide a guide to forming expectations – but only a guide since behavioural responses are invariably circumstance-specific: the same initiative implemented in two different locations or in the same location at two different times can induce quite different responses, at least to some degree, depending on circumstances at the time or place. The lower box on the right hand side of Diagram 4.2 draws attention to some external factors that are predictably changeable over the course of the implementation of an initiative at any time and over time which can lead to expectations about behavioural responses being unfulfilled, or only partly fulfilled. These especially include changes to State and Commonwealth policies that might affect behavioural responses to the initiative and changes in economic conditions which might do likewise. Designing initiatives that are flexible and adaptable to changes in external factors is good practice but challenging.

All of this puts a premium not only on careful, skilful design of economic development policies, plans and initiatives but also, importantly, on on-going monitoring and evaluation of progress. The purpose of evaluations is not so much to judge, at some pre-determined notional end-point, whether an initiative or whole strategy has been a success or a failure but, rather, to provide assessments from time-to-time about whether it is worth continuing to implement the initiative at all, or to scale it up or back, or to modify it in some way.

4.3.3 What the available evidence says about what works and what does not work in promoting local economic development

To help decide whether types of economic development initiatives are likely to be successful there is available a substantial international literature (but less so in Australia) which uses sophisticated statistical techniques to isolate the effects of initiatives from the (different) local circumstances in which they have been used and from the effects that other variables which might have had an influence on outcomes. As an example of what can be learned, one famous study[16] came to the conclusion that the use by local governments of financial incentives to attract new business "work about 10 per cent of the time, and are simply a waste of money the other 90 per cent." This has not stopped local governments sometimes continuing to use financial incentives (including some in South Australia who responded to the survey undertaken for preparation of this Report) but at least they cannot say there was no information available to warn them.

Many other empirical evaluations have been undertaken of a wide range of often-used economic development initiatives such as enterprise zones, business incubators and the establishment of local economic development agencies. The results have been mixed but as a generalisation they have most often concluded that the benefits in terms of strengthening local economies' economic performance have been small and often not worth the cost.

However, there are two weaknesses in the sorts of evaluations that have been undertaken and published. The first is that these forms of empirical evaluations do not, and cannot, identify, other than speculatively, *why* particular types of initiatives have proved to be ineffective or, importantly, as in the case of financial incentives, in what circumstances they have worked. These sorts of questions require program evaluations to be undertaken over similar initiatives applied in different places and/or circumstances. Unfortunately, there are relatively few program evaluations available and fewer still comparing similar programs in different circumstances. Moreover, most have been undertaken for public sector agencies responsible for implementing the relevant initiatives and do not get widespread circulation.

A second weakness in the studies that are available has been that they have evaluated only one type of initiative at a time: when included in a bundle, the effectiveness of particular initiatives may be higher because of synergies between them and other components of the bundle. However, one particularly interesting recent evaluation undertaken by Laura Reese and Minting Ye (2011) not only evaluated the impact of possible bundles of initiatives but also included some other variables not usually included in empirical analyses of local economic strategies and investigated whether natural attributes of different places might be more important in explaining differences in the economic performance of different localities than differences in their economic development policies. The conclusions of their analysis, important to determining the effectiveness of local interventions, can be summarised briefly:

- good weather and natural features (such as having a lake, or mountains, or coastline or whatever) do matter but they are *not* the principal determinants of differences between localities in their economic health and performance: effective policy can trump natural attributes;
- the use of traditional local economic development measures are unrelated to trends in an area's relative economic prosperity over time or even can lead to weaker economic performance; and
- some policies that are not part of what are regarded to be traditional local economic development measures are strongly related to achieving high economic performance – especially those that reduce crime, increase high school graduation rates and provide higher quality local amenities (such as public spaces and parks and gardens).

The analysis also concluded that the evidence is strong that differences in the economic performance of different local government areas today are substantially explained by differences in their economic performance in the past – that is, that economic development is in fact path-dependent. Specifically, it was found that over 50 per cent of the differences in economic performance between different locations in 2006 was accounted for by differences in their economic performance in 1990.

There are important broad lessons to be learned from the results of the Reese and Ye analysis about the traditional initiatives which are relevant to the design of local economic development strategies by councils in South Australia. In particular:

(i) achieving the potential benefits of implementing economic development strategies takes substantial periods of time: they involve hard work and have to be applied in a consistent but flexible sustained way, probably being adjusted (strengthened) from time-to-time to ensure that they continue having a significant influence;

(ii) some of the most important policy measures for improving local economic performance are not themselves under the direct control of councils – for example, local amenities are, but school completion rates and crime reduction are not – so it is important, arguably vital, that local governments seek and obtain the cooperative support of relevant state public sector agencies for economic as well as social reasons; and

(iii) overall, the conclusions lend strong support to the particular importance of applying what we have termed "getting the foundations right", whatever else councils might choose to do to attempt to strengthen the economic performance of their local economies.

In our view, the overall conclusions of the Reese and Ye analysis and many other analyses of the limitations on local governments' capacity to directly influence some of the most important variables, should not be taken invariably to imply that traditional economic development strategies are not worth pursuing at the local level. Their results reflect what *on average* across all the localities contained in their analysis have been the outcomes of implementation of specific local economic development initiatives and of strategies overall. Some localities have had well-above average beneficial outcomes, possibly partly reflecting favourable local circumstances but also virtually certainly reflecting the effort and professionalism with which strategies, policies, plans and initiatives have been developed and implemented.

The Reese and Ye analysis does not include consideration of the effectiveness of the place-based approach to local economic development and there are no comparable analyses published to date which do. However, in its most recent publication on regional economic development, *Promoting Growth in All Regions* (OECD 2012), the OECD provides an overview of emerging conclusions about regional development and growth using place-based approaches. It combines statistical analysis and 23 case studies of specific regions to identify common factors in better performing regions and, likewise, common factors in underperforming regions. Their conclusions have obvious application to local governments if they apply the place-based approach.

Our interpretation of the key conclusions of the OECD's analysis include that:

- growth is possible in all regions when they take the lead in mobilising their local assets and resources and that growth is likely to be stronger when they do so rather than relying on support from central governments;
- effective *local* leadership, involving community, business and education representatives as well as governments, is a very important factor in regions realising their full economic potential;

- formal and informal institutions which facilitate negotiation and dialogue among key actors in order to mobilise and integrate them into the development process are vital, including, importantly, developing those linkages which foster relationships among the private, public and educational sectors;
- for all regions, human capital (knowledge, skills, expertise and capabilities based on education, training and experience) appears to be the single most critical factor in their growth performance, though, importantly, reducing the proportion of people with very low skills appears to matter more than increasing the proportion with very high skills;
- another significant difference between more successful and less successful regions often concerns their innovation capabilities and activities, although this is not invariably so;
- infrastructure does not appear to be the most binding constraint on growth in the great majority of lagging regions, but can be an important *part* of a coordinated package of measures to strengthen growth in less well-developed regions;
- common factors shared by faster growing regions especially include more and stronger infrastructure, higher levels of education, greater innovation capabilities, favourable geographic characteristics and agglomeration economies from businesses with like needs for skills and knowledge locating together;
- underperforming regions face bottlenecks to improved economic performance based on their particular characteristics and history which may be reflected in inadequate or poor infrastructure, a poor business environment and culture, low innovation capabilities, a lack of economic diversity, demographic factors or environmental constraints and a lack of strong business, community and government leadership to help overcome the bottlenecks; and
- it is important to think of economic development policies as consisting of integrated packages of measures rather than individual measures because integrated packages can have different strands of policy that complement one another whereas individual interventions can have unintended and undesirable effects if implemented in isolation.

At a broader level, the report concludes that broad-based growth in all regions, including lower performing regions, is essential to achieving strong aggregate state and national economic performance and while the highest performing regions tend to be large urban hubs, the bulk of aggregate growth occurs outside the biggest hubs. If central governments fail to direct attention to the great mass of regions they risk failing to capitalise on those regions' potential contribution to aggregate growth of employment, incomes and prosperity and failing to achieve the other potential contributions of those regions, such as to the development of economy-wide resilience, equity and fiscal strength.

The broad lessons to be learned from the OECD analysis particularly relevant to the design of local economic development strategies include:

(i) strong partnerships and formal and informal linkages between local governments and the private and educational sectors are a central ingredient in improving local economic performance: without them, or if they are weak, opportunities for strengthening economic performance will be more limited than otherwise;

(ii) mobilising and strengthening local human capital assets (knowledge, skills, expertise and capabilities) is the single most important driver of improved local economic performance, with particular emphasis on increasing the skills and capabilities of those with low skills; and

(iii) applying integrated packages of mutually reinforcing initiatives, rather than just one or a few initiatives, offers the greatest potential for enhancing local economic performance.

Clearly, the results of the OECD study provide a more optimistic reading of the potential for successful results of economic development strategies when best-practice principles for place-based approaches are adopted than do the results of the Reese and Ye analysis of traditional approaches to economic development. In practice, it is likely that local governments will pursue strategies that involve a mixture of old-style traditional economic initiatives and elements of the place-based approach. If they do so, it is evident that the place-based approach should be used to provide the overall framework with more traditional economic development initiatives part of the mix of initiatives and projects selected for implementation. In terms of Figure 4.2 earlier, this would involve choosing initiatives from across the full range of types of local economic development policy approaches identified in the top row.

An overview of what councils in South Australia can do to improve the economic health and economic performance of their local economies is presented in Attachment A. Among other things, the discussion in the Attachment makes the important point that, collectively, strong local economies are the backbone of strong regional economies which, in turn, are the foundations on which strong state economies are built.

Section 5: What Councils in South Australia say they do: An Overview of Survey Responses

Key Points

- the councils included in the survey undertaken for the preparation of this Report for the most part interpreted the phrase "providing an economic stimulus" to, in effect, mean promoting economic development, so no information was provided about whether, and if so how, councils had attempted to provide a stimulus to local economic activity and employment levels during economic downturns;
- the surveyed councils identified a wide range of initiatives that they regarded as contributing to stimulating local economic development, including adjusting procurement policies to increase the amount of work going to local businesses, although only one said that it had a specific price-preference policy favouring local businesses;
- some councils included among what they regarded as economic development initiatives advocacy for spending by the State and Commonwealth governments for, among other things, the provision of community infrastructure, reflecting the relatively limited financial resources of local governments;
- almost half of the respondent councils indicated that they offered specific targeted incentives for increased investment by established and/ or new businesses in their localities:
  - however, one council said it had ceased to operate a business attraction scheme on the basis that it was administratively inefficient, inequitable to existing businesses and usually had little effect on businesses ultimate decisions on where to locate;
- data provided by councils on the proportion of their procurement expenditures that goes to local suppliers points to procurement categories in which local content could potentially be increased as part of a broader strategy for promoting local economic development:
  - however, since local suppliers virtually certainly obtain some of their inputs from elsewhere and vice versa for non-local suppliers, the expenditure data provided by councils likely overstates the value of local content in net terms;
- while two councils in the survey indicated that they had a substantial economic development strategy, a large majority of councils indicated that they did not have specific economic development policies despite all saying that they had economic objectives set out in their overarching strategic plans, suggesting that many councils were pursuing economic development opportunistically rather than strategically:
  - this runs counter to one of the most important lessons from studies of economic development strategies – they require long term, consistent, coordinated, sustained strategies to make a significant difference to an area's economic performance to overcome the inertia created by their economic, social and cultural histories.

In this Section, we provide a brief overview of the results of a survey of selected councils in South Australia. It identifies whether and in what form(s) councils currently develop and apply economic stimulus initiatives and at least some or all of economic development strategies, policies, implementation plans and practical initiatives. The survey responses do not enable us to evaluate how successful (effective) councils have been in promoting the economic development of their local economies but they do provide valuable initial insights into how councils approach incorporating economic development objectives into their activities. One thing that is readily apparent from the responses is that councils have generally, though not always, taken the phrase "providing an economic stimulus" to mean promoting (giving a boost to) long-term economic development rather than providing a temporary boost in economic activity to an economy suffering a downturn. This is the opposite of the way the term is used by public sector policy analysts and practitioners as we indicated in Section 3 and is one of the reasons why, in this Report, we have put particular stress on providing a clear distinction between the two types of boost and the implications for councils' economic policies of each of them.

5.1 Introduction

A survey was distributed to select councils in the metropolitan and non-metropolitan regions of South Australia in order to gain insight into councils' approaches to providing economic stimulus and supporting economic development in their local and regional areas. Thirteen councils in total were surveyed, of which two were metropolitan. The eleven non-metropolitan councils ranged from relatively small rural councils to urban regional councils.

5.2 Economic stimulus and economic development

A significant theme to emerge from the survey is that the role in local economic activity that councils have adopted revolves more around facilitating economic development over the longer term rather than providing short term economic stimulus when their local economies face a temporary downturn. For instance, when asked how their council could stimulate the local economy, a majority of responses referred to higher level strategies with no clear short term pay off rather than direct short term stimulus measures. Examples of higher level initiatives include rezoning land to ensure adequate land supply, facilitating infrastructure development, strategic planning such as identifying potential economic opportunities and working with stakeholders to pursue economic diversification.

The almost exclusive emphasis by councils on economic development policy and strategies may reflect limitations facing them in terms of available tools and resources that prevent local governments in South Australia from engaging in meaningful economic stimulus. One of the smaller councils noted that most councils are “simply too small and ill equipped to drive” economic stimulus, while another council observed that the key factors affecting their region’s economic performance – i.e. climate conditions, commodity prices and the exchange rate – were ultimately out of its control. Although the sample size is small, it appears that smaller councils were more inclined to see little to no role for local government in providing economic stimulus. These views and the reasons for them are consistent with the conclusions of Section 3 earlier. **On the other hand, virtually all respondents felt that economic development was a core role for local government.**

Specific Economic Stimulus Measures

In terms of actual economic stimulus measures as they understood them, councils identified ‘increasing local spending’ as a viable option. Such measures include adjusting procurement policies to increase the amount of work going to local businesses and encouraging residents to buy locally. Another potential stimulus measure is advocating and facilitating transport and community infrastructure, typically paid for by the state and/or commonwealth government. Although they would appear to be longer-term economic development initiatives, some councils identified advocating for community investment spending by the state and/or commonwealth government as an example of stimulus facilitated by local government. The success in advocating for stimulus measures probably depends to a significant extent on the severity of local economic conditions, with state/commonwealth government being more inclined to provide support the more severe the downturn or when there is adverse structural change in local conditions. For instance, recent examples of successful advocacy include regions that have experienced downturn in response to severe environmental conditions (e.g. Riverland Sustainable Futures Fund following the impact of drought and reduced irrigation allocations) or regions that have lost a major employer.

Just under half of respondent councils seeking to promote local economic development offered specific incentives for developers or new businesses in their region. For some councils, this assistance took the form of financial assistance such as rate concessions, rate holidays, reimbursement or delaying of fees and changes and even cash assistance in one instance. Other forms of support identified by councils as being used by them typically revolved around provision of land and/or associated infrastructure such as road access and road upgrades – i.e. using core council roles in particular targeted ways.

Not all councils provided support to attract new businesses to their region. One metropolitan council said that it no longer operated a business attraction scheme, noting that it was administratively inefficient, inequitable to existing businesses who were typically the largest source of investment activity in the region, and usually had little effect on the businesses ultimate decision on where to locate (in part because the inducements local government can offer are relatively small).[17] Such programs probably make less sense in a metropolitan setting where economic spillover effects to other regions are likely to be higher and the gain/loss of any one business is unlikely to have a significant impact on local conditions given the relatively large size of metropolitan economies. A potential exception to this rule would be particularly large employers who have significant supply linkages throughout the local as well as broader metropolitan economy (e.g. Holden motor vehicle assembly).

Specific Economic Development Measures

A majority of councils surveyed (69 per cent) did not have specific policies on ‘economic stimulus, helping regional business or economic development’. For those councils which did have specific policies, these consisted of policies aimed at helping local business or attracting new business to the region, or economic development policies contained within council’s strategic plan. Indeed, at the local government level, economic development aims are specified at least to some degree in strategic plans, with all respondents indicating that specific economic objectives were included in their strategic plans.

The types of economic development objectives that were identified by councils as being specified in their strategic plans are summarised in Box 5.1. Judging from the survey results, the extent to which specific economic objectives are stipulated in strategic plans appears to be quite variable. Furthermore, the extent to which councils have actually acted on and pursued these economic objectives is unknown. Another important question not covered in the survey was whether councils had undertaken formal evaluations of the effectiveness of strategies or initiatives they had undertaken. As emphasised earlier in this Report, sufficient doubts have been raised in the literature about what policies and initiatives do, in fact, significantly promote economic development that case-by-case evaluations in different local contexts are important to ensuring that councils are getting value for money from economic development initiatives for their local residents and businesses.

Box 5.1: Economic Development Objectives Specified in Strategic Plans

The types of economic development objectives specified by local government in their strategic plans include one or more of the following:

- creating partnerships with business and industry to identify needs, potential barriers to growth and development;
- attracting new businesses, diversifying the local economy, providing business support to existing businesses;
- enhancing or growing the tourism industry;
- encouraging and facilitating population growth;
- providing services and infrastructure to residents and business;
- zoning to ensure adequate land supply and appropriate land use (e.g. protecting existing agricultural land);
- promotion and marketing of the region; and
- developing export opportunities.

One of the principal means by which local governments facilitate economic development reported in the survey is by partnering with stakeholders such as businesses, regional development organisations and state and territory government agencies. This approach in effect recognises that local governments' ability to influence economic development in isolation is limited. Key regional development organisations include Regional Development Australia Committees, regional local government organisations (e.g. Murray and Mallee LGA, South East LGA and Provincial Cities Association of SA), local chambers of commerce and regional tourism bodies. State government agencies such as the Department of Primary Industries and Regions South Australia (PIRSA) and the Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) have also proved important stakeholders, with, for example, both helping one of the surveyed councils to explore diversification opportunities for the local/regional economy (e.g. exploring alternative crops in the case of PIRSA). Although not mentioned explicitly in the survey responses, the Department of Further Education, Employment, Science and Technology (DFEEST) would also be an important stakeholder and partner in respect of its Skills for All initiative, which funds courses to boost workforce training and participation.

Another principal role for local government in respect of economic development is advocating on behalf of their residents and business, typically for "services, projects and facilities that will benefit the community". Such advocacy is closely related to partnerships, with a number of councils identifying the importance of advocating to Ministers, state and federal governments and their agencies, and working with other regional development stakeholders. Advocacy or lobbying efforts are not restricted to securing funds for infrastructure and services, but also include efforts to influence policy development and "shape" how programs (e.g. state manufacturing strategy) and services are delivered locally.

Procurement

As mentioned previously, adjusting procurement policies to increase the proportion or amount of goods and services purchased locally is considered by councils as one means of providing local economic stimulus in the form of economic development initiatives. Just over half of respondents to the survey indicated that they had a spend or buy local policy. Some councils without such policies noted that provisions for buying locally were included in their procurement and tendering policy, while a couple of councils were reviewing procurement policies with a view to increasing local purchases

Only a few respondent councils had conducted broader "buy local campaigns" aimed at encouraging residents and local businesses to purchase locally. One example of such a policy among those councils that had adopted the approach is the Coorong Council's former participation in the "Coorong Good Food" program, designed to encourage healthy eating by local residents. One aspect of the program was to promote local produce. This program also provides a good example of a strategy geared at pursuing multiple objectives, in this case social as well as economic objectives.

Some caution needs to be advised regarding the effectiveness of increasing local procurement as a means of providing local economic stimulus. Taking the hypothetical example of all councils adjusting their procurement policies to increase purchases from local suppliers, such a synchronised approach may have little stimulatory effect if local businesses simply lose business to other South Australian council areas. One potential implication is that local procurement should focus on substitution of interstate and international suppliers, although such purchases would be relatively small. Another potential risk of turning heavily to local suppliers is eroding value for money in respect of local government procurement. The survey results indicate that local government is aware of this issue with respondents noting that any cost disadvantages associated with preferring local suppliers needs to ensure that other factors relating to the procurement (i.e. quality, specifications, cost etc) are equivalent before turning to the capability of the region as a determining factor. In fact, "obtaining value in the expenditure of public money" is stipulated by the *Local Government Act 1999*.

5.3 Expenditure data

Quantitative data on councils' expenditure by broad item and the proportion of expenditure on locally sourced goods and services was sought from councils. Unfortunately the two metropolitan councils were unable to provide estimates of the proportion of expenditure going to local suppliers, thus preventing comparisons between metropolitan and rural councils.

The data, and commentary on it, are presented in Table 3.2 in Section 3 earlier and related text. For convenience, the Table is repeated here as Table 5.1. It is especially important to note that not all expenditure identified as going to local suppliers is likely to be expenditure on local content since local contractors will often purchase some of their supplies from other areas (i.e., have import content). Conversely, contractors based outside the local area will often purchase inputs from within the local area (i.e., have local content).

One of the notable aspects of the expenditure data is significant variation across the councils in terms of the proportion of expenditure going to local suppliers for certain items. For example, the proportion of expenditure sourced from local suppliers in respect of infrastructure spending varied from a low of 1 per cent to a high of 100 per cent. On the face of it, such variation suggests significant differences in the potential capacity of individual councils to provide economic development opportunities by increasing the proportion of local government expenditure on goods and services to local suppliers. However, such capacity will be restrained by other factors, such as the existence of capable suppliers in the local area. In recognition of such local limitations, some councils are looking at developing regional procurement strategies (i.e. coordinated procurement combining more than one council area) in order to create greater economies of scale to support the development of local suppliers.

Table 5.1: Estimates of local content of expenditure by category and per cent of local spend derived from data provided by councils including in economic stimulus survey*

CATEGORIES OF EXPENDITURE	($) Dollars	% Spent locally (low – high)
Capital expenditure, Non-current assets – Property, plant and equipment		
Land improvements (1)	0 - 10,706,000	30 - 100
Buildings/structures	17,189 - 6,843,000	40 - 95
Infrastructure (2)	1,187,210 - 14,268,341	1 - 100
Plant, machinery and minor plant	280,000 - 2,287,583	0 - 90
Office equipment	$6,000 - 435,854	0 - 100
Library books	15,989 - 133,000	0 - 100
Other	3,163,498 - 28,310,618	0 - 60
Employee costs		
Salary and wages	1,550,690 - 32,819,000	50 - 100
Other materials, contracts and expenses		
Contractors	420,615 - 26,517,000	2 - 90
Maintenance	434,413 - 4,575,548	25 - 95
Legal expenses	13,365 - 556,513	0 - 11
Parts, accessories and consumables	330,605 - 3,883,538	8 - 90
Professional services	12,000 - 892,000	0 - 50
Other	60,228 - 10,243,000	22 -90

Note: * Does not include the two metropolitan councils. They were unable to provide estimates.
Source: SACES calculations from data provided by surveyed councils.

Wages and salaries are the most likely expenditure category to be sourced locally, with no council reporting less than 50 per cent of such expenditure being sourced locally. Reflecting close proximity to major population centres, councils located closer to Adelaide were more likely to have a lower share of wages and salaries expenditure going to local residents.

The share of expenditure going to local suppliers was also relatively high for buildings and structures with no council spending less than 40 per cent of expenditure on local suppliers. In contrast, infrastructure spending was less likely to be sourced locally, reflecting the more specialised nature of this type of building activity.

As examined and explained in detail in Section 3, the capacity of local government to provide meaningful stimulus defined as temporary initiatives designed to boost local economic activity in economic downturns through alternative procurement settings is ultimately restricted by the relatively small scale of aggregate local government spending.

Section 6: Conclusions – Strengthening Local Economic Development in South Australia

The analysis presented in this Report has examined the ability of local governments to perform two distinct roles in maintaining and enhancing the economic performance of their local economies and hence the economic prosperity of members of their communities. The first role is to provide a temporary economic stimulus to their local economies when they experience a temporary economic downturn in their levels of economic activity and rising unemployment. The second is to enhance the long run economic health and economic performance of their local economies through implementing economic development strategies and initiatives. Our conclusions are clear and different with respect to the two roles.

Local economic stimulus

In relation to local governments providing a temporary economic stimulus to their local economies during economic downturns, we demonstrate that their ability to do so by themselves is very weak – negligible, in fact. This is not because of any inadequacy on the part of local governments themselves. Rather, it is the inevitable consequence of two facts. The first fact is that, as big a business as local governments may be within their local economies, their expenditures on goods and services are small relative to the total value of economic activity in their local economies – about 1.5 per cent on average across the State as a whole. As a result, the magnitude of the stimulus they could realistically initiate by temporarily increasing their expenditures or reducing their revenue collections is comparatively small. The second fact is that local economies are very open to flows of goods and services (imports and exports) and of people (as workers or visitors or tourists) across their jurisdictional boundaries. As a result, large parts of the increases in local incomes that arise from stimulus measures provided by local governments “spill-out” – for example, flow into purchases (imports) of goods and services from outside the local area and into increased tax payments to central governments – rather than stimulating increased local production, substantially diminishing the potential flow-on multiplier effects of the initial expenditure increase or revenue collection reduction. Even very large, likely infeasible, temporary increases in local governments’ expenditures or reductions in revenue collections would have impacts on local economic activity levels measured in tenths of one per cent – virtually no impact at all.

The only way a local government could achieve a significant stimulus to its local economy would be to gain substantial financial support from central governments through, for example, special temporary grants to be spent in its locality. But then it would be the central government, not the local government, that was providing a stimulus of significant magnitude.

Local economic development

In relation to the ability of local governments to enhance the long run economic performance of their local economies, we conclude that not only can they do so but also that it is important that they actually do so. They can do so because, for example, they have the power to make their localities attractive places to invest in as well as live and work in, can use their land use planning strategically to attract new business investment and can use a wide variety of other measures to stimulate additional investment by existing businesses and new business start-ups by local people and to attract new sources of business investment. By planning strategically rather than behaving opportunistically in seeking to promote local economic development, local governments can substantially enhance local economic performance and local economic prosperity.

We conclude that it is important that local governments do promote local economic development because it is integral to the achievement of the core purpose and objective of local governments – to build and enhance community development. In fact, economic development and community development are opposite sides of the same coin: each reinforces the other. It is also important because effective local economic development strengthens regional economic development which, in turn, strengthens state economic development. Overlooking the importance of local economic development risks the loss of substantial benefits to the state as a whole, as well as to local communities.

Survey results

A survey of a small number of councils in South Australia suggests that they all do have economic development strategies as part of their overarching Strategic Plans but that this is not always translated into a long-run strategic approach to promoting local economic development. Many appear to undertake initiatives that have the potential to further the economic development of their local areas, but do so opportunistically or in isolation from other initiatives which would complement one another and strengthen the impact they each have on economic performance.

Changing an economy’s trajectory takes a substantial period of time: strategies and initiatives have to be applied consistently and in a sustained way to overcome the inertia created by their economic, social and cultural histories.

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Attachment A

What councils in South Australia can do to improve the economic health and economic performance of their local economies

In Section 4 of this Report we argued, and demonstrated, both that local governments do, in fact, have the capacity to enhance the economic performance of their local economies and that it is important that they do so, including because it enhances their community development. We have also provided some strong pointers towards *how* councils in South Australia can more (or most) effectively promote the future development of their local economies. In this Attachment we bring together the key elements of the discussion in Section 4 to provide a sketch outline of a good-practice approach local economic development, without claiming that it is fully comprehensive. The evidence about what councils in South Australia actually do is available from the survey of councils undertaken for the preparation of this Report is based on a small sample from which it would be unsafe to draw generalisations. Accordingly, we restrict ourselves to statements of what *should* be done to meet good practice standards: individual councils can test their own approaches against the outline offered here.

The first point to be made is that the development and planning of a high-level economic development strategy should be shaped and ultimately driven by councils' overarching Strategic Plans. In particular, it needs to be consistent with, and supportive of, councils' community development strategies and plans: economic development is not a goal in its own right but, rather, is instrumental to promotion and achievement of councils' ultimate objectives of building and enhancing community development.

Second, the economic development strategy should be (very) long-term in focus and adaptable in the face of changing circumstances in recognition of the empirically verified fact that changing the economic trajectory of local and regional economies requires the application of sustained and consistent initiatives over a substantial period of time to overcome the inertia created by a locality's past economic, attitudinal, social and cultural history.

Third, the economic development strategy should lead to, and be supported by, the preparation of policies and plans (programs) covering not just economic and business development activities *per se* but also other areas of councils' activities – such as, for example, whether, how and to what extent procurement is to be used as a tool of local economic development, how rates and charges on businesses are to be set and varied over time, and what priorities should be adopted in capital works programs.

Fourth, associated with all of the above elements, there would be strong advantages in councils establishing an Economic Development Services function, with (modest) specialist staffing, within their organisational structure. Their role would not just be overseeing the implementation of overtly economic development plans and initiatives but also playing an integrating role across all of councils' operating and capital works activities that can contribute to, or can detract from, enhanced local economic development.

Fifth, the evidence available from OECD and other studies and experiences strongly suggests that central elements of the place-based approach to economic development should be adopted. Foremost among them is the inclusion of a group of leaders from at least the business and education sectors, other key stakeholder groups and the broader community – and possibly from a state government agency – to work with councils on developing the economic development strategy, policies and plans and overseeing their implementation. Councils might, initially at least, be reticent about this, seeing it as, in effect, ceding councils' prerogatives to an unelected group. However, the fact of the matter is that councils would retain ultimate control over decisions actually made. In the meantime, they would be drawing on competences and human resources beyond those normally available to them. They would also be adopting an approach that has been used, and demonstrated to work not only elsewhere in assessments by the OECD but also, closer to home, in the work of RDAs in South Australia of which councils are members.

Sixth, in drawing up plans and selecting initiatives, councils have available to them some evidence about what has worked, and what has not worked elsewhere, as set out in the previous sub-section of this Report. This could be expanded by drawing on the expertise that is available in South Australia, including from SACES. Whatever approach is taken to this step in the local economic strategy and planning process, one important observation made by us earlier was that all councils would benefit form including in it what we have termed "getting the foundations right" (see Boxes 4.4 and 4.5 earlier). Even the chance of making the highly interventionist approach (such as providing financial or other incentives to attract new business investment) work would be enhanced by having in place a background which on its own makes the locality attractive as a place to live, work and invest in.

Seventh, an important part of devising plans and initiatives is identifying the barriers or bottlenecks that might limit the effectiveness of the chosen strategy. At local government level, one ubiquitous factor is the limited capacity of councils to invest in infrastructure that would enable or facilitate stronger economic development and growth. These often include the adequacy of transport infrastructure (road and/or rail) but can also include utilities such as power or water supply. This sometimes makes effective advocacy with other spheres of government an important part of developing and implementing local economic development strategies, although, arguably, councils should attempt to avoid making success in advocacy a pre-condition for pursuit of enhanced economic prosperity – there should be a Plan B, in effect.

Another important limiting factor can be the way public sector services are delivered by state government agencies. Different places sometimes have different needs for services and different needs for how they are delivered, including needs for coordination across agencies. State agencies traditionally have been resistant to changing their modes of operation from those which best suit them, usually reflecting administrative convenience rather more than the effectiveness of service outcomes. Fortunately, that has changed in relation to one of the areas of very high significance to economic development – human capital development – with both DECD at schools level and DFEEST at skills training level working to provide arrangements to meet different place-based needs. Another state level controlled service – crime prevention – has been shown repeatedly to be a significant factor in influencing local economic development by influencing the attractiveness of places to live, work and do business in. For some communities, working with police to reduce crime rates may be as significant a part of their economic development strategy as of their social and community development strategy.

Eighth, it is important to the success of local economic development strategies that a monitoring and evaluation plan be built into the process of implementing initiatives and/or added to initiatives in established programs. The main point is not to be able to judge whether the plan and individual initiatives have been successful after the event, valuable as that might be. Rather, it is to enable ongoing assessment of how initiatives are working and to inform judgements about whether adjustments to them would increase their effectiveness or whether withdrawal of them would be best in order to free resources for alternative initiatives, or for councils' purposes more generally. Since it is not always obvious to communities and councils from casual observation whether, or how well strategies are working, evidence from professionally undertaken evaluations can be important to maintaining support for what are long-term and challenging processes involved in improving localities' economic health and economic performance.

Ninth, and finally for the purposes of this discussion, it is highly desirable that councils' economic development strategies and initiatives be coordinated with region-wide strategies, and vice versa. Indeed, the strength of economic interrelationships within natural economic regions is generally such that the efforts of local governments within them to promote their own local economic development can be significantly hindered or significantly enhanced by the degree of cooperation and coordination that occurs between them. The current RDA processes, with councils participating in them, provide a valuable vehicle for at least a loosely coordinated approach and enable councils to share in the benefits of funding earmarked by both the Commonwealth and the State government for regional development processes. The South Australian government's decision to withdraw core funding from the State's RDAs and partially replace it with project funding is an unfortunate, short-sighted decision. It would be doubly unfortunate – and possibly even more short-sighted – if it was to lead to councils also withdrawing funding.

None of this is to say that local governments' economic development strategies should be subsidiary to regional strategies, nor that other regional arrangements between councils do not also have a role to play. It is, rather, to say that interdependencies between local economies in a region are typically sufficiently significant that a failure to recognise and work on them would involve potentially substantial losses to local governments' capacities to maximise the degree to which they individually as well as collectively enhance their local economic development.

From a state-wide perspective this matters, too. Although it often goes unrecognised, or at least is not adequately acknowledged, strong local economies are, collectively, the backbone of strong regional economies which, in turn, are the foundations on which strong state economies are built. Local economic development cannot be treated as a of a second or lower order of significance without risking foregoing substantial economic benefits to the State as a whole as well as to local communities themselves.

Endnotes

[1] References in Bibliography.

[2] A full version of survey results has not been included in the Economic Issues Paper due to length of the paper.

[3] The introduction to this sub-section draws on Chapter 2 of the Productivity Commission's 2008 Research Report *Assessing Local Government Revenue Raising Capacity*, which offers more extensive comparative and historical perspectives than are relevant for present purposes.

[4] Technically speaking, increased outlays funded from increased revenue collections would be expected to have a net stimulatory effect but of a substantially smaller magnitude. Since we conclude that neither of the other options is likely to have a **substantial** economic impact on the local economy, discussing this option would serve no useful policy-relevant purpose.

[5] This is net of depreciation expenses, which are a purely notional expense item.

[6] See the ABS publication *Government Finance Statistics, Australia 2011-12*, Cat. No. 5512.0.

[7] The possibility of non-contiguous local governments agreeing to coordinate the implementation of economic stimulus measures cannot be ruled-out, at least in principle. There would be mutual benefits from doing so if there were strong complementarities between their economies, such as if each was a major supplier of different inputs to different sectors in their local economies. The net increase in economic impacts would, nonetheless be small.

[8] McKinsey (1994), *Lead Local, Compete Global: unlocking the growth potential of Australia's Regions*, McKinsey and Company Final Report for the Office of Regional Development, Department of Housing and Regional Development, Canberra: Australian Government.

[9] For a full and more analytical exposition see Michael O'Neil and Cliff Walsh, *Re-thinking the Approach to Regional Development in South Australia*, Economic Issues Paper No. 28, SA Centre for Economic Studies, December 2010.

[10] OECD (2009) provides a clear perspective on the approach as advocated by the OECD.

[11] The South Australian government has recently clearly demonstrated its discomfort with this collaborative model by withdrawing its core funding from the RDAs and making available lesser amounts of funding as project-based grants, not only undermining the logic of the place-based model but also threatening to push the future development of the model in South Australia from a strategic approach to an opportunistic project-based approach.

[12] Some steps towards this happening have been occurring in recent times in South Australia. For example, through the Department of Education and Child Development (DECD) and the Department of Further Education, Employment, Science and Technology (DFEEST), some of the services that matter most to people, families and communities – pre-schools, child care and family services, early childhood development and education and training – are being reshaped to reflect what communities say they need and will work best for them. For example, local funding is provided by DFEEST to provide region specific, place-based training that is designed to meet the needs of local employers and respond to local labour market demands. However, these examples remain, as yet, exceptions.

[13] This is not to imply that other cooperative arrangements, such as Regional Organisations of Councils, do not also have a desirable role even in economic development issues – for example by helping to achieve coordination of the views and activities of the several local governments engaged in each RDA region.,

[14] In this connection, one of several major concerns arising from the South Australian government's decision to withdraw State government core funding for the RDAs (albeit partially replaced with project funding) is that it might lead to at least some local governments deciding to withdraw their financial contributions, too. In fact, some local governments said they might do so during consultations for a Report on *Strengthening Regional Development* prepared in March 2013 by SACES for Regional Development (SA) and the Local Government Association of South Australia. Pushing RDAs further away from a strategic approach towards an opportunistic project-based approach to regional economic development in South Australia would be a highly undesirable outcome for local communities as well as for the State.

[15] Some of what follows borrows substantially from *Defining an Economic Development Model for the Cassowary Coast Regional Council* prepared by Margaret Darveniza, Regional Development Officer, Cairns: Cassowary Coast Regional Council.

[16] Peters, A. and P.S. Fisher "The failures of economic development incentives", *Journal of the American Planning Association*, 2004, 70, pp. 27-37.

[17] The McKinsey Report *Lead Local, Compete Global* estimated that 70-75 per cent of business investment is made by existing firms and start-ups in regional areas.