

# **Economic Issues**

**No. 39**

## **The Task of Strengthening Regional Development**

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**September 2013**

**South Australian Centre for Economic Studies**

ISSN 1445-6826

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**Published by:** South Australian Centre for Economic Studies  
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## **Executive Director's Note**

Welcome to the thirty ninth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within the scope, the intention is to focus on key issues – public policy issues, economic trends, economic events – and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

This paper continues the examination of best practice and new approaches to regional development, where the task of strengthening regional development commences with regions themselves taking the lead role. New understanding (and theory) of regional growth emphasises the importance of local actors and local institutions including that on average, two thirds of business investment comes from already established businesses in the region. “Bottom-up” strategies are critical to the development process; local government has a key role in establishing tripartite partnerships to promote long-term, economic development plans and strategies.

The author of this paper is Assoc Professor Michael O’Neil, Executive Director 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**  
**September 2013**



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## 1. Introduction

The South Australian Taskforce for Regional Development (1999) defined the task of regional development as:

“Regional Development is about regional communities improving their economic, social, cultural and environmental wellbeing by fully developing the potential of a region and its people. These objectives could be achieved by:

- improving regional competitiveness and encouraging private investment;
- building social and human capital;
- developing strategic partnerships and alliances; and
- promoting and fostering innovation”.

This definition foreshadowed later explanations of the processes (and actors) in local and regional development formulated by the OECD based on evidence from regional economies:

“ ... bottom-up attempt by local actors to improve incomes, employment opportunities and quality of life in their localities in response to the failure of markets and national government policies to provide what is required, particularly in underdeveloped areas and areas undergoing structural adjustment. Local development policies can also contribute towards the goal of strengthening local participation and democracy.”  
OECD (2001a, p.22)

Good local development initiatives facilitate the process by which local actors can make the best use of social, economic and environmental resources in the local area to “maximise human welfare and provide a sound economic, social and environmental base for both present and future generations”. (OECD, 2001, p.25)

### Setting the Scene: Recent Policy Papers

The Local Government Association of South Australia (LGA SA) in two recent policy discussion papers<sup>1</sup> based on input from a wide range of councils, associations of councils, regional and provincial city associations concluded that:

- local government plays a crucial role in regional development as they are “at the heart of communities ... (and) support the sustainability of suburbs, towns, centres and regions, underpinning regional development through the provision of infrastructure, service delivery and planning for the sustainable development of communities”;<sup>2</sup>
- local government supports a “renewed engagement, involvement and commitment to regional development through tripartite partnership processes”<sup>3</sup>, arguing that partnerships are an effective vehicle for cooperative, transparent, evidence based processes and decision making by which to engage regions and to enhance regional structures; and that
- regions make a significant contribution to the state economy. Given the different roles and responsibilities of different levels of government, tripartite partnerships are needed to achieve broad and overarching goals of development.

*... local government at the heart of communities ...*

The two discussion paper highlighted six essential functions to involve and strengthen regional structures:

*... essential foundations for regional structures ...*

- **Policy** – there are substantial benefits in tripartite partnerships for policy alignment to address regional issues and hence regional LGA bodies and the metropolitan (MLGG) should contribute further to the existing tripartite RDA structure.
- **Agreements** –existing and future agreements for intergovernmental relationships should be supported and kept relevant through regular reviews (e.g. the MOU for the establishment of RDA SA).
- **Structure** – supported a review of current structures of regional development and regional service delivery to improve efficiency and outcomes from service delivery, with a recommendation that DP&C review the role of departments and agencies in regional development – given the nature of overarching objectives of regional development.
- **Planning** – highlighted the role of regional roadmaps as a key resource document for regional planning and supported further consideration of better ways to align priorities of the local government and regions with State and Federal government.
- **Programs, funding and budgets** – recognised the importance of ‘place-based’ initiatives and the need to consider whether there is a better way of applying government budget allocations to support local and regional initiatives.
- **Delivery and decision making** – supported use of Regional Impact Assessment Statements as a foundation for transparent decision making processes, including the need for stronger evidence based decision making for the delivery (or withdrawal) of services in regions..

The LGA was active in establishing a Memorandum of Understanding involving the three tiers of government to extend the aims of the RDA (SA) Committees based on the above foundations, to:

*... establishing the tripartite approach ...*

- improve the coordination and delivery of regional development initiatives;
- deliver local input into national programs and help coordinate development initiatives at the regional and local level;
- work with the three spheres of government as a key linking organisation to empower communities in regional development activity;
- provide advisory and support services to businesses, state government and local government bodies and the Commonwealth in the regions;
- provide local input to governments on the effectiveness and delivery of policies and programs in the regions;
- consult and provide advice on local issues confronting the regions; and
- provide a shop front for business development services.



The LGA has continued to express their support for tripartite partnerships (which has always been associated with a financial contribution by local councils) for the purposes of regional development. And further, any ‘regional body’ established in partnership by any combination of Local Government, State/Federal Governments (as with the RDAs) would be underpinned by mutual agreements that outlined, *inter alia*, the following:

- their role and functions;
- geographic boundaries;
- how plans and strategies will be developed and monitored;
- funding and support;
- how each sphere of government representation would be achieved; and
- reporting, accountability/transparency of the regional body to the community and governments.

### **The Importance of Local Development**

Local and regional economies are small, they are also more specialised (in terms of industry) and are also very open economies with a large part of their inputs into local production and consumption purchased from outside the local area. They are small, open and specialised! The intrinsic linkages between local, regional and state economies, does not mean that by virtue of their small size they contribute little to the economy. Rather, their contribution to the value chain demonstrates the additional contribution to production and employment elsewhere (e.g., manufacturing and services-related employment in metropolitan Adelaide) illustrating once again, that the health of the state economy is linked to and interdependent with, the health of regional economies.

*... the linkages and health of local economies are the building block ...*

Regional economies are no more than the sum of their constituent local economies and local economic development is the building block for the development of the wider region, and hence the state. Thus, regional structures to facilitate and support local economic development and growth serve as the foundation to wider development objectives, locally, regionally, state-wide and nationally.

It is now well documented that the drivers of growth and development are embedded within the local community (i.e., local agents such as individuals and businesses) and starts from the ‘bottom up’ rather than ‘top down’. Development starts locally!

Two key principles follow, including that:

- local governments not only can play an effective role in local and regional economic development, but it is important that they do so. Promoting local economic development is integral to the successful pursuit by local governments of their core responsibility – to promote community development.

*... economic development for community development ...*

*... a joint responsibility ...*

- state and national governments have a role, and responsibility, to contribute to the promotion of local and regional development, through the endogenous drivers of growth, and they will do so most effectively by working with local governments, through associations of councils (e.g. SELGA, EPLGA), local and regional communities and structures such as the RDA network that provides a vehicle to foster partnerships between the different levels of government.

### **New Understanding of the Processes for Regional Development**

Understanding the processes of economic development, and their outcomes provides the basis for local and regional economic development strategies. Hence, it is therefore important that we understand the process of economic growth, and what drives growth and development in the long-term.

*... new understanding leads to new approaches ...*

The ‘old’ theoretical and empirical findings that led to public policies to drive growth were based on the process of accumulation of exogenous capital (i.e., assets not pertaining to the region) within a spatial concentration. Public policies were largely ‘top down’, driven by central governments, often featuring the provision of financial and other incentives to attract business investment to lagging regions. Factors such as large scale infrastructure and attracting manufacturing industries to a region (manufacturing which contain both physical and technological capital) were pursued to create ‘growth poles’, the spark needed to ‘jump start’ the economy in lagging regions. However, such strategies proved unsustainable and costly.

New findings suggest that regional growth is driven from endogenous capital (i.e., assets from within the region). The core finding of the new theories of growth emphasises the particular role of endogenous human capital (i.e., local actors) as critically important. Better (i.e., skilled) local actors who are capable of using local assets more efficiently in response to market opportunities leads to innovation and ultimately drives growth within the region.

*... local government assisting business investment ...*

Consistent with the new approach is the understanding that existing businesses form the backbone of regional and local economies and shape the strength and resilience of the economies in which they operate. And further, 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.<sup>4</sup> 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.

The new findings have given rise to new approaches, new ways of thinking to favour ‘localism’, place-based, regionally specific approaches to regional and local economic development that involve greater utilisation of endogenous resources, a greater emphasis on local actors (i.e., local government, RDAs) and understanding the uniqueness of each locality/region (e.g. support initiatives that come from the ‘bottom-up’).

*... local government, RDAs  
lead place-based  
approaches ...*

The ‘place-based’ approach particularly emphasises that enhanced economic development and growth is possible in all localities if they take the lead (and are assisted to 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 government; 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.

The new ‘place-based’ approach, involves promoting the economic development of all regions through a bottom-up approach in which partnerships between, especially, community leaders, business leaders and governments collaboratively develop visions and strategies and oversee the development and implementation of plans and specific initiatives.

The OECD has explained the emergence and nature of the new, place-based approach in the following way.

*... a collective governance  
approach ...*

In response to poor outcomes, regional policy has evolved, and continues to evolve, from a top-down, subsidy-based group of interventions designed to reduce regional disparities, into a much broader family of policies designed to improve regional competitiveness. These policies are characterised by: a strategic concept or development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms; a focus on endogenous assets, rather than exogenous investments and transfers; an emphasis on opportunity rather than on disadvantage; and a collective/negotiated governance approach, involving national, regional and local government plus other stakeholders, with the central government playing a less dominant role. The new regional approach is based on the principle that opportunities for growth exist in the entire territory, across all types of regions. The aim is to maximise national output by encouraging each individual region to reach its growth potential from within. Before, policy makers regarded regional policies as a zero sum game. Recent reforms of a regional policy in a number of OECD countries provide evidence that this thinking has undergone a paradigm shift.<sup>5</sup>

The characteristics of the paradigm shift the OECD refers to – from old to new – is summarised in Box 1. This new approach 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 and public sector agencies, 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.

### Box 1 The Paradigm Shift

	Old Paradigm	New Paradigm
Objectives	Compensating temporarily for location disadvantages of lagging regions	Tapping underutilised potential in all regions for enhancing regional competitiveness
Unit of intervention	Administrative units	Functional economic areas
Strategies	Sectoral approach	Integrated development programmes
Tools	Subsidies and state aids	Mix of soft and hard capital (capital stock, labour market, business environment, social capital and networks)
Actors	Central government	Different levels of government

Source: Based on OECD (2009 *ibid*).

One of the important conclusions of the OECD about regional development and growth using place-based approaches (which has obvious application and implications for local government) is that effective local leadership, involving community, business and education representation as well as governments is a key factor in regions realising their full economic potential (OECD 2013).<sup>6</sup>

### Local Government: Role to Support Local Economic Development

Development needs to start locally. The drivers of economic growth are embedded locally (i.e., endogenous assets) of which the most effective of them are local actors (i.e., human capital). Hence, strategies for economic growth and development need to start from the ‘bottom-up’. Differentiated needs of regions (i.e. the heterogeneity of regions) suggest that practical ‘place-shaped’ solutions/ methods/techniques are needed and will necessarily differ between areas.

Given the special characteristics of localities and the fundamental role of local assets to drive growth, local government and regional bodies have an instrumental role in designing and implementing ‘bottom-up’ development strategies and also acting as administrative facilitators to the much needed ‘place-based’ solutions. State and Federal governments also have to a significant part to play, to support and maximise the process of development, further illustrating the need for tripartite partnerships for economic development.

*... well understood but not always applied in practice*

...

*... an instrumental role in designing strategies ...*

It is important to note here that governments, local, state and national, themselves do not drive growth – business investment, innovation and entrepreneurship drive growth – but governments and importantly regional authorities/associations are enablers of economic development and can facilitate and enhance it. For instance, the economic performance of local economies will be influenced by the vitality of 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). The networks and linkages are usually the result of the actions of regional development bodies.

Local government has 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. In broad terms, the principal roles of local government include:

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

*... direct impacts include ...*

Local governments’ direct impact on local economic activity includes:

- expenditures on goods and services for the provision and maintenance of services to residents;
- expenditures on asset renewal/replacement and on new/upgraded assets;
- 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; and
- the extent to which local governments themselves engage in commercial activities (e.g., land development, or running local airports, caravan parks, abattoirs or sale yards, or recycling etc.).

Local governments are also, in effect, partners in the early stages of business development projects through their role in development approvals and can provide assistance for business development through, for example, support for business advisory services provided their RDA or by local chambers of commerce, marketing and promotion of their local areas and tourism attraction.

*... local government plays a key role in priority setting*

...

Local governments either singularly or through the RDA network typically also are partners with the other levels of government in developing and implementing regional economic development strategies, plans and projects which also contribute to economic development in their local communities. This partnership role is well illustrated through local councils working through their RDA to determine priorities for funding applications under the national RDA Fund (RDAF).

Local governments also can play a role in enhancing and facilitating what is arguably the most important driver of economic growth, that is, local assets. It is important that they do so to enhance 'place-based' economic development. As representatives of their localities (and hence, knowing their area well), they are an important medium to ensure economic development strategies have input from the key drivers of growth, that is, the local actors.

Given that local economies are part of broader natural (and national economies), initiatives of development should also follow suit. Local governments are in unique position to allow for the most effective and practical local solutions (e.g., Regional Strategy) to be implemented (as needed by the area) while being able to consider how it streamlines both initiatives with the overarching strategies of the broader economy (e.g., State Strategic Plan).

These functions well illustrate that local governments invariably play a role in local economic development simply by undertaking their core functions and that they extend their role through support for the RDA network and regional associations of councils. Equally important, if not more so, some of the most effective – and cost-effective – things local governments do to 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.

### **The Need for Tripartite Partnerships**

Ultimately, a sustainable, effective and successful approach to local and regional development must first start within the regions/localities, with local leadership and with local communities contributing to finding local solutions to local issues. In essence, the bottom-up approach focuses on local needs and aspirations as the starting point – the foundation for all else.

*... tripartite partnerships  
essential as not all is under  
the control of local  
government ...*

However, some of the most important policy measures for improving local development are not themselves under the direct control of local government. Local amenities such as schooling and healthcare contribute to the general social wellbeing of the local community, and are essential amenities to ensure that councils meet their responsibilities of stronger communities. What makes these policy measures particularly significant from an economic development perspective is that 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), reducing the proportion of people with low skills is more important than increasing the proportion with high skills and crime rates (higher crime rates lead to lower economic prosperity). Hence, this is where cooperation from other levels of government is required – so that these services could be delivered to localities in a manner that responds to their needs.

The paper has already noted that the prospects for sustainable local economic development will be best realised using a place-based approach. However, achieving as much integration as possible with regional-scale strategies adds to effectiveness of local strategies and to the economic strength and resilience of regions. Tripartite structures such as the RDA or their equivalent provide a vehicle for a ‘place-based’ approach, for integration with broader strategies (e.g., State Strategic Plan, Seven priorities), an important communication medium through which local governments are able to effectively articulate their own differentiated ‘place based’ aspirations, goals and aims and a vehicle for evidence based monitoring and evaluation purpose (e.g. through the Regional Roadmaps).

Appendix A provides a model of how this ‘place-based’, ‘bottom-up’ approach is intended to work for governments – local, state and national – in the Australian context. This framework emphasises the need for all levels of government to enter into partnership in the development of local/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.

Notwithstanding the need for locally framed place-based approaches, 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 a wide variety of State-wide strategies and plans ultimately determined by the State government.

Box 2 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.

Not all of these State strategies will be likely to significantly constrain local government’s decision-making but they all are expected to at least guide it.

**Box 2: State Strategies, Plans and Statements relevant to local economic and community development**

OVERARCHING STRATEGIES, PLANS AND STATEMENTS	
<ul style="list-style-type: none"> <li>• The South Australian Strategic Plan</li> <li>• The State Government’s 7 Strategic Priorities</li> <li>• The Premier’s 2012 Economic Statement on South Australia’s Prospects for Growth</li> </ul>	
SELECTED POLICY-AREA-SPECIFIC STRATEGIES AND PLANS	
<ul style="list-style-type: none"> <li>• Strategic Infrastructure Plan for South Australia</li> <li>• Planning Strategy for South Australia</li> <li>• Prosperity through People – Population Policy for South Australia</li> <li>• Education Plan</li> <li>• Health Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Skills Strategy for South Australia</li> <li>• Manufacturing Works</li> <li>• Agribusiness Strategy</li> <li>• Natural Resource Management Plan</li> <li>• Water for Good</li> <li>• Tourism Strategy</li> </ul>

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

**Local Government, Relationships and need for Collaboration**

The support and engagement of local government in the tripartite RDA model (and through associations of Councils and previously through the RDB model) illustrates local government’s understanding of, and commitment to address, the regional scale of many economic development issues of importance to their region.

This makes complete sense in 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 that almost demand collaborative regional approaches to many issues in some way. Hence local governments have a long history of participation in the development and implementation of economic development strategies and plans at an appropriate regional scale, and embed their local-area-specific strategies and initiatives within them, in order to achieve maximum effectiveness.

An 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.<sup>7</sup> The fact that the RDAs are a conduit for Commonwealth funding for strategic regional infrastructure projects based on regionally agreed

*... local governments have a long history of participation*

*... securing regional investment in infrastructure*  
...

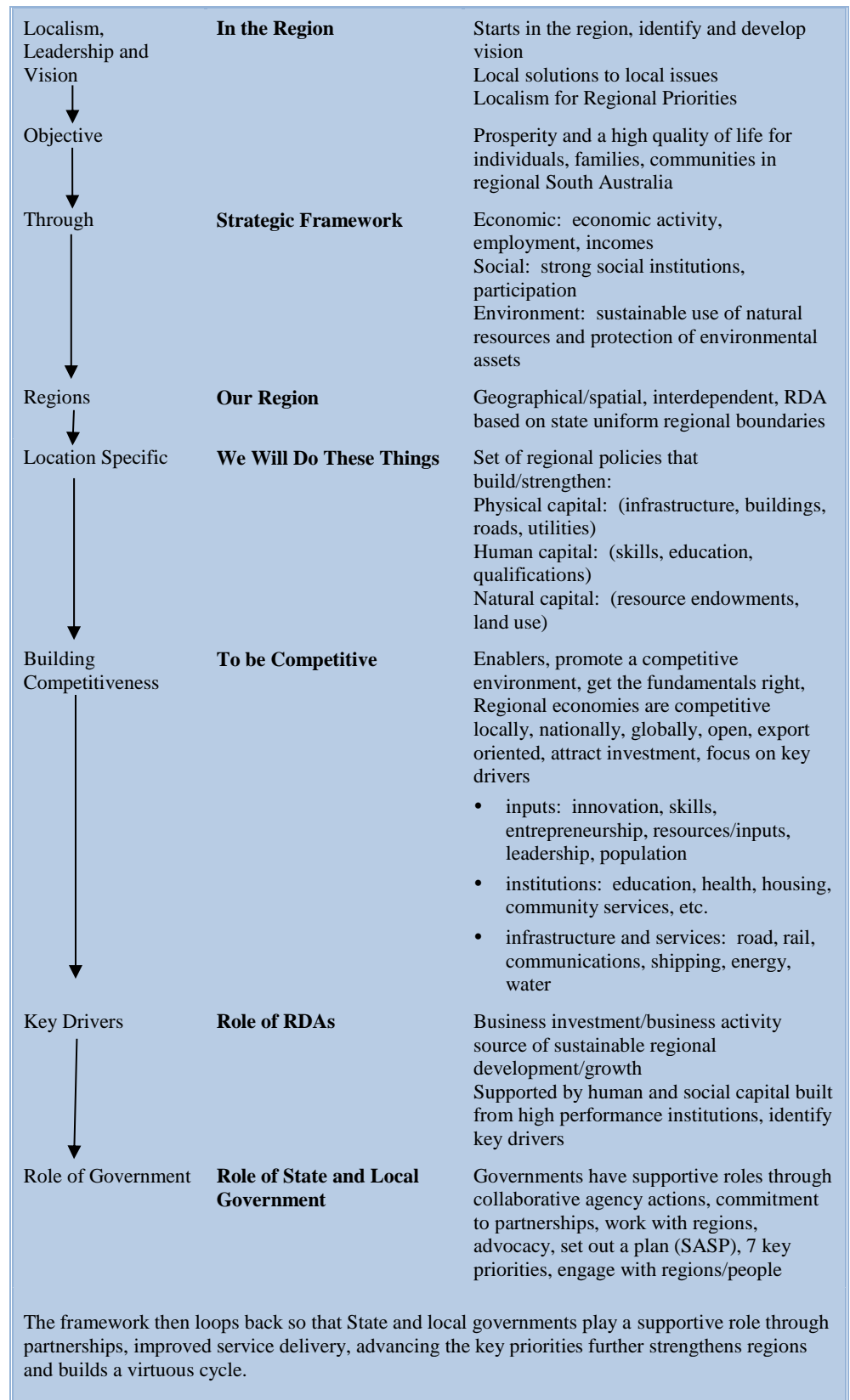


priorities also serves the interests of the local governments that are partners in them, even when their particular local area is not the direct beneficiary of the funding.

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.

It is highly important that local governments 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.

## Appendix A: A Framework for Regional and Local Prosperity



## End Notes

- <sup>1</sup> LGA Discussion Papers: *Partnering with Local Government to Deliver Regional Outcomes and Growing Country Communities Policy*.
- <sup>2</sup> *Partnering with Local Government to Deliver Regional Outcomes*, p. 11.
- <sup>3</sup> Ibid, p. 2.
- <sup>4</sup> 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.
- <sup>5</sup> *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, Paris: OECD, 2009).
- <sup>6</sup> *Promoting Growth in All Regions*.
- <sup>7</sup> 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.,