REGIONAL AUSTRALIA INSTITUTE

Transitioning Regional Economies

Response to Initial Report

Submission to the Productivity Commission Study

28 July 2017

Lvl 2, 53 Blackall Street
Barton ACT 2600

PO Box 896
Canberra ACT 2601

02 6260 3733
regionalaustralia.org.au

Table of Contents

1. Executive Summary

The Initial Draft addresses the main elements of the Reference given to the Commission, while avoiding the challenge of an holistic analysis of the nature and scale of economic disruptions and structural change across Australia.

This first phase of work is a solid start in understanding transitions, how they are impacting on different regions, what underlies a region's capacity to react, and what government and private sector actors can do to facilitate successful transitions.

The Commission has chosen to use a 5 capitals framework rather than the 7 capitals recommended by the RAI – with the two missing capitals being cultural and political. Both are hard to measure but are also seen as important in providing resources (creative, historical and political) which can be drawn on when a major change is being navigated.

Using the small area SA2 geography in its adaptive capacity index, the Initial Report notes that it has proven to be not possible to identify 'regions in transition' solely from the data. This won't help governments current and future with an 'early warning system', and this situation might be alleviated by a larger scale geography better aligned with functional economic regions.

A deficiency in the index is its reliance on static assessments of regions, rather than incorporating the dynamics of regions as a core component. This brings overemphasis on the 'levels' of particular attributes at particular times, rather than the trends in these attributes. A dynamic approach would enable the resilience and adaptive capacity to be assessed against the recent pattern of a regional economy.

The Commission is right, in the RAI's view, to note that neither economic specialisation nor diversification should be a fixed goal. Many regional leaders tend to focus on diversification as a goal, but as the Commission notes (p51) "Diversification for its own sake is not always better – regions should focus on providing goods and services that can earn them the highest income". The RAI would add that for this approach to work in the medium term there will need to be mechanisms in place which enable the community to manage their own future transition by retaining resources to bridge between the economic peaks and troughs – through active management of income and profits from that highest value production. The Farm Management Deposits scheme is an individualised approach to addressing this need for farmers, and Sovereign Wealth Funds are a national approach. Communities willing to focus on extracting maximum financial value from their most competitive goods and services will need a similar regional scale mechanism.

The Commission advocates intervention for people rather than for businesses or places, and in principle recommends a 'do less' approach from government in facilitating transitions, unless there is a particular case to do more. The Final Report would benefit from some explanation of how to assess the need for and type of intervention. The Final Report is also expected to provide further analysis of the effectiveness of policy responses, and this would be most welcome.

The general framework of responses seems to embody the most sensible 'no regrets' approaches, but there is a widening business capability gap across regional Australia that isn't addressed. The RAI's business dynamo work mapped four indicators of local business capability, and found that there are few regional areas with reasonable levels of this capability. This gap is particularly concerning as the drivers of business growth are increasingly recognised to be a mix of economic factor endowments alongside and new intangibles – and it is the latter class that is in short supply in regions. In some ways this is the 'business capital' analogue of human capital – the access to the skills and capabilities needed to grow a successful business in a regional setting.

The Interim Report has noted the importance of human capital, and offers a list of things government can do to encourage it. The RAI agrees that governments can promote information about skills needs in regions and the benefits of regional living. But there are other barriers to increasing human capital in the form of impediments to fostering and monitoring lifetime adult learning. Rigidities in pricing for learning later in life heighten the likelihood that a reskilling adult worker will face a cost jump from being subsidised to be fully paid by the participant. These are significant issues for displaced regional workers seeking to reskill.

The RAI supports the concept of trial exemptions from regulations that are unnecessarily inhibiting transition or development in regions but suggests that the Commission expand its thinking beyond business regulations to include regulation governing the delivery of services and welfare. We will shortly be publishing a policy reform package supporting such exemptions designed to facilitate place specific responses to transition issues and entrenched disadvantage. Key aspects of this package include:

- A mechanism to enable regulatory exemptions to remove unintended barriers to change. This may be embedded within a specific Act (like DSS Act) or via general piece of legislation linked to a threshold trigger for application – such as a population size threshold. The legislation would enable regulatory exemptions for a set place for a set time supported by monitoring and evaluation to determine impact on local outcomes and wider applicability in policy.
- A Commission for Regional Matters to reduce the information asymmetry and power imbalance between periphery and centre, providing a place for regions to share and validate program failures and to provide support to force (or facilitate) change by the centre (government program owners) as well as oversee regulatory exemptions.
- An innovation fund and 'policy lab' to stimulate and incentivise in-government improvements in program delivery in regions. This needs to include new approaches to validation of local decisions and leadership and to enabling pooling of resources to seek economies of scope in areas where competition and choice in services is ineffective.
- Embedding monitoring and evaluation capabilities in program design and review.
- Register of policy and program pilots reported on annually by Auditor General.

Recommendations

The RAI recommends that in completing the Study and the Final Report the Commission considers:

1. That the final report includes a dynamic element to assessing transitioning regions.
2. That the adaptive capacity index is applied to functional economic regions rather than SA2s.
3. Investigating mechanisms that can facilitate a community asset management approach to economic cycles analogous to Farm Management Deposits (individual) and Sovereign Wealth Funds (national).
4. How to assess a region's exposure to economic shocks, and examples of regions in the 3 Tiers model.
5. Bridging between the adaptive capacity index and the 3 Tiers model for determining policy support – perhaps through a risk assessment lens.
6. Including discussion of minimum service levels in regions.

7. The importance in evaluating the impact of transitional assistance of specifying the right success measures – such as demonstrably faster or lower transaction costs in a region, or moderated peak/trough amplitude differences – rather than looking for impact on state or national economies from what are essentially regional interventions.
8. Including wider groups of regulations as in scope for potential exemptions for transitioning regions.
9. Mechanisms that would facilitate review of regulations inhibiting transitions and a regulatory reform package to improve regulatory efficiency.
10. Including business capability alongside individual measures of human capital.
11. Mechanisms that would validate local leadership decisions – especially relating to infrastructure funding.

2. Main issues

The Initial Draft addresses the main elements of the Reference given to the Commission, while avoiding the challenge of an holistic analysis of the nature and scale of economic disruptions and structural change across Australia.

This first phase of work is a solid start in understanding transitions, how they are impacting on different regions, what underlies a region's capacity to react, and what government and private sector actors can do to facilitate successful transitions.

A deficiency in the quantitative work is its reliance on a static assessments of regions, rather than incorporating the dynamics of regions as a core component. This brings overemphasis in the 'levels' of particular attributes at particular times, rather than the trends in these attributes. A dynamic approach enables the resilience and adaptive capacity to be assessed against the recent pattern of a regional economy. For example a region coming off a sharp infrastructure investment boom is in many ways better able to make a successful transition than one which has seen human and financial capital stocks depleted through a decade of drought. The RAI's first submission to this study referred to one dynamic approach which lays change in working population against change in industry diversity to identify regions growing on specialisations or shrinking and diversifying[i].

Figure 1 Typology of population and diversification dynamics

Working population	Increasing	Growing around dominant industries, exposure to external shocks, muscle town	Growing and diversifying thriving/reviving town
Working population	Decreasing	Consolidating around dominant industries – no structural adjustment dying town	Effective 'structural adjustment' turnaround town
		Decreasing	Increasing
		Employment diversity	

Source: Houghton and Fell 2011, p30

There are many other ways of introducing a more dynamic element to the analysis and the index. And there is some evidence emerging that assessing regional dynamism itself is a fruitful tool in understanding and predicting future economic performance[ii].

The Commission is right, in the RAI's view, to note that neither economic specialisation nor diversification should be a fixed goal. Many regional leaders tend to focus on diversification as a goal, but as the Commission notes (p51) "Diversification for its own sake is not always better – regions should focus on providing goods and services that can earn them the highest income". The RAI would add that for this approach to work in the medium term there will need to be mechanisms in place which enable the community to manage their own future transition by retaining resources to bridge between the highs and lows – through active management of income and profits from that highest value production. The Farm Management Deposits scheme is an individualised approach to addressing this need for farmers, and Sovereign Wealth Funds are a national approach. Communities willing to focus on extracting maximum financial value from their most competitive goods and services will need a similar regional scale mechanism. We do not have any examples of a regional approach to this issue in Australia, and it is area worthy of further investigation.

The Study is designed around the work on adaptive capacity, but also draws on the concepts of resilience and transition. The Initial Report seems to use these terms interchangeably, yet each has different meaning and body of literature behind it. There is also some internal inconsistency in the use of these terms. An example is the schematic on p7 and p49 in which resilience is equated with economic recovery, while other text (eg pp46-47 and 51) implies that return to pre-disruption state is not a good outcome in an evolving system. This latter aspect of resilience – that it can mean transitioning to a new state, not just a return to the previous state – is an important one in the resilience literature and should not be underplayed in the Commission's work.

Resilience theory has a clear distinction between generalized resilience (in the face of a range of external shocks) and specified resilience (in response to a particular shock). The index in the Initial Report is based on a generalized foundation, which makes it difficult to apply to the specific circumstances of regions – with each region expecting to have a different reaction to a specific shock. Changes in minerals prices, for example, will affect some regions greatly but not others. The difficulties expressed in the Initial Report about suitable applications of the index stem in large part from this mixing of specified and generalized principles, and clarification of the indexes foundations and application would help alleviate these difficulties. It would also be worth considering how to assess exposure of a particular region to a particular shock – a question which requires a thorough understanding of the region's economic drivers which is probably outside the scope of this study.

The Initial Report gives considerable weight to the importance of economic intangibles as contributors to adaptive capacity. This is a good foundation, and reflects the emphasis we gave to these aspects in our first submission to the Study, along with the use of the capitals framework which the Commission has used to frame the adaptive capacity index. The PC has chosen to use a 5 capitals framework rather than the 7 capitals recommended by the RAI – with the two missing capitals being cultural and political. Both are hard to measure but are also seen as important in providing resources (creative, historical and political) which can be drawn on when a major change is being navigated.

Commenting on adaptation in declining regions, the Commission notes (pp154) the desirability of minimum service levels, and it would be valuable if the Final Report could provide guidance on how these might be assessed. Is the Commission aware of any work on minimum service levels – either at state or Commonwealth levels? And as a side note, there is a challenging issue in these regions of how to how manage assets most efficiently in a declining population. While there are few places in Australia where this is currently a major concern, it is emerging as a specialist inquiry topic in other countries – notably the (much larger) US rust belt cities.

3. Mechanisms supporting transitions

The Initial Report presents a suite of tools the Commission considers as 'in scope' for interventions to assist transitions. Generally the Commission takes a strongly 'low regulation' approach in its inquiries, and while this is in evidence in the Initial Report, there is not quite such an exclusive focus on regulatory and legislative impediments to transitions than was the case in the 1993 and 2001 reports on similar topics. The RAI is particularly pleased to see the call for trials of regulatory exemptions to facilitate transitions.

The Commission advocates intervention for people rather than for businesses or places, and in principle recommends a 'do less' approach from government in facilitating transitions, unless there is a particular case to do more. The Final Report would benefit from some explanation of how to assess the need for and type of intervention. A useful schematic is presented in Figures 5.1 and 5.2, but the discussion is quite abstract and there is no elaboration of how to assign a particular region in transition to one of the quadrants. This deficiency is compounded by the reliance on an assessment of adaptive capacity as a key ingredient in assigning a region to a quadrant, and yet the Commission states that the adaptive capacity index it has developed cannot actually be used to rank regions in this way (p101). Further elaboration is also needed in terms of what the consequential suite of available tools would look like for a region in each quadrant.

In keeping with the Commission's finding from previous inquiries on similar topics, the Initial Report sees little public benefit from government support for transitions provided to date. While there are assertions that public funding has been wasted, there is no evidence provided of lack of impact. This may be because it is flagged for the next stage of work on (p155) 'further analysis of the effectiveness of policy responses'. This further work will be welcome but the Commission appears in the draft to be drawing a conclusion before it has assessed the evidence. Our first submission sets out some examples of interventions assessed as having been worthwhile, so the evidence is at last mixed rather than all negative.

In the Initial Report the Commission relies on a Grattan Institute study of public sector investment in regions to support the 'lack of outcomes' assertion, but this is not a suitable use for that study as the Grattan study looked only at broad government spending, broad socio-economic trends in regions and national impact from regional initiatives. This is not the right methodology for making an assessment of whether or not an intervention (package) made a difference in a place in response to a shock. Broad indicators (job numbers) are clearly influenced by a wide range of internal and external factors and it is disingenuous at best to ascribe movement (or lack of) in these indicators to transition assistance. The Commission hasn't looked at this since 1993 and 2001 so it is timely to review assistance provided over the last 16 years of economic adjustment. In making these assessments, though, the RAI hopes that this time the evaluations are based on assessing whether the transition assistance achieves its ambitions, as well as looking to see whether transition assistance drove any changes in more macro indicators.

The Initial Report discusses regulations that may be acting to impede adjustment (pp126-131 and p154). The suite of such regulations covers planning, zoning, land use and environmental protection, as well as the business entry restrictions covered in the Commission's *Business set up transfer and closure report*. The RAI encourages the Commission to consider a wider group of regulations in other fields too that warrant consideration for exemption –access to education, jobseeker and social services are particularly important to facilitating adjustment and are generally not designed to be responsive to particular transition circumstances in diverse regions. These are discussed further below in our comments in response to Information Request 5.2.

The Initial Report's recommendations for facilitating transitions (pp125-145) are all well supported by economic development literature:

Removing barriers

1. Removing unnecessary impediments to doing business
2. Removing unnecessary barriers to people taking up new opportunities

Facilitating transition and development in regions

1. A locally owned, strategic and coordinated approach (including City Deals)
2. Building on a region's relative strengths
3. Investing in the capabilities of people and regional connectivity
4. Development for the long term

These all appear to be sensible 'no regrets' approaches, but there is a widening business capability gap across regional Australia that isn't addressed. The RAI's business dynamo work[iii] mapped four indicators of local business capability, and found that there are few regional areas with reasonable levels of this capability. This gap is particularly concerning as the drivers of business growth are increasingly recognised as a mix of economic factor endowments and new intangibles. The latter class is often in short supply in regions. In some ways this is the 'business capital' analogue of human capital – the access to the skills and capabilities needed to grow a successful business in a regional setting which should not be ignored in the consideration of pathways for facilitating adjustment in regions.

The Initial Report is particularly uncomplimentary about the concept of relocating government departments to regional areas as a component of a package to facilitate a transition. This is despite the Commission also recognising that good policy practice seeks to 'build on existing economic strengths', and in many regions the public sector is one of the most important employers.

The only reference in support of the argument that relocations are not effective is the Grattan Institute paper from 2011, which was criticised earlier in this submission as using too broad a set of 'success measures' relative to the assistance that was funded. The RAI has noted[iv] that there is a case for sharing the economic impact of public sector staffing expenditure (as centralised efficiency gains are likely to be overstated) and many state governments have decentralisation policies in place. There is also good international evidence that decentralisation can be effective if the strategy is medium term, aligned to regional opportunities rather than weaknesses and pursued in a way that manages public service disruption during transitions.

To round out our feedback on the mechanisms we present more detail on work we have been doing on building human capital and leadership in regions.

Human capital

The Interim Report has noted the importance of human capital, and offers (p 131, 133, 140-141) a list of things government can do to encourage it. The RAI agrees that governments can promote information about skills needs in regions and the benefits of regional living. But there are other barriers to increasing human capital which we have raised in our [In]Sight report on human capital[v] in Australia. In particular, there are impediments to fostering and monitoring lifetime adult learning which are impeding people in transitioning regions from upskilling or reskilling, and which should be included in regulations under consideration for exemption in certain circumstances.

In Australia we have good data on Year 10 and 12 completions, on participation in VET and university education – but very poor data on how engaged workers are once they pass that key learning period up to their mid-20s. Our current measures focus on counting qualifications not learning, while increasingly employers are looking for skills, and employees are looking to demonstrate those skills.

Australia's post-school training system is so strongly focused on qualifications that this has contributed to our poor knowledge of lifelong learning and skills acquisition.

Specific barriers exist for people wanting to pursue either non-award course or a second university degree or VET qualification later in life. Non award courses are generally charged at full price, a major disincentive to furthering or widening technical skills. And for those looking for formal qualifications, there are significant hurdles in accessing HECS-HELP, or a subsidised VET program. In both circumstances the outcome is a cost jump from being covered by a loan to being fully paid by the participant up front. A Graduate Diploma is often used as a bridge from one discipline to another, and fees of $12,000 - $20,000 are common – potentially covered through Fee-HELP if eligible. For a whole second degree, currently HECS-HELP support is available for most institutions, however, this appears to be only in the case that the applicant obtains a Commonwealth Supported Place and this is may not be an easy status to attain. These are all significant issues for displaced regional workers seeking to reskill.

Another consequence of reforms to our post school training system has been the reliance on market mechanisms to deliver training – especially VET. While this has had great benefits, market sensitivities mean that the breadth of offerings in regions is generally very narrow, and sometimes this is due to poorly designed course requirements. Reforms seeking to promote choice and competition are often ineffective in regions where there is a limited market for training providers.

A case in point is the newly approved Certificate IV in Training and Assessment (TAE40116), where recent changes 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. A mandated minimum class size of eight and at least one face-to-face class per week make this course unsuitable for rural and remote delivery. TAE40116 is now most likely to be delivered in large regional centres or metropolitan areas, where class sizes of eight are easier to obtain. As such those regional trainers that are required to recomplete the training will need to travel every week to undertake their study, adding disproportionately to the cost and time required to maintain their qualification.

VET providers that previously offered this course have said they will not put the time into applying for approval to run it as they can see no likelihood that that investment would pay off as they are highly unlikely to get the enrolments they need for it to be viable.

When the TAE was released nationally there were 730 providers, although 12 months later this dropped to 562 providers. Previously there were 9 providers running the course in the Central West of NSW including TAFE NSW, now with TAE40116 there are none.

There may be a reasonable rationale in cities for the changes that have been made but a model that provides no training in remote areas is a poor outcome and an example of unintended consequences of centrally designed reforms that are inflexible to regional conditions.

Regional leadership

The Initial Report has a strong emphasis on the role and value of local ownership, local leadership, collaboration and coordination (pp134-137). The RAI is well-known for its support for regional leadership and the role it plays in regional economic development, so we are pleased to see the Initial Report recognising its importance.

But we are also aware of the governance conundrum at the heart of exhortations for better regional leadership. In essence, the stronger the regional leadership, the more demanding it is that its priorities will be validated and acted upon by government at all levels. This creates a problem for governing bodies as it is rare in Australia for regional leadership to influence decisions about resources – advocacy is sought, but consequential action is typically held back. 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

While the rhetoric of 'stakeholder consultation' and 'stakeholder engagement' is common, action to validate and respond to the outcomes of such engagement is not. Central government agencies often claim to be aware of so-called 'consultation fatigue' where it becomes harder and harder to draw local leaders into consultative interactions. Our experience is that what is termed to be consultation fatigue, i.e. lack of participation which frustrates a central agency's ability to convene the meetings it needs to demonstrate its engagement, is in fact a patronising way of hiding the reality that those who do the consulting don't take the outcomes and act on them.

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

Inform –> Consult –> Involve –> Collaborate –> Empower

Consultation in a centre to periphery context in Australia seems 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 2 hrs and then left without allowing any discussion.

Feedback 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. Skepticism 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. Our assessment is that central governments' approach to doing business with regional leaders has systematically undermined the extent to which regional leadership exists in many areas, and is able to attract the efforts of local talent.

If we want stronger regional leadership we need to invest in it – not through leadership courses alone, but by providing the opportunity for regional leaders to achieve influence and impact for their communities in areas outside of local government and centrally prescribed service delivery. Mechanisms that enable decision-making at the regional level do exist, and two 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.[vi]
- 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.

4. Comments on specific sections

There is a definitional problem on p11 which describes regional communities as including those in the major cities. While it is clear that the Initial Report's data set includes metro areas as well as the full spectrum of non-metro areas, it is unhelpful to describe places in major cities as regional communities.

P48 RIRDC 2014 citation should probably be Aither 2014.

5. Responses to the Information Requests

INFORMATION REQUEST 4.1

The Commission is seeking feedback on:

- *the methodology that has been used to construct the index of adaptive capacity, including whether other methods might be superior for the purpose*
- *the factors (variables) that have been included in the index and whether there are other variables and data sources that could be used.*

The RAI's view is that while the statistical methodologies seem to be quite appropriate for the task, there are two key problems.

Firstly, there is a big gulf between the ideal indicators as deduced from the 5 capitals framework (column 2 on p56) and the available indicators in column 4. In some cases there seems to be such a gulf that the proxy is not suitable. Examples are using the proportion of land in national parks as a proxy for value of undiscovered minerals, for example, and using the value of non-residential building approvals per person as a proxy for resale value of existing machinery. It is also not good practice to use 1 proxy for more than 1 ideal indicator – e.g. volunteering. And the lack of some proxies seem to be affecting the weighting given to some capitals – the natural capital shows a distinct lack of suitable proxies, for example.

Secondly, in the RAI's experience SA2 is too small an area to be able to interpret as an adaptive capacity measure. It makes little sense to discuss the adaptive capacity of a suburb or other small geographical area when its economic adaptive capacity will depend on the surrounding business and labour markets. So a functional economic region would be a more useful geography – and the Commission could consider using the SA4s that map reasonably well into labour market regions – given that it would be a big task to create a new set of functional economic regions for this project.

It is likely that a more suitable geographical scale would overcome the problem flagged in the Interim Report that the current index does not enable identification of 'regions in transition' solely from the data. The Terms of Reference ask for a measure which ranks regions according to transitioning risk, and this should be possible with a larger economic region-based geography, helping to provide the 'early warning system' that the Terms of Reference seem to be asking for.

INFORMATION REQUEST 5.1

The Commission invites participants to comment on the relevance and applicability of the policy framework set out in this chapter. Where practicable, participants are asked to support their views with evidence of effective and/or ineffective approaches that have been used to facilitate transition and development following disruptive events or ongoing pressures in regional areas (in Australia or overseas).

The RAI's views on the policy framework have been set out above in section 3.

Examples in our first submission highlighted the importance of economic factor endowments as well as intangible ''community capitals' and included:

- OECD findings on what works to stimulate regional economies;
- A successful US example from Valley County Nebraska; and
- Australian success factors from recent literature.

INFORMATION REQUEST 5.2

The Commission invites participants to comment on where a regional community could benefit from a trial exemption from regulations that are unnecessarily inhibiting transition or development.

The RAI supports the concept of trial exemptions from regulations that are unnecessarily inhibiting transition or development in regions. We will shortly be publishing a policy reform package supporting such exemptions, for regions in particular circumstances and for a set period of time to enable thorough monitoring and evaluation of outcomes.

Our case is based on our analysis that decades of reform to service delivery across Australia has seen the gaps between regions and metropolitan areas on many measures of service provision and socio-economic outcomes persisting. The smaller and more remote the community, the greater these gaps are.

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 pursuit of economies of scale inevitably brings a focus on reducing unit costs through uniformity in delivery. In Australia the focus on uniformity in delivery processes 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 which in any logical interpretation should be lifted. Building on the example of the Certificate IV in Training and Assessment outlined above, three more examples of unnecessary constraints imposed by uniformity (inflexibility) and pursuit of economies of scale are presented below.

1. For long day care to be eligible for the child care rebate there are specific requirements on the number of hours, days and weeks a centre must be open. There are many small towns

without sufficient demand for a centre to be open the required 5 full days for 48 weeks a year, which means that in these communities parents are unable to access the rebate and childcare is affordable. Without access to subsidised childcare there are only informal care options for parents with young children in these communities to enable access to the work and training opportunities they need for their communities to prosper.

2. A regional council received a sizeable grant from NSW 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. Council was able to find funding for these non-infrastructure components (needed to actually activate the infrastructure) through another large scale long term program funded through Commonwealth Health. Council was able to do this as the scale of its grants programs enabled some internal flexibility in delivery, and its internal skills enabled this to be managed. In effect, the process of combining funding from two different siloes was left to Council – a typical devolution downwards of responsibility. Council has done what the funding bodies should have done themselves – joining forces to lift unnecessary restrictions and provide a meaningful package of value to the community which can help build community health and social capital.
3. Landcare groups on King Island are able to access funding to replanting native vegetation along stream banks, but this specifically excludes funding for fencing to keep wallabies out. So any replanting is pointless as the new plants are immediately eaten by wallabies. KI Landcare would prefer funds for exclusion fencing which would result in native plants regrowing by themselves anyway – without a need to replanting. But this is specifically excluded from the funding program and so the improvements in water quality that would flow from better stream zone vegetation are unavailable to King Island farmers.

There are many more examples like this and they continue to be created every day by additional policy design and redesign. The consequence of these rigidities is poorer delivery and outcomes in regions, and a widening service level and access gap compared with large cities. Assessment by the RAI shows, for example, that Australia's small towns have lower access now to dentists, school teachers and police than they did 30 years ago. Remote and very remote small towns suffer a lower level of access to health, education, police and social welfare professionals than they did 30 years ago.

The RAI's forthcoming publication says that fixing the current system needs a long term governance mechanism for flexibility rather than ad hoc exemptions based on random evidence considered at the centre. This governance structure includes:

1. A mechanism for local tailoring of programs 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.
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 the suited their particular needs, with impressive results. This sounds similar to the exemptions called for in the Initial Report. An example might be varying the job search requirements in regions where there are few employers and fewer vacancies.
3. A mechanism to lift governments' ability to improve program design and value good program delivery, countering the tendency to value policy formulation over program design and delivery as noted by former APS head Dr Peter Shergold[vii].

The forthcoming publication sets out a reform agenda with five main elements:

1. A mechanism to enable regulatory exemptions to remove unintended barriers to change. This may be embedded within a specific Act (like DSS Act) or via general piece of legislation linked to a threshold trigger for application – such as a population size threshold. The legislation would enable regulatory exemptions for a set place for a set time supported by monitoring and evaluation to determine impact on local outcomes and wider applicability in policy.
2. A Commission for Regional Matters to reduce the information asymmetry and power imbalance between periphery and centre, providing a place for regions to share and validate program failures and to provide support to force (or facilitate) change by the centre (government program owners) as well as oversee regulatory exemptions.
3. An innovation fund and ‘policy lab’ to stimulate and incentivise in-government improvements in program delivery in regions. This needs to include new approaches to validation of local decisions and leadership and to enabling pooling of resources to seek economies of scope in areas where competition and choice in services is ineffective.
4. Embedding monitoring and evaluation capabilities in program design and review.
5. Register of policy and program pilots reported on annually by Auditor General.

This reform package presents mechanisms for identifying and acting on the regulatory exemptions flagged in the Interim Report.

6. RAI Recommendations:

Summarising the implications of our submission on the Initial Report, the RAI recommends that in completing the Study and the Final Report the Commission considers:

1. That the final report includes a dynamic element to assessing transitioning regions.
2. That the adaptive capacity index is applied to functional economic regions rather than SA2s.
3. Investigating mechanisms that can facilitate a community asset management approach to economic cycles analogous to Farm Management Deposits (individual) and Sovereign Wealth Funds (national).
4. How to assess a region's exposure to economic shocks, and examples of regions in the 3 Tiers model.
5. Bridging between the adaptive capacity index and the 3 Tiers model for determining policy support – perhaps through a risk assessment lens.
6. Including discussion of minimum service levels in regions.
7. The importance in evaluating the impact of transitional assistance of specifying the right success measures – such as demonstrably faster or lower transaction costs in a region, or moderated peak/trough amplitude differences – rather than looking for impact on state or national economies from what are essentially regional interventions.
8. Including wider groups of regulations as in scope for potential exemptions for transitioning regions.
9. Mechanisms that would facilitate review of regulations inhibiting transitions and a regulatory reform package to improve regulatory efficiency.
10. Including business capability alongside individual measures of human capital.
11. Mechanisms that would validate local leadership decisions – especially relating to infrastructure funding.

Endnotes

[i] Houghton K and Fell T , 2011, Characteristics of economic sustainability in regional Australia, *Discussion Paper HC Coombs Policy Forum ANU*

[ii] http://ssti.org/blog/recent-research-making-case-more-economic-dynamism

[iii] http://www.regionalaustralia.org.au/home/innovation-insight-update/

[iv] http://www.regionalaustralia.org.au/home/wp-content/uploads/2017/04/RAI-APS-Relocations-Inquiry-Submission.pdf

[v] http://www.regionalaustralia.org.au/home/2015/11/human-capital/

[vi] http://ssti.org/blog/maine-voters-approve-50-million-tech-why-it-matters-all-us accessed on July 7th.

[vii] Shergold, Peter, 2015. *Learning from failure: why large government policy initiatives have gone so badly wrong in the past and how the chances of success in the future can be improved*, Australian Public Service Commission, Canberra. www.apsc.gov.au/publications-and-media/current-publications/learning-from-failure