



**REGIONAL  
AUSTRALIA**  
INSTITUTE

# DELIVERING BETTER GOVERNMENT FOR THE REGIONS

Regional Australia Institute Discussion Paper  
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**FOR THE GOOD OF AUSTRALIA**

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## The Regional Australia Institute

Independent and informed by both research and ongoing dialogue with the community, the Regional Australia Institute (RAI) develops policy and advocates for change to build a stronger economy and better quality of life in regional Australia – for the benefit of all Australians. The RAI was established with support from the Australian Government.

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# Executive Summary

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Over the past four decades, public sector processes have failed to reduce the disadvantages evident in regional Australia, despite a booming economy and a rising quality of life across the nation as a whole. The task for current and future generations of Australians is to acknowledge these difficulties and then move on to develop and implement government processes that produce better regional outcomes.

The goal of this document is to consider the question: how can we deliver better government for Australia's regions? This Discussion Paper has been prepared as a first step towards answering this question and as a tool to assist in mapping out a solution.

One of the key factors shaping the quality of government and government services in regional Australia is the fact 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 (for example, health policy, housing programs and transport investments) that have little engagement with formal regional policies or aspirations. This results in fragmented responses to local problems and poor outcomes overall.

The multiple decisions of individual government agencies – and tiers of government – may have cumulative impacts on the wellbeing of regions. The nature and extent of these impacts is currently not well understood.

International work has identified some strategies for overcoming these issues. However none of the identified solutions guarantee success. The pathway to success, it seems, is to identify and implement the most appropriate solutions for each nation.

Australia has not been ignoring this challenge. Cooperative development of joint regional initiatives has emerged as a preferred method for the delivery of new policy initiatives within the Council of Australian Governments (COAG).

While the sharing of information and the development of networks at the local or regional level is an important stepping stone to greater coordination at the regional level, such efforts are fruitless unless they are implemented effectively. Crucially, Australia is identified in international comparisons as retaining some of the most inflexible policy settings in the OECD.

Effective governance for regions is a product of positive engagement between central governments and the regions; it is based on relationship building and the generation of new capacities in both the centre and the periphery; and, it is outcomes focused.

In large measure 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. Attempts by

central government to impose better governance on regions are oxymoronic and 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 Discussion Paper is a first step to finding a way to deliver better government to Australia's regions. It has been developed with the intention of stimulating debate and refocusing policy development.

# Introduction

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An effective and efficient government is one of the primary determinants of individual wellbeing and quality of life. Australians enjoy a high standard of living as a consequence of our natural resources, productive economy, and the robust regulatory framework and service efficiency provided by our democratic institutions and systems of government.

It is important that we do not under-estimate the significance of government sector activity. While the nation prides itself on its global focus and lean production systems in agriculture, mining, education, manufacturing and technology – although government activity and expenditures contributes approximately 25 per cent of the economy. This is much lower than in many other developed nations (Beer *et al* 2003), yet remains a critical part of national productivity, employment and economic development.

Not all Australians benefit equally from these high quality services. The uneven distribution of services across Australia has important implications for those in less-favoured locations.

Despite a booming economy and a rising quality of life nationally, public sector processes have failed to reduce the persistent disadvantage in regional Australia. Government continues to address service omissions, and in some instances, has contributed to more adverse outcomes for Australians living outside the capitals (Productivity Commission 2012).

After continued decades of disadvantage, there is now a strong case for examining how governments across Australia can better deliver services to regional Australia. Systemic changes are required in how we deliver services in regions so they can grow and prosper.

Effective governance for regions is a product of positive engagement between central governments and the regions; it is based on relationship building and the generation of new capacities in both the centre and the periphery; and, it is outcomes focussed.

In large measure 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. Attempts by central government to impose better governance on regions are oxymoronic and 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.

# A Synopsis of Regional Experience

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Regional Australia often fares poorly in the delivery of services. This has knock-on effects within the community and for individuals. The result is lower levels of educational attainment amongst school age children (ABS 2013); lower incomes (Lloyd, Harding and Hellwig 2003), higher rates of unemployment in some regions, proportionately less innovation in business (National Economics 2013), poorer health (PHIDU 1999) and lower levels of overall wellbeing.

The gap between metropolitan and non-metropolitan regions is starkly evident in the data on health outcomes. Persons living in regional Australia are more likely to be affected by cardiovascular disease (AIHW 2010, p vii); have higher rates of diabetes and other chronic ill-health (AIHW 2008, p 7); are more likely to be exposed to injury in the workplace (Workplace Health and Safety Qld 2012); have lower mental health scores (Kelly 2010) and suffer from higher rates of both mortality (AIHW 2007) and morbidity.

Australians living in outer regions have poorer access to health services, including general practitioners and specialist facilities (Francis 2005 p 28). Yet, poorer health outcomes are not simply a function of limited access to health resources. They are indicative of wider social, economic and governmental circumstances, including the failure to establish conditions conducive to regional prosperity.

Regions with more robust economies offer a double health benefit to their residents. First, they deliver better services and facilities for the maintenance of wellbeing. Second, they provide access to higher-paying employment, with commensurate health gains for individuals and their households (Brown *et al* 2012 pp 17-18).

Contemporary research and policy development has recognised that poor labour market outcomes and the limited incomes of many Indigenous households is one of the primary impediments to closing the life expectancy gap between Indigenous and non-Indigenous Australians. Regional disparities are an important contributor to these adverse labour market outcomes. For regions with limited employment opportunities and growth prospects and significant Indigenous communities, 'closing the gap' is a difficult task.

A number of factors contribute to the challenges confronting regional Australia. These include the often limited economic base of regions, their distance from major centres, the high cost of providing traditional models of infrastructure and services, and the problems of smaller human and capital resource bases.

The search for better government in regional Australia has been acknowledged for a considerable time. Logan (1978) noted there was a fundamental disconnect between the need to encourage the development of communities at the regional level and the fiscal capacity of local governments to support that growth.

More recently, the House of Representatives Standing Committee on Primary Industries and Regional Services (HRSCPIRS) (2000) noted the negative impact of changeable State and Commonwealth Government programs. The withdrawal of regional services, erosion of leadership and social capital through centralisation of functions, and the failure to deliver a sustainable health system have all had unprecedented impacts on the wellbeing of regional communities.

Gray and Brown (2007) examined data on the social attitudes of Australians and concluded that there remained a strong appetite for fundamental reform of the Australian federal system. Such an appetite is not confined to Australia. Other nations around the globe have been forced to consider the ways in which their programs and systems of service delivery may not adequately meet the expectations of individuals and communities located in more distant regions.

Both federal and unitary systems of government have acknowledged the gaps that appear due to centrally driven policies being applied to local conditions. Sweden has examined in some detail the policies and programs needed to integrate policies in order to encourage local development (Niklasson 2007). The OECD (2010) has considered the ways in which governments can break out of 'policy silos' to deliver integrated services.

A key theme in much of this is the need to address the sectoral alignment policies and programs (housing, aged care, economic development, infrastructure) that result in fragmented 'silo' responses to local problems, and which result in poor outcomes overall.

This challenge is greater in federal systems where the responsibilities between government tiers further complicate programmatic divisions. Too often, the outcome is overlapping in some areas of policy - housing assistance, youth policy and the regulation of businesses – and incomplete public sector attention to others – for example, adult literacy (Searle 2004).

Previous attempts to break down these 'policy silos' have been unsuccessful. Continued calls for better regional outcomes are so great, however, that further effort and action is demanded. The task for current and future generations of Australians is to acknowledge these difficulties and move to implement government processes that produce better regional outcomes.



# The Challenge of Government in Regional Australia

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## Disillusion

There are many factors pointing to poor government performance in regional Australia.

Objective measures of health, wellbeing and economic performance over the past 40 years alone demonstrate an inability to adequately address the challenges facing regions. A series of government and independent reports have highlighted the failure of public services in regions. Shifting voting patterns across regional Australia also provide strong evidence for discontent in the effectiveness of governments.

The growing gap between public aspirations and government is fueled by a number of factors.

Firstly, the Australian system of federation is geared toward metropolitan areas - spatial voting mechanisms tend to favour metropolitan outcomes at the expense of rural and regional communities.

A growing awareness of regional Australia's exposure and vulnerability to global settings has intensified the perception of these disadvantages. There is also increasing awareness of regional inaction in response to these vulnerabilities and the often overt political preference to metropolitan issues.

For many communities ***there is a sense that governments have not adequately appreciated nor addressed some of the issues confronting regional communities.*** The consequences of such things as open trade, demographic trends and public management principles have been critical factors in shaping the current and collective future of regions.

The cumulative effect of these decisions, such as the consequences of preferences for efficiency, tight management and centralisation of power in government have left unforeseen scars on regional communities. Yet, these effects, and their cause, remain largely unrecognised in broader remedial policy.

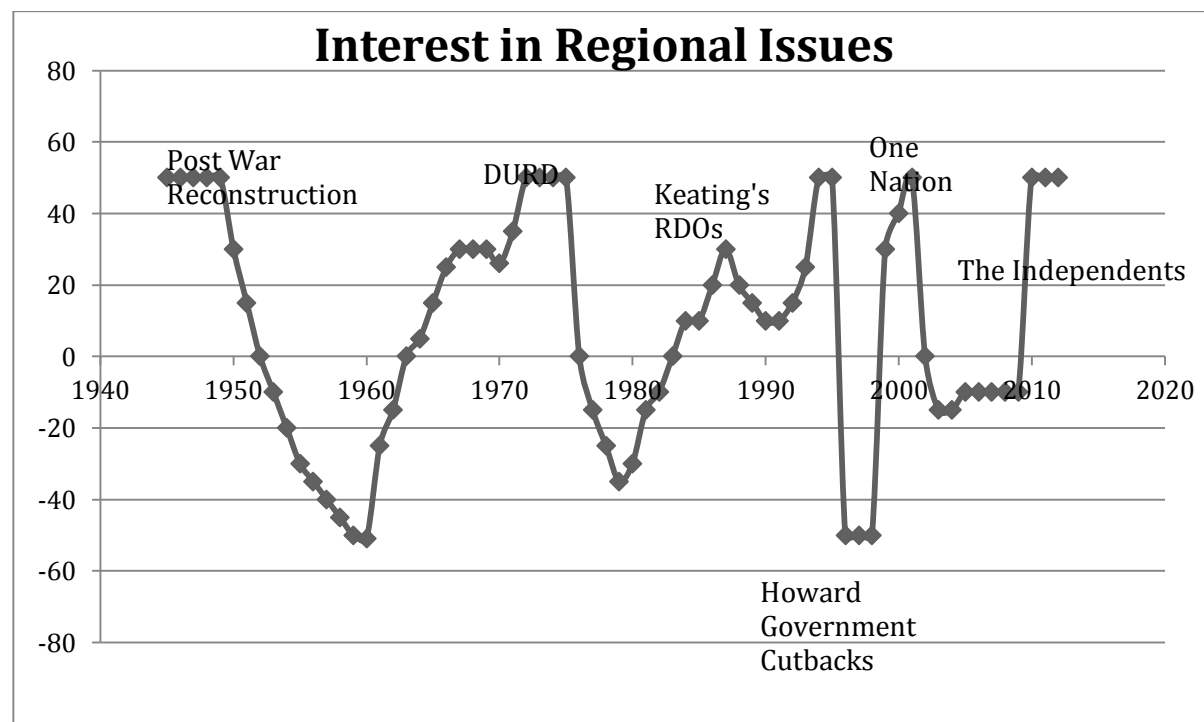
## The Challenge of Good Policy for Regions

***One of the key factors shaping the quality of government and government services in regional Australia is the fact 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 (for example, health policy, housing programs and transport investments).

These have little engagement with regional aspirations and can lead to high levels of policy failure and lost opportunity.

There are four factors that challenge effective government and service delivery within regions.

The first of these is the episodic engagement of State and Federal governments with regional policy. As Figure 1 suggests, Australian Government engagement with formal regional policy and programs has waxed and waned over time. The broader policy agenda of governments has driven this and is also a theme evident within state governments (Collits (1999; 2002).



Source: Beer, 2011.

Figure 1: Australian Government Engagement with Regional Policy and Development: 1945 to 2012.

Secondly, current programs do not necessitate an awareness of regional impacts or differing aspirations. Partly due to the equity and accountability concerns of the Westminster system, government programs are blind to the differences between metropolitan and non-metropolitan regions. The system is based on principles that emphasise equal access – and ideally, comparable outcomes – for all Australians. Uniformity in program and design provides little latitude for adjustment to local conditions.

Due to these same set of responsibilities, each tier of government is likely to have differing priorities for regions – the third challenge for effective government. Differing agendas and accountability produces an uneven and poorly synergised policy environment. For regions this means competing directions and efforts in appeasing varied government priorities rather than their own.

The final challenge in producing quality policy outcomes in regions is the varying capacity of regions themselves. This variation is evident in their governance potential, their willingness to innovate and embrace change, and in the resources they can bring to bear in shaping a new future. Regions also vary in their needs and aspirations. Variation in both capacity and needs challenges policy makers working at a distance, especially in their desire to implement uniform policies across their jurisdictions.

These challenges do not occur in isolation. The ***multiple decisions of individual government agencies – and tiers of government – have cumulative impacts on the wellbeing of regions***. For example, between 1991 and 1996 the Upper Spencer Gulf Region of South Australia experienced more than 60 per cent of net job losses in South Australia (Beer and Keane 2000).

This significant shock to the region was due to restructuring in the steel industry associated and a number of subsequent isolated decisions of governments. These decisions included a reduction in tariffs, the decision to close Australian Government owned rail yards in Port Augusta, the withdrawal of major maintenance works associated with the South Australia Government owned Electricity Trust and the clawback of a range of other public services at the national and state levels.

The decisions of individual agencies and multiple tiers of government had cascading impacts on the Upper Spencer Gulf that adversely affected the region for more than a decade. No individual agency or tier of government was solely responsible for the collapse of employment in region. It was the compounding effects of isolated decisions that created huge shocks to the local economy.

### Crucial shortfalls in government roles and responsibilities

Despite the best efforts of all tiers of government to reform their processes, program shortfalls continue to confront regional Australia. These shortfalls are evident in areas pivotal for social and economic development. The OECD (2010) has argued that skills acquisition (human capital) and the provision of infrastructure are two of the most important determinants of economic development and wellbeing at the regional scale.

All things being equal, regions with a better skilled and educated workforce will be more prosperous, resilient, healthy and adaptable to changing conditions. Regions with a better stock of infrastructure will be both more attractive to businesses and skilled workers. They will also have enhanced capacity to capitalise on, and sustain, opportunities as they arise.

Regions across Australia, however, often report significant shortfalls in both vocational training and infrastructure development. This is largely because of factors unique to that set of locations such as small population size, a specialised economy, lack of interest from private financiers of infrastructure. Examination of both infrastructure and education provision demonstrates the challenge of appropriate government engagement at the regional level.

## Infrastructure

In broad terms, infrastructure responsibilities across Australia are distributed in the following manner:

### **Commonwealth Government**

The Commonwealth Government is an important source of funding for infrastructure. It has a strong capacity to raise monies for infrastructure investment in equity markets, but may be constrained by broader fiscal policy settings. The Commonwealth Government holds relatively few infrastructure assets for its size. The assets it does hold are those considered nationally significant such as national highways.

Other nationally significant infrastructure has been effectively privatised such as major airports and seaports. Infrastructure funding is distributed using a mix of models, including needs based analysis, national investment plans and in response to political pressures.

### **State**

State governments have fewer income streams to support the construction and maintenance of infrastructure. Many of these are either dedicated to particular assets or directed to consolidated revenue. State and Territory governments have a good capacity to raise funds for infrastructure in the private market. Yet their borrowing is constrained by fiscal settings that seek to minimise borrowings in order to achieve the best possible credit rating.

Relative to their size, State and Territory governments hold substantial assets, including Crown land, hospitals, schools, Colleges of Technical and Further Education (TAFE), water supply and sewerage systems. The responsibility for other assets such as major roads is the agreed responsibility of State and Territory governments.

The maintenance, care and control of these assets can be substantial. Funding for their provision and maintenance is provided through a mix of Federal, State and private sources. The distribution of funding is achieved through a mix of models including needs assessment, State plans and political responses.

### **Local Governments**

Local governments have limited income streams to fund new infrastructure. In the past, they have used loans to finance the provision of infrastructure but this practice is now limited. In contrast to the Commonwealth Government, Local governments own and manage very substantial infrastructure assets relative to their income streams.

Their infrastructure funding is heavily reliant on senior tiers of government. Maintenance costs can be a substantial burden for local governments and in some instances these threaten the sustainability of individual local governments (PWC 2006). Local governments are generally charged with responsibility for locally-focused infrastructure, such as local roads. The private

sector almost invariably undertakes the construction of infrastructure and may own, operate and develop some assets.

### **The Gundagai to Junee Road**

The road between Gundagai and Junee is a significant thoroughfare for local traffic and for those travelling from the west of NSW to Sydney and Canberra. It is a relatively small road that travels alongside the Murrumbidgee River, before passing under the Hume Highway to which it eventually connects. It is classified as a local road, with local government responsible for its upkeep and maintenance.

In 2011 La Niña delivered significant rainfall across much of eastern Australia, resulting in widespread flooding in Victoria, Queensland and NSW. The Gundagai to Junee Road was rendered impassable as the riverbank was undercut and part of the bitumen surface disappeared downriver.

The Australian Government responded to the widespread destruction of infrastructure by making additional funds available for affected roads and other services. Critically, funding was made available for repairs, not enhancement or improvement. In the case of the Junee to Gundagai Road, the assessment of transport engineers indicated a substantial upgrade was necessary to ensure that the road was not similarly affected by a comparable event into the future. Funding, however, was only available for repairs, which were put in place in 2011.

In 2012 La Niña again resulted in floods to the Murrumbidgee River, which once again washed away the road, rendering it impassable for several months, and limiting its use for more than 18 months.

*Figure 1: The Gundagai to Junee Road*

The distribution of responsibilities for infrastructure across Australia suggests a number of points:

1. The major income streams available to invest in infrastructure are controlled by the senior tiers of government – the Australian government and to a lesser extent State and Territory governments – with little scope for local input into investment decisions;
2. From the national perspective both market demand and political considerations favour investment in metropolitan areas over regional Australia. It can be hard to justify the transformative infrastructure investments that would help regional Australia grow;
3. There are inevitably boundary issues in the delivery and maintenance of infrastructure. When are road works new investment and when are they maintenance? The definition of what type of work is undertaken has implications for which tier of government pays (See Box 1); and,
4. The distribution of fiscal powers across government in Australia must inevitably lead to shortfalls in local infrastructure, especially outside the capital cities.



## Education

Skills acquisition presents a similar picture of divided responsibilities across the three tiers of government.

### **The Australian Government**

The Commonwealth Government is the central public source of University funding. It is not the major direct source for other institutions. Commonwealth funding for primary and secondary public schools is distributed via state governments. It also funds non-government schools.

The Commonwealth does operate a system of income support and assistance for job seekers that encourages participation in formal education. It also provides tax incentives for skills development by both enterprises and individual employees.

The Commonwealth also provides support for industry training boards, undertakes accreditation of some vocational training providers and provides scholarships for eligible students, including those from rural and regional backgrounds.

### **State and Territory Governments**

State and Territory Governments operate primary and secondary schools, and regulate non-government and private providers of school-level education. They also operate and oversee the provision of vocational training and provide a legislative setting for the operation of universities.

In some instances they also provide some funding for universities.

### **Local Governments**

Local Government has little direct impact on skills acquisition. They may have some input into school boards or the structure of vocational training opportunities locally.

### **Private Sector**

The private sector is present in all parts of the education and vocational training systems – teaching children as they enter school and continuing to offer a range of services to individuals of all ages. Much of the private sector activity is supported by full or partial subsidies from the public sector.

Educational attainment and skills acquisition is a fundamental determinant of the wellbeing of regions. In Australia there is little local input into either the formal education system or the employment training system and, perhaps more importantly, provision is fractured across the three tiers of government, as well as the private sector.

Commonly, vocational education is organised along industry, rather than geographic, lines and while there may be concentrations of particular industries in defined localities, there is scant recognition of local governments and communities in the structure of the education system.

Critically, the systems in place in Australia for both the acquisition of skills and the provision of infrastructure incorporate significant private sector involvement. It is therefore accurate to describe them *as systems of governance rather than structures of government*. In both instances formal coordination mechanisms at the regional scale are remarkable for their absence.

Regional input into national or state-based infrastructure or training plans is limited, and we can expect relatively limited flexibility in the delivery of programs in either policy domain.



The complexity of the challenges described above warrants the need for a more nuanced approach to all policy. Concentration on policy clearly marked ‘regional’ will not be enough to suffice the challenges facing the future of regions.

Cumulative and isolated decisions are likely to continue to result in duplication, further disadvantage and greater complexity for policy makers and regions. It is clear from continued and persistent disadvantage that perceptions of ‘regional’ in policy may need expanding and refining. Governments require greater vertical and horizontal coordination to address the systemic issues that fail regions and limit their ability to control outcomes.

# Responses to the Challenges of Government

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## A Global Experience

There are some groups across Australia who argue for the abolition of the Australian states and the restructuring of Australia's constitution. They have concluded that the failings of Australian governments toward their regions are so great, and the issues so complex, that repair of the system is impossible.

For these groups, root and branch reform is perceived as the only solution (Peters 2007). Such perspectives fail to acknowledge that ***these are not problems unique to Australia***. Many nations have struggled – and continue to struggle – with these issues. Examination of these international experiences assists in developing a better understanding of the challenges experienced in Australia. They demonstrate a shared mismatch between the needs of regions and performance of government services delivered to them.

There is growing recognition of the role institutions play in promoting economic growth and better quality of life for residents. The OECD (2009, 2010, 2012a and 2012b), in a series of highly influential reports commented upon the importance of institutional arrangements. These reports highlight the effect institutional arrangements (both horizontal and vertical alignment) have on delivering different levels of growth between communities.

The OECD concluded there is clear evidence that encouraging growth is a multi-faceted task. It is not the sole responsibility of town planners or economic development practitioners. ***Success is dependent upon the capacity to span the boundaries that exist between government agencies***, as well as those that sit between government and in private sector organisations.

Among other academics, Rodriguez-Pose (2011) has also commented on the effectiveness of cross-institutional arrangements for driving effective policy. The Swedish agency Statskontoret (2007) noted that there is a global challenge to develop and implement 'joined up' development in regions.

Policy silos have been acknowledged as having a clear negative on the promotion of development and wellbeing within regions (Froy and Giguere 2010). Importantly, Froy and Giguere (2010) found that some nations had developed strategies to encourage cross-portfolio workings - many of which are considered transferrable to Australia.

Froy and Giguere (2010) considered how governments can break out of 'policy silos' to provide better integrated and more effective government for regions, while better achieving their own goals. Their case studies led them to conclude that:

...in most cases policy integration at the local level was *ad hoc* and could not be judged as 'business as usual'. ***Where policy integration was effective, however, it had the effect of capitalising on local opportunities and effectively diffusing local threats.***

Froy and Giguere (2010 p 14).

The message from these authors was clear: ***integrated approaches to regional development can generate very substantial benefits for regions, the communities they encompass and the nation as a whole.*** Policy and service integration, they argued, helped governments:

- Effectively deal with policy and program complexity at the local level;
- Increase efficiency in the provision of services at the regional scale, reduce duplication and minimise service gaps;
- Achieve critical mass in dealing with problems. Local issues – such as long term unemployment, structural adjustment in the economy, and disadvantage amongst particular communities – often require considerable resources and an integrated approach adds both to the quantum of resource availability and the capacity to apply the most appropriate resources to the various dimensions of the problem.
- Build social capital between individuals and institutions, which assists in finding local solutions in the longer term. Amin and Thrift (1995) referred to this phenomenon as 'institutional thickness' and argued that places that were thick with institutional capital were both more likely to find local solutions to difficulties and were more capable of generating their own growth dynamics.

## Australian Responses

The four challenges described in Chapter 2, have received noteworthy attention in Australia over the last two decades. The response has been both isolated (program based) and more widespread (reform based). Yet, these responses include a significant, yet often inexplicit, component of regional issues.

The establishment of COAG is one of the most wide-ranging responses to the challenges of the Australian Federalist system. COAG was created in 2004, to address the changing nature of government functions. It was a direct response to the changes in economic and social settings that had occurred since Federation and the increasingly shared responsibilities of government.

Inefficiencies in the Federal systems impose a substantial burden on business and community.

The COAG reform objectives were shaped around five themes<sup>i</sup>. These five themes were considered to lie at the intersection of jurisdictional responsibilities. They each have a role in

shaping the outcomes of regions and are at the heart of the challenges facing policy performance in regions:

1. A long-term strategy for economic and social participation;
2. A national economy driven by our competitive advantages;
3. A more sustainable and liveable Australia;
4. Better health services and a more sustainable health system for all Australians; and
5. Closing the Gap on Indigenous disadvantage.

Much of the work of COAG and its predecessors over the past 20 years has focused on improving economic regulation and service provision. COAG's latest work has focussed on reducing overlap between the tiers of government, and ensuring the transportability of skills across state boundaries.

### Regionalised responses

Recognition of poor policy performance in regional Australia has prompted initiatives for more nuanced policy settings across different localities. The Regional Australia Institute (RAI:2013) noted that joint regional initiatives emerged as a preferred method over the last 10-15 years. Some examples include;

- Health and hospital networks, as well as Medicare Locals;
- Natural Resource Management Organisations;
- Regional Development Australia Committees;
- Indigenous Coordination Centres and Regional Operations Centres;
- Enterprise Connect; and,
- Job Service providers.

These initiatives demonstrate a desire for coordination and action at a local level. Yet, whether they constitute a legitimate movement toward more integrated solutions elsewhere remains uncertain. In examining these particular cases it is apparent that the right settings need to occur in order for integrated solutions to work.

For example, in 2011 the Australian Government established Medicare Locals in response to the complex health needs and services of communities. Medicare Locals were provided the capacity



to coordinate and plan health services that responded to the particular needs of the community. Examples of responses include mobile GP care to patients in their homes, and providing after-hours out-reach care to homeless and vulnerable populations.

The Federal Government has proposed the abolishment of Medicare Locals in its abolition 2014-15 budget.

Job Services Australia (JSA) was developed in 2009 as a similar policy tool to Medicare Locals. It was designed to allow greater flexibility at the face of the policy implementation on the premise that matching of skills and demand could be performed more effectively at a local level than centrally.

Job Services Australia providers include a mix of large, medium and small, for-profit and not-for-profit organisations. Its performance was met with mixed reviews. A review of the program by the Australian Government in 2012 found that a high level of program complexity existed and that rather than encouraging innovation, the program's high-level architecture was considered to significantly constrain the innovative provision of services<sup>ii</sup>.

In response to these findings, the Commonwealth Government (2012) noted that *'The individualised nature of employment services means there is 'no one size fits all' approach; as such there will always be some inevitable level of administrative complexity. The Government must get the balance right between appropriate administration, accountability, complexity and compliance. This ensures there are sufficient resources to make change and to maximise efforts to help job seekers find sustainable employment.'*<sup>iii</sup>

*In 2014, the Australian Government continues to implement changes to the JSA network to obtain the right balance between accountability and flexibility.*

*JSA and Medicare Locals were implemented to respond to the community with greater flexibility than if it were controlled centrally<sup>iv</sup>. Both programs express a legitimate need for greater local flexibility of service provision. Yet, the balance between accountability, complex issues and flexible conditions has challenged both programs. The Australian Government's response to the challenges indicate broader challenges in Australia's governance framework.*

The creation of Regional Development Australia (RDA) (and its similar predecessors) is perhaps the most overt response to the regionalisation of policy. Australia has over many years legislated for the existence of a variety of regional committees. These efforts were consolidated into a more unitary system with the advent of the Area Consultative Committees (ACC) and the more recent Regional Development Australia (RDA).

RDA consists of 55 RDA networks across Australia, including metropolitan areas. RDA was designed as a conduit between governments and regional communities in response to the continued need for representation and action at a regional level. In April 2014 the RAI provided

recommendations regarding the future of the RDA network to ensure optimal outcomes for regions and to seek a balance between the organisations mandate, accountability and responsibilities<sup>v</sup>

Australian governments have recognised that integrated and regionalised approaches are a legitimate solution to achieve better outcomes for all Australians, including those living in regional Australia. Yet, the legacy of vertically organised government programs often overwhelm such examples of innovation. Despite this, the RAI sees many opportunities for policy to be more innovative, more efficient and more effective for regions. Existing systemic governance challenges must be addressed for future project success.

# Designing Integrated Government:

## Policy Principles and International Learnings

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This Discussion Paper has considered some of the central challenges facing the better delivery of government services to Australia's regions. It has shown that Australia has a relatively centralised system of government, where both governmental powers and public sector finances are concentrated in centres distant from the non-metropolitan regions.

The paper has examined how Australia's Federal system can result in overlap and duplication with respect to some services, and inadequate government attention in other policy areas. The paper has also discussed the perception that governments have not paid sufficient attention to the needs of some regions, nor addressed the challenges of finding better ways of delivering services.

The paper now moves on to examine some of the principles that could inform the further development of regional policy and program delivery in Australia. It considers some of the policy principles that emerge from both international experience and literature.

If integrated approaches are to be considered as a legitimate alternative for providing better government for the regions, the following factors require examination;

1. What learnings international experiences can offer;
2. The principles for implementing integrated government (policy and policy design principles); and,
3. How these transfer to the Australian context.

## International Experiences

### Findings

In a report for the Swedish Government, Niklasson (2007) systematically analysed the problems of integrated development in a number of nations, including New Zealand, Finland, Canada, Netherlands, the United Kingdom, USA and Australia. The research drew a number of significant conclusions about the delivery of services and policy to the regions:

- Policy integration at the regional scale is a **challenge in all nations**. The differing shape of the challenge is influenced by the system of government, history, cultural traditions, scale and geography in each place;

- The integration of policies and programs is challenged both **vertically** – between different tiers of government – and **horizontally** – across portfolios within a single tier of government;
- The challenge **confronts both unitary and federal systems** of government. Neither system of government necessarily performs better than the other. Some federal systems are much better at producing integration at the regional scale than unitary governments;
- **Westminster systems of government are more prone to politicised regional decision making.** This makes the successful integration of policy domains more challenging in the Australian context.

These challenges are further compounded by Australia's Westminster system. The system of area-based political representation in a country with high concentration of capital city populations can lead to skewed outcomes; and

- The political and administrative systems of Anglo Saxon nations (USA, UK, NZ, Australia and Canada), it has been argued, are dominated by a **focus on the rational control of single organisations**. That is, each agency of government is accountable to their Minister or respective Parliament. This disincentivises integration and broader perspectives of public accountability.

This set of arrangements has been exacerbated over recent decades by the rise of New Public Management theory, with its focus on the efficient delivery of narrowly defined and tightly specified program objectives.

### Means of integrating policy

International experiences points to five modes for implementing integrated policy (Niklason 2007, and Fry Giguere 2010):

- Centralise control of the public sector: effectively internalising conflicts and interdependencies in the expectation that a single agency will address these challenges effectively;
- Launch centrally designed and funded integration projects where agencies are expected to behave in a particular way. Such approaches are variously described as 'joined up government' and 'horizontal management' and are commonly used in Australia;
- Devolve power to elected officials at the local scale;
- Delegate decision making to central government public servants based in the regions; and,
- Encourage networking by subordinate agencies.

Importantly, Niklasson (2007) concluded that none of the identified solutions guaranteed success. The pathway to success, he argued, was to identify and implement the most appropriate solution for each nation. Strategies and actions that were likely to be effective in one nation could be expected to have minimal or negative impacts elsewhere. Niklasson (2007) observed that for Sweden greater coordination within Cabinet was likely to be the most effective solution to achieving regional integration, but it would be reasonable to expect that such mechanisms would have no place in Australia, or deliver negligible gains.

Australian governments have, on occasion, experimented with Regional Impact Statements as part of every Cabinet submission. Such initiatives, however, have not been sustained for any period of time and there is no evidence of beneficial outcomes.

## Principles for Integrated Policy Solutions

Effective integrated government relies on four core principles (Froy and Giguere 2010); flexibility, accountability, capacity and governance arrangements.

The needs of each government agency and department will be challenged by competing demands. Producing better outcomes for regions means adhering to principles that retain the integrity and intent of policy (and that of the parties involved).

### Flexibility

Froy and Giguere (2010) concluded that the ***degree of flexibility available to local officials in the interpretation of national policies was the single most important determinant of policy integration and delivery at the local level.*** They concluded that:

Whatever the degree of co-operation and partnership working between stakeholders, it has limited ability to produce change if organisations do not have the flexibility to adapt their policies and programmes to meet agreed priorities. It is not just the mandates held by individual institutions which are important, but the flexibility which exists in their management systems (p 36).

In summary, integration efforts will be fruitless if not implemented effectively and with sufficient flexibility. Sorensen (2000), made a similar point, noting that the greater the effort to integrate policies at the regional level, the more difficult the task becomes, especially if implementation tools are limited.

This point is essential to creating successful outcomes for regions, particularly as Australia has ***some of the most inflexible policy settings in the OECD.***<sup>vi</sup> Froy and Giguere (2010) were able to sketch out some of the key features of flexible policy. They include the design of programs, the legal framework, the financial structures and performance management. Many of which appear foreign to contemporary practice in Australian public administration.



## Accountability

Governments and individual government agencies struggle to find a balance between two competing imperatives. On the one hand, they need to meet the requirements imposed by the legislature and the political process that guides them. On the other, they need to work in collaboration with other agencies that may, or may not, be from within the same tier of government (Figure 2).

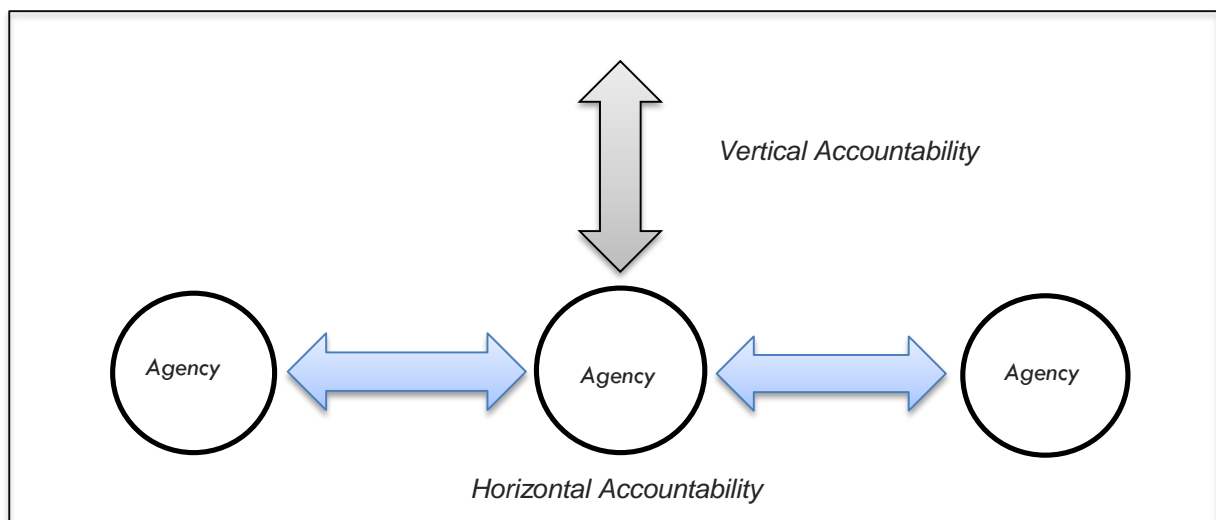


Figure 2: The Relationship between Vertical and Horizontal Accountability

Competing accountabilities of integrated government pose a continual risk to effective integration. A tendency has been to protect accountability at the higher levels of government. Lower levels of government and non-government must be given accountability for integrated government to work. Harboring accountability centrally will reduce flexibility and outcomes for the region.

A number of strategies are available to enhance accountability at the local level. They provide protections for both the horizontal and vertical alignments of integrated government, including:

- Incorporating negotiated targets into central government programs. These revised targets should arise out of consultation with local stakeholders;
- Establishing outcome and output targets rather than input targets. Thereby allowing national or state governments to retain control while allowing local agencies flexibility in how such goals are realised. The most recent approaches to the management of Structural Funds in the EU reflect much of this philosophy;

- Developing cross sector targets and community score cards. This can entail local agencies working with others to develop joint targets;
- Establishing local scrutiny panels to report on performance;
- Making cross sector appointments within the public sector;
- Using customer-led approaches, such as individual training accounts; and
- Allowing incremental increases in flexibility as local decision-making capacities evolve over time and as senior tiers of government develop confidence in the quality of local leadership (Froy and Giguere 2010 p 47).

### Effective governance arrangements

The governance arrangements set out the scope of responsibilities within integrated government. Their inclusion in initial policy design is essential to outlining the roles and expectations of each parties.

The OECD (2005 pp 86-87) made a number of specific recommendations around governance:

- Transfer responsibilities from central governments to local governments;
- Strengthen the capacity of central governments to deal effectively with regional issues;
- Focus contractual arrangements on key programs;
- Ensure the transparency of contractual arrangements;
- Organise monitoring of contracts; and,
- Organise evaluation from the outset of the arrangement.

Possible tensions may exist between the various levels of government and their respective responsibilities of the contract. Effective contracts between levels of government require the identification of the leaders (gatekeepers) at the regional scale. Failure to incorporate this important group can result in poor outcomes.

Specifying regional goals is difficult in a context of broad goals. National goals are often less specific and difficult to deliver. Determining the balance between focused regional goals against a backdrop of broader national objectives is essential.

Reaching coherent regional policy making through vertical contracts requires improved coordination arrangements among ministries engaged with regional issues. Central government engagement with regional contracts cannot be limited to a single agency, or a small group of agencies, because of the multi-sectoral nature of government influence at the regional scale.

Critically, the OECD (2005) highlighted the importance of leadership – in the sense of institutional or public sector leadership (Beer and Clower 2014; Sotuaruta 2014) – in bringing about positive change. Central government institutions need to demonstrate both maturity and leadership in their dealings with regions and they also need to identify leaders within the region as an important focus of engagement.

That said, decentralisation increases the accountability of the subnational tier of government as it generates greater expectations of responsibility amongst citizens.

### Capacity

Allowing greater flexibility in the implementation of local policy can have a positive impact in breaking down 'policy silos'. Yet such measures may not be sufficient in, and of, themselves. Froy and Giguere (2010) observed the presence of a raft of impediments in facilitating successful integrated government.

The first of these was the assumption by central government officials that local level actors have more independence and flexibility than they actually enjoy. Froy and Giguere (2010) highlighted that there is a need to develop the capacity for independent decision making at the local level to ensure that all parties have the capacity to fulfil their responsibilities and to compete where necessary. Enhancing skills sets and building capacity is also a highly desirable outcome of policy integration that effects the longer term approach to policy and accountability.

Froy and Giguere (2010) acknowledged that in forming an integrated government approach skills sets resources, resources and the availability of information need to closer match that of other participants. They concluded that:

***Policy integration, it appears, is a tall order. It requires the acceptance of conflict and the management of change out of 'old working' practices.*** Responsibilities need to be accurately mapped and information shared. Local agencies also need to be convinced that the extra costs and potential conflict associated with working closely with others will ultimately become worth it when real change becomes visible at the local level. Strategies must be long term (p 47).

## Mechanisms for Successful Integration

Three types of mechanism are seen as essential for maintaining the cooperation and positive actions of both parties in integrated government. First, **arbitration** is a key mechanism for enforcing compliance by encouraging discussion between the parties; second, **social networks** can also encourage compliance by both parties as information is exchanged and norms of behaviour developed; and, third, **constituencies** can force different tiers of government to cooperate by expressing their disapproval of policy and programming behaviour.

Some nations use explicit contracts between central governments and regions to achieve their goals of integrated development, the coordination of public sector activity and high standards of service provision. The OECD (2007) has considered this topic in some detail, noting that it is potentially an innovative approach to achieving better outcomes for regions.

Theoretically, contracts between regions and central governments can be used to:

- Guarantee a level of service provision in a region (a transactional contract); or,
- Bind national governments to an on-going process of engaging with a prescribed set of issues in a region (a relational contract).

The OECD (2005) suggests contracts for regional development are perhaps better thought of as part of a wider framework of multi-level governance. That is, ***the creation and delivery of regional contracts will be most effective when they are used to deliver on-going engagement between central governments and the regions.*** From this perspective, while regional contracts can play a valuable role in delivering against tightly defined objectives, they are more valuable as a mechanism for facilitating communication.

Which form of contract is best suited to any circumstance is dependent upon five elements; the expertise of both parties; the complexity of the policy domain; the degree of interdependence between national and regional policies; and the existence of an independent arbitration mechanism to enforce the agreement.

Importantly, ***contracts between tiers of government are not simply concerned with decentralisation, the devolution of powers or agreements for narrowly specified service delivery. Instead they relate to – and enable – wider issues of multi-level governance.***

It is important to acknowledge ***that the nations cited as examples have relatively decentralised systems of government, with Canada held up as the most decentralised of the Westminster federations.*** Clearly, contracts for regional development have the potential to achieve positive ends under certain circumstances, but they do not have a track record of success under government systems marked by the centralisation of power. Since the 1990s UK Governments

have introduced a number of measures to encourage joined up solutions to local problems. To date there has been little evidence of success (Box 3).

### **City Deals in the UK**

The Cameron Coalition Government made a commitment to driving the growth of the major English cities – the eight largest cities outside London. City Deals have been developed as a tailored approach to the needs and potential of each urban area, in the expectation that they will: give cities the tools and powers they need to drive local economic growth; unlock the projects or initiatives that will boost their economies; and, strengthen the governance of each city (HM Government 2012).

The City Deals have emerged in the context of highly centralised power within England. While England has some of the largest local governments in Western Europe, some 90 per cent of their funding comes from subventions from Westminster. Only 10 per cent of revenues are raised and spent locally.

While each City Deal is unique, some of the key features include the 'Earn Back' system of taxation, whereby cities that invest in growth receive a greater share of the national tax take, the use of tax increment financing for critical infrastructure, and the pooling of funding streams into a single investment fund to leverage private sector capital and invest in local priorities.

The City Deals represent a continuation of policy initiatives in this area since the early 1990s (Sandford 2014). These initiatives all seek to combine funding streams and give local communities greater control of resources as a mechanism to reduce policy silos.

Community budgets focus on meeting the needs of troubled families, focussing on households involved in crime and antisocial behaviour; that have children not in school, have an adult on out of work benefits and cause high costs to the public purse. Community budgets were piloted in October 2010 with 16 local government areas participating. The selected areas ranged in size from inner London Boroughs to all of Birmingham.

*Figure 3: Policy Innovation in the UK: The Cameron Government's City Deals and Community Budgets*

In a later report the OECD (2010 p 123) acknowledged some of the drawbacks associated with the use of contracts between levels of government in order to achieve regional goals:

- The possible high costs of consultation and negotiation, as well as execution;
- Trend toward proliferation – the introduction of one contract for regional development frequently results in the establishment of many;
- There is a tendency for Ministries in central government to be reluctant to give up their prerogatives; and



- There may be limited flexibility when the parties are rigidly committed to fixed long-term programs;

A case can be made for investigating the nature and operation of contracts for regional development and how this approach could be applied in Australia.

## Learnings on Integrated Government

The aforementioned international experiences and principles produce many learnings. These produce significant insights into successful implementation of integrated government.

No single approach has emerged as dominant in integrated government. A number of different approaches to the coordination of government efforts at the regional scale have been developed and implemented around the globe. The approach that delivers objectives is dependent on the particular government capacity, accountability and applicability of governance arrangements. It will also depend on the strength of the mandate to integrate government.

Greater decision making powers and flexibility in program delivery for regional parties is a pivotal initiative in many nations. Providing vertical and horizontal accountability strengthens these initiatives substantially. For this reason, local and regional parties should be consulted on the nature and design of programs.

To serve the needs of each party, the performance of integrated government needs to be monitored, as it is critical to success of projects. Performance needs to be discussed, evaluated and, if necessary, reshaped.

Contracts have high utility in assuring the principles of integrated government are upheld. However, enforcement is one of the key issues identified by the OECD (2007) in its discussion of contracts for regional development. The argument it presents is simple: ***contracts that are not enforced have no beneficial impact and may create a culture of non-compliance and mistrust that is detrimental in the long term.***

## Conclusions and Policy Options

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An appetite for integrated government has been demonstrated within Australia. These initiatives are largely a response to the four challenges of government explored earlier in this paper. They are also demonstrative of a legitimate need to address the continued disadvantage of regions in a more comprehensive manner.

Key themes have emerged from the examination of international experiences. The policy, structural and cultural settings of Australia's regions differs to those explored. Yet they highlight key universal principles that are transferrable to the Australian context.

Building a culture of regional level cooperation and integration by launching specific programs or projects has focused on this objective. The evidence on the transferability across programs, however, is sketchy.

So how can we design and develop better government for Australia's regions in light of this experience?

Potentially there are a number of solutions to this challenge, some of which have been advocated by the OECD. But before long term solutions can be mapped, however, the nature of the challenge confronting regions across Australia must be acknowledged and understood.

The discussion above has shown that central government policy makers often over-estimate the degrees of freedom enjoyed by managers locally.

Central Government frequently assumes there has been a higher level of local input into the design of programs than has been the case. It is important, therefore, to establish mechanisms and processes that facilitate local input into national programs, while allowing local actors the capacity to modify programs to meet the needs of the community.

Without this capacity, there is a sense that central government policies and programs are 'enacted' upon regions. Coupled with the on-going 'churn' in regional institutions (Beer *et al* 2005), this creates the impression of a tumultuous and ineffective policy environment.

***Overall, effective governance for regions is a product of positive engagement between central governments and the regions.*** Relationship building and the generation of new capacities in both the centre and the periphery; and, an outcomes focus are essential.

Accompanying this activity needs to be a political will to bring about change. This political will is essential both at the local and regional level as well as within Federal and State Governments. Regional leaders can show the way by providing the local political will State and Federal politicians need to enact significant change.

In large measure the answer to the challenge of creating better government for Australia's regions will be a suite of policy measures over time rather than a single action or initiative.

International experience suggests that stronger local governments are well placed to ensure the economic vibrancy of rural and regional communities while delivering a range of services. In the US, local communities control their school systems, police forces, economic development policies, health service provision and some social services.

A core part of any effective solution for Australia must be to strengthen the roles and functions of local government. Local government is the tier of government closest to the people and therefore, it can be argued that, it is best placed to reflect regional needs and conditions.

Measures to strengthen local government in Australia do not need to go so far as to formally transfer powers or reshape the Australian constitution. As a first step, central governments can make greater use of local governments to deliver services and as sources of policy advice in the development and implementation of programs. Strengthening local government and using contracts to promote engagement between the senior tiers of government and the regions, could be central delivering better government in regions.

Collaborative leadership by local government to express regional priorities and needs is essential to gaining the trust of central government necessary for a transfer of responsibility and resources will make this process much easier than is currently the case.

It is also important to acknowledge the broader need to build flexibility into the design and implementation of national government programs. Enabling better coordination and integration of the efforts of not-for-profit service providers, local offices of State and Federal Governments and universities, education and health service providers with enhanced local accountability for performance is the other key element of change.

Overall, any viable solution must involve greater dialogue between the regions and central government, as well as a transfer of power between these. Such ideas can be challenging, but are essential if regional Australia is to achieve its potential.

This Discussion Paper is a first step to finding a way to deliver better government to Australia's regions. It has been developed with the intention of stimulating debate and new policy development.

Experiences have shown that regions and governments across Australia are capable of formulating responses to these challenges. With the right agreements and principles in place we can provide better outcomes for regional Australia without spending more money or using more resources.

However, it does require levels of government to work cooperatively and for regions to be given the opportunity to have a say in what matters to them.

Having established the appetite, legitimacy and principles for integrated government for regional Australia, Australia, must consider what areas of policy and what regions would benefit most from these.

Answering this question requires conversations with all levels of government, regional communities, service delivery organisations and regional leaders.

The RAI welcomes further discussion and debate on this paper and input into future policy design for addressing the long-held challenges facing government delivery for regional Australia.

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### Case study: Responses to service delivery in Far Western NSW

The 'Strengthening Far West Communities – A pathway for change' project is an example of regionally led innovation to the challenges of government delivery in regional Australia. The project was developed in 2013 to address the continued disadvantage and a perceived lack of effort in policy design for the far west communities of New South Wales.

An initial report found the inadequate treatment of shared issues and service duplication across the region. The report recommended greater devolution of decision making to meet the needs of the community rather than objectives being driven by the centre.

The communities in the Far West NSW region display a variety of challenges typical of regional areas. The project involves collaborations between local, State and Commonwealth Governments as well as service delivery agencies. The establishment of a regional governance structure was a primary recommendation of the initial report into the collective issues of the region.

## Case Study Responses in Far Western NSW

### STRENGTHENING FAR WEST COMMUNITIES - A PATHWAY FOR CHANGE

The challenges facing many far western communities are such that they risk total economic failure and severe social disadvantage unless new ways are found to build community capacity and create economic and employment opportunities. The consequences of this are serious and will create significant public policy issues for government and an increasing financial burden on the NSW economy.

#### The Challenges

- Declining populations in Far West NSW Communities;
- Long-term financial sustainability of Local Government;
- Economic development;
- Duplication and inefficiencies with the service delivery system; and,
- The complexity of the land management system in Far West NSW.

#### Critical Elements of a New Governance Model in Far Western NSW

- Capacity Building: ensuring that capacity building focuses on the development of human and social resources and increased connectedness;
- A Linked Approach: ensuring coordination across government portfolios, formal partnerships between the three levels of government, and between government, business and key community stakeholders;
- Local Democracy: ensure local communities' identity, leadership, knowledge and management capability is recognised as critical success factors;
- Local Capacities: working in partnership with local communities to capitalise on existing and potential capacities;
- Flexible Approaches: ensuring due regard is always given to the multifaceted and complex nature of problems facing communities;
- Sustainable Strategies: ensuring an emphasis on sustainable solutions and implementing actions that recognise the ongoing interdependency of social, economic, and environmental connectedness; and,
- Enhanced Recognition of Indigenous Capacity: Aboriginal culture and traditional custodianship of the land must be respected and encouraged to enable increased inclusion in decision making processes.

*'The region needs a governance structure that can deliver a focused approach to decision-making, planning, funding and delivery of services. There are significant and critical unresolved public policy issues for far western NSW that are best addressed through a far western NSW governance realignment. Critically this aims to improve the quality of life for far western communities and create economic opportunities - by removing obstacles to economic development and identifying new opportunities for growth and prosperity.'*

**Proposed Structure of the Far West Regional Authority**



Source: NSW Department of Local Government, Supporting Information Volume 3, Final Report of the NSW Independent

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<sup>i</sup> [https://www.coag.gov.au/reform\\_agenda\\_1466439](https://www.coag.gov.au/reform_agenda_1466439)

Government funding arrangements mean that successful bidding for funds from superior tiers of government can have a significant impact on the level of per capita funding and resources available to an area. Funding can provide a substantial increase to funds and individual projects which would otherwise been unachievable with the limited and finite funding ordinarily available.

The breadth of regional development discussion and action and the presence of strong leaders can prime local business development in a variety of ways. These include stimulating local institutions, energising chambers of commerce, developing local charities dedicated to service provision and marketing the local community.

Some LGAs create the formal position of local development officers to devise and promote local development strategies and handle business queries about start-ups or relocation. More sophisticated strategies include business mentoring and networking to develop ideas for new or more competitive businesses.

<sup>ii</sup> <https://employment.gov.au/job-services-australia-review-and-evaluation>

<sup>iii</sup> <http://docs.employment.gov.au/system/files/doc/other/governmentresponseapessareport.pdf>

<sup>iv</sup> <http://employment.gov.au/job-services-australia-isa>

<sup>v</sup> RAI 2014, Regional Development Australia Reform options – from strategy to action, Policy Brief

<sup>vi</sup> Giguere and Froy (2009) created an index of local labour market flexibility that ranked OECD nations along a scale from zero to five. The nations with the most flexible local labour market policies – Denmark, Switzerland and the United States – received scores of between 3.5 and 4. Australia was ranked second last – with only Greece performing more poorly – with a score of 0.5.