

# **GOVERNMENT THAT WORKS FOR THE BUSH**

## **A REGIONAL REGULATORY REFORM AGENDA**

**December 2018**



**REGIONAL  
AUSTRALIA  
INSTITUTE**

**KNOWLEDGE POLICY PRACTICE**

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## ACKNOWLEDGEMENTS

This paper has been written independently by the RAI drawing on current work and evidence about service provision in small towns across Australia.

The paper draws on specialist work done in collaboration with the RAI by Nicholas Gruen and the team at Lateral Economics. It is also informed by the evidence provided by many regional people about the practical problems of service delivery to small towns within current policy arrangements.

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## EXECUTIVE SUMMARY

Decades of reform to service delivery across Australia has introduced a diversity of publicly and privately provided services, aimed at improving both access and quality. But the gaps between regions and metropolitan areas on many measures of service provision and socio-economic outcomes are persisting. The smaller and more remote the community, the greater these gaps are.

The reasons behind this lack of progress are not simply a lack of effort or money. There has been much of both. The reasons go to the heart of how we have sought to resolve problems and the incompatibility of those policy approaches to the challenges of small town Australia. Rigid program guidelines and accountability mechanisms, belief that applying programs consistently across Australia will deliver equitable outcomes, valuing economies of scale as the source of efficiencies everywhere, through to the relatively low value given to program design and delivery in contrast with the high value given to policy design. These examples of the context within which policies and programs are designed and delivered show how deeply embedded the sources of the problem are. Major changes are needed to turn the tide, and these are explored in this paper.

The dominant driver in reform of service delivery in recent decades has been outsourcing and the seeking of the economies of scale that work well in cities, rather than enabling the efficiency dividend from better economies of scope that are most effective in smaller communities.

The consequence of this reform direction is poorer delivery and outcomes (see Box 1) and we are currently at great risk of repeating these mistakes with the NDIS.

### Box 1. Withdrawal of training providers

Changes made to the Certificate IV in Training and Assessment (the key 'train the trainer' VET course) now mandate groups of a minimum of 8 and at least 1 face to face session per week. As a result, none of the 9 RTOs previously offering this course in Western NSW have applied to offer it in 2017.

The key to improvement is moving from a rigid system to a flexible system. Flexibility enables trials and innovation bounded by a set time and place – enabling piloting of innovative approaches within a designated 'regulatory sandpit'. Flexibility is also possible in allocation of existing resources and exemption from regulations.

Each jurisdiction already works directly with regional communities to help them prioritise and solve their unique issues. Tapping into local leadership capability and trialling solutions that match diverse local needs and challenges is crucial to progress. Enabling this local leadership to influence the design and delivery of programs is a critical factor in creating and supporting a more flexible system. It will also reduce the constant pressure on constrained government budgets to find new money for regional issues by getting better value from funds already committed to regional issues.

Uniformity in delivery processes across Australia militates against localising actions and outcomes. Uniformity is being used as a smokescreen for 'equity' but actually it leads to anything but, frequently imposing unworkable requirements on regional providers.

Alignment of requirements of funding agencies with needs of community is rare due to lack of recipient involvement in policy and program design, lack of enfranchisement when local priorities are determined, and focus on procedural probity rather than outcomes. Regional leaders are becoming less inclined to participate in consultation which does not lead to material changes in program regulations, design and delivery. It appears that so called 'consultation fatigue' is really lack of faith that opinions and priorities presented will be legitimised and acted upon. This report asks what mechanisms will facilitate information flows and eliminate the inherent information asymmetries between the centre and the periphery to support better policy design and program delivery outcomes.

Fixing the system needs:

1. A mechanism for local tailoring to avoid poor targeting which retains accountability but does not require additional funds. A mechanism is needed to enable feedback from periphery to centre to be legitimised and acted upon so that what is invested in aligns with what is needed to make a difference on the host community. This would avoid mistakes like the Forest EcoCentre in Scottsdale (Tas) which was offered and constructed in 2002 to help with the town's transition out of forestry but which now sits empty. One outcome was achieved – a ribbon was cut – while other outcomes were not.
2. A mechanism for pooling and for enabling regulatory exemptions to facilitate economic transitions. A variation to the UK Education Act enabled schools to trial adjustments to programs with impressive results. The Productivity Commission is calling for a similar capability to exempt regions from program regulations which might be inhibiting their economic transitions. An example could be varying the job search requirements in regions where there are few employers and fewer vacancies.
3. A feedback loop where regional problems and locally developed solutions are a key agent in developing future policy settings.

## THE REFORM AGENDA

If governments want to find new ways of overcoming the persistent disadvantage in rural and remote Australia and re-establish regional people's faith that our key government institutions have their interests at heart, they need to be prepared to change.

The reform agenda includes three components that will drive meaningful change in how governments interact with regions:

1. Enabling and encouraging pooling of resources in rural and remote Australia to increase the local service presence and its capability.
2. A place for regions to raise issues where rigid programs and regulations are impacting local communities supported by legislated power to implement changes.
3. Supporting local experiments in solving regional issues with a mandate to spread the good of proven local innovations across policies for rural and remote Australia.

To deliver this agenda it is proposed that governments establish an integrated Regional Transformation Agency alongside the normal operations of government. The Agency would be provided with the powers, resources and mandate to deliver on the reforms described above.

This Agency would be a clearing house for flexibility in response to regional issues, and experimentation and policy design for the regions. It would be an agent of change and generate both high quality evidence about how government programs can be improved and small scale working models of regional innovation that could be adapted more widely.

Re-engaging rural and remote communities in the national project depends on rebuilding confidence in the capacity of central governments to respond to their needs. This in turn requires government and communities to develop and engage in new approaches to resolving persistent problems.

In a time of constrained resources, the reforms provide a practical pathway for governments to seek substantially better outcomes from their existing investments in regions. They will also demonstrate a genuine willingness to listen and learn, and do better in partnership with regional communities.

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## INTRODUCTION

### WHY DEVELOP A REGULATORY REFORM AGENDA FOR REGIONAL PROGRAMS?

Despite all of the initiatives and expressions of desire in government to overcome problems in rural and remote Australia, the persistent divides in health<sup>i</sup> and education<sup>ii</sup> outcomes remain firmly intact. In fact, our small towns have lower access now to dentists, preschool and secondary school teachers than they did 30 years ago. Remote and very remote small towns suffer particularly poor access to pre-school teachers, known to be critical to success in early years education<sup>iii</sup>. When combined with politics that seem chaotic and flat or declining real wages for many, increasing political disengagement in the bush<sup>iv</sup> is an understandable result.

Re-engaging rural and remote communities in the national project depends on rebuilding confidence in the capacity of central governments to respond to their needs. This in turn requires government and communities to develop and engage in new approaches to resolving persistent problems.

In 2015, the RAI published two policy papers which provided the foundations of the thinking that has been developed into the reform agenda outlined in this paper.

*The Future of Regional Australia: Change on our terms* documented the incompatibility of government processes with the scale of changes confronting rural and remote Australia. This work concluded that:

*“The task for current and future generations of Australians is to ... develop and implement new government processes that produce better regional outcomes.*

*Regions are best placed to understand and secure their own interests. They are their own greatest vehicle of change and future well-being. To prosper into the future we need to shift our thinking on what matters to regions and empower them to make decisions and respond to change.”<sup>v</sup>*

*Delivering Better Government for the Regions* delved into these governance challenges further, concluding that:

*“...many of the most important decisions affecting these places are taken outside the region, and outside ‘regional’ policy. Most services delivered to regions are organised along program lines ... that have little engagement with formal regional policies or aspirations. This results in fragmented responses to local problems and poor outcomes overall...”*

*the answer to the challenge of creating better government for Australia’s regions will be a suite of policy measures rather than a single action or initiative. ... any viable solution must involve both greater dialogue between the regions and the centre, and the transfer*

*of power. Such ideas can be challenging, but are essential if regional Australia is to achieve its potential.”*

This paper builds on this work to provide a clear alternative approach to making progress on issues impacting rural and remote Australia.

The scope of this project was determined in discussion with Departmental Secretaries and Policy Directors from around Australia with responsibility for regional development. This scope spans the following key questions:

- What policy approaches could better support place-based coordination and allow localised program variations?
- What else is needed to encourage innovation in policy design and program delivery in regions?
- What legislative framework would be needed to enable innovation to occur?
- What precedents are there in Australia and internationally?

This paper explores these questions in a diagnostic framework that then serves as a basis for offering a reform pathway.

Our focus is different to most discussions about regional issues in that the application of additional funds is a secondary consideration. The primary focus is on the extent to which government is able to be flexible towards regional differences that confound progress and frustrate residents in small towns. Such flexibility can be much more powerful than new resources, as it harnesses the power of existing spending and changes the system in response to regional needs. We also consider whether a more active partnership by governments with regional people to seek solutions to problems can create a stronger ‘learning system’ for governments and communities in resolving problems in regional Australia.

The rest of the report is set out in three sections:

1. What is the problem and why do we have it?
2. How can the problems be fixed?
3. The Reform Agenda.

# 1. WHAT IS THE PROBLEM AND WHY DO WE HAVE IT?

The deepest roots of the problems of political disengagement and the policy defeating persistence of outcomes gaps, despite 30 years of reform efforts, lie in three interrelated issues:

1. A significant decline in local service delivery capacity that has undermined confidence in government and the capacity for progress to be made;
2. The incompatibility of dominant policy and service design ideology with what the evidence says is needed to support progress in rural and remote Australia; and
3. Inflexibility in program and regulatory implementation that stalls local initiatives that could deliver progress and presents a deaf ear to regional views.

## 1.1 THE HIDDEN POPULATION DECLINE – A SIGNIFICANT DECLINE IN LOCAL SERVICE DELIVERY CAPABILITY IN RURAL AND REMOTE AUSTRALIA

Research by the RAI has found that service delivery capability in Australian small towns has declined over the last 30 years in several service categories. The gap between the depth of services available in small towns and that available in larger centres and cities has widened.

By way of example, Australia's small towns have lower access to dentists, preschool and secondary teachers, and police than they did 30 years ago. Remote and very remote<sup>vi</sup> small towns suffer a particularly acute disadvantage in access to preschool teachers. In 2011 just 10-11% of remote and very remote small towns had a preschool teacher, compared with 64-76% having primary school teachers.

Even where provision is available, remote and outer regional communities almost always suffer from lower per-capita rates of provision – and this gap is persistent. Remote and very remote communities have significantly lower per-capita service levels for doctors, nurses, secondary school teachers and social welfare professionals, while outer regional towns have significantly lower provision of doctors, nurses, dentists, psychologists, preschool teachers and social welfare professionals.

Smaller towns in particular are faring poorly and in the 30 years to 2011 there were increases in the number of towns under 1,000 population with no recognised teachers – preschool through to secondary – police or social welfare professionals.

In many cases our removal of services professionals from small towns has substantially outpaced any local population decline (Box 2), providing an accelerant to the 100 year shift in population from smaller towns to larger cities and the coast, and certainly undermining the quality of life available for those who remain.

Many of these changes have been driven by financial imperatives. Centralising services in larger centres offers direct short term cost savings to governments. In making these changes, the potential for longer term costs of entrenched disadvantage from reduced service provision are either ignored or unable to be effectively accounted for in this high level financial decision making.

**Box 2. Service professional decline outpaces the loss of population in many towns**

Temora NSW saw an 11% fall in population between 1981 and 2011 but much larger falls in the number of GPs counted in the Census (5 GPs in 1981 and 0 in 2011) and Registered Nurses (23% fall).

Tully North Queensland saw a 17% fall in population from 1981 to 2011 with bigger falls in the Census counts of the number of Registered Nurses (56% fall), primary school teachers (55% fall) and secondary teachers (33% fall). The number of GPs counted was stable at 3.

This loss of services is incremental but very real for small places. If services are not available locally this means a long drive or flight to access them or simply going without this service. Following the loss of the services base, if governments do want to respond to local crises there is no infrastructure to do so.

## 1.2 THE DOMINANT POLICY DESIGN AND SERVICE DELIVERY IDEOLOGY IS MOSTLY INCOMPATIBLE WITH MAKING PROGRESS IN RURAL AND REMOTE AUSTRALIA

Delivery of programs in regions is a challenge for policy makers, program designers and delivering agencies because the dominant policy ideas of the last 30 years are poorly suited to progress in isolated and less populated areas.

Borrowing terminology from anthropology<sup>vii</sup>, policy making leans heavily on 'thin' approaches which apply a single, simple, standardised idea from the top down, regardless of the context. Our taxation system is largely a 'thin' approach, though it now has a large number of amendments in addition to the core components. In contrast, 'thick' approaches embody the context they are applied to, and are seen in debates around the extent to which funding of health and education can or cannot be standardised and systematised.

Our 'thin' default position in Australia has been complemented by a desire to impose consistency in policy and program delivery as a goal in its own right<sup>viii</sup>. For policy makers, consistency is an appealing foundation as:

- It provides a tempting short cut to equity as every person and place gets the same inputs (ignoring the real goal which is or should be equity in outcomes);
- It is cheaper (if you ignore cost of poor outcomes); and
- Its simplicity is convenient for policy makers in the centre who make decisions (and difficult for people involved in implementation who try to implement consistent policy in widely varying contexts).

The search for efficiency in service delivery by creating markets for service delivery to develop choice and competition in services has been a closely related and dominant program and service delivery trend in Australia.

In the last 30 years this has often taken the form of creating competitive markets for delivery of key services such as job seeker services, vocational training and now disability services.

These competitive processes are good at lowering the unit cost of service delivery by finding economies of scale. The search for scale works particularly well in cities where competition between many providers is possible and a network of complementary services and supports reduces the downsides of promoting a narrow focus of competition for specific services.

However, in regions, especially those with low populations, it is rare to find economies of scale that work to deliver better outcomes or a situation where the potential gains from choice and competition can be effectively realised.

In low population regions, economies of scope are far more effective in delivering better and more efficient outcomes. Economies of scope can be achieved where services are bundled and tailored to meet the community's needs, for example where one local organisation combines funding for a range of part-time services into a viable operation able to spread the overheads across a portfolio of small funding sources.

These economies of scope are crucial to the survival of local service providers in low population regions, but they are not supported either by the current prevalence of scale-driven funding models or the preference for each service funding program to have its own administrative silo.

### **Box 3. Jobseeker Services**

Over the 1990s, the Commonwealth Government moved from providing employment services to funding their provision. Increasingly, employment services were provided by not-for-profit organisations and the private sector. Over time, contracts have become concentrated in the hands of fewer, larger providers, clustered mostly in regional centres or metropolitan areas.

Since start of the Job Network in 1998, the scope of the services provided has increased. In 2003, providers also offered additional services for employers. In 2006, providers were expected to assist welfare recipients under the government's 'Welfare to Work' policy. More recently, providers have been required to administer 'breaches', a task previously undertaken by Centrelink.

Job seekers in rural and regional areas now have fewer employment and training opportunities, poorer access to employment services and an increased likelihood of being 'breached' for failing to attend an activity that can be difficult to access, for example by being in a neighbouring town to which there is no public transport. This creates additional administration and inefficiency which could be avoided.

The main way in which this policy and service design approach has achieved scale is in the sheer number of services that nominally need to be delivered in rural and remote communities. A current Productivity Commission Inquiry<sup>ix</sup> into reforms for human services highlighted the plight of the remote

community of Jigalong in Western Australia, which received 90 different social and community services in 2013-14 for a population of less than 400. This is a fairly standard situation for small, remote and disadvantaged places.

The PC report confirms that human services delivery in regional and remote areas still needs major change, as the current arrangements “are not making the contribution they should be to improving the wellbeing of Indigenous people living in remote communities.”

### 1.3 INFLEXIBILITY AND SILOING IN REGULATION AND PROGRAM DESIGN CRUELS LOCAL INITIATIVES AND SOLUTIONS

Despite much policy and public discussion in favour of local solutions and place based policy, Australia maintains some of the most inflexible policy settings amongst OECD countries<sup>x</sup>.

Even within silos, the inflexibility in the way governments invest in and regulate programs and services in regions give rise to a plethora of issues that create mismatched resources and unintended consequences in rural and remote areas.

Rigidity is built into program delivery processes under the principles of conformity, probity and accountability. While these are all worthy principles of good governance, they do not facilitate the flexibility and tailoring required to maximise service efficiencies in regional areas.

A simple review of several pieces of recent literature and a series of conversations with community leaders from small communities has allowed the RAI to document a series of current examples of how government inflexibility restricts good outcomes in small communities:

- Wallaby exclusion fencing. A simple example of the inefficiency of a rigid and consistent approach comes from natural resource management. King Island has a major environmental problem with a very large population of wallabies. Landcare groups on King Island are able to access funding for replanting native vegetation along stream banks, but the grant guidelines specifically exclude funding for fencing to keep wallabies out. So any replanting is pointless as the new plants are immediately eaten by wallabies. King Island Landcare would prefer funds for exclusion fencing which would result in native plants regrowing by themselves anyway – without a need for replanting. But the funding guidelines cannot be amended to make it work in this unique regional context.
- Changes to the newly approved Certificate IV in Training and Assessment (TAE40116) mean that the course is now unlikely to be viable in regional areas. In Western NSW there are currently no VET providers offering this course, weakening the region’s human capital as it is an important ‘train the trainer’ course without which further skilling will be compromised. The changes that have precipitated the perception of unviability are the requirements for a minimum class size of 8 and for at least 1 face-to-face class per week. These requirements are unlikely to cause difficulties in cities, but are impediments when flexibility is needed to deliver the program in less densely populated regions (Box 1).

- Jobseeker mandatory activity requirements often place unreasonable burdens on jobseekers in regional areas. As a current example, the Skills for Education program requires daily face-to-face interaction of job seekers, even in instances where job seekers have to travel approximately 100km with no access to public transport to attend meetings.
- Under the Education and Care Services National Regulations (2011), long day care childcare centres must be open for a minimum of 48 weeks per year. Without this criterion being met the childcare centre cannot offer the childcare rebate to families that use their services. While this may be a reasonable requirement for childcare provided in a high population density catchment, in a small town with seasonal work and population patterns, it creates unnecessary rigidity and associated costs.
- Medicare has recently extended coverage to psychological services delivered by videolinks, which is a welcome change for providers and clients in regional Australia. Unfortunately, the current draft guidelines mandate that at least 1 of the first 4 sessions must be face to face. This makes good sense from a clinical perspective, and is unlikely to be much of a concern in cities. But in regional areas, where there are high levels of need and low levels of service, it brings an unwelcome burden on the client when their clinician of choice may be located hundreds of kilometres away.
- A Council received a sizeable grant from state Government to install exercise equipment in parks across the LGA. But the capital works funding did not allow for any training in how to use the equipment, or running of any exercise programs that made use of the new equipment. As a result, this program risked investing in expensive park ornaments or simply improving the experience of people already using the park for fitness, with the parts of the community not engaged in exercise already unlikely to use and benefit from the new resource.
- The same Council in the example above also obtained funding to support redevelopment of its regional arts centre, but was unable to find funding to engage the curatorial skills needed to make the centre function efficiently as a curated gallery with a medium term exhibition program and active community engagement.
- Newstart arrangements are reported to the RAI as making it risky for people to take up temporary work. In areas where there are few other options, people will choose to stay on Newstart rather than taking up work and experiencing a loss of income as benefits are restricted. States and regions have reported an interest in supporting the costs of a trial to transition the unemployed into temporary work. But there is no simple avenue to provide for an adjustment to Newstart rules on either a trial or temporary basis to see if flexibility and better local support would result in a lower unemployment rate in these places and a lower welfare bill.

These are just a few of the many examples of generic regulations and program rigidities which are leading to substandard outcomes for regional communities and wasted government resources. There are many more, and as the Medicare example demonstrates, more are being created all the time.

In the fact, the RAI's experience in developing this report is that any conversation with a rural or remote person who works with government programs or services will provide a window into still more examples and the real life frustration they create.

They present the face of government to rural and remote Australia as one that is mostly either incompetent or ignorant, deaf to local concerns, and disinterested in the options local communities and service providers can see that can make progress on the very issues governments are trying to resolve.

To a national policy maker these issues seem trivial, in aggregate they prevent rural and remote areas from making progress on local issues and create a sense that local issues don't matter.

Many could be resolved by some flexibility in program administration. Currently there is nowhere regional people can turn to for these simple fixes to be put in place.

## 2. HOW CAN THE PROBLEMS BE FIXED?

The RAI's assessment is that we haven't made progress on the disadvantage in rural and remote Australia because we have reduced the presence of service professionals, implemented policy approaches which are inherently unsuitable for small areas and don't have the capacity to be responsive or flexible to local solutions. This situation, combined with a sense of political chaos and flat or declining real incomes, is fuelling the growing disengagement in rural and regional communities around Australia.

This Chapter takes the causes of these existing problems as outlined above and identifies how they can be addressed. We consider five changes which tackle the obstacles we have highlighted, and which represent significant but readily achievable improvements to current systems:

1. Suspending regulations and program rigidities for better local outcomes
2. Enabling economies of scope and pooling across silos
3. Validating local leadership
4. Buy-in and a place to experiment
5. Spreading the good

Following elaboration of these changes, Chapter 3 offers a specific set of implementable recommendations. Together, these recommendations can better enable innovation in regional policy and program design and delivery. This innovation will in turn improve the efficiency of service delivery in regional Australia and provide new ways to work across regions to reduce long term welfare dependence and disadvantage, and better enable regional Australians to respond to changes in the workforce and the economy.

### 2.1 SUSPENDING REGULATIONS AND PROGRAM RIGIDITIES FOR BETTER LOCAL OUTCOMES

The simplest response governments can make is one that reduces inflexibility in programs and regulations. If governments can provide a mechanism within government accountability and decision making frameworks that responds directly to local concerns and ideas, many issues can begin to be resolved in rural and remote areas. This will require a capacity to suspend or waive regulations and program rigidities where the potential benefits of flexibility can be demonstrated by lower levels of government or regional leaders.

A current Productivity Commission study<sup>xi</sup> has recognised the impact that overly rigid systems are having on regions. The Initial Report from the Transitioning Regions Study found that:

*There may be scope to trial exemptions of regulations that unnecessarily inhibit people and business owners in regional communities from responding to changing economic circumstances. (p154)*

Rather than trying to deal with these as unique, one-off issues, or noting them as merely ‘unintended consequences’ in evaluation reporting, a pathway for change in regions where these issues hit hard is needed. As the examples above demonstrate, these issues are widespread.

A tempting comparison here is red tape reforms. Governments at all levels have had ‘red tape reform’ on their agendas for decades now, and three examples of approaches to dilute the rigidity of regulation are presented below.

1. In 1988, the Federal Government introduced ‘Request and Response’ whereby firms believing themselves to be over-regulated could seek changes setting out their case with Federal agencies required to respond promptly. Unfortunately, the procedure itself was every bit as lacking in thought about real business needs as the regulations it sought to challenge. Applicants had to substantiate their case in the language of policy makers, whilst the only discipline to respond with no requirement for accountability. Businesses’ failure to take up the program illustrated their lack of confidence in it. The onerous and, to business, alien language in which businesses were expected to address economy wide cost benefits in their application highlighted the government’s lack of the basic skills of engaging on other people’s terms. This was never addressed and the program ceased after falling into relative disuse and irrelevance.
2. A similar challenge based approach is the regulatory sandbox. An early example is provided by the UK where, in 2002, the Minister for Education was given a ‘power to innovate’ giving her discretion to grant schools relief from “any requirement imposed by education legislation” for three years to facilitate innovation. This examples demonstrates an understanding of the need to develop the skills to innovate, establishing an Innovation Unit to support the regulatory sandbox and build innovation skills in schools and the education system more generally.
3. Following action in the United Kingdom in 2015, the Australian Securities and Investment Commission (ASIC) launched a financial technology regulatory sandbox in December 2016 whilst NSW began a regulatory sandbox by inviting businesses to nominate specific regulations that impeded innovation. It is too early to judge how successful these initiatives will be, and while uptake has been slow, the first participant in ASIC’s sandbox recently commenced, and ASIC has recently proposed changes to the regulatory sandbox to broaden the scope of potential participants<sup>xii</sup>.

These examples have experienced mixed success. All share a foundation in the belief that policy and program innovations can be ‘unleashed’ once the regulations that obstruct them are identified and modified. In fact, such innovations require considerable investigation, experimentation and coordination between different parts of systems with trade-offs carefully and collaboratively explored (Box 4).

A good example of a suitable mechanism comes from the US Small Business Administration which provides “an impartial ... Office of the National Ombudsman [which] direct reports regulatory fairness matters to the appropriate Federal agency for high-level fairness review and works across government to address those concerns, reduce regulatory burdens, and help small businesses”.<sup>xiii</sup>

Our assessment is that something similar, which might embody the functions of an ombudsman assessing cases of regulation impacting poorly on efficiencies in regional Australia is worthy of consideration as one part of a ‘thick’ response to these issues.

However, rather than taking existing regulation as the standard by which fairness should be judged, any organisation empowered to respond to regional issues should be able implement regulatory and program changes on their policy merits, rather than simply to ensure administrative fairness or advocate for change within government. While internal advocacy would always be a first step, we suggest that where a satisfactory response from the regulator or program administrator is not forthcoming, the organisation should be provided with powers to take some action. We take this up further below.

#### **Box 4. Adapting programs to local circumstances**

The National College of Ireland took an early childhood development program from the US, Parent Child Home Program and adapted it for a Dublin context. The program introduces new parents to reading and play activities to do with their children which has long-term effects on children’s engagement in school, parenting capability and reduces high school drop out rates.

When adapting it, coordinator Beth Fagan knew that the fidelity couldn’t change but some other things could as long as it “maintained the core”. In the US, the program used retired social workers, but those individuals in Dublin didn’t want to go into the areas with high deprivation in the docklands. They made an adaption to instead up-skill local women to deliver the ‘play and learning training’ to parents. And this adaptation has been critical to the program’s success. Being part of the community gave workers respect and helped them recruit parents more easily. There was even an unforeseen bonus to the adaptation. The workers began practicing the techniques on their own children – it improved their own parenting and outcomes for their own kids.

Source: Weinstein, 2016<sup>xiv</sup>.

## **2.2 ENABLING ECONOMIES OF SCOPE AND POOLING OF RESOURCES ACROSS SILOS**

The opportunities for flexibility brought about by the role created above will enable the resolution of many problems with programs and regulations, and provide a window for government to understand and respond to local community issues and frustrations.

However, for smaller regional communities in particular, flexibility within silos can only achieve so much. For communities with few local service providers and a complex mix of externally located individual services, there is a need for reforms to enable economies of scope in service provision and the pooling of funding sources across programs.

This will better support local service provider business models. Rather than chasing specialisation and scale, small community service providers will typically cover their operating costs through a patchwork

of funding for different, but complementary, purposes from different programs and different portfolio agencies. In this usually precarious business model, the onus and risk is on the service provider to stitch together the funding, as each program has its own tightly specified eligibility criteria, purposes and reporting requirements. The burden of meeting accountability requirements across each of these functions is also often significant and must be faced without the specialist back office compliance teams that larger service providers can employ in responding to central accountability demands.

A good small scale example of a community working around eligibility restrictions to achieve economies of scope relates to the outcome of the exercise equipment example above. In this case, the Council was able to find funding for non-infrastructure components (needed to activate the infrastructure safely) through another large scale long term program funded through the Australian Government Department of Health. The scale of Council grants programs enabled some internal flexibility in delivery, and its internal skills enabled this to be managed. In effect, the Council has done what the funding bodies should have done themselves – joining forces to provide a meaningful package of value to the community rather than pitching in one piece of a solution and hoping the rest will work itself out.

This small example puts a practical face on a wider issue. Current program approaches devolve risk to poorly resourced regional organisations, but not the flexibility to make change or deliver better returns for the multiple objectives that are shared by locals and governments. This is inequitable and terribly inefficient.

Providing a more equitable and efficient basis for funding local organisations who seek economies of scale is only one motivation for government to permit pooling and chase economies of scope. Where governments spend large amounts of money delivering services – for instance in health and education – there are strong gains to be had from greater service and funding integration. Sadly, our experience in the area is disappointing.

Two Coordinated Care Trials (1997-99 & 2002-05) tested approaches to the collaborative management of patients with chronic disease such as diabetes, with the patient centred coordination of services such as advice, education, monitoring, medication and other services which were funded through separate agencies, and administered separately. The trials aimed for ‘funds pooling’ – across Commonwealth health (Medicare, Pharmaceutical Benefits Scheme, Home and Community Care) as well as state health and other care services. After considerable negotiation, Medicare ‘cashed out’ the forecast value of hospital and pharmaceutical use for the participating patients, allowing the trials to spend the pooled funds on disease management in the community. State governments participated in the trials but did not pool their funds to the extent intended in the design of the trials. Evaluating the trials, PWC concluded that barriers to broader funds pooling appear to be political or administrative, rather than legal.

We see here in microcosm how difficult pooled funding is within standard administrative structures. In the past, public servants have tended to administer by the prescription of process. Management directed its attention to the distribution of allocated inputs. This approach makes pooling inherently difficult because it inevitably violates processes and interferes with resource allocation decisions.

Today the focus is far more heavily on performance-based outcomes which should be more able to value the potential benefits of pooling at the local or regional level (See Box 5 for a current example).

Pooling is a must for regions where scope not scale will deliver their needs most efficiently and effectively. Mechanisms that would enable pooled funding and more transparent approaches to delivering economies of scope in smaller communities could bring step change improvements in the efficiency of service delivery in these places, at no extra direct financial cost. The step change improvements flow from increased certainty in delivery and reduced diversion of time into fund raising for survival.

### Box 5. City Deals

The Commonwealth Government’s City Deals are a good example of a current approach which recognises the additional value that can be created when different agencies collaborate on an ambitious agenda and facilitate the resourcing required. These are cross portfolio, cross jurisdictional, long term commitments, and represent a very different way of working in Australia.

The experiences with the first three deals are showing how important it is to obtain a high level fundamental commitment to joint work, and how powerful this can be in addressing transformational change. These early experiences are also showing how challenging these new approaches are to implement. Better outcomes are expected from pooling of existing resources, but an important lesson learned so far has been that there are high transaction costs in terms of time spent building relationships. More time is being spent on discussions and negotiations, but this is laying a foundation for good long term working relationships that will deliver dividends, even when particular issues and projects under discussion are not actually progressed through the final agreed City Deal.

## 2.3 VALIDATING LOCAL LEADERSHIP

Even with a flexible approach and a capacity for locally pooled resources, centralised governments will always struggle to deliver local change on their own. Where problems are ‘thick’, the more people are able to solve their own problems, either on their own, or together amongst those affected as an act of self-organisation, the more confident we can be that effective solutions will emerge.

Governments can often play a very useful facilitative role as ‘impresario’ using their leadership and convening power and perhaps providing some facilitative resources to bring parties together and then back collaborative action to address perceived issues in local areas.

The well-known International Association for Public Participation (IAP2) has a spectrum of engagement from informing though to empowering:



While the rhetoric of ‘stakeholder consultation’ and ‘stakeholder engagement’ is common in Australia, action to validate and respond to the outcomes of such engagement is not. Consultation in a centre to periphery context in Australia is heavily weighted to the ‘inform’ end, while often masquerading as being at the ‘empower’ end of the spectrum.

For example, at a recent NDIS workshop in NSW, the presenter described the program for two hours and then left without allowing any discussion.

This experience is the cause of consultation fatigue which concerns governments seeking to connect with communities on new issues. Feedback the RAI receives from regional leaders is that with repeated experiences of recommendations not being taken into account, it is a logical choice to not spend the limited time they have providing the same information over and over again. Scepticism about the value of participation is quite a rational response from stakeholders who are only too aware that their contributions won’t result in any meaningful change in the decisions made. For central agencies, the consequences of inverting this dynamic and enabling regional leaders to make validated decisions about resources are significant – appearing as a loss of direct control and an increase in program risk.

However, mechanisms do exist, and a series of examples are set out below.

- In June 2017 voters in the United States state of Maine approved a special referendum that will issue \$50 million in bonds to fund investment in research, development and commercialisation in the state’s seven targeted technology sectors. The Maine Technology Institute will distribute \$45 million of the funds for infrastructure, equipment and technology upgrades. The remaining \$5 million will be used to recapitalize the Small Enterprise Growth Fund to create jobs and economic growth by lending to or investing in qualifying small businesses. The issue passed with 61 percent (63,468) voting in favour and 38 percent (39,549) voting against it (the remaining 1 percent were blank) and passed in every county in Maine. It is the latest in a string of referendum wins in Maine and a reminder to all of the political appeal that investing in technology has.<sup>xv</sup>
- Closer to home, albeit at a smaller scale, the South Australian Government offers the ‘Fund My Community’ online voting system whereby community members can vote for the programs and services they would like to see funded. In 2017, Fund My Community had \$1 million for not-for-profit, non-government community groups to provide programs or services for isolated, vulnerable or disadvantaged South Australians with the funding allocation decided by the community. In April and May more than 2,500 people took part in selecting from the 85 projects seeking funding.
- ‘Landcare’ provides a successful illustration of these principles in action. Local Landcare groups are managed by volunteer committees comprising local landowners and residents, some with support from a paid Landcare coordinator working across a region. Local committees negotiate and plan for projects to address local priorities, apply for Landcare project funding, and deliver the agreed projects. Landcare addresses local needs and national environmental priorities with a healthy mix of signals from both the top down and the bottom up. The Australian Government plays a role in shaping the work done by Landcare through setting these national priorities and providing most of the funding. State governments also influence its work by setting regional priorities and providing some funding for projects. But the Landcare

approach recognises that local communities have a greater level of local knowledge, skills, financial and technical resources than governments can provide, and therefore, can take reasonable responsibility for developing and managing local projects. Although even with Landcare, as the King Island example shows, greater flexibility would enhance outcomes.

- Australia's response to AIDS is another success of government as impresario, though not one focused on rural and regional Australia. With initial momentum from community organisations representing gay men, injecting drug users, sex workers, and clinicians and researchers, the Federal Health portfolio led the development of the national strategy to respond to AIDS, working with community organisations, clinicians and state governments. The strategy had a major role for implementation through community organisations. Commonwealth funding to states required that half the money be allocated to organisations working directly with affected communities. Australia's early and collaborative response to AIDS is credited with keeping the infection rate lower than most other developed countries.

Each of these successes was focused on specific goals and each shows how effective outcomes can be when locals are embedded at the core of program and policy design. They also show how new tools are emerging which can be used to enable stakeholder input and priorities to be validated and acted upon – that a commitment from government to listen and act is not anathema to good governance and accountability.

Any response to the issues outlined in this paper must move well beyond standard consultation and actively engage and validate community leadership if it wants to be effective in facilitating change.

## 2.4 BUY-IN AND A PLACE TO EXPERIMENT

The kind of 'thick' and varied policy solutions needed in rural and remote regions will require sustained support and on-going learning about what works and what doesn't for both governments and locals.

Buy-in by governments and the creation of a safe place to experiment (and fail) are important components of what's needed in this reform agenda.

The creation by government of special policy zones and supporting local innovation efforts with a policy lab are two ways in which this need can be met.

Using the language we have developed in this report, we can conclude that one of our problems in promoting innovation in government is that our understanding of what innovation is, what drives it and what sustains it is too 'thin'. We have a model of the problem in our minds that suggests that innovation exists largely as a set of ideas, often already in people's minds, being held back – by regulations, by practices, by attitudes and by bureaucratic inertia and/or obstruction.

We think a 'thicker' understanding of innovation, one more true to how it exists in most areas for the provision of sophisticated products or services, would see the development of new approaches as requiring a rich mix of resources and skills, and a mix of those things to be contributed by multiple

parties. With that in mind, we suggest that regional Australia needs a new approach to innovation in policy and delivery.

## POLICY LABS

Where problems are ‘thick’, a ‘thicker’ conversation is likely to lead to results that are better thought through and more likely to attract stakeholder support by their demonstrated solving of shared problems. A process that seeks an open and independent way through the issues, taking industry, the regulator and others as stakeholders searching for mutual accommodation with the resources to go through a policy and service design process that is open, and independent of all stakeholders.

Policy labs bring new approaches to policy-making. Their role is to provide fresh thinking and practical support to policy makers, working as a research and design testing ground for policy innovation across government<sup>xvi</sup>. Policy labs are suited to tackling intractable, complex, systemic policy problems that require fresh thinking that can lead to potentially transformative solutions. Policy labs such as NESTA, Y-Lab and the Auckland Co-Design Lab offer worthwhile models that can be looked at in implementing a reform agenda.

Policy labs are not foreign to Australian policy making. Currently, there are executive bodies within the public sector that do this kind of work. The Office of Best Practice Regulation (OBPR) is one such Australian Government example. However, operating as it does within the Department of Prime Minister and Cabinet (PM&C), OBPR oversees a very process driven approach to improving regulation that is largely closed to the public. OBPR lacks the licence, legitimacy or the skills to pursue the kind of work done by policy labs around the world, which is the crucial work that is needed to resolve these.

A more promising body is the Behavioural Economics Team of the Australian Government (BETA) operating within PM&C. Built in the image of similar units around the world, like OBPR, it operates within the bureaucracy. However, its *raison d’être* is to rescue policy makers from their assumptions and to build policy around well researched evidence about behavioural responses in the life world.

The methods used by a policy lab responding to rural and remote issues would include:

1. Behavioural economics and cognate fields of behavioural insights;
2. Human centred design;
3. Research going beyond standard ‘desk based’ policy research extending to ‘ethnographic’ work to understand the perspectives of all stakeholders; and
4. Prototyping and A/B testing where possible.

An important discipline would be that the work be done independently of any specific stakeholder and be transparent to all.

Further, as many of the issues span Federal, state and often local government, it often makes little sense for such agencies to involve only one layer of government given that the problems rarely arrange themselves into a neat Federal, state or local hierarchy. Accordingly, the scope for such bodies to have a Federal remit could substantially increase the potential for making locally meaningful change as

would the active inclusion of local communities and organisations in the policy design process that they will ultimately implement.

## SPECIAL POLICY ZONES

Special Policy Zones would complement a policy lab by enabling field trials of alternative approaches to program delivery.

Trials would be restricted to particular places (designated Special Policy Zones) over particular periods, thereby embodying one of the characteristics sought by the Productivity Commission in enabling exemptions from regulations that might be inhibiting a region's adjustment to an economic shock.

The region would be identified, assessed against criteria that would define the threshold for a Special Policy Zone to be declared, and an appropriate time period specified for which the exemptions or other program alterations would be applicable. At the conclusion of the period, evaluation would determine the merits or otherwise of extending the trial to other places.

Special Policy Zones are already being used in Australia in limited circumstances. The Cashless Welfare Card Trials and recent Victorian Latrobe Valley Health Zone are high profile recent examples.

Both of these approaches – policy labs and Special Policy Zones – would serve to confirm buy-in from governments to the reform agenda and create the safe places to experiment that will be needed if these changes are to develop long term reform options that can be scaled across rural and remote areas and Australia more generally.

Mechanisms for enacting a policy lab and Special Policy Zone are set out in the following Chapter.

## 2.5 SPREADING THE GOOD

Bringing an initiative to scale is the final, critical step in transforming the current system for regions.

The contrast between how scaling happens organically in a market and how it must be engineered in government is an instructive introduction to the dilemmas that must be faced if innovation for small places is really to be embraced within government.

In contrast to what occurs in markets, there is no spontaneous mechanism by which one program displaces another by demonstrating its technical superiority for users. This is true on numerous levels. Firstly, even if the innovation simply delivers the same or a very similar service better, the adjustment is unlikely to be politically smooth. Thus, when hospitals are rationalised, service may improve, but it will change in ways that do not suit everyone. Political trade-offs will thus be necessary and they may not be made in the public interest.

Further, much of the debate about ‘contracting out’ proceeds as if innovations will lower the cost or improve the quality of the things we’re already doing, allowing government as funder to simply choose the most suitable products. This analogy which likens the government to a consumer in a store can be misleading. In fact, many new, better services are quite unlike the old services and choosing one in place of another is far more involved than the analogy suggests.

In most cases, policy innovation finishes abruptly after pilot funding runs out.

For example, in the two Coordinated Care trials, once the program period ended, some innovations for Aboriginal communities continued but most other developments were wound up<sup>xvii</sup>. An evaluation found improved levels of appropriate services, and some improved health and other outcomes for patients, concluding that: “survival of care coordination relies on a solid policy footing”. Clearly future approaches need to provide a stronger foundation for persistence of these initiatives when the success of a trial warrants it.

Changing this tendency and spreading the good as part of the reform agenda requires two things:

- Strong monitoring and evaluation processes that build the evidence about the potential benefits and feasibility of taking local innovations to scale; and
- An agency with the authority either to commit the government to scaling a trial that is successful or to at least be able to publicly recommend to government that innovations be put in place once they are proven.

The practicalities of creating a mandate to spread the good is taken up in the next Chapter which considers reform implementation approaches.

## 3. THE REFORM AGENDA

If governments want to find new ways of overcoming the persistent disadvantage in rural and remote Australia and to re-establish regional people's faith that our key government institutions have their interests at heart, they need to be prepared to consider a substantial reform agenda.

The aims of a reform agenda for rural and remote Australia that responds to the problems and responses described above includes three components:

1. To respond to the decline of local service capability, governments should initiate reforms to create mechanisms that support economies of scope and pooling of resources in rural and remote Australia. This will seek an increase in the effective and sustainable local service presence, primarily within existing resource allocations.
2. To rectify the inflexibility of program and regulatory design and delivery to rural and remote needs, a mechanism is needed to provide a place for regions to raise these issues which has the power to achieve genuine changes. This will reduce the barriers to government responding to place based issues and validate regional efforts to seek change.
3. To drive innovation and extend positive changes across government, policymakers need a place to experiment and the capacity to spread the good of proven local innovations. This reform will develop over time as a set of systemic reforms that will provide widespread and enduring change for rural and remote Australia

The measure of success of these reforms will be the specific effects of changes on services and welfare as well the cumulative impact on the health, education and well-being outcomes in regions. Importantly, in a time of constrained resources, the reforms will provide a pathway for governments to seek substantially better outcomes from their foundational investment and reduce the need for special funding of initiatives on top of systems that do not work well for regional people.

### 3.1 THE REGIONAL TRANSFORMATION AGENCY

To deliver these elements, it is proposed that governments establish an integrated Regional Transformation Agency that is embedded alongside the normal operations of government. The Agency will better enable local issues to be brought to government when they are identified, and for solutions to be developed, tested and implemented in response.

This Agency would be a clearing house for flexibility in response to regional issues and experimentation and policy design for the regions. It would be an agent of change and generate both high quality evidence about how government programs can be improved, and small scale working models of regional innovation that could be adapted more widely.

The Agency would consist of three key functions with two supporting parts.



## COMMISSION FOR REGIONAL MATTERS

Firstly, the Agency would assume the role of a Commission for Regional Matters. The Commission would play a role combining elements of both a regulatory ombudsman in its ability to consider and act on complaints or examples of regulatory inefficiency, and also a commission (like the National Rural Health Commissioner) to consult stakeholders, including state and territory governments, and advise Ministers on improving service delivery in regional Australia.

The Commission for Regional Matters would call for and act upon cases where rigid program design and regulation is having demonstrably negative impacts on communities. Where regulation or administration (including the management of contracts for private service provision) appeared unreasonably inflexible towards the needs of a particular region, those seeking better solutions would not be thrown entirely on their own resources in the search for solutions and in their representations to regulators.

The Agency would instead provide an avenue through which the inefficiencies and unintended consequences flowing from policy and regulatory arrangements can be challenged by regions and then resolved by governments.

However, rather than take existing regulation or administration as the standard by which fairness should be judged, as the name ‘ombudsman’ alone might suggest, we suggest that such a body should be able to make changes on their policy merits. Community members and regional leaders would be invited to submit examples of changes needed and the benefits these would bring to their communities. Each case would be reviewed and assessed, with the Commission able to take action taken to progress cases assessed as worthy of reform.

The proposed Commission for Regional Matters would be empowered to assess the value and scale of the concerns, and then, should the case be confirmed, be empowered to pursue change with the agencies responsible for the issue or on the basis of powers it would be given to provide regulatory and policy waivers or permission to pool and apply program funds in ways that better meet local needs. Examples of changes that could be made by this Agency in response to issues documented above include:

- waiving the requirement for long day care centres to operate for 48 weeks a year in order to qualify for the childcare rebate where places have no or very limited access to childcare services;
- waiving the requirement for Cert IV Training and Assessment students to be part of a class with a minimum of 8 students, and attend face-to-face tutorials once a week to enable course delivery in remote and rural areas;
- waiving the requirement for at least one face-to-face counselling session in order to qualify for Medicare coverage on video-link psychology to increase the take up of e-Mental Health in the bush;
- waiving the requirement in Newstart rules that create a disincentive for the unemployed to engage in temporary work to enable trials of transition to work strategies; and
- approving the pooling of funds with related objectives by local service providers in the community with 400 people and 90 separate services.

Each of the examples reflect program regulations designed with competitive, scale economy markets in mind, and clearly work to the detriment of small regional communities. Local service providers, local government, community members and state or Federal governments themselves would be able to bring these matters to the Commission for review and the Commission itself would be proactive in engaging with regions to identify issues that require review and response.

Once an issue is identified, the Commission would gather evidence and consult with the responsible agency and test their ability to be flexible in response to the issue within their policy and regulatory frameworks. In many cases, effective internal advocacy by the Commission would enable issues to be resolved without the resort to other measures.

However, where the case was deemed strong and the relevant agency was either unable or unwilling to act, the Commission should then be empowered to permission the changes through a regulatory or policy waiver with appropriate legislative foundation. Based on its assessment, the Commission may choose to make changes on a trial basis for limited places to test the efficacy of the change or to approve immediate change across rural and remote areas.

A legislated Special Policy Zone function would enable the Agency to designate trials in places that have wide ranging impacts on policy settings or service delivery. A series of precedents for Special Policy Zones exist in the current special investment zones (e.g. Geelong and Latrobe in Victoria) and cashless welfare card trials in Ceduna and East Kimberley.

Accountability and transparency will be essential in creating these capacities to disrupt centrally designed policy settings in rural and remote areas. The Agency should be accountable to relevant Ministers and Parliament for its decisions and for the outcomes from the changes. This should include annual reporting to Parliament on issues raised by regions, the responses made by governments or the Agency, evidence about the results or expected results of these changes in regions, and public recommendations on wider or permanent adoption in policy or legislation that need to be taken up by governments to spread the good.

## REGIONAL REGULATION AND SERVICES INNOVATION FUND

Many changes will be able to be implemented through a reliance on better or alternative use of existing funds. However, where changes are substantial, risky or require the addition of new capabilities in trial regions, the Agency will need access to some resources. ‘Backbone funding’ is an important component of many place based trials such as Empowered Communities and the Agency will need some capacity to support these needs without needing to go back to government for further resources.

To provide for this, the Regional Transformation Agency should manage a Regional Regulation and Services Innovation Fund that could be used to fund trials of adjustments to program rules or practice including for changes to large entitlement programs and in designated Special Policy Zones.

For example, the suggested change to Newstart Allowance issue identified above is a significant shift to the implementation of welfare policy. This is unlikely to work as a ‘thin’ response and needs supporting work to encourage unemployed people to take advantage of alternative incentives. This adjustment could be trialled in a series of regional areas where the problem exists via a trial that is properly designed to generate evidence about the problem, the causal assumptions, and the impact from making the specific change to program rules.

This stream could also assist with trials to expand the scope of a program to address other problems or to generate other outcomes, which are currently not addressed because to address them would require funding collaboration between programs, agencies or silos within agencies. The Fund could meet the costs of investigating such possibilities so that the effort required to obtain greater collaboration between silos would be justified in advance with robust evidence from trials. Before potential adjustments are trialled, it will be important to check that there is a sound causal ‘theory of change’ for how the adjustment would reduce the problem or improve the outcome. This will allow a meaningful trial and generation of evidence that can be potentially transferred to other situations.

The role of this Fund is to provide a specified fund that government agencies – and arguably those outside government – could bid for funding from, for specific policy and program experimentation. In the long run, there would seem a strong case in principle for some small proportion of all such spending to be devoted to such research and experimentation.

## REGIONAL POLICY LAB

Third, the Regional Transformation Agency should house a substantial policy ‘lab’ with skills in policy and program design and implementation of the kind found in policy labs in other countries. The Policy Lab would assist in the design of trials and waivers described above as well as providing support to other parts of government seeking to design better policy and regulations, thereby supporting a continuous improvement cycle and avoiding the need for post implementation interventions by the Regional Transformation Agency.

The Lab would provide resources for exploring ways in which regulation and other aspects of government funded services could be better suited to regions where existing rules have a 'one-size-fits-all' flavour to them or that are inherently better suited to cities with their access to scale economies and deep markets for professional expertise.

A second critical function of the lab would be to design, test and evaluate innovative approaches to engaging community members and community leaders in decision making and policy design. This would be crucial to the work of the Agency in designing and approving trials or permanent changes. Where these changes significantly impact local service provision, a level of community permission will need to be sought as part of the process. It would also work with agencies to help them design alternative to the 'stakeholder consultation' approach that currently undermines local trust in government interest and motives.

In a regional context, this dynamic is perpetuating the inefficient allocation of investments, based more on centrally designed program guidelines than reflecting local needs. Radical reversal of the asymmetries in the relationship between the centre and periphery can ensure that investments are tailored to local needs, and will have more impact as a consequence. But this will by necessity reduce the hold that the centre has on the directions that investments go. Innovation in processes and systems are needed to enable both central decision-makers and local communities and leaders to be more confident that a better process is achievable. The work would be done independently of any stakeholder and would be transparent to all.

These capabilities of the Lab would be important assets in performing the Agency's other two tasks.

## MONITORING AND EVALUATION UNIT

Alongside the Agency, an independent unit should be established to nurture a community of practice in monitoring and evaluation and test whether changes are delivering the intended results and what the learnings are from those changes that fail.

It would work in close collaboration with all the initiatives of the Agency and those catalysed across government by the Policy Lab to develop monitoring and evaluation regimes. In doing this, the unit would employ an approach that is:

- highly collaborative with service providers in the field (whether they are employees of the program or wider stakeholders in the community); and
- focused on the need to optimise the effectiveness of the program.

The purpose of independent monitoring and evaluation would also be to make monitoring and evaluation outputs available to others, including more senior managers and portfolio heads, to the public at large and also to local communities. The monitoring and evaluation unit would make recommendations on the adjustment of programs and waivers and provide advice on spreading the good from trials and initiatives across regions or nationally.

The transparency this engenders in the reform agenda would have two powerful effects as it would maximise:

1. the extent to which experience of specific programs constituted a knowledge commons and community of practice that can underpin learning of governments and communities on how to best resolve rural and remote issues; and
2. transparency and so accountability, not just to funding and delivery agencies but also more widely, and particularly to the local community intended to benefit from change.

Over time, this would build support within government and with communities for successful programs to be implemented and an understanding where unsuccessful programs are curtailed of why they failed and what should be learnt from them.

Ultimately the goal should be the approach of ‘looking through government’ in which those on the outside would understand how effective different programs were, and crucially as the system matured, be able to compare the cost effectiveness of incumbent programs with newer innovations.

## **REDUCING FRAGMENTATION AND SPREADING THE GOOD**

The tendency for governments to invest in a continual stream of ‘announceables’, pilots and small scale policy innovations in regions will inevitably continue even with the presence of the Regional Transformation Agency. These will continue to be relatively easily established, but then tend to disappear, often irrespective of their merits, replaced by new announceables. As has been discussed above, this has a meaningful impact on rural and remote regions via a fragmentation of precious resources and failure to pursue helpful change long term.

To tackle this, governments should establish greater accountability for the extent to which the system as a whole is managing a healthy pipeline of trials and pilot programs that are learned from and grown in scale and impact where appropriate.

We propose a register of innovative new pilots and new small scale regional initiatives be established by relevant Auditors General or as an additional capability of the Regional Transformation Agency. Coupled with reporting each year to Parliaments on the extent to which the system is proceeding, based on evidence, to apply the lessons learned from such initiatives.

The Auditor General should also report on the extent to which decisions to continue funding individual initiatives or to defund them is evidence based. It would make sense to limit such an approach to regional initiatives to trial it before rolling it out more widely.

This function will provide accountability and reinforce the feedback and follow through loop which is crucial to progress over time.

## 3.2 SCOPE OF THE REFORM AGENDA

The Regional Transformation Agency and supporting initiatives to reform agenda need a broad mandate for change.

The ideal platform for this reform agenda is a Federal one. Communities do not distinguish between the structure of state based health agencies and the Medicare regulations behind them that govern what they can and cannot do. Many issues will require flexibility in both Commonwealth and state policies and regulations to be effective. Cooperation between different levels of government will be important to optimising results as will the mandate to make meaningful change at both levels. Significant progress could be made if a state or the Commonwealth goes at it alone, but with a Federal mandate, it would work to build cross jurisdictional cooperation, jointly supported by the Commonwealth as well as states and territories.

A broad mandate is essential but it is not feasible or desirable for everything to be on the table in regions. Implementation does need to be focussed on the highest priority areas for reform. Based on the evidence described above, the primary targets for change are regional services and related policies and programs that support health, education, workforce engagement and welfare in regions. This reform agenda is not intended to provide capacity for altering tax regimes to create Special Economic Zones nor to provide a platform for the pursuit of self-interest by economic interests in regions.

Accordingly, a series of carve outs will need to be made from the mandate for change. Income and business tax rates and industrial relations arrangements are both areas where significant carve outs should be implemented at the national level. There will be similar areas at the state level that should be removed from scope to ensure the focus is on support for better services and welfare outcomes for communities.

Finally, the scope for reform should focus on the areas where this matters most – rural and remote Australia. We recommend that to enable reform there is a clear geographic focus – for example the RAI’s Heartland regions<sup>xviii</sup> – to ensure that effort is put where it is most needed. On top of this, governments could make periodic exceptions for larger regional places experiencing significant shocks or provide a stronger foundation for policy reform to initiatives such as City Deals or Regional Jobs and Investment Packages whose intent is aligned to the reform agenda.

## 3.3 GETTING STARTED ON IMPLEMENTING THE CHANGE

To be effective, the full agenda described above needs to be implemented, but it is also important to recognise that this will take time and that there are meaningful initial steps governments can individually and collectively take to begin the reform process.

As an interim step, parts of the reform agenda could be integrated within existing structures for regional issues at Federal and state levels:

- At the Australian Government level, the existing Department of Infrastructure and Regional Development supported by the Cabinet level Ministerial Taskforce for Regional Australia, the RDA network and the Regional Impact Statement process.
- In New South Wales, the Department of Premier and Cabinet is well positioned to take carriage of this. Additionally, the Far West Initiative<sup>xix</sup> provides the vehicle for putting this reform in place, beginning in Far West NSW.
- Regional Development Victoria is the natural home for this reform agenda in Victoria, and its existing funds, Regional Partnerships Victoria, and collaboration with Rural Councils Victoria and others could be leveraged in implementation activities in Latrobe and Geelong, providing a starting point for the legislative and policy underpinnings of the reforms.
- The Regional Services function of the Queensland Department of State Development provides a natural home for beginning to implement this reform agenda in Queensland.
- Western Australia is undergoing significant change in its regional arrangements as part of the new government policy processes. The changes to the role of Regional Development Commissions, the existing Regional Development Trust and wider Regional Development Program changes could provide the platform for getting things up and running and then executing the reform agenda in full.
- In South Australia, RegionsSA has at its disposal a highly effective regional governance network, as well existing policy processes in Whyalla and other areas which provide the foundation for beginning to act on these reforms.
- The Northern Territory Government's Local Decision Making reforms are very much aligned with this reform agenda and the capacities for change identified here, as it links to flexibility in Commonwealth programs and services, and could substantially enhance what is possible under this priority area for the government.

Statements of intent by relevant Ministers on the government's intention to explore the reform agenda implementation in detail, and a commitment to begin delivering on opportunities for greater flexibility and pooling within existing arrangements, will provide the mandate for reform activity to commence.

To get started, the agencies above could begin identifying relevant issues for flexibility and undertake internal advocacy within their governments to begin achieving some change as well as providing some transparency to regions about the result or otherwise of issues brought forward.

A list of program trials currently underway in regional Australia for ongoing monitoring and eventual review could also be compiled. This could be a simple process of documenting and tracking existing trials, or it could be promoted at a political level.

Existing intergovernmental engagement forums, including regular informal discussions convened by the RAI could provide for intergovernmental coordination in the early stages of the reform process.

This work would provide momentum for change while the detailed legislative, negotiation and policy design work is undertaken to establish the Federally mandated Regional Transformation Agency.

Finally, momentum to get some change moving and deliver on the full agenda will depend on regional engagement. Regional people who engage with these ideas and present options for change in good faith will drive governments to act by making the problems and the urgency of resolution abundantly and continuously clear.

## CONCLUSION

This discussion paper describes a significant national reform agenda to respond to one of Australia's most persistent and stubborn long term policy challenges. It clashes with the convenient and accepted norms of government and seeks to disrupt comfortable practices that occur outside rural and remote areas but have profound if unintended consequences on them.

As a result, a common response in discussions we have had with people involved in government policy about these proposals has been, "do you really think there is appetite for that kind of change?"

Our answer is, can we really afford for there not to be this appetite, and is it really as hard as it seems? To some extent, governments and communities are already doing all the things this reform agenda proposes. In limited cases, governments are flexible and issues get resolved although the transaction costs are high. There are Special Policy Zones in place for issues that reach national crises. Pooling has been tried and is being tried again.

But this effort is delivered in a fragmented, high cost and ultimately ineffective way. Without this agenda to bind it together and make these efforts a pervasive part of our engagement with rural and remote issues, we will not see shifts in these stubborn regional issues.

We see the appetite growing for these changes. The hunger is being increased by the fact that we see such little movement and in many areas decline in regional outcomes despite decades of conventional effort and large expenditure of resources. The hunger is being increased by the fact that voters in regions have a decreasing appetite to support central government institutions and preferences which is being expressed at the ballot box. The hunger is also being increased by the sheer force of wider literature and commentary on what governments need to do across their field of operations to improve the way in which government does business that supports the reforms proposed.

If we don't implement this agenda, the situation in regions will continue to deteriorate or at best stall. The alternative is a pathway for progress that makes better use of current resources, that engages the ideas and energy of regional communities in making change, and that helps governments create a learning and feedback cycle that will improve their capabilities over time.

Implementation of this reform agenda will be a powerful agent for genuine change in less populated parts of Australia, and will also demonstrate to regions a commitment to understand, prioritise and respond to their needs that will help to restore trust and faith in government.

## REFERENCES AND END NOTES

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