

Illawarra Business Chamber/Illawarra First

Regional Development and a Global Sydney

Submission to Legislative Council Standing Committee on
State Development



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1. Introduction

The Standing Committee on State Development has established an inquiry into how Sydney's growing prominence as a global city can enhance regional development in New South Wales. The Standing Committee will identify sectors of the economy that can provide the greatest opportunities for regional development and consider how collaboration between government, non-government and private sectors can assist the regions to benefit from Sydney's global position. The Terms of Reference for this enquiry comprise:

- a) ensuring the regions benefit from the expansion of international trade, infrastructure, employment, tourism, innovation and research in the greater Sydney region,
- b) identify the sectors of the economy that can provide the greatest opportunities for regional development, including forecasts for jobs growth,
- c) how collaboration between levels of government, non-government and private sectors can assist the regions to benefit from Sydney's global position, and
- d) any other related matter.

2. Illawarra Business Chamber/Illawarra First

The Illawarra Business Chamber (the Chamber) is the Illawarra Region's peak business organisation and is dedicated to helping business of all sizes maximise their potential. Through initiatives such as Illawarra First, the Chamber is promoting the economic development of the Illawarra through evidence-based policies and targeted advocacy.

The Chamber appreciates the opportunity to provide a submission to the Standing Committee.

3. Overview of the Illawarra

The Illawarra, as defined by the four Local Government Areas (LGAs) of Wollongong, Shellharbour, Kiama and Shoalhaven, is New South Wales' third most populous area, being the home to over 380,000 people and an expected population of about 500,000 people by 2050.¹ The region is also the State's third largest economy, contributing \$16.2 billion to the State's economy in 2013 and is the third largest urban area in New South Wales totalling 5,620 square kilometres.²

The region is home to the University of Wollongong, one of Australia's top 10 universities, Australia's third largest international trading port and comprises a landscape of significant biodiversity value making it a region of national significance.

¹ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 3

² Note 1.

The unique natural and built environments of the region are powerful sources of attraction for businesses wanting to make long term investments in sustainable enterprises, and for an increasing number of visitors who want to enjoy the pleasures of our beautiful beaches, rainforests and modern urban settings, and the rich cultural calendar.

The region has four major economic centres – Wollongong, Shellharbour, Kiama and Nowra – Wollongong being the largest centre, supporting over 80,000 jobs. The region benefits from its close proximity to Sydney and Canberra as well as its global connections through the port of Port Kembla which directly and indirectly supports over 3,500 jobs and is estimated to contribute around \$418 million annually to the regional economy.³ The Shoalhaven Defence base (HMAS Albatross) also supports over 2,500 jobs and contributes some \$295 million annually to the regional economy.⁴

4. Competitive Advantages of the Illawarra

The transition of the Illawarra economy presents an important opportunity for the New South Wales and Australian economies. The region comprises strategic assets such as Port Kembla. The deepwater port is New South Wales' largest motor vehicle import hub and grain export terminal and the second largest coal export facility in New South Wales.

The region has a strong record of providing innovative defence technology and services to the Australian and global defence industries. Importantly, the region is also endowed with a skilled advanced manufacturing labour force, supported by the research and education activities of the University of Wollongong.

The continuance of this economic transition, however, is largely dependent on investment that provides improved transport connections between the Illawarra region, Sydney and Greater Sydney. As the development of Sydney continues (and in particular Western Sydney), many industry sectors will see benefits in relocating to the Illawarra. This is especially relevant for manufacturing and logistics businesses.

Increased operating costs, increased land values and congestion pressures will require many businesses to look at relocation options if their operations are to continue. The Illawarra, located just 80 kilometres from Sydney CBD, provides an ideal relocation option for many of these businesses. To realise the potential of the region and its capacity to provide the productivity uplift and lower cost base sought by businesses, it is vital that improved transport connectivity in the form of improved road and rail be delivered.

5. Economic Diversification

It is important that regions like the Illawarra continue to progress the diversification of their economies to ensure adaption to changes to the national and international economy over time.

³ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 20

⁴ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 25

In the past two years, average employment growth in the Illawarra has been twice that of New South Wales and Australia. It should be noted that the monthly unemployment rate in the Illawarra fluctuates more than the New South Wales and Australian averages due, in part, to the fact that regional economies are more susceptible to external shocks and more prone to the adverse impacts of slowing national economic growth.

While lower unemployment rates generally imply labour market improvements, falling unemployment rates can also be a product of discouraged job-seekers dropping out of the labour force completely. This trend is more likely to occur in a region like the Illawarra where manufacturers and miners who have recently lost their jobs, and whose skills may not immediately transferable to other sectors.

In 2013, manufacturing was the largest contributor to regional output, contributing \$1.9 billion (11.5 per cent) and employing nearly 10 per cent of local jobs.⁵ Over the next 20 years, the manufacturing sector is expected to shed around 4,000 jobs, the equivalent of 3 per cent of the Illawarra's current workforce. Despite this, it is likely that there will be some niche areas within manufacturing where employment growth is seen over time. To support this growth, we recommend new government initiatives to enhance the manufacturing sector's capacity to adapt to changing economic times, and support for 'advanced manufactures' or manufacturing services.

The fastest growing sector over the next 20 years in the Illawarra is expected to be health care, driven primarily by an ageing population, with the sector's workforce expected to grow by the equivalent of nearly 4 per cent of the region's total employment base over the next twenty years. Education and training is also expected to grow strongly, by around 3,000 workers over the next 20 years, driven primarily by continuing strength of the region's vocational and tertiary education offerings. This growth is likely to be dependent on linkages between health and medical research, primary care, acute care and institutions like the University of Wollongong.

The Illawarra's proximity to Sydney and Canberra provides substantial opportunities for tourism growth in the region. The visitor economy is currently worth almost \$1.3 billion annually to the Illawarra-Shoalhaven, and brings in over 6.7 million visitors each year to the region. A common view among stakeholders is that the Illawarra region has considerable potential to increase tourism, but a lack of infrastructure is restricting this potential.

For the region to benefit from these and other growth areas and opportunities, it is essential that a substantial investment is made to improve transport connectivity to and from the region.

6. Global experience

Global and structural changes also favour regions that are well-connected internally, and to an increasingly globalised international economy. Linkages to a major international city or economic hub are particularly important.

⁵ NSW Department of Planning and Environment, Illawarra-Shoalhaven Regional Plan, 2015 , page 15

A fundamental principle in regional economic development is integration among regions through the movement of goods, services and people. The proximity to Sydney provides the Illawarra with a real competitive advantage. The importance of cities has long been understood in urban studies. Put simply, 'cities are the powerhouse of growth throughout the world'.⁶

The role of government in economic development has also changed since at least the 1990s, as policy has moved away from the highly interventionist and protectionist strategies of the past, to one based on strategic planning and collaboration between government, business and the community.⁷ While the support of government in the development of *hard* infrastructure (roads, ports, fibre-optics, etc.), and *soft* (sometimes termed 'smart') infrastructure (related, for example, to skills development, R&D, education, health, or environmental improvements) remains critical, particularly where regions are facing structural adjustment to external forces beyond their control.⁸

7. Illawarra as an 'extension' of Sydney

The Illawarra region is becoming increasingly integrated with the Sydney CBD and the Greater Sydney area:

- An average of 42,300 passenger and freight vehicles per day travel between the Illawarra and the Sydney CBD and metropolitan area on the M1 Princes Motorway, the main road corridor between the Illawarra and Sydney.⁹ This makes this corridor one of Australia's busiest inter-city road corridors.¹⁰ Congestion on the existing rail and roads between the Illawarra and Sydney are actively discouraging further investment and employment growth.
- Among these travellers, about 20,850 (or 15 per cent of the Illawarra region's workforce) commute to Sydney and its southern and western suburbs to go to work, and 10,000 people living in Sydney make the trip from these areas to work in our region.¹¹
- Sydney is an important market for the University of Wollongong and a diverse range of professional and technical service providers that are based in the Illawarra.

⁶ Smith, P. D. 2012. *City: A Guidebook for the Urban Age*. Bloomsbury.

⁷ Stimson, R.J., Stough, R.R. and Roberts, I.H. 2006. *Regional Economic Development: Analysis and Planning Strategy*, Springer, New York, p.16.

⁸ Note 7.

⁹ NSW Roads and Maritime Services, Average Daily Traffic Volumes, V1.0, updated 25/3/2014, <http://www.rms.NewSouthWales.gov.au/publicationsstatisticsforms/trafficvolumes/map/>, accessed 5 September, 2014

¹⁰ BITRE, Australian transport statistics Yearbook 2009 http://www.bitre.gov.au/publications/2009/stats_001.aspx

¹¹ Illawarra Business Chamber, Linking the Illawarra: Improving the region's transport connectivity, August 2014, page 8

- The Illawarra's proximity to the current Sydney airport, and planned Western Sydney airport, should facilitate opportunities domestically and internationally. However, inadequate transport infrastructure is restricting the full potential of these opportunities.

The requirement for improved connecting infrastructure between Greater Sydney and the Illawarra is identified in the NSW State Infrastructure Strategy:

'The Illawarra and the Hunter Regions are increasingly becoming integrated with the economy of the Greater Sydney Region. Many residents commute by rail and many more make the journey by road to work in Sydney every day. As Newcastle and Wollongong grow in size and importance to the New South Wales economy, they need faster and more efficient links to Sydney'¹²

8. Importance of transport infrastructure to regional economies

The lower cost base and tangible competitive benefits of regions offer important competitive advantages that can provide enduring economic and employment outcomes for decades to come if the investment is made in improving transport connectivity between the Illawarra and Greater Sydney.

According to an assessment of transport connectivity within the Illawarra and between the region and Sydney, the Illawarra has the lowest overall transport connectivity score by comparison with three other Australian regional cities and areas: Central Coast (New South Wales), Geelong (Victoria) and Gold Coast (Queensland).¹³ Each of these comparator locations are a similar distance from a major metropolitan city, and have similar population numbers and socio demographic characteristics.

The Illawarra's score is 25-30 per cent lower than the scores in the other Australian benchmark regions – and nearly 50 per cent lower than the international comparator, Lille in France, that was also included in the benchmark study.¹⁴ The key factors contributing to this performance is that the region has the lowest overall network coverage due to a poor freight rail connection, and comparatively poor road speed for both passenger and freight transport, and public transport (some bus services but mainly the South Coast railway).

The 20,850 workers who rely on these road and rail corridors to travel to work, incur about \$450 million per year in time and out of pocket costs or about \$27,200 per person travelling by road and \$17,100 per person travelling by rail. These costs are estimated to increase to about \$690 million by 2031.¹⁵

¹² Infrastructure NSW, State Infrastructure Strategy, 2012, page 69

¹³ Note 8

¹⁴ Note 8

¹⁵ Transport Affordability Index, Australian Automobile Association, 2016

9. Road connectivity

The F6 Freeway / Mt Ousley Road (both recently renamed the M1 Princes Motorway) and the A1 (Princes Highway) at its northern extension beyond Waterfall is the primary entry and exit point for passenger traffic, and essentially the only entry and exit point for freight traffic moving between Wollongong and Sydney. In 2007, this stretch of road was identified as Australia's busiest inter-urban road corridor, and at the time its most significant challenge was that it was highly congested.¹⁶ Today, traffic volumes are higher, congestion is worse and the journey time takes increasingly longer. And at the southern end near Wollongong, where freight vehicles account for about 15 per cent of the traffic, and the road is steep and winding, the corridor is prone to traffic accidents and other incidents that can cause lengthy delays.

Traffic growth on infrastructure providing for inter-regional linkages, including the Illawarra Line, Appin Road, Picton Road and the M1 will need to be catered for through incremental improvements such as additional lanes and improved intersections.

Major changes, including a reduction in travel times to Sydney, such as through the construction of the M1 north of Waterfall and incremental improvements in rail travel times, are likely to accelerate existing trends, as regional industry responds to improved connectivity, and people respond to reduced travel times to areas offering more affordable housing options.

10. Rail Connectivity

Passenger rail services between the Illawarra and the metropolitan hub of Sydney currently rely on the South Coast Line. Commuting times between the Illawarra and Sydney are in excess of an hour and a half each way. In recent years, the efficiency of the South Coast Line has also been impacted by increased congestion with passenger and freight trains competing for scarce slots. Given current freight projections out of Port Kembla, the demand for freight services is expected to double over the next 20 years. At the same time, the expected growth in passenger demand is expected to limit the scope for expanding freight services.

Very few additional passenger or freight 'slots' are available on the South Coast Line without significant additional and a costly infrastructure investment.

Illawarra First has commissioned the SMART Infrastructure Facility, University of Wollongong, to investigate options to improve the speed and reliability of passenger and freight rail transport services between the Illawarra and Sydney. The final report from the study is expected to be delivered in June 2017. Once completed, the Chamber is happy to provide a copy to the Standing Committee for its consideration.

¹⁶ Auslink, Sydney –Wollongong Corridor Strategy, 2007

Preliminary findings of this study demonstrate that Wollongong and the Illawarra are constrained by the current extent and standard of both passenger and freight access to the region. The study points to a number of long-term economic benefits, including regional investment, employment creation, improved safety and enhanced freight and labour productivity. The considerable growth in Western Sydney, including the decision to build a second Sydney airport at Bagderys Creek, underscores the importance of future investment in rail infrastructure.

As part of its \$10 billion National Rail Program announced in the 2017-18 Budget, the Australian Government released *The National Rail Program: Investing in rail networks for our cities and regions* document which lists key benefits to cities and regions from improving rail connectivity. The document on this program notes the benefits of faster rail links to major regional centres and identifies the rail lines between Sydney and Wollongong and Sydney and the Southern Highlands as key strategic passenger rail corridors.¹⁷ Despite the strategic importance of these rail lines, the Australian Government makes specific reference to the constraints of these lines and notes the average speed on the line between Sydney and Wollongong is 56 km/h over an 82 km long track. Among the factors that constrain speed is that at one location there is a tunnel only large enough for one line meaning trains must wait for any approaching trains before entering the tunnel. Added to this restriction are concerns regarding the structural integrity of sections of the rail line, and the consequences of potential failure.

The Australian Government has committed \$20 million for the development of up to three business cases and has identified the Sydney to Illawarra Rail Line as a key strategic rail corridor where significant benefit would be achieved from faster commuter times. It is strongly recommended that the NSW Government make applications to the Australian Government to secure funding to develop a robust business case to secure necessary funding for the construction of a new rail line between Wollongong and the Western Sydney, which the Chamber has named the South West Illawarra Rail Line (SWIRL) as well as funding for line straightening and duplication of the rail line between Sydney and Wollongong.

11. Future Uses of Port Kembla

Port Kembla is a key infrastructure asset in NSW and a driver of economic growth in the Illawarra region. The operations of the port are estimated to contribute over \$750 million annually to the Gross State Product of NSW. Port Kembla has been identified as a port of growth with the capacity to handle new trades and increased volumes of existing trades.

Port Kembla is the only significant bulk port in southern NSW. It is Australia's largest vehicle import facility, has the largest grain handling terminal on the East Coast and is NSW's second largest coal export facility.

Port Kembla will remain a multi-use port with a range of current activities projected to show solid growth. The future of the port is expected to be based around heavy industry, car imports, and grain and coal exports, with the eventual development of a container terminal.

¹⁷ The National Rail Program: Investing in rail networks for our cities and regions, Australian Government, May 2017

An over reliance on road transport will place increasing pressure on our road networks and improved rail links will be crucial for Port Kembla to effectively operate as a container terminal.

With no additional capacity in Sydney Harbour, Port Kembla also remains a viable option to support/accommodate growth in the NSW cruise ship industry.

12. Need for decentralisation of government administration

Through a more ambitious commitment to regional growth at all levels of government, regions like the Illawarra can contribute to a more productive Australia as we transition from the resources boom. Regional centres should continue to be considered for the relocation of government administration functions and activities. The relocation of government administration to regional areas over time may provide substantial cost savings for government and improve labour force participation and unemployment in regional centres.

The relocation of government administrative services also presents an opportunity to assist in ameliorating cost of living pressures faced by government employees living in major urban centres.

13. Regional priorities

To provide continued and sustainable growth for the Illawarra post the resources boom, the Chamber and Illawarra First have called for a greater focus from the New South Wales and Australian Governments on regional development and transport connectivity.

It is essential that all levels of government seize the potential of regional Australia to drive state and national productivity. To propel continued economic development within the region, the Illawarra Business Chamber has identified the following regional priorities:

- 1. Investment in inter/intra-region road and rail infrastructure**
Enhanced transport connectivity will boost productivity, reduce freight costs, improve safety, reduce congestion and maximise the potential of Port Kembla.
- 2. Decentralisation of state and federal government administration**
Reduced cost of living for employees, lifestyle and reduced operating costs for government agencies makes the Illawarra an ideal location for decentralised operations.
- 3. More opportunities for local businesses to deliver government projects and initiatives**
Greater focus on local procurement and content to deliver New South Wales Government programs and services.
- 4. Investment in regional health care and support services**
To maintain quality health care for the region's growing population it is essential that health infrastructure across the region be upgraded.

5. Education and Research

Expanded and innovative trades training opportunities and investment in advanced research to provide more youth employment opportunities and build on the competitive advantages of the region.

6. Infrastructure to support growth of tourism/business events

Growing popularity of the region as a sought after tourist destination including business events requires a substantial investment to support growth and to build capacity.

The capacity of regions to provide substantial productivity gains, a reduced cost base, access to a skilled labour force, improved social equity outcomes and the capacity to alleviate many of the congestion pressures faced by major urban centres are worthy and appropriate areas of focus for this inquiry.

14. Enhanced productivity through regional development

It is essential that governments look at the potential of regions to drive state and national productivity. Regional Economic Centres like the Illawarra offer a lower cost base and present productivity benefits that many businesses operating in high cost locations. The competitive advantages of these centres need to be harnessed to provide the next wave of investment and jobs growth.

Greater commitment to regional economic centres is critical to boosting productivity and addressing a number of key socio-economic challenges including housing affordability, youth unemployment, urban congestion and labour force participation.

Job creation, reducing congestion in major cities, providing more opportunities for youth employment and support for local business are just some of the benefits from investing in regions and should be a priority for all levels of government. We look forward to recommendations from this inquiry that support positive measures in these areas and thank the Standing Committee for the opportunity to provide this submission.

For further information on this submission please contact:

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15. References

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