



# Greater Geraldton

## Expenditure Leakage Study

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# Executive Summary

## SUMMARY

### GOVERNMENT LEAKAGE

LOCAL	STATE	FEDERAL	POTENTIAL REDUCTION
40% \$38m	20% \$32m	20% Not Available	<b>\$70m</b>

### BUSINESS LEAKAGE

TOTAL	BIGGEST LEAKS	POTENTIAL REDUCTION
<b>\$1.24b</b>	MANUFACTURING ..... \$424m CONSTRUCTION ..... \$144m MINING ..... \$112m TRANSPORT.. ..... \$77m RENTAL.. ..... \$68m	<b>\$259m</b>

### CONSUMER LEAKAGE

TOTAL	BIGGEST LEAKS	POTENTIAL SOLUTIONS
<b>\$299m</b>	ENTERTAINMENT.. ..... \$91m TRANSPORT.. ..... \$64m SUPERMARKET.. ..... \$34m BULKY GOODS.. ..... \$24m CLOTHING.. ..... \$19m	POPULATION GROWTH ATTRACT INVESTMENT IN KEY INDUSTRIES CITY CENTRE REVITALISATION



## Introduction

- This study reports on expenditure leakage from Greater Geraldton resulting from government entities, households and businesses procuring goods and services from non-local suppliers.

## Expenditure leakage and viable regional economies

- Expenditure leakage extends beyond the retail and tourism sectors with which it has been traditionally linked. In regional settings, it can occur across the entire economy, particularly when local markets do not meet threshold sizes sufficient to support local suppliers. The solution to addressing small local markets, is to focus on findings ways to support local suppliers and assist them to, in time, scale up to enter regional, national and even international markets.

## Business expenditure leakage

- Previous research and available data pinpoints several opportunities for reducing business expenditure leakage. They encompass a range of manufacturing activities, some professional, scientific and technical activity and other services including administration and finance. These activities would supply manufacturing, construction, mining, wholesale trade and tertiary services, although there are also some synergies with government sector demand (e.g. in construction and ICT services). At a minimum, the reduction in total leakage is in the order of \$75m per annum.

## Consumer expenditure leakage

- Overall, consumer expenditure leakage from Greater Geraldton is relatively modest and not dissimilar to rates found elsewhere in (metropolitan) WA. The combination of population growth and CBD revitalisation may help to reduce this further and encourage investment in moderately scaled retail. There is potential to retain more dining and entertainment-related expenditure through city centre revitalisation.

## Government expenditure leakage

- Both local and State Government agencies have a demonstrated commitment to 'buy local'. But there are impediments to locally sourcing some goods and services and total local and State Government expenditure leakage is estimated at \$70m, comprising 40% of Council expenditure (~\$38m); and 20% of State expenditure (at least \$32m and most likely more). Local suppliers are considered price-competitive but may lack specialised skills and the ability to deliver at scale. This is considered the primary cause of leakage and there may be opportunities to reduce this *with assistance*. Although needing further investigation, this may include leakage reduction by helping to develop local Indigenous businesses through the new Indigenous Procurement Policy.

## Summary

- We can say that there are both opportunities to reduce significant leakage and, in doing so, increase the scale of the Greater Geraldton economy, and there are opportunities to reduce minor leakage, thereby helping to increase economic diversity. The total potential leakage that could be mitigated sums to more than \$329m.



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# 1.0 Introduction

Greater Geraldton's total output is \$5.5b and it 'leaks' around \$1.24b of that. While much of the leakage is to major industry suppliers, such as oil and gas refineries, smelters and heavy construction, there are obvious opportunities for reducing leakage by introducing economic development initiatives that support existing (or attract new) enterprises to service local demand. Given our highly integrated economy, the key to the success of these enterprises is likely to be in ensuring that they are able, in time, to scale up and compete within the region, the State, nationally and possibly internationally.

This report summarises the findings of an analysis of data on the expenditure of businesses, government and households in Greater Geraldton, and the proportion (and nature) of that expenditure that is directed to non-local businesses.

The intent is to identify plausible opportunities for reducing the leakage in ways that either significantly reduce the volume of leakage, or, at the very least, identify niche opportunities for growing and diversifying the City's economy by reducing the rate of that leakage.

The information has been drawn from several sources:

1. For business leakage, it is primarily taken from the REMPLAN (2016) data on regional imports. The 2015 Plugging the Leaks study, which included a business survey, was used to guide the analysis of this data and inform the evaluation.
2. For government leakage, an analysis of Buy Local policies, financial statements and consultation with a range of government entities was used to derive estimates of leakage

rates, as well as leakage volume by type. Opportunities for addressing leakage were discussed with stakeholders.

3. Household leakage estimates were derived from electronic transaction data purchased specifically for this study. The data reveals total expenditure by Greater Geraldton households by location of purchase (rest of WA or elsewhere) and type of expenditure (by expenditure category). Although electronic transactions account for an increasing share of all household expenditure, it does not include cash transactions, which are, in fact, likely to be higher in the local area. To address this, cash transactions are estimated using the Reserve Bank of Australia's research on the cash/non-cash household expenditure ratios.



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## 2.0 A Broad Approach to Reducing Leakage

Analysis of regional expenditure leakage has primarily focused on retail and tourism sectors. However, regional economic development planning considers leakage across all industry sectors to identify which parts of industry supply chains could conceivably be delivered locally. In the case of regional Australia, including Greater Geraldton, identifying opportunities for reducing leakage is particularly dependent on recognising the minimum scale necessary first to viably support a local supplier and then grow into export<sup>1</sup> markets.

### 2.1 What is expenditure leakage?

The concept of regional expenditure leakage has been primarily applied to retail and tourism activity, in which either residents make conventional household purchases from retailers based outside of the region (either online, or while on trips); or visitors to the region make most of their transactions with national or international tourism enterprises (airlines, hotel chains, imported food and so forth).

In regional economic planning and development, however, the concept has been applied more broadly. It considers all expenditure made by households, government and business, on the purchase of goods and services (intermediate or otherwise) from suppliers based outside the region, such that most, if not all the expenditure is lost to the region's economy.

### 2.2 Market type, economies of scale and leakage in a small economy

One way of defining the nature of industry sectors makes a distinction between city forming and city serving industries<sup>2</sup>. City forming industries produce goods and services for export, thereby channelling revenue into the city/region. City serving industries service the local resident population and their needs.

This can be a useful typology as it helps identify the nature of the opportunities for regional economic growth. For example, with respect to city forming industries, one way to grow the economic base is by creating more export demand for locally produced goods and services; e.g. through trade missions.

Alternatively, a population growth strategy can increase internal demand, much of which can be met locally. The key is to

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<sup>1</sup> The term 'export' is used to refer to any markets outside of Greater Geraldton, and not just internationally.

<sup>2</sup> There are several other descriptions used for these, including tradeable/non-tradeable.





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ensure local expenditure is directed locally (i.e. goods and services are purchased from local suppliers). The challenge with this latter approach is that, often there is not enough local demand to warrant the establishment of supply industries in the region<sup>3</sup>. This is particularly the case for smaller, regional economies.

### ***Substitute imports through flexibility***

The focus for smaller regional economies must be on ensuring local businesses are flexible in what they supply and willing and able to customise or change production to meet demands. They must also be able to increase production scale to meet more demand, even cooperating with other businesses to do this. 'Import substitution' support for small businesses to meet emerging city serving demand is important, as is engendering a widespread culture of pride and quality in local businesses and products.

While many businesses will require inputs from other regions, an increase in substitution of imports by local production will enable a regional centre like Greater Geraldton to reduce leakage and in the process, strengthen its service centre role.

### ***Chase economies of scale***

The minimum scale necessary will always be an issue for starting local production. Greater Geraldton's relatively small immediate catchment makes this challenging for activities that depend on economies of scale. For example, as noted in *Plugging the Leaks*, production

of concrete railway sleepers may be an opportunity, along with similar precast concrete products such as pipes, covers, storm water pits, culverts, bridge and road components, and precast slab walls.

However, there is an increasing concentration in this industry, as with many others, which make it difficult for smaller players to establish a base<sup>4</sup>. As discussed in Section 6, the opportunity may be through starting as a city serving industry, but transitioning to city forming by selling the 'Greater Geraldton' brand based on a unique product/s.

This will require a cultural foundation based on pride in local products, capabilities and services, and a focus on producing quality products with a point of difference. There will always be a market for quality supplies that are longer lasting than the competitors'; services that solve a customer's problem; and products that are both attractive and functional. Essentially, businesses must be innovative and dare to produce, in the first instance, for the smaller, local market.

The optimum approach, then, for addressing leakage is through customisation, small-scale production and high quality and then, over time, increasing scale to meet export demand. This has already been implicitly recognised in *Plugging the Leaks*, for example, in the opportunities to supply goods and services into the Pilbara.

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<sup>3</sup> One way to measure this is to compare average supplier enterprise size with leakage. If the latter is bigger, the local demand is likely to be inadequate to sustain a local supplier. This has been done in Section 3 where data is available.

<sup>4</sup> From 2011 to 2016, the Australian industry declined by 1.1% p.a. and faced increased imports (IBISWorld, 2016).



## 3.0 Business Expenditure Leakage

The Plugging the Leaks study and existing regional imports data, informed by a review of relevant literature, pinpoints several potential opportunities for reducing business expenditure leakage from Greater Geraldton. They encompass a range of manufacturing activities, some professional, scientific and technical activities and other services including administration and finance. These activities would supply the manufacturing, construction, mining, wholesale trade and tertiary services.

### 3.1 No local suppliers or low local expenditure share

Business leakage comes from business enterprises sourcing inputs from non-local suppliers. There are two main dimensions to this, as identified in the 2015 Plugging the Leaks study:

1. The *lack of local suppliers*. That is, no currently established enterprises.
2. In situations where there are local suppliers, the less than optimum share of expenditure going to them, compared with non-local suppliers.

The Plugging the Leaks business survey revealed several causes for these two types of leakages:

- *Lack of local suppliers* – the limited local demand and market size of Geraldton affects the attractiveness of the region to new business investors. This is compounded by the cost of starting a business and the overhead costs required to maintain the business, once started.

- *Lack of local expenditure share to local suppliers* – survey respondents expressed concerns about the price and quality of goods and services provided by existing local suppliers, who are perceived to be inefficient, slow and offering poor customer service. By contrast, Perth-based suppliers invariably offered cheaper prices. More interestingly, the established long-term supply relationships meant there was little incentive to change and, finally, the inability to supply at scale meant it was a risky proposition to overturn existing supply chains.

In summary, then, the survey found several compelling reasons, across many sectors, for sourcing inputs from Perth, or elsewhere: it either cannot be sourced locally; it can be sourced from elsewhere more easily, more cheaply, more reliably; or, simply because it has always been sourced from elsewhere. The consequence is quantified below.



## 3.2 Overall leakage

Figure 1 illustrates the business leakage share by destination. Accounting for the likely error in these estimates, it would be reasonable to conclude that approximately one third of total leakage by value goes to each of 1) the rest of WA; 2) the rest of Australia; and 3) overseas.

Given the relative market sizes, it highlights Greater Geraldton's dependence on the rest of WA (i.e. Perth) for much of its economic input.

Figure 2 summarises business leakage (and destination) by industry sector, estimated at \$1.24b, and Figure 3 compares leakage volume with leakage rates for the 19 ANZSIC industries.

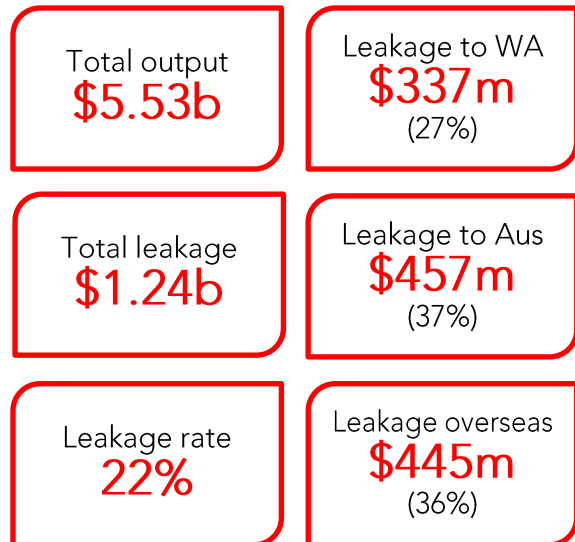
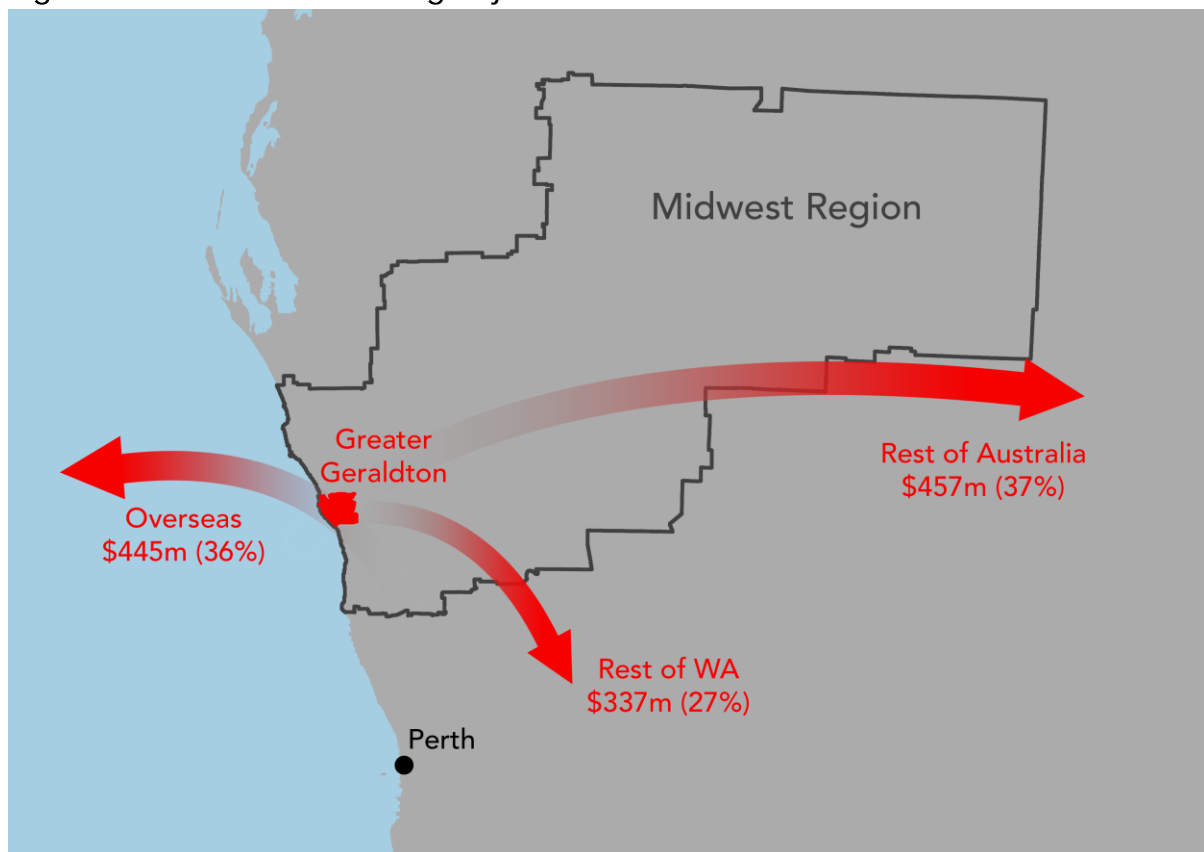


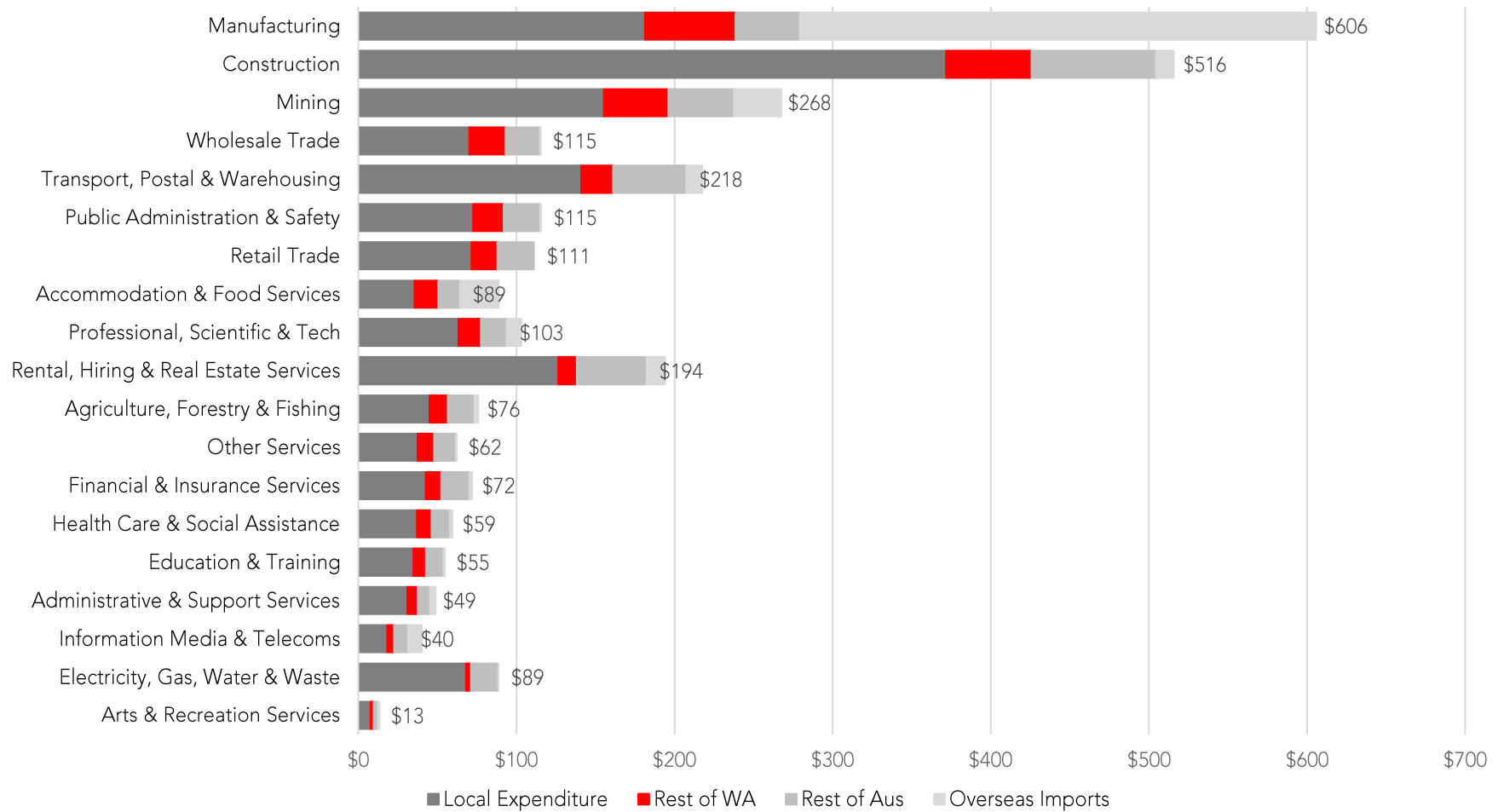
Figure 1 Estimated Leakage by Destination Share



Source: REMPLAN, 2016, compiled by Geografia



**Figure 2 Estimated Business Expenditure by Industry and Destination (\$m, 2015)**



Total expenditure by industry values are shown in the chart. Source: REMPLAN, 2015; Geografia, 2016



**Figure 3** Total Business Expenditure by Industry and Leakage Rate (\$m, %, 2015)

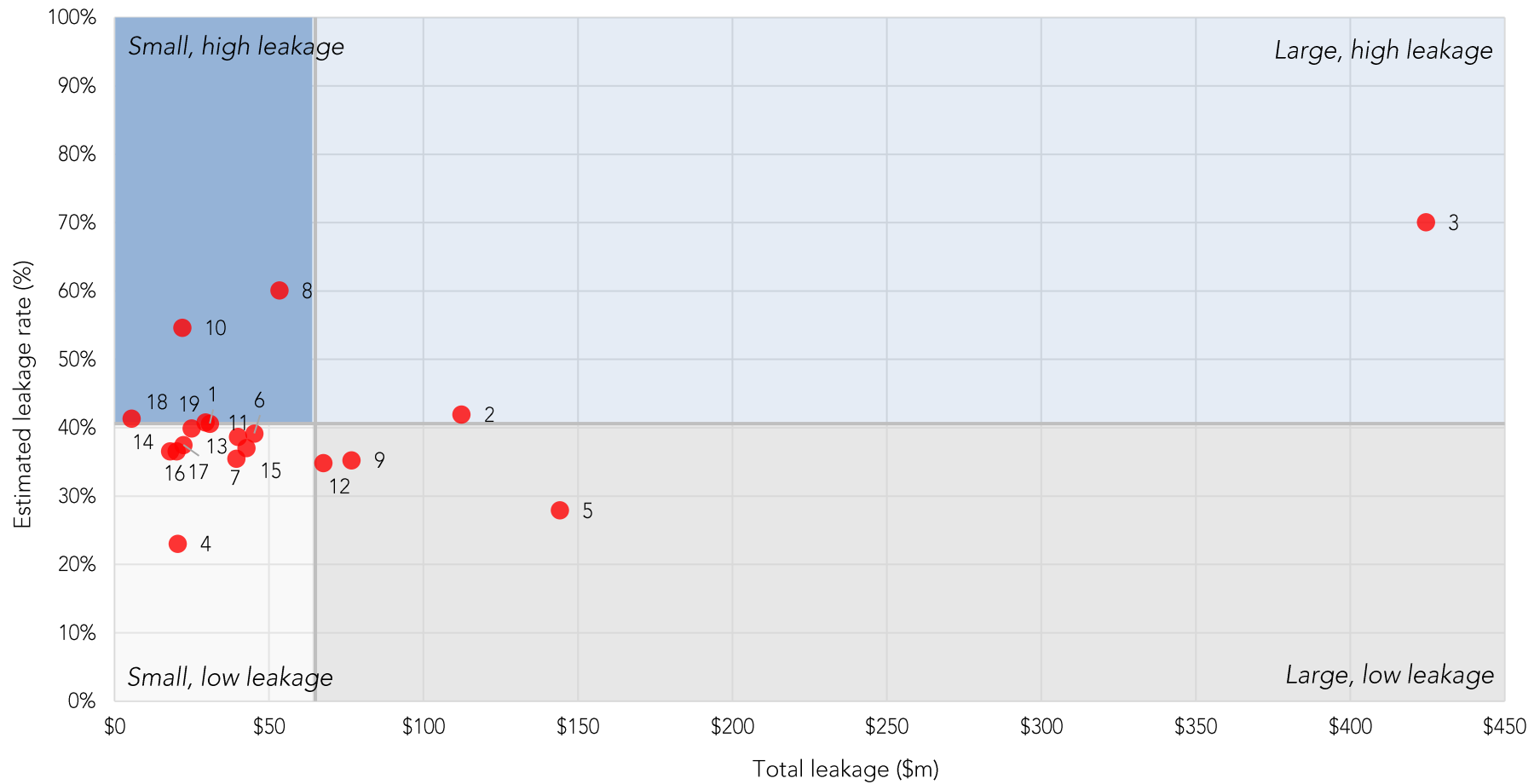


Figure 3 compares total expenditure from each industry by the percentage leakage. Quadrant boundaries are plotted at the average for each variable. Source: REMPLAN, 2015; Geografia, 2016



## Key to Figures

Number	Industry
1	Agriculture, Forestry & Fishing
2	Mining
3	Manufacturing
4	Electricity, Gas, Water & Waste
5	Construction
6	Wholesale Trade
7	Retail Trade
8	Accommodation & Food Services
9	Transport, Postal & Warehousing
10	Information Media & Telecoms
11	Financial & Insurance Services
12	Rental, Hiring & Real Estate Services
13	Professional, Scientific & Tech
14	Administrative & Support Services
15	Public Administration & Safety
16	Education & Training
17	Health Care & Social Assistance
18	Arts & Recreation Services
19	Other Services

Absolute amounts of leakage are only one factor to consider when focusing on strategic interventions. Nonetheless, Figure 3 emphasises the scale of leakage from manufacturing (industry 3), both in absolute terms and as share of total expenditure.

Industries such as accommodation and hospitality (8) and information, media and telecommunications (10), while relatively small in absolute terms, also have high total leakage rates.

### 3.3 Leakage by destination

Breaking the leakage values down by destination, Figure 4 shows leakage to the rest of Western Australia, which combine

to \$336.8m annually, which is about 27% of total leakage. The chart compares the size of the industry by the rate and scale (bubble size) of leakage.

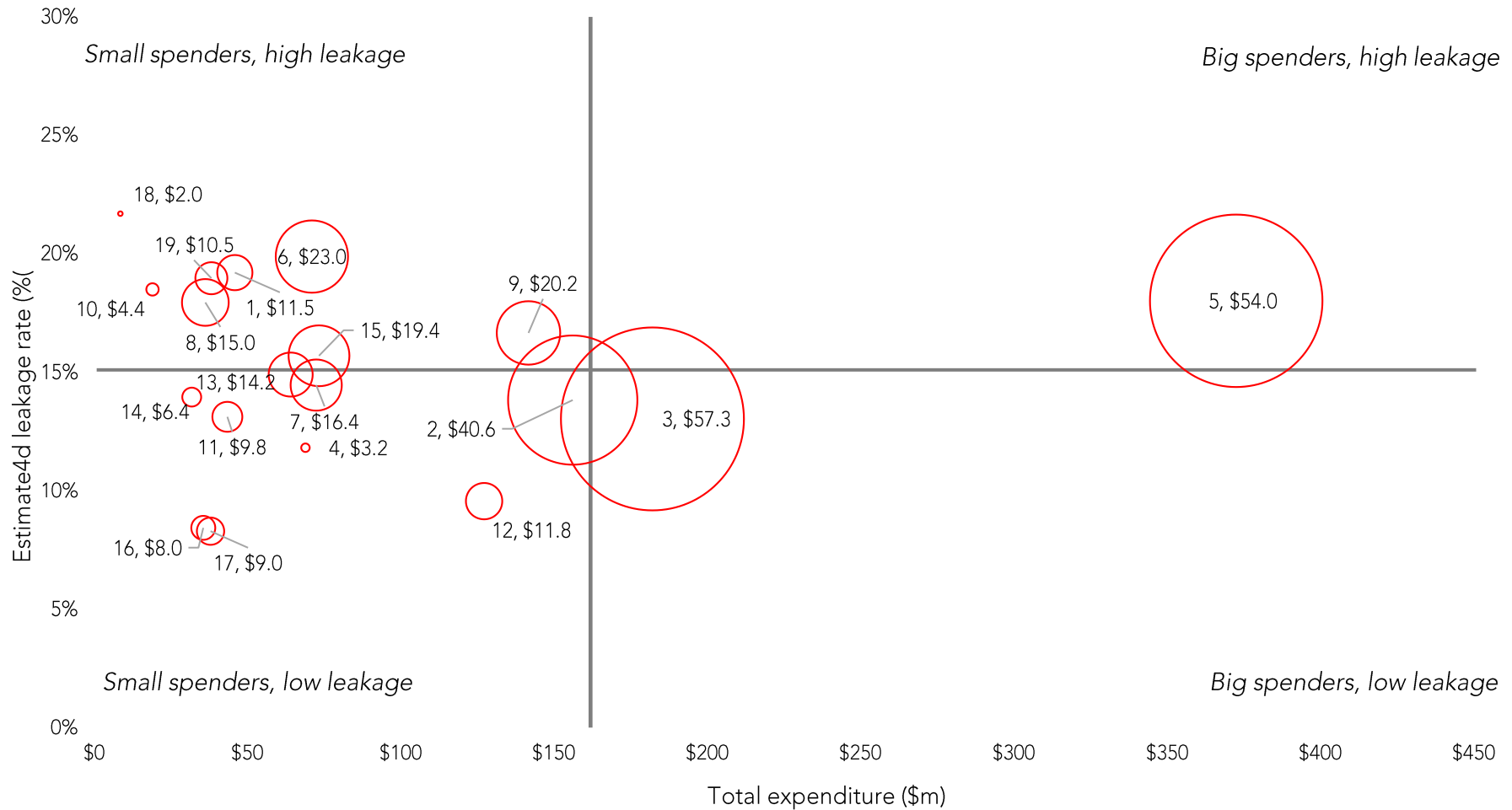
Industries above the horizontal line have above average leakage rates and:

- Manufacturing leakage is the largest with \$57.3m in annual outflow;
- Construction (industry 5 at \$54m), was next. The previous research suggesting the industry faces strong competition from Perth-based builders; often with established supply chains that flow out of Geraldton, including suppliers of wood and structural products and building materials;
- Mining (3) leaks \$40.6m, mostly from service industries to mining;
- Transport, postal and warehousing (9), combined with wholesale trade (6) account for \$43m in leakage. This is attributed to a lack of physical trading facilities and the diversion of freight via Perth. Plugging the Leaks found that overseas import competition for vehicle and manufacturing components (via WA and the rest of Australia) was driving much of this leakage.
- Although made up of small contributions from its component industries, the tertiary services sector leaks \$64m. Plugging the Leaks suggests this is dominated by legal and accounting professional services; and printing services.

Figure 5 shows leakage to the rest of Australia and Figure 6 leakage by way of overseas imports. Manufacturing is the major purchaser of imports (60%) and with mining, accounts for 80% of all imports by value. Figure 12 and Table 1 summarise the opportunities available.



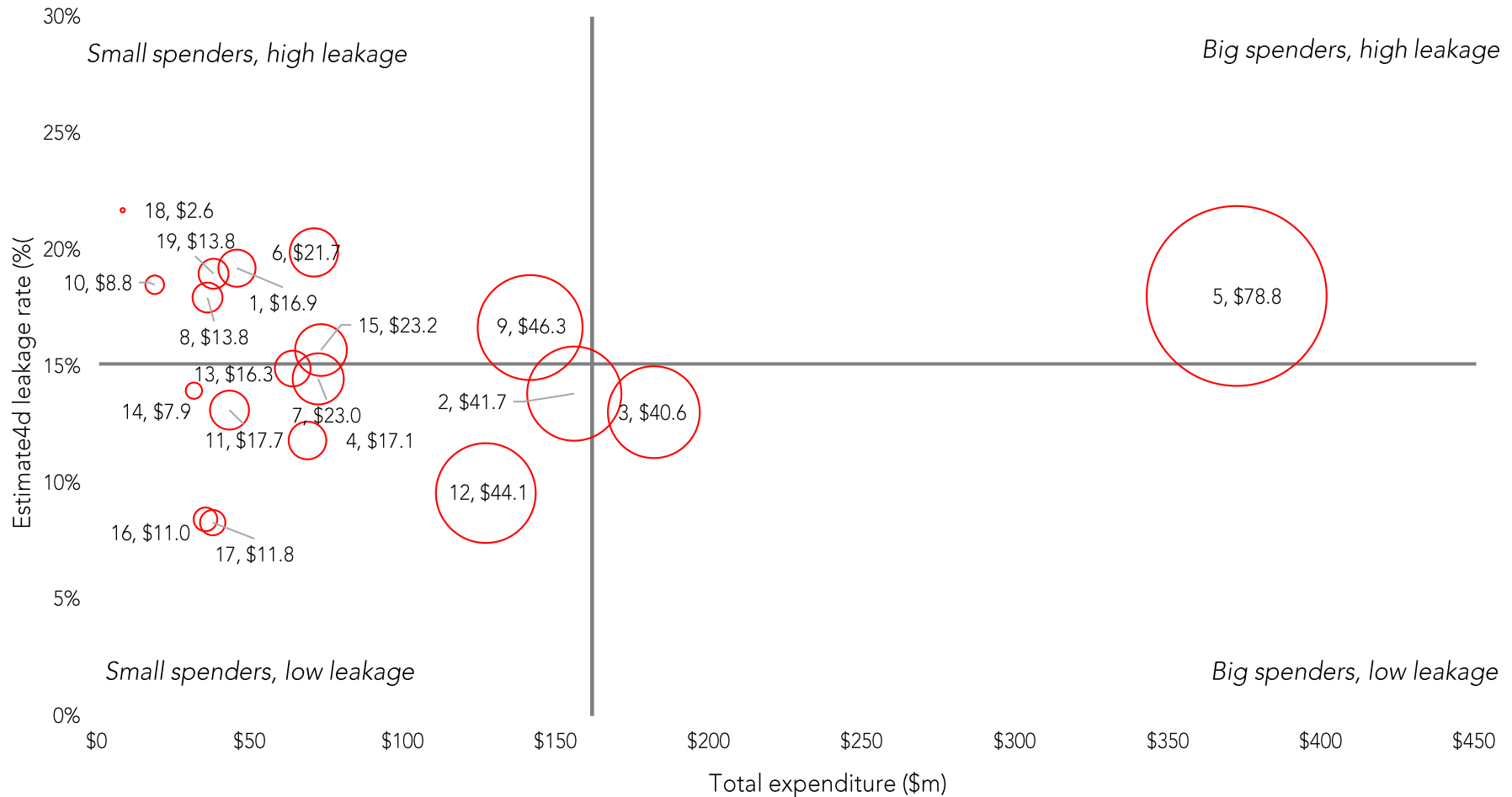
**Figure 4** Estimated Business Expenditure Leakage by Industry to Rest of WA (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016



**Figure 5 Estimated Business Expenditure Leakage by Industry to Rest of Aus (\$m, 2015)**

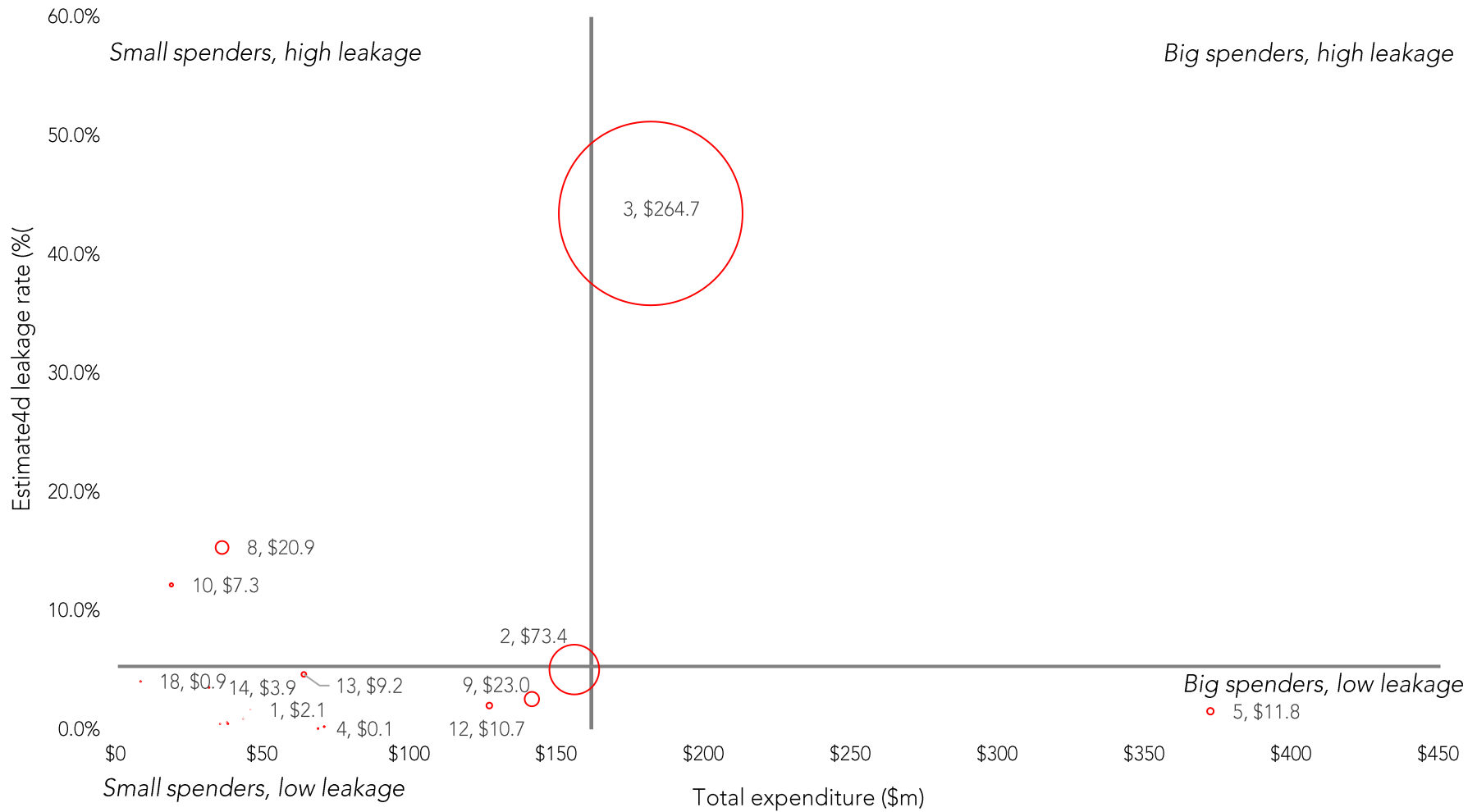


Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016





**Figure 6** Estimated Business Expenditure Leakage by Industry to Rest of World (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016



## 3.4 The key industry leaks

Figure 7 to Figure 11 plot total industry expenditure by leakage rate (with the bubble size representing total leakage value and axes placed at the mean values)<sup>5</sup>. As with Figure 4 to Figure 6, the intention is to reveal the high volume, high leakage supplying sectors. That is the industries that supply into local businesses in Greater Geraldton. High volume and/or high rates of leakage are assumed to represent the best opportunities for reducing leakage. There are five industry areas in which leakage has been analysed:

1. Manufacturing.
2. Construction
3. Wholesale trade
4. Mining
5. Tertiary services

### 1. Opportunities to stem manufacturing leakage

As the biggest single industry leakage, manufacturing is the obvious candidate for further analysis. Figure 7 shows the main industry subsector leakages by supplying sector. That is, the industries that supply to manufacturing from outside the region. Key findings are:

- **Oil and Gas** (representing oil refinery and liquefied natural gas production). High leakage to external suppliers is typical of many regional economies due to the large capital investment needed to establish a local industry (Geraldton is supplied by, amongst others, the Kwinana refinery). Even

though leakage amounts to \$15.7m, this is unlikely to be enough to support a local oil and gas production facility (see point further on with respect to electricity generation).

- **Basic Non-Ferrous Metal Manufactured Products** (including aluminium, copper and zinc production smelting and refining). This is the second largest at \$10.9m. Like Oil and Gas, the large upfront capital costs necessitate a large market. REMPLAN (2016) data shows the industry has an average turnover of \$198m per enterprise<sup>6</sup>, suggesting it relies on, at the least, national, and more likely international suppliers, suggesting very high entry costs.
- Similarly, **Basic Chemical Manufacturing and Iron Ore Mining**, require large local and export-oriented markets to support its viability. While the Greater Geraldton catchment is insufficient to support activity at this scale, outward focussed export-orientation may enable the development of these industries locally, although, as with Oil and Gas and smelting/refining, entry costs are high.
- By contrast, there may be an opportunity to address leakage in **Fabricated Metal Manufactured Products**. This industry produces (amongst other things) door handles, bathroom fittings, cutlery, razors, knives, firearms, ammunition, locks and safes. The estimated leakage from Greater Geraldton is \$7.2m; with an average enterprise turnover of \$4.36m.
- **Polymer Manufactured Products** generates \$2.06m in leakages from manufacturing expenditure and average enterprise turnover is \$7.47m.

<sup>5</sup> Figures are taken from an analysis of the REMPLAN 2015 data.

<sup>6</sup> The comparison of average enterprise turnover to leakage has been used (where possible) to identify thresholds for local, viable markets. That is, if the local market size is at least as big as the average enterprise turnover, the market may be sufficient to support at least one local supplier.



By itself, local manufacturing demand is unlikely to sustain a local supplier, however, there may be a sufficiently large local market when combined with local construction industry demand (see next subsection).

- The leakage to **Professional, Scientific and Technical Services** is \$1.8m, which, although quite modest, may be adequate for the development of a local supplier due to the relatively low entry costs and the prominent role of Greater Geraldton as the regional service centre, which, traditionally, hosts this sector.
- While **Concrete Product Manufacturing** emerged as an opportunity in *Plugging the Leaks*, it must be noted both the industry scale and leakage volume are small (in the order of \$300,000).

## 2. Opportunities in construction

Construction expenditure leakage is primarily to the following industries:

- **Polymer Product Manufacturing** draws \$6.2m out of the region from the location construction industry. These enterprises typically manufacture products such as plastic floorings, walls and ceiling coverings, synthetic rubber products, paints and coatings). Combined with over \$2.06m in leakages from manufacturing, there may be sufficient local demand to establish local enterprises.
- At \$5.8m, expenditure on **Professional Services** results in the second largest leakage from local construction. *Plugging the Leaks* found this is likely the result of established business relationships and long-term contractual agreements with Perth-based suppliers. Likewise, **Finance and Insurance Services** and **Heavy & Civil Engineering Construction** (two

niche service sectors for construction), extract \$1m and \$3m respectively. There is potential to re-direct some of this leakage to Geraldton's local service sector, including specialised insurance, financial and engineering services.

- **Other Wood Product Manufacturing** is the 3<sup>rd</sup> largest leakage by construction. This includes for prefabricated wooden building products, wooden structure fitting and components, veneer and plywoods. There is an estimated \$5.5 million in expenditure leakage. With average enterprise turnover at \$3.8m, there is prime facie evidence for the viability of a local wood product manufacturer. As suggested in Section 2, the development of a 'Geraldton quality wood product brand' is not inconceivable (e.g. 'envirotech sector' manufactured).
- **Sawmill Product Manufacturing** products are all sourced by construction from outside of the region (for a total of \$3m). Sawmill Product Manufacturing typically includes log sawmilling, wood chipping and timber resawing and dressing. Enterprises typically have an average turnover of \$4m, suggesting there is insufficient local demand to support a local supplier. This would need to be supplemented through external markets.
- **Structural Metal Products** is the cause of \$3.9m in expenditure leakage. However, with average enterprise turnover an estimated \$6.9m, establishing a local supplier may be difficult. The sector's principal products are used by the building construction industry and include garage doors, window shutters, metal doors, door and window frames, and curtain walls. The industry also supplies products used in infrastructure projects such as railings



and steel grates, and customised door and shutter systems for road-freight vehicles (trucks and vans).

Opportunities for international trade are limited, as structural metal components are typically large and expensive to transport over long distances, making it an unlikely candidate for export, either to Perth or interstate.

- **Glass & Glass Product Manufacturing** generates \$1.6m in construction expenditure leakage, and an additional \$0.5m from manufacturing. REMPLAN (2016) data shows an average enterprise turnover of \$7.5m, making it particularly challenging to set up a new supplier. However, there may be scope for the existing supplier to expand and, as with saw mill products, the prospect for external markets (overseas exports and other major markets in Australia) may support this.

### 3. Opportunities in wholesale trade

- Like manufacturing, the largest input and therefore largest leakage to Wholesale Trade and Transport is **Oil & Gas**. As outlined above, the scale of leakage is unlikely to support the viability of a localised oil and gas production facility in Geraldton.
- **Professional Services, Administrative Services and Auxiliary Finance and Insurance Services** combined generate over \$10.8m in leakage. The data suggests there is scope to re-direct expenditure to existing services providers within Geraldton.
- As indicated by *Plugging the Leaks* (2015), a major concern was the re-direction of **freight trade** to Karratha/Port Hedland via a combination of road and sea transport through Perth/Fremantle Port.

However, the REMPLAN (2016) data provides no indication that this is a major leakage for the region. It is likely that the redirected trade uses Geraldton-based road freight transporters at the start; and this is recorded as a local expenditure, without recording the redirected sea freight expenditure. Further analysis is required.

- The study also highlighted major sources of leakages from **fuel/oils; purchases of vehicles, mechanical and vehicle components; and railway and rail components**. The REMPLAN data confirms these are legitimate leakages, however, they are too small to support a viable local industry. These industries typically rely on a combination of local and export demand (in particular mechanical, vehicle and rail component manufacturing). Consequently, developing an export market for local providers could help expand the local industry.

### 4. Opportunities in mining

- Mining industry expenditure on services generates its largest leakage. This includes **Exploration & Mining Support Services** (\$7.1m), **Professional Services** (\$3.9m), **Finance and Insurance** (\$1.2m) and **Other Services**.
- In regards to **Exploration & Mining Support Services**, the industry has an average enterprise turnover of \$8.64m in WA. This suggests a positive environment for local suppliers; especially if combined with external market demand (regionally, but also internationally, trading on the State's exceptional reputation for mining service expertise).
- There is also a notable \$1.7m in expenditure leakage to external **Heavy & Civil Engineering**



**Construction.** However, given that average enterprise turnover is \$16.9m, there is unlikely to be sufficient local demand to support expansion without, possibly, a public procurement focus by both State and local government.

- \$4-5million in leakage was recorded for other various **service sectors**, suggesting some potential to re-direct expenditure, possibly within Geraldton's professional and finance services industries.
- Finally, expenditure leakage on **Electricity Generation** is a relatively low. Historically capital intensive, the remarkable transition in the sector towards a renewable energy-based, distributed network may present an opportunity for Greater Geraldton.

## 5. Opportunities across the tertiary service sector

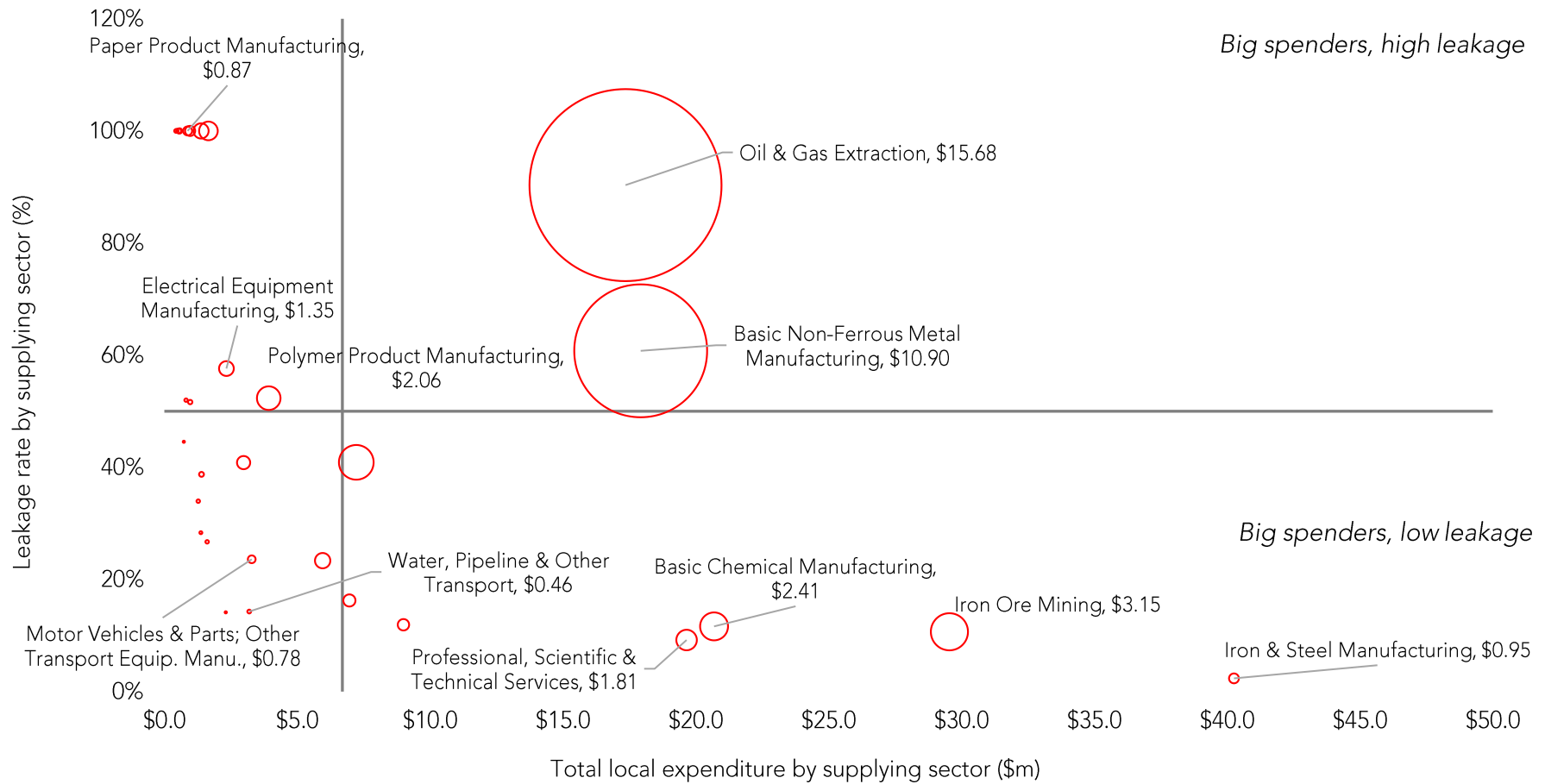
- The tertiary services sector has been aggregated up from:
  - Finance, Real Estate and Insurance Services;
  - Professional, Computer Systems Design and other Support Services;
  - Education;
  - Health and Social Services;
  - Personal and Other Services; and
  - Sports and Recreation.
- The largest expenditure leakages are on **Employment, Travel and Administrative Services** (\$10.8m), followed by **Computer Systems Design & Services** (\$9.9m) and **Professional, Scientific & Technical Services** (\$9m). The Local Supplier Survey (2015) found that major areas of leakages include legal and accounting professional services; human resource

services; and printing services; all of which are part of these sectors. The study notes a major driver of leakages include managing supplier risks (maintaining confidentiality by using external providers), established long-term business partnerships with Perth-based providers and lack of awareness of available service providers in Geraldton.

- Given the large base and prominence of the service sectors in Geraldton and the relatively low cost of entry to these industries, there is significant potential to develop a local supplier market and reduce the leakage.
- Opportunities may be found in **Computer Systems Design & Services**, which has an average enterprise turnover of \$1.1m, compared with leakage of \$9.9m. This comprises businesses that develop and implement programming systems and business solutions. The industry has expanded rapidly in response to the requirement for regular upgrades and enhancements, with many businesses outsourcing non-essential systems operations. Growth has accelerated over the last five years, which has been attributed to greater use of cloud based services and online communication. With the availability of high speed broadband in Greater Geraldton, there is scope to support local expansion.
- There are other expenditure leakages outside the service sector, including \$3m on **Professional, Scientific, Computer Equipment Manufacturing**. However, the average enterprise turnover is \$19.4m, which suggests insufficient local demand to support a local supplier. Again, only by enabling a regional export focus, could this be viable.



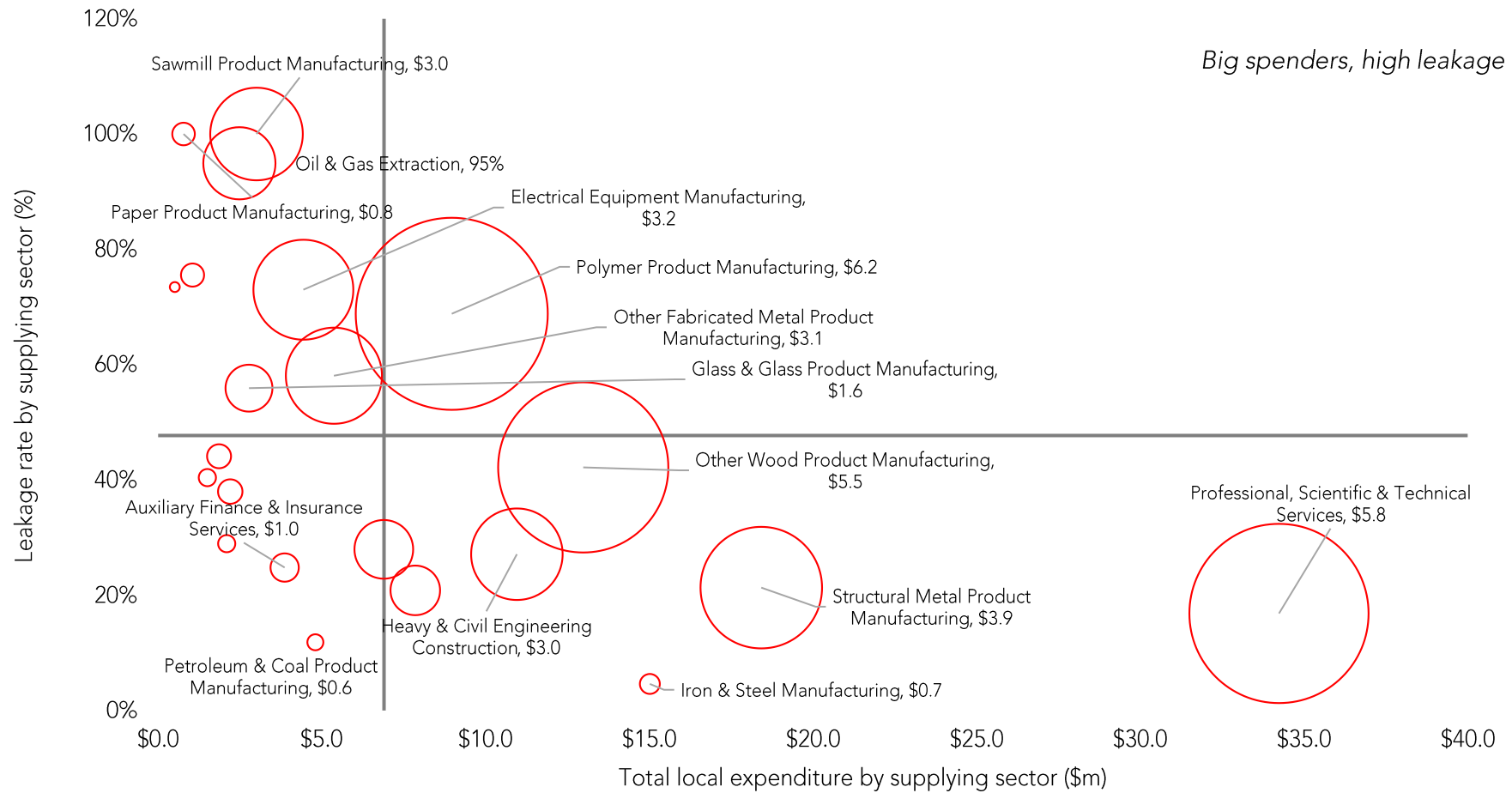
Figure 7 Leakages from Manufacturing by Suppliers (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016



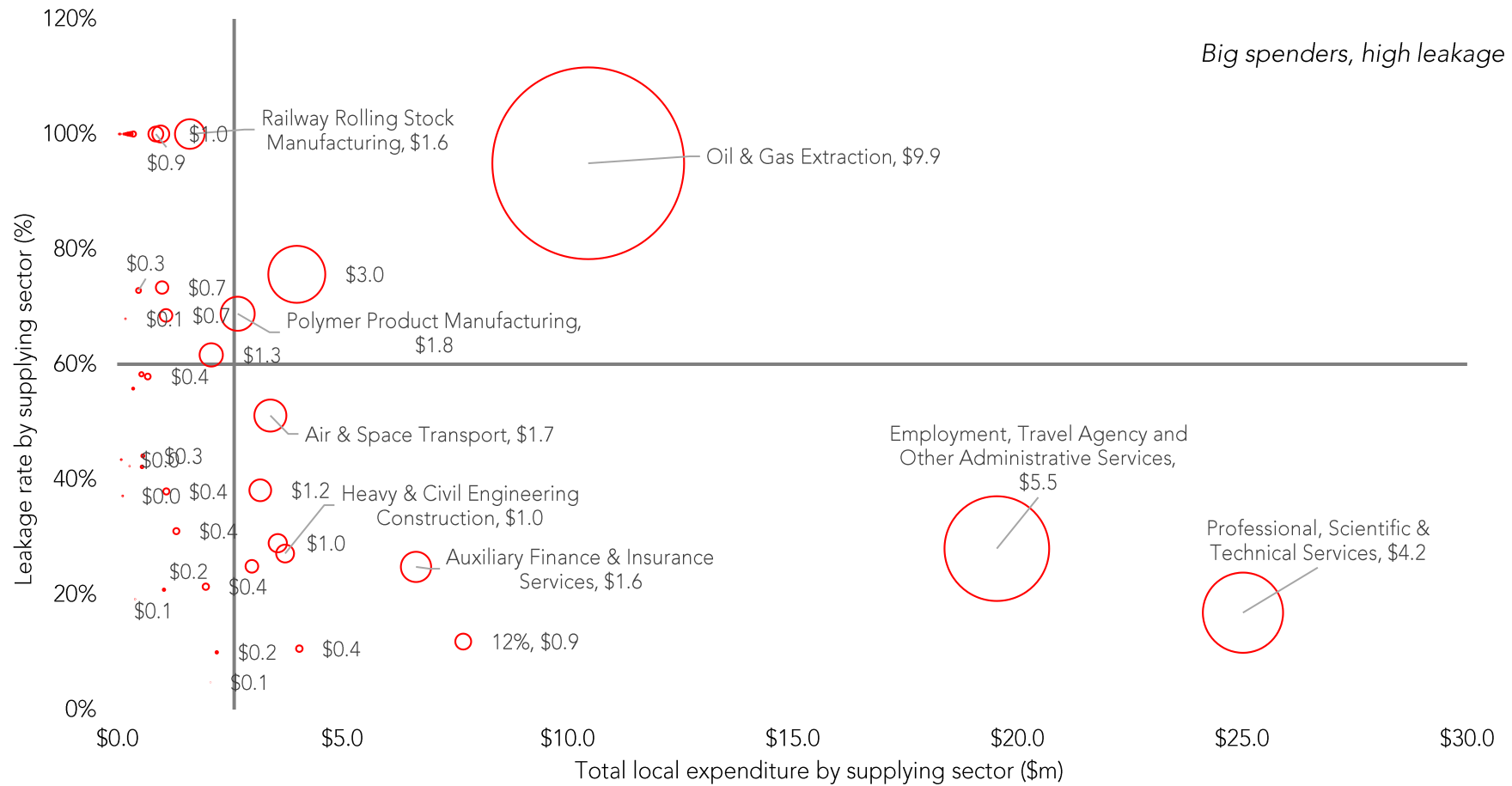
Figure 8 Leakages from Construction by Suppliers (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016



Figure 9 Leakages from Wholesale Trade and Transport Industries by Suppliers (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016





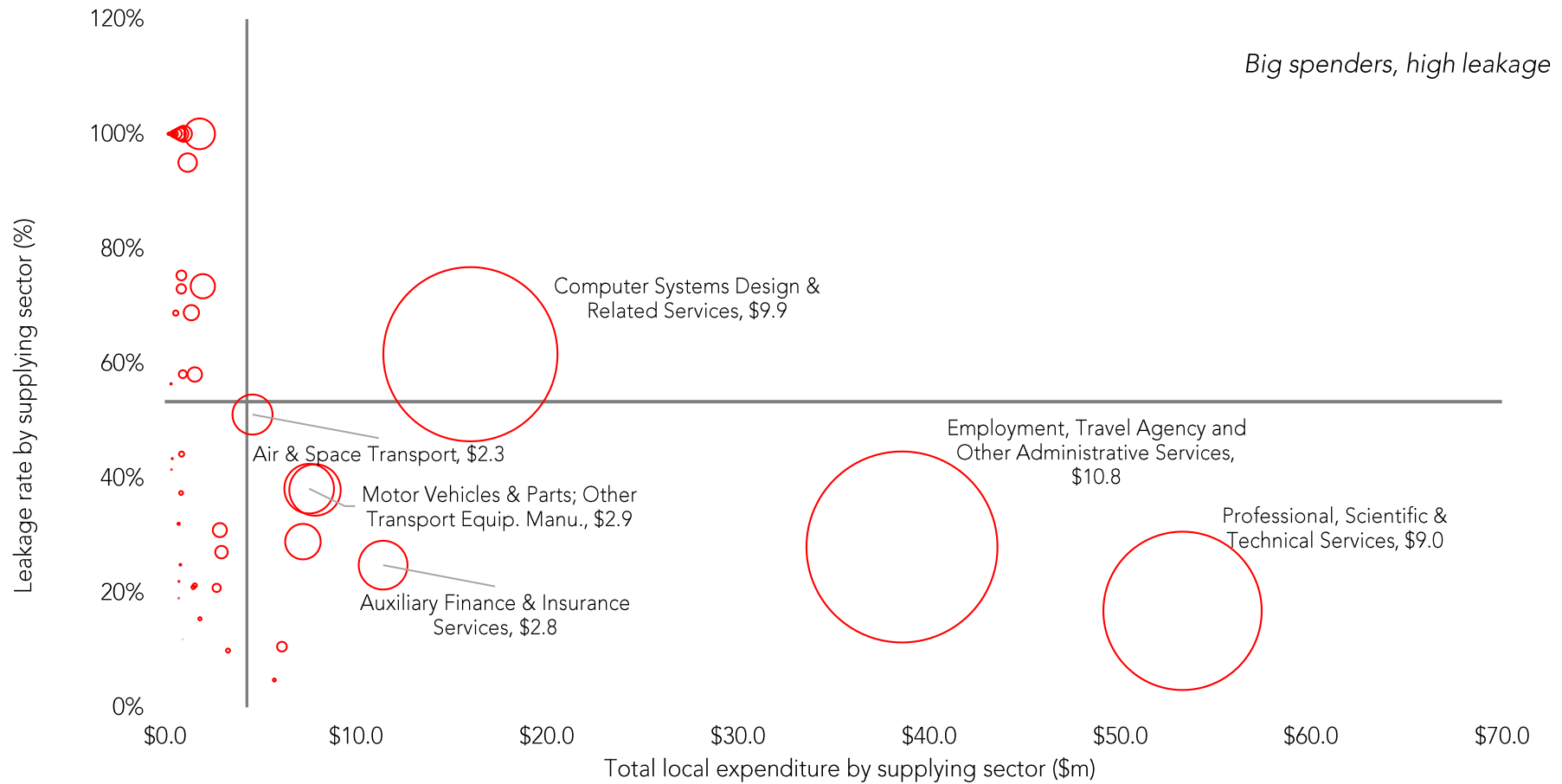
Figure 10 Leakages from Mining to Suppliers (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016



Figure 11 Leakages from Tertiary Services to Suppliers (\$m, 2015)



Estimated expenditure leakage values are depicted in the graph by bubble sizes. Source: REMPLAN, 2015; Geografia, 2016



Figure 12 Business Development Opportunities Map

Input	Manufacturing	Construction	Wholesale Trade and Transport	Mining	Tertiary Service Sectors
Estimated annual value of business expenditure leakage	\$57.3m	\$54m	\$43.2m	\$40.6m	\$64.0m
Local market size	Red	Green	Red	Red	Green
Access to regional and international export markets	Red	Light Green	Red	Red	Red
Established business networks	Green	Red	Green	Red	Red
Lack of buyer awareness of local suppliers	Light Green	Red	Green	Light Green	Light Green
Capital, up-front and start-up costs	Red	Light Green	Red	Red	Light Green
Limited infrastructure to support business	Green	Green	Red	Green	Green

Red indicates the available evidence suggests there is a current barrier to development of a local industry. Green indicates there is no evidence indicating a current barrier.



**Table 1 Summary of Business Opportunities**

	Local Buyers	Leaking To...	Leakage (\$m)	Summary
Manufacturing		Oil and Gas	\$15.7	Unviable with existing market size.
		Basic Non-Ferrous Metal Products	\$10.9	Unviable with existing market size. Opportunities to expand with external markets (overseas, interstate).
		Iron Ore	\$3.2	Unviable with existing market size.
		Other Fabricated Metal Products	\$3.0	Opportunities to expand within existing market size.
		Basic Chemicals	\$2.4	Unviable with existing market size. Opportunities to expand with external markets (overseas, interstate), but challenging environment.
		Professional, Scientific and Technical Services	\$2.1	Opportunities to expand within existing market size.
		Professional Services	\$1.2	Opportunities to expand within existing market size.
		Polymer Products	\$2.1	Opportunities to expand when combined with construction demand.
Construction		Polymer Products	\$6.2	Opportunities to expand. when combined with manufacturing demand.
		Professional Services/Finance and Insurance	\$5.8	Opportunities to expand within existing market size.
		Wood Product Manufacturing	\$5.5	Opportunities to expand within existing market size, possibly with niche branding.
		Sawmill Products	\$3.0	Unviable with existing market size. Opportunities to expand with external markets (overseas, interstate).
		Structural Metal Products	\$3.9	Unviable. Possibly niche opportunities to expand with external markets (overseas, interstate).
		Glass and Glass Products	\$1.6	Potential for expansion of existing supplier. Further information required.
Wholesale Trade		Oil and Gas	\$9.9	Unviable with existing market size.
		Professional services, Administrative Services and Auxiliary Finance and Insurance Services	\$10.8	Opportunities to expand within existing market size.
		Road and sea transport	Nil	Further analysis required.
		Purchase of vehicles, mechanical and vehicle components and railway and rail components	Nil	Unviable with existing market size.
Mining		Exploration and Mining Support Services	\$7.1	Opportunities to expand within existing market size.
		Professional, Scientific and Technical Services	\$3.9	Opportunities to expand within existing market size, and to external markets (overseas, interstate).
		Oil & Gas	\$3.9	Unviable with existing market size.



Local Buyers	Leaking To...	Leakage (\$m)	Summary
	Electricity Generation	\$3.1	Unviable with existing market size. However, industry is undergoing major structural change that may present new opportunities.
	Heavy and Civil Engineering	\$1.7	Unviable with existing market size. Opportunities to expand with external markets (overseas, interstate).
Tertiary Service Sectors	Employment, Travel Agency and Other Administrative Services	\$10.8	Opportunities to expand within existing market size.
	Computer Systems Design & Services	\$9.9	Opportunities to expand within existing market size.
	Professional, Scientific and Technical Services	\$9.0	Opportunities to expand within existing market size.
	Professional, Scientific, Computer, Electronic Product Manufacturing	\$3.0	Unviable with existing market size. Opportunities to expand with external markets (overseas, interstate).
	Auxiliary Finance and Insurance Services	\$2.9	Opportunities to expand within existing market size.

*Red entries indicate opportunities for local development based primarily on local market demand.*



### 3.5 Prioritising the key industry leaks

The cluster analysis undertaken for the RCDP project highlighted potential areas of industry specialisation in the Greater Geraldton region. Output and employment multipliers were also reported. Comparing this with the leakage analysis suggests that, due to the higher output multiplier effect, there may be

particularly beneficial outcomes from addressing leakages in construction (e.g. wood product manufacturing); metal mining (e.g. electricity generation); and downstream metal products (e.g. other fabricated metal products). Obviously, the combination of industry specialisation and leakage are not sufficient conditions to assume growth prospects, as market conditions play a particularly important role (Table 2)

**Table 2 Greater Geraldton Industry Clusters and Multipliers**

Cluster	Output Multiplier	Employment Multiplier	Leakage Opportunity	Total Leakage
Construction Products and Services	1.84	4.32	<ul style="list-style-type: none"> <li>• Wood Product Manufacturing</li> <li>• Professional Services/Finance and Insurance</li> <li>• Polymer Products</li> </ul>	\$17.5m/yr
Metal Mining	1.76	2.71	<ul style="list-style-type: none"> <li>• Professional, Scientific &amp; Technical Services</li> <li>• Electricity Generation</li> </ul>	\$7m/yr
Downstream Metal Products	1.74	2.17	<ul style="list-style-type: none"> <li>• Other Fabricated Metal Products</li> <li>• Professional, Scientific &amp; Technical Services</li> <li>• Professional Services</li> <li>• Polymer Products</li> </ul>	\$8.4m/yr
Water Transportation	1.73	2.11	-	-
Transportation and Logistics	1.70	1.84	-	-
Business Services	1.62	1.65	<ul style="list-style-type: none"> <li>• Professional, Scientific and Technical Services</li> <li>• Auxiliary Finance and Insurance Services</li> <li>• Computer Systems Design &amp; Services</li> </ul>	\$21.8m/yr
Non-Metal Mining	1.61	1.54	-	-
Agricultural Inputs and Services	1.57	1.52	-	-
Fishing and Fishing Products	1.56	1.5	-	-
Hospitality and Tourism	1.44	1.39	<ul style="list-style-type: none"> <li>• Employment, Travel Agency and Other Administrative Services</li> </ul>	\$10.8m/yr

Source: Pracsys, 2016



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## 4.0 Consumer Expenditure Leakage

Consumer expenditure leakage was derived through actual bank transactional data for the year ending June 2016. Reserve Bank of Australia estimates of cash transaction ratios by expenditure type were then used to derive a total expenditure leakage volume, to derive the total geographical consumer expenditure leakage from Greater Geraldton residents. Total household expenditure is estimated at \$1.59 billion with leakage of \$299 million, or 19% and a further \$138 million spent online (9%). In percentage terms, the most significant leakage was in clothing and textiles (33% of total expenditure), followed closely by travel and tourism (32%). In volume, dining and entertainment generated, by far, the largest expenditure leakage (\$91 million, or 30% of all geographical leakage) and the second highest online expenditure (\$10.7 million). Of the 15 expenditure categories, over 80% of total leakage came from just six in household goods, food, clothing and travel-related expenditure.

### 4.1 Overview of consumer leakage

In 2015, around 19% of consumer expenditure by the residents of Greater Geraldton was incurred outside of the City. This amounted to \$299 million of the \$1.59 billion in expenditure by residents. A further \$138 million (9% of the total) was expended online.

Another \$240 million was expended with no distinguishable geographical location. Almost all of that (94%), however, was expenditure on Government services.

Table 3 summarises the total expenditure, geographical leakage, non-geographical leakage and online expenditure for the 15 categories analysed.

With respect to this study, the most notable findings are in relation to:

1. Expenditure leakage that is most likely related to travel for business or pleasure.
2. Retail expenditure leakage on groceries, clothing and household goods.
3. Government-service related expenditure.

### *Greater Geraldton's regional service role*

The low leakage in Government and Regulated Industries (with only 2% of category expenditure leaking and a further 17%, online) reflects Greater Geraldton's role as a service and public administration centre.



**Table 3 Household Expenditure Estimates**

Category	Spend in City (\$m)	Spend elsewhere in Australia (\$m)	Spend online (\$m)	Non-geographical base spend (\$m)	Total Spend (\$m)	% Leakage
Education	\$11.94	\$2.84	\$1.91	\$2.32	\$19.02	15%
Government and Regulated, Capitalised Industries	\$25.74	\$4.69	\$54.10	\$225.11	\$309.64	2%
Travel and Tourism	\$12.22	\$18.28	\$24.86	\$1.70	\$57.07	32%
Water Transport	\$0.29	\$0.30	\$1.25	\$0.00	\$1.83	16%
Property and Business Services	\$2.46	\$1.77	\$2.88	\$0.60	\$7.71	23%
Professional Services	\$3.45	\$2.49	\$2.19	\$2.21	\$10.34	24%
Health and Social Services	\$40.96	\$12.18	\$4.24	\$0.85	\$58.23	21%
Transport-related Expenditure	\$145.63	\$64.25	\$2.47	\$6.53	\$218.89	29%
Dining and Entertainment	\$187.19	\$90.71	\$10.78	\$0.42	\$289.09	31%
Supermarket, Groceries and Specialised Food Retailing	\$289.24	\$33.70	\$5.83	\$0.00	\$328.76	10%
Bulky Goods, Furniture and Other Household Goods	\$95.16	\$24.13	\$12.25	\$0.41	\$131.95	18%
Department Store and Discount Department Store Goods	\$44.97	\$17.42	\$9.25	\$0.28	\$71.92	24%
Clothing and Textiles	\$33.34	\$18.64	\$4.63	\$0.00	\$56.62	33%
Personal Services	\$17.17	\$6.00	\$0.99	\$0.10	\$24.26	25%
Trade Services	\$5.13	\$1.70	\$0.60	\$0.02	\$7.45	23%
<b>Total</b>	<b>\$914.89</b>	<b>\$299.10</b>	<b>\$138.22</b>	<b>\$240.56</b>	<b>\$1,592.77</b>	<b>19%</b>

Source: Non-cash expenditure estimated by Quantium, 2016 and cash expenditure estimated by Geografia, 2016 (using Reserve Bank of Australia and Roy Morgan survey data). Leakage proportions are estimated using the proportion of Spend elsewhere in Australia by expenditure category. An outline of expenditure categories by detailed expenditure items is provided in Appendix I.





## ***Most leakage likely relates to travel***

Of the 15 categories of expenditure analysed, some were clearly related to travel: obviously travel and tourism, but also dining and entertainment and possibly some personal services. Combined they sum to around \$114 million, or close to 40% of total leakage.

It is reasonable to assume that *most of this* relates to travel for pleasure or business and reflects the primacy of entertainment and dining in Perth and other capital cities.

Given the scale of expenditure, there may be some scope to improve entertainment and dining offers in Greater Geraldton; through such things as inner city revitalisation projects and the improvement of public spaces. This has occurred in Darwin Harbour, central Perth and in Bunbury.

## ***Limited short-term retail expansion potential***

The low leakage in Supermarket, Groceries and Specialised Food Retailing (\$33 million, or 10% of total category expenditure) is in line with the metropolitan municipal leakage rates of approximately 10% of supermarket expenditure. This leakage could conceivably support 3,500m<sup>2</sup> in supermarket retail floorspace (i.e. one full-line supermarket). It is assumed this is currently being spent on retail strips and local shops in towns immediately outside Greater Geraldton.

The \$17 million in leakage in Department and Discount Department Store retail categories (or 24% of total expenditure) equates to approximately 4,300m<sup>2</sup> in retail

floorspace. However, this is unlikely to make an expansion or new development viable for either a Department Store (which requires approximately 20,000m<sup>2</sup> in floorspace), or a high market share Discount Department Store (requiring approximately 7,400m<sup>2</sup>).

It is worth noting, though, that assuming the regional population grows as currently forecast (and assuming a business as usual leakage rate), the volume of expenditure leakages may be able to support a low market share discount department (requiring 4,900m<sup>2</sup> in supportable floorspace) by 2023-2024 (Figure 13).

A total of \$24 million in expenditure leakage in Bulky Goods, Furniture and Other Household Goods (or 18% of total category expenditure) represents an estimated 4,800m<sup>2</sup> in floorspace. This is below the requirement to support a small bulky goods/homemaker precinct (of 10,000m<sup>2</sup> in floorspace) or a large integrated centre (20,000m<sup>2</sup>).

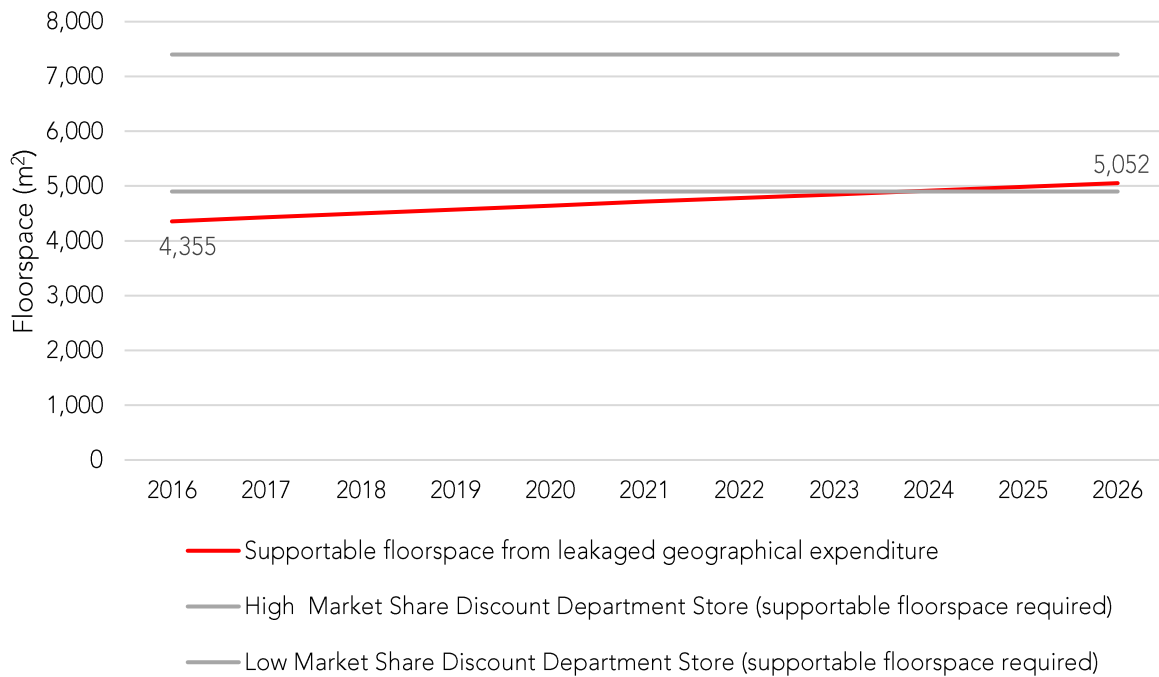
However, estimated future expenditure leakage may be sufficient to support the viable expansion of a small to medium sized bulky goods store (or the expansion of an existing bulky goods/homemaker centre) (Figure 14).

Finally, the \$19 million in leakage in Clothing and Textiles (or 33% of total category expenditure - the greatest proportional leakage by category), would support an estimated 3,700m<sup>2</sup> in floorspace. This does offer some scope for local provision. However, it is worth noting the proportion of online expenditure is relatively low (8%) and as it grows it may eat into the opportunity for local expansion.

All of this assumes that close to all the leakage can be curtailed through the provision of new retailers in Greater Geraldton.

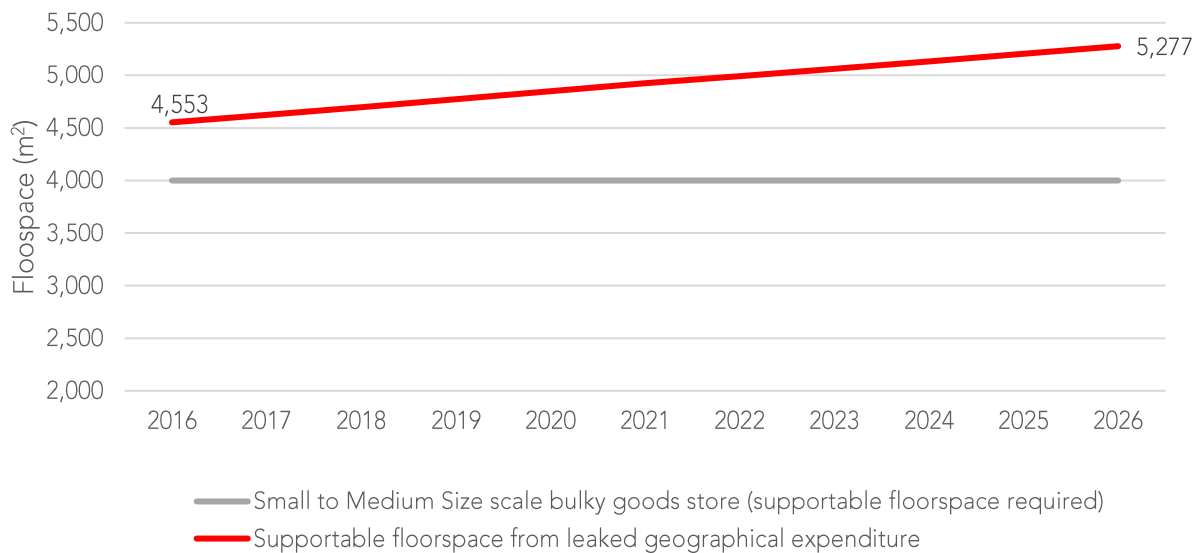


**Figure 13 Projected DDS Leakage & Supported Floorspace**



Source: Geografia, 2016 (using WA Tomorrow 2016 forecast for Greater Geraldton). Forecast population growth rates have been applied to existing expenditure estimates to project forward forecast expenditure estimates.

**Figure 14 Projected Bulky Goods and Homemaker Products, Supported Floorspace**



Source: Geografia, 2016 (using WA Tomorrow 2016 forecast for Greater Geraldton). Forecast population growth rates have been applied to existing expenditure estimates to project forward forecast expenditure estimates.



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## 4.2 Summary

Overall, consumer expenditure leakage from Greater Geraldton is relatively modest and not dissimilar to rates found elsewhere in (metropolitan) WA. Reducing leakage further is likely to prove increasingly challenging.

The combination of population growth and CBD revitalisation may help to reduce this further and encourage investment in modestly scaled retail. There may be potential to retain more dining and entertainment-related expenditure through city centre revitalisation.



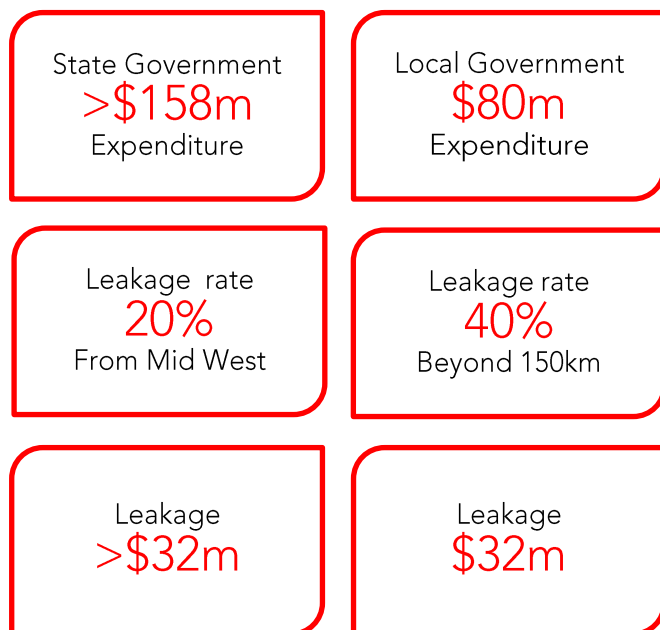
## 5.0 Government Expenditure Leakage

Procurement policies are the main influence on government expenditure leakage and both local and State Government agencies in Greater Geraldton have well-developed 'buy local' policies. Total local and State Government expenditure leakage from the region is estimated at \$70m, made up of 40% of Council expenditure (~\$38m); and 20% of State expenditure (>\$32m). The latter is consistent with policy benchmarks and the former reflects the investment in major infrastructure. Local suppliers are generally considered to be price-competitive but may lack specialised skills and the ability to deliver at scale. This is considered the primary cause of leakage and there may be opportunities to reduce this, although it is likely to be marginal and will require some assistance.

### 5.1 Overview of government expenditure

An appraisal of available State and local government financial information suggests a total expenditure in the region<sup>7</sup> on goods services, works and utilities (and not including salaries and wages) in the order of \$238m. This is estimated leakage of 40% of local government expenditure (~\$32m) and 20% of State Government expenditure (>\$32m). The Council considers leakage to have occurred when expenditure is to suppliers based more than 150km from Greater Geraldton and the State Government, beyond the Mid West region (Figure 15).

Unfortunately, there is no data available on expenditure by local branches of Federal Government agents, although it is assumed to be relatively modest given the scale and nature of the operations.



<sup>7</sup> For the State Government, 'region' refers to the Mid West region.



Figure 15 Government Leakage by Destination

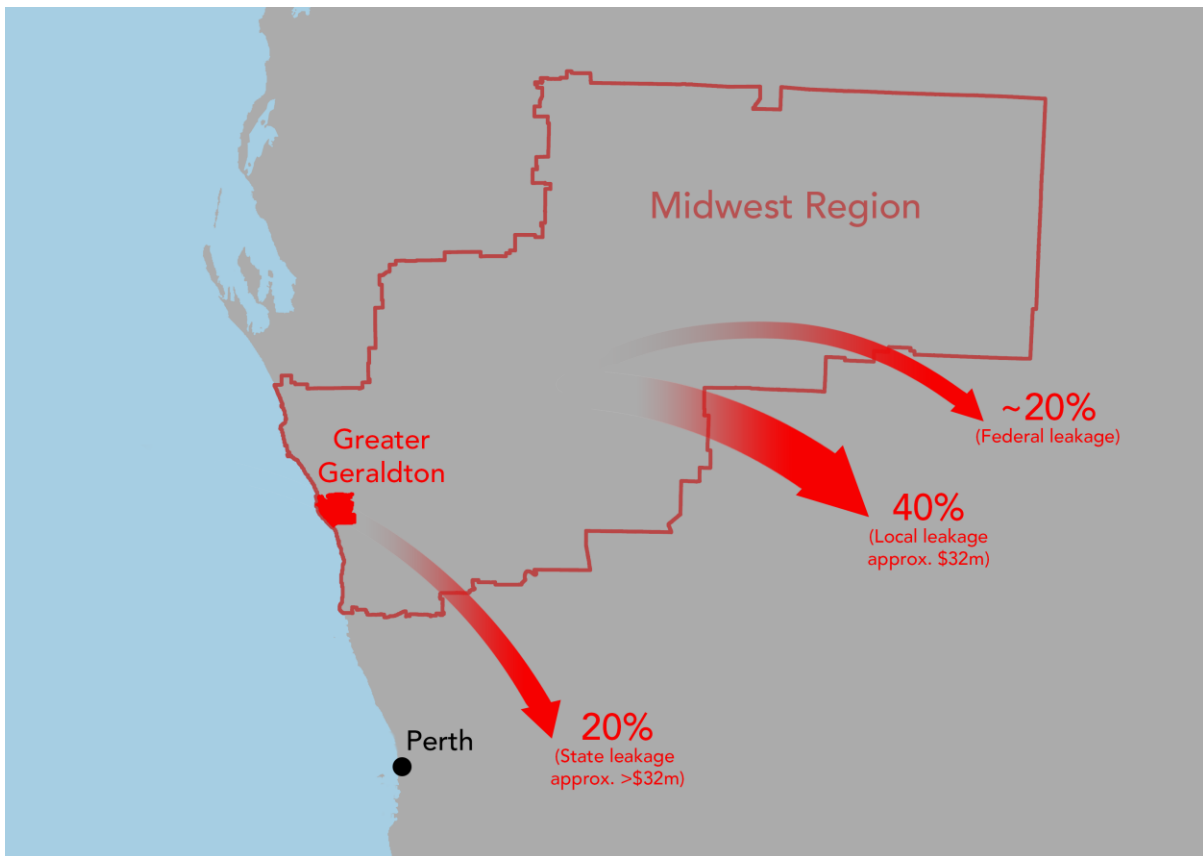


Figure 15 shows the estimated government leakage rates by level of government. Dollar value estimates are included where available. Source: Geografia

## 5.2 Local government leakage

Key elements of the local government procurement policy and their consequences for leakage are outlined below.

### *The Council's Buy Local Policy*

The Procurement of Goods and Services Policy of the City of Greater Geraldton (CGG 2016) includes requirements for the Council to consider, *inter alia*,

*"...buying practices, procedures and specifications that do not unfairly*

*disadvantage local businesses...indirect benefits that have flow on benefits for local suppliers (i.e. servicing and support)... [and to] ensure that procurement plans address local business capability and local content..."*

The policy further envisages the use of qualitative weightings in the evaluation of quotes and tenders where suppliers are located within Greater Geraldton, or can demonstrate a benefit or contribution to the local economy.

In addition, a regional price preference may be offered to local businesses in accordance with the Council's Regional Price Preference Policy.



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## ***In practice the policy leads to relatively high local procurement by volume if not value***

While no detailed data is regularly published on the Council's performance in respect of its Buy Local Policy, discussions with the Council indicate a strong commitment to the Policy's objectives and an awareness of the importance placed by the community on local procurement. For example:

- In October 2015, the Mayor announced that, of the \$9 million contract awarded to Georgiou, a Perth-based company, for the construction of the Wandina Karloo bridge, \$2.2 million of products or services would be sourced from 16 local contractors; and
- The award, in July 2015, of the contract for the construction of the Multi User Facility and Youth Precinct to a Perth company, FIRM Construction, was accompanied by an announcement that 80% of the work would be further outsourced to local suppliers.

The Council estimates that around 90% of all goods and services, **by volume**, are ultimately procured locally, with around 80% being from local businesses and a further 10% going to local sub-contractors, under contracts with non-local head contractors. In practice, 'local' will include suppliers up to 150 km from Greater Geraldton; effectively most of the Mid West region.

For small-value procurements (<\$1,000), the Council maintains a City Suppliers List which must be used before quotes are sought more broadly. This includes local businesses on the State Government Common Use Arrangements list (see 5.3) as well as registered Australian Disability Enterprises and Aboriginal Businesses.

The Council has recently set up an eQuotes portal to process all its requests for quotes. Of the 210 suppliers currently registered on the system, 169 (80%) are locally based and, of the quotes awarded to date through this system (which only recently became mandatory), 83% went to local suppliers.

High value Council procurement, such as expenditure on major construction, infrastructure, plant, and utilities, is generally subject to formal State-wide tender processes. In 2015/16 to date, 64% of council tenders, **by volume**, have been awarded to local suppliers and the average rate for the last four years was 70%. This is believed to represent an improvement on historic rates of around 50%.

The overall percentage of local procurement **by value** is less than the rate by volume, as more of the high value procurements are generally awarded outside the region. The scale of these procurements dominates the generally much greater local content rate in the high-volume smaller procurements.

For example, of the 2015/16 \$68 million<sup>8</sup> Capital Works Program, only around 40% in value of new works contracts have, to date, either gone to local contractors, or



indirectly to local sub-contractors, although 53% of renewal works contracts have been awarded locally. However, the full year results for the Program are expected to be higher once the results of current procurements are confirmed, and a fuller analysis of sub-contractors is complete.

Overall, taking all Council procurement into account, the leakage rate is estimated to be, on average, in the region of 40%, although the impact of large capital works contracts could result in a different rate, in any one year.

### ***Value for money, capability and scale drive leakage***

The main driver of local procurement is **value-for-money**, i.e. once whole-of-life costs and transport costs are considered, many local suppliers are competitive, without the application of regional price preferences. This applies to most classes of general goods and services, including the maintenance of buildings and infrastructure, and small- and medium-scale construction.

By contrast the main limitations on local procurement are **capability and scale**. Areas where local businesses either currently do not have the skills or sufficient capacity to respond to the Council's needs include:

- Specialist consultants (e.g. engineering, other technical, professional services);
- Major building and construction;

- Civil infrastructure works (e.g. road construction<sup>9</sup>);
- Specialised construction (e.g. airports, maritime, disability access, high-risk asbestos removal);
- Major plant and equipment although ongoing support and maintenance is often procured locally;
- ICT hardware and specialist software (most day-to-day ICT support services are procured locally);
- Utilities; and
- Playground equipment and outdoor furniture.

However, in recent years, the Council has also observed that non-local firms undertaking major construction and civil infrastructure works, and related specialist services, have become increasingly competitive as they have sought to replace their dwindling client base in the mining industry. This is making it harder for local firms to compete, even when regional price preferences are applied.

Although a deeper analysis of each of these industries may shed further light on the extent to which it would be viable to build local capacity, opportunities are limited within the local market, given the physical and demographic constraints of the region.

The Council is currently considering more formal sub-contracting requirements for head contractors, within the obvious

<sup>9</sup> Prior to 2014/15, roadworks contracts were generally awarded to local suppliers. Following a recent RFT process, the main contractor for asphalt resealing is now Fulton Hogan which, while have a significant presence in the Mid West Region, does not have a local office.



constraints of competition law, and this may well be a useful strategy to increase rates of local procurement. This could be supplemented by targeted incentives for larger and repeat contractors to establish local offices.

Two further steps that may assist to reduce leakage are:

1. Where possible, identify separable components that may form part of a larger project so local suppliers may be competitive (this will, of course, require more time on the procurement process and may increase overall costs and project management risks).
2. Developing 'export' markets to create scale for local suppliers, over time (e.g. playground equipment and outdoor furniture manufacture).

## 5.3 State Government leakage

### *The State's Buy Local Policy*

The State Government's Buy Local Policy (SSC 2002) has been in place since 2002. This permits

*"Government agencies with branch offices in regional Western Australia that purchase goods, services, housing or works for delivery and use in the region... to buy locally, up to the value of \$50,000 per line item ...."*

This applies even when a mandatory Common Use Arrangement (CUA)<sup>10</sup> exists, as long as specific conditions are met.

This policy recognises that *"decentralisation of purchasing functions... can stimulate local competition and provide increased opportunities for local businesses."* To this end the Department of Finance has set up purchasing offices in all regions to provide support and guidance to the regional agencies.

The Government has set a **minimum State-wide target of 80% for local procurement** and reports annually on performance against this target. This is included in the annual Who Buys What and How report, produced by the Department of Finance

### *The policy in practice<sup>11</sup>*

The 2013/14 report (the latest available), collected and reported data on all procurements over \$20,000 undertaken by regional agencies, including all relevant awarded contracts included in Tenders WA. Figure 16 summarises the results, region by region; showing the Mid West region as a solid performer, exactly meeting the Government's target.

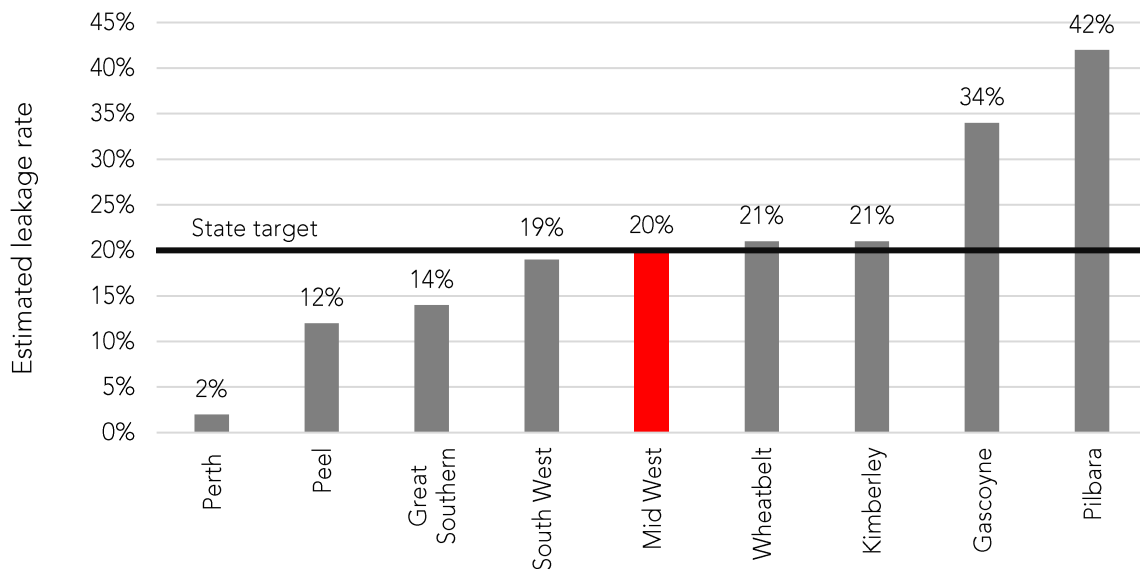
<sup>10</sup> CUA are standing offer arrangements for the purchase of goods and services, negotiated on a whole-of-Government basis (for greater efficiency) which are generally mandatory in Perth and often mandatory State-wide.

<sup>11</sup> State Government data is collected at regional, rather than local government level.





**Figure 16 State Government Expenditure Leakage by Region**



Source: DOF 2014, *Geografia*, 2016

The total value of procurement reported in the Mid West was \$158 million, of which \$126.4 million was awarded locally.

This does not include expenditure with a line value under \$20,000, or contracts awarded in multiple regions which may also have had a beneficial impact on the Mid West economy.

It would be reasonable to assume that the inclusion of procurements of under \$20,000 would probably increase the reported local procurement rate, given that it is generally the largely procurements which are sourced outside the region.

During this review, we spoke to representatives from several State Government agencies<sup>12</sup>, with the majority expressing a firm commitment to local

procurement and confirming that the 80% target was generally achieved.

Most agencies said they could meet most of their procurement needs locally, either through suppliers on the CUA, or through exercise of the Buy Local Policy. This was not only critical to their support of the local economy but, in many cases, was considered more efficient, given the large distances from Perth and other centres.

As with the Council, it was observed that local suppliers were often able to demonstrate value-for-money without application of any local content discount or price preference. Examples of procurement largely sourced locally include:

- Food and beverages;

<sup>12</sup> Nine agencies were interviewed: Corrective Services, Department of Finance; Department of Agriculture and Food; Mid West Education Region; Department of

Indigenous Affairs; Geraldton Hospital; Mid West Port Authority; Mid West Development Corporation and Central Regional TAFE.



- Other consumables;
- Office supplies;
- ICT support;
- Small equipment;
- Cleaning;
- Building and equipment maintenance; and
- Building construction.

However, many of these agencies were not engaged in major construction to the same extent as the CGG. Exceptions were the Geraldton Hospital and the Central Regional TAFE which have, between them, recently awarded four significant construction contracts to local suppliers.

### ***Leakage at 20% with further potential for local provision***

As no State Government procurement data is captured and reported for the Greater Geraldton area alone, the actual expenditure leakage from the City is probably different than the figure for the entire Mid West Region, given that some City expenditure probably leaks into the region. This may, however, be balanced out by the inclusion of lower-value and multiple procurements in the data, as described earlier.

Consequently, it is reasonable to assume that the leakage from State Government expenditure is in the order of 20%.

While most agencies consulted could both demonstrate an organisational commitment to local procurement and achievement of results, some gaps in the

local supply of services were noted, including:

- Commercial and specialised vehicles;
- ITC and security hardware purchase (support and maintenance can generally be provided locally);
- Software purchase (support services can generally be provided locally);
- Specialised and/or large scale equipment (e.g. schools, ports, hospitals<sup>13</sup>);
- Volume bakery products;
- Major construction;
- Utilities; and
- Consultancy and professional services.

There is some overlap between this list and that for the CGG, confirming potential business opportunities in specified areas. Whether there is sufficient incentive for public or private investment would need to be tested through feasibility studies. For example, the dependence on State-wide electricity suppliers could provide the impetus for development of a shared solar or wind energy source for Greater Geraldton.

There may also be other business opportunities to service a larger region (e.g. including the Wheatbelt and Pilbara) in, for example, through the supply of volume bakery products; specialised construction and equipment; and consultancy and professional services.

<sup>13</sup> Geraldton Hospital has, however, recently started buying its podiatry and physiotherapy equipment from a

local branch of its Perth supplier. This is proving both cheaper and more convenient.



## 5.5 Federal Government

### *Policies preclude 'local preferencing' of suppliers*

Of the two major Federal Government entities in Greater Geraldton (Australia Post and the Department of Human Services, including Medicare)<sup>14</sup>, neither have policies to prefer local suppliers.

Our enquiries have confirmed that main Australia Post outlets (such as the Durlacher Street post office in Geraldton) have no latitude in their purchasing decisions and all goods, including retail merchandise, are procured centrally. Australia Post licensees, who provide the balance of post office services in Greater Geraldton, have more latitude when purchasing non-Australia Post materials. They often operate as a shop within a shop and are, effectively, private businesses. Their activity is reflected in our analysis of business expenditure leakage, earlier in this report.

The Department of Human Services (in common with all other Federal Government departments) undertakes its procurement activities in line with the requirements of the Commonwealth Procurement Rules. These include a requirement not to preference suppliers on any grounds, including locality. Tendering requirements also require procurement officers to consider responses regardless of who the tenderer is, and where they are located. We understand that, in general, Federal

Government departments and agencies do not routinely capture, or publish, any data on the locality of their suppliers.

An exception to the 'no preference' rule relates to procurement from Indigenous businesses. The Federal Government's relatively new Indigenous Procurement Policy requires that, by 2020, 3% of all Commonwealth procurement contracts will be from businesses with at least 50% Indigenous ownership. It also sets minimum requirements in terms of Indigenous employment and supplier use for all new contracts over \$7.5 million, in specific industry sectors.

The Department of Prime Minister and Cabinet has estimated that there are around 150 such contracts per annum. These are unlikely to be of much direct relevance to Greater Geraldton. However, a more immediate opportunity is presented by the mandatory 'set aside' which requires Commonwealth buyers to offer any domestic contract in the range of \$80,000 to \$200,000 to an Indigenous business, if a suitable one exists.

It is recommended, therefore, that an exercise is undertaken to identify existing and potential Indigenous businesses in the Greater Geraldton region and determine how they could be developed, and promoted, to take more advantage of these, and similar State Government preferences.

### **Key leakages**

Given the relative small scale of these operations in Greater Geraldton, illustrated by the fact that, in 2011, fewer

<sup>14</sup> The Department of Education and Training and the Department of Families, Community Services and

Indigenous Services also have small presences in Greater Geraldton.



than 1% of Greater Geraldton residents were employed by the Federal Government, any expenditure leakage is likely to be immaterial when compared with either the rest of the Government sector, or the private sector.

## 5.6 Summary

Opportunities for reducing leakage are present in manufacturing, construction, ICT, and possibly, utilities (Table 4). While it is not possible (with currently available data) to estimate the scale of the leakage

that would be reduced through local business development, it is likely to be substantial given the nature of the goods and services.

There may also be an opportunity to help develop local Indigenous businesses through the new Indigenous Procurement Policy.

**Table 4 Summary of Public Procurement Opportunities**

Industry	Opportunity	Summary
Manufacturing	Playground equipment and outdoor furniture	Viable market for a regional supplier in furniture equipment and other manufacturing.
	Volume bakery products	Viable market supplying to several scale purchasers in bakery product manufacturing.
Construction	Major construction, including civil infrastructure works and specialised heavy and civil engineering construction (e.g. maritime)	Potentially viable given both State and local demand. Average enterprise turnover is very high relative to leakage, suggesting a major effort would be needed to establish a local industry, except for local offices of major companies.
	Specialist consultants	Viable if tied to private sector specialist construction service demand.
ICT	Hardware and specialist software	Potentially viable as both State and local procure support locally and could procure both hardware and software.
Utilities	Energy provision	Viable shared wind or solar farms.



## 6.0 Summary

Considering the context as outlined in Section 2, and the leakage estimates from Sections 3 to 5, we can say that there are both opportunities to reduce *significant* leakage and, in doing so, increase the scale of the Greater Geraldton economy, as well as reduce minor leakage and thereby increase economic diversity.

### 6.1 Overall opportunities

Table 5 summarises the opportunities for developing local industries by reducing expenditure leakage. Demand is derived from the five broad industries (column 1)

for suppliers in a range of supplying industries (column 2), some of which can service demand across both the private and public sector (column 3).

**Table 5 Overall Supplying Industry Opportunities**

Local Demand In...	Supplying Industry	Value <sup>15</sup>	Main Sector
Manufacturing	Other fabricated metal products	\$3m	Local business
	Prof. scientific and technical services	\$2.1m	Local business
	Prof. services	\$1.2m	Local business
	Furniture equipment and other manufacturing	n.a.	Local government
	Bakery product manufacturing	n.a.	State and local government
Construction	Polymer products	\$2.1m	Local business
	Polymer products	\$6.2m	Local business
	Prof. services/finance and insurance	\$5.8m	Local business; State and local government
	Wood product manufacturing	\$5.5m	Local business
	Civil infrastructure works and specialised heavy and civil engineering construction	n.a.	State and local government
Wholesale Trade & Transport	Professional services, Administrative Services and Auxiliary Finance and Insurance Services	\$10.8m	Local business
Mining	Prof. scientific and technical services	\$3.9m	Local business; overseas; State and local government
	Electricity generation	\$3.1	Local business
Tertiary Services	Employment, Travel Agency and Other Administrative Services	\$10.8m	Local business
	Computer Systems Design & Services	\$9.9m	Local business; State and local government
	Professional, Scientific and Technical Services	\$9.0m	Local business; State and local government
	Auxiliary Finance and Insurance Services	\$2.9	Local business

<sup>15</sup> Values refer to business expenditure only.

## 6.2 From city serving to city forming: developing business opportunities

The consultation and research identified several pathways to developing local industries by tapping into existing leakage, as well as local strengths. Common to this is the idea of encouraging local purchasing through a mix of push-pull initiatives (i.e. 'pushing' local buyers to reconsider local suppliers and 'pulling' local suppliers by helping them improve. For long-term sustainability, the key is to help the suppliers transition from city servicing to city forming scale.

### *The Geraldton brand*

To compete on cost with 'imports', a local enterprise may choose to specialise and only produce a limited range of goods and services. This is a viable strategy in a large population centre where transport, shipment and communication costs are low and markets, therefore, deep. However, in smaller markets, the only available pathways to viability is to capture as much share of the local market as possible or to develop goods and services with low marginal costs.

Pre-cast concrete manufacturing was raised as an opportunity in Plugging the Leaks, and while, per the REPLAN data, it is a small industry, it may still have local potential.

Production technology is similar for all pre-cast products with the applicable moulds. If there is support in the region for sourcing locally made precast products, there would be sufficient

demand for a business if it could produce a large range of products, rather than specialising as many enterprises will do in a highly competitive market. The operation would need to be flexible and able to quickly develop moulds as required and, thus, the cost per item is likely to be higher when transport costs are excluded. However, there is a greater opportunity to customise each item and include decoration and/or finishes that would be specific to the Greater Geraldton area e.g. a logo, city motif, or pattern and texture in pre-cast walls. Such decoration has the potential to make precast concrete more attractive and increase demand from elsewhere in Australia, thus developing a specialty product that can be exported from the region; command a premium; and compete in the increasingly concentrated pre-cast industry that is mainly cost focused.

In summary, the short-term outcome of supporting local production of 'customised' pre-cast products is reduced expenditure leakage, albeit at a higher cost per unit. The long-term outcome is to increase exports; create local jobs; and support economic growth. In effect, the industry would change from being a city serving industry to become a city forming industry. The key is to secure the local market first by offering a high quality customised product.

### *More, smaller contracts from local government*

Continuously improving local government procurement is also an obvious pathway for reducing leakages. Although, as noted in Section 5.2, the Council takes it Buy



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Local Policy very seriously and leakage is relatively low, there are still opportunities for reducing it further.

With respect to the high value/low volume goods and services opportunities identified in Section 5.2 (e.g. civil infrastructure and major plant and equipment), the Council could spread contracts over many businesses, but it would require more effort on the procurement process. While this approach has inherent risks (particularly with respect to preferencing 'local' over 'best' supplier and general cost), there are significant benefits, not just with respect to the growth of local business, but also the investment in local business networks.

With respect to the lower value/high volume goods and services opportunities (e.g. playground equipment and outdoor furniture), the opportunity may be in servicing the larger region, including the Wheatbelt and Pilbara.

As Plugging the Leaks pointed out, small business (employing two to four people) makes up 38% of all enterprises in the Greater Geraldton area. A simple way for local government to increase local procurement is therefore to reduce the contract size to a manageable level for small businesses with small administration capacity and eliminate pre-approved suppliers lists. Smaller contracts are only likely to be attractive for local businesses, but there will be greater local competition for these contracts and expenditure leakage may be reduced.

In time, the experience gained will assist these businesses in scaling up and servicing increasingly larger regions.

## 6.3 Summary

At around \$1.24b, leakage is estimated at around one fifth of the total output of Greater Geraldton and opportunities in at least one dozen industries have been identified. These amount to \$76m from the business sector alone. Halving local government leakage (i.e. to bring it closer to 20%) would add a further \$15m.

While a large share of the leakage goes to major supplying industries that are very unlikely to be established in the region (e.g. Oil and Gas refineries and smelters), these smaller activities can combine to create a much more self-sufficient and diverse economy in Greater Geraldton.

Moreover, as discussed earlier, major structural changes in electricity generation and supply, along with the increasing importance of the 'fourth utility' (HSB), is likely to create further opportunities for the establishment of local suppliers.



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# Appendix

Table 6 shows the correspondence between consumer expenditure categories and expenditure items.

**Table 6 Consumer Expenditure Categories and Items**

Expenditure Categories	Expenditure Items
Category 1 - Education	Education
	Insurance
	Finance
Category 2 - Government and Regulated, Capitalised Industries	Electricity, Gas and Water Supply
	Communication Services
	Government Administration and Defence
	Interest Groups and Other Organisations
Category 3 - Travel and Tourism	Services to Travel
	Services to Air Transport
	Accommodation
	Air Transport
	Rail Transport
Category 4 - Water Transport	Water Transport
	Services to Water Transport
Category 5 - Property and Business Services	Property and Business Services
Category 6 - Professional Services	Professional Services
Category 7 - Health and Social Services	Health and Community Services
Category 8 - Transport-related Expenditure	Aircraft Retailing
	Boat Retailing
	Motor Vehicle Retailing
	Services to Road Transport
	Road Passenger Transport
	Combined Transport
Category 9 - Dining and Entertainment	Entertainment
Category 10 - Supermarket, Groceries and Specialised Food Retailing	Food Retailing
Category 11 - Bulky Goods, Furniture and Other Household Goods	Furniture, Houseware and Appliance Retailing
	Other Personal and Household Good Retailing
Category 12 - Department Store and Discount Department Store Related Goods	Toys, Games and Hobby Retailing
	Recreational Good Retailing
	Music, Movie and Book Retailing
Category 13 - Clothing and Textiles	Clothing Retailing
	Soft Good Retailing
Category 14 - Personal Services	Personal Services

