Overall assessment

5.0

Overall assessment
This chapter discusses the nature of some of the problems in communities and provides an overall assessment of the current service delivery system. It also considers underlying reasons why the problems occur. Implications for this inquiry are considered at the end of the chapter.

**Key points**

- Many Aboriginal and Torres Strait Islander people living in remote and discrete communities experience persistently poor social and economic outcomes, with high rates of unemployment and welfare dependency.
- As many policies by all levels of government affect Aboriginal and Torres Strait Islander people, care is needed in making a summary judgement about the existing stock of policies. Generalisations about performance run the risk of reducing support for good policies as well as bad.
- Even so, the weight of evidence presented to this inquiry suggests that many services are not meeting community expectations or delivering value for money.
- In discrete communities, government essentially ‘operates’ the community—individual choice, markets, rewards and responsibilities have a limited role. This creates ‘principal–agent’ and incentive problems, and contributes to welfare dependency.
- Poor or conflicting incentives—for government (there is a bias towards concentrating on highly visible action), service providers (there are incentives to maintain programs and funding rather than improve outcomes) and users (there are incentives to remain welfare dependent).
- Decision-making, funding and accountability are not aligned—decision-making is concentrated at the highest levels of government, and dispersed responsibilities result in limited genuine accountability to service users, communities, government or taxpayers.
- Information barriers between government, service providers and service users mean that services may not address peoples’ real needs.
- Service delivery is often funded on a short-term basis, and the current way of doing things does not reward or encourage effective evaluation and incremental improvement to service delivery and design.
- Anecdotally, there is potential to reduce ancillary costs and service duplication, so that more can be achieved with current investment levels.
- The ‘system’ is so large and bureaucratic that it risks serving itself rather than communities. Costs of maintaining the system are high and it is difficult ‘to get things done’.
- Economic and community development is not supported by the current institutional and policy framework.
5.1 Social and economic outcomes

Aboriginal and Torres Strait Islander people who live in remote and discrete communities experience poor and persistent social and economic outcomes when compared to the average of the Australian population:

- Labour market outcomes are worse than the Australian average with high and persistent unemployment rates (Chapter 4).
- Entrenched welfare dependency has resulted in the deterioration of social norms in many communities (Box 5.1).
- There is very little in the way of economic activity in communities which creates wealth, as opposed to distributing the wealth created by others (Chapter 9).

Services and policies at all levels of government seek to improve these outcomes with the highest-profile initiative being the Closing the Gap targets.

Box 5.1 Welfare dependency

A problem of welfare dependency occurs where a significant proportion of a community is dependent on financial assistance from government as their primary source of income (mainly the Australian Government, given its role in the provision of income support payments). 'Dependency' implies that the nature of the income support is long-term and often intergenerational. Dependency has negative consequences, such as the breakdown of social norms, alcoholism, and violence.

Welfare dependency in communities tends to be accompanied by a high rate of dependence on governments in two other areas—for the provision of services and for employment. If not dependent on income support payments, most other locals in communities are dependent on employment in the public sphere (for example, government administration or employment in the delivery of public-funded services). There is very little private sector activity and employment.

The collapse in social norms is evident in a range of well-publicised and difficult-to-solve problems.

The Institute has identified seven dysfunctions which are particularly contributing to the breakdown of Indigenous communities in Cape York Peninsula. These are abuse and neglect of children; alcohol abuse; drug abuse; petrol sniffing; problem gambling; poor school attendance; and dysfunctional housing tenancy arrangements.

Source: Cape York Institute 2007, p. 18.

5.2 A summary assessment of current service delivery policies

There are so many policies affecting Aboriginal and Torres Strait Islander people by all levels of government that care is needed in making a summary judgement about the overall impacts of the existing stock of policies. Apart from the interconnectedness and complexity of many of the issues, and the problems linking specific policies to specific impacts (the problem of determining causation), policies represent different, and sometimes contradictory, approaches. Whatever one’s views are as to the best approach, there are usually examples of existing policies consistent with that approach (even if in the minority). So, the making of sweeping statements about the performance of policies runs the risk of reducing support for good policies as well as bad.
Conditions observed in communities today are the result of the cumulative effects of Australian and Queensland government policies over many decades.

Services are not meeting community expectations or providing value for money. The significant level and increase in resources targeted at closing the gap has not resulted in a commensurate improvement in health, child and family safety, economic opportunity and community development outcomes. While impacts may take time to be seen giving the nature of some problems, the lack of observable improvement to date is well below expectations:

*Despite increasing levels of investment, and more services being funded by government agencies disadvantage is still high. Governments have had limited success in addressing the causes of disadvantage. The result has been an array of un-coordinated services which are expensive and difficult to deliver in remote communities but do little to support individuals or family success.*

(LGAQ sub. 14, p. 22)

The Forrest Review found widespread evidence of failure nationally, particularly in mainstream services:

*Much of this failure is in mainstream services, which has left us with:*

- an education system that is not giving Indigenous children a decent education
- employment services that deliver lousy results for first Australians despite chronic need
- housing systems that charge such low rents that they create incentives for people to stay in remote communities as opposed to moving to where the work is
- no effective arrangements to enable individual ownership of Indigenous land for first Australians.

(Forrest 2014, p. 11)

The problem is not a matter of the aggregate level of resources being spent:

*The level of expenditure juxtaposed against limited progress on the ground starkly illustrates the productivity problem: a huge flow of inputs is achieving very few outcomes in terms of the social, economic and cultural progress of Indigenous Australians.*

(Empowered Communities 2015, p. 25)

Despite the high level of expenditures, a stated government commitment to consultation and co-design, and the best intentions of agencies and service providers, stakeholders hold a strong view that services on the ground are often inadequate, poorly designed and inefficient. For this to change, the approach must change:

*There is a clear need not merely to sharpen what is being done, but to stop what is being done and do something entirely different. Neither governments nor Indigenous people can expect to draw on an increasing pot of budget appropriations. Many programs don’t work but continue to receive funding regardless. Like the bewitched broomsticks in The Sorcerer’s Apprentice that continue to multiply, new initiatives are piled on top of old ones that have failed. Simply doing more, by way of providing more services and more programs, cannot produce a different result... Taxpayers and Indigenous people themselves should rightly expect better outcomes for the amount of public funds expended. A rigorous strategy must be applied to ensure funding is used more productively to support Indigenous development.*

(Empowered Communities 2015, pp. 51–52)

Service delivery policies also often have broader negative impacts on economic and community development. For example, they create incentive problems that impede economic participation, and they displace voluntary effort in communities.

### 5.3 Policy failures when good intentions abound

All stakeholders involved in service delivery (decision-makers, bureaucrats, service providers, community members and so on) appear to be unified in their motivation to improve the welfare of Aboriginal and Torres Strait Islander people.
While the stakeholders have good intentions, they are also influenced by the incentives they face and the institutional environments in which they work:

*My experience in government suggests that those who hold positions of power want to believe that they are doing the right thing – that they are pursuing the public interest. But their beliefs are at least malleable enough for them to be convinced by “special interests” that what they want is in the public interest, when in fact it is in their own interest to so believe.* (Stiglitz 2012, p. 239)

People also have preconceived notions of how the world works, or ‘models’ that influence how problems and the kinds of solutions that are necessary will be perceived. In some cases, the consequences of policy failings, combined with underlying challenges, accumulate over time and become ‘wicked’ problems.

Reform processes are often difficult, with those who stand to lose from reform often being organised and loud, and those who stand to benefit being ‘the silent majority’:

*[R]eform is always difficult for those who lose in the short run because their losses are imminent, while those who will benefit do not see how they will gain ... The non-indigenous public servants and private service industry ‘rentiers’ who derive comfortable livelihoods from present policies are another interest group vigorously opposed to reform. The preservation of Aboriginal ‘living museums’ is also stoutly defended by academics and consultants whose incomes they substantially boost.* (Hughes 2005, p. 3)

### 5.4 Institutional design and funding problems

Institutions set the formal and informal rules within which policies and service delivery are designed and implemented. There are a range of opportunities to do better.

Roles and responsibilities for service delivery are influenced by the broader context of Australia’s system of federalism. When considering the appropriate split of responsibilities, two principles to consider are:

- subsidiarity—decision-making should reside at the lowest level of government able to exercise it effectively, and thus as close as possible to the community, to allow them choice as to the services they receive
- fiscal equivalency—the beneficiaries, and those operating and funding services, should share a similar geographic boundary as this will help avoid under- or over-provision of services.

Linking decision-making powers with funding and accountability for monies spent imposes a discipline to make sound decisions on behalf of taxpayers and communities. However, the current delegation of responsibilities has led to dispersed and weak accountability for outcomes. This contributes to the problem of services not matching community needs and the overall effectiveness and efficiency of the system of service delivery.
### Analysis of institutional and funding arrangements

<table>
<thead>
<tr>
<th>Area</th>
<th>Australian Government</th>
<th>Queensland Government</th>
<th>Indigenous organisations</th>
<th>Overlaps and gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions &amp; representation</td>
<td>Shared lead</td>
<td>Shared lead</td>
<td>Secondary lead</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Oversees frameworks of national identity, citizenship rights and responsibilities. Responsible for mechanisms to enable Indigenous interests to be represented and acted on at the federal level.</td>
<td>Responsible to establish and enforce law and order, and the structural preconditions for effective markets.</td>
<td>Councils responsible for local economic infrastructure and planning; support good order; advocate community interests to governments. TSRA represents and supports Torres Strait interests and economic development. NITRIs provide representation under the Native Title Act 1993 (Cth). Aboriginal land councils represent Aboriginal affairs at state level.</td>
<td>All levels of government share responsibility for the maintenance of citizenship rights and good order. There is a gap in recognised representation of Indigenous interests to state and Commonwealth governments.</td>
</tr>
<tr>
<td>Policy</td>
<td>Shared lead</td>
<td>Shared lead</td>
<td>Limited</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Responsible for national security and border control. Oversees policies that directly affect economic development (native title), employment and welfare. Influences Indigenous housing policy, education and training, health and social justice policy.</td>
<td>Oversees policies that directly affect economic development (land tenure, zoning, town planning, infrastructure). Social housing, health, education and training, social justice, community and child safety policy.</td>
<td>Councils responsible for policy relating to the exercise of local regulatory functions. TSRA formulates Torres Strait regional policy.</td>
<td>Australian and state government share responsibility for policies that affect the social determinants of health of Indigenous Australians, their prospects for self-determination. Indigenous organisations have limited input.</td>
</tr>
<tr>
<td>Funding</td>
<td>Limited</td>
<td>Secondary lead</td>
<td>Limited</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Provides funding towards social housing, health, education and training. Funds primary health care, employment and welfare services. Financial assistance grants to ATSI councils. Major funder of the TSRA, land councils and PBCs.</td>
<td>Funds ATSI councils to meet costs (in lieu of rates). Funds social housing, health, education and training, social justice, community and child safety services.</td>
<td>TSRA provides grant funding to community groups, enterprises and individuals.</td>
<td>All levels of government jointly and separately fund essential services to Indigenous peoples and communities. The role of Indigenous organisations in funding initiatives is limited by their lack of untied resources.</td>
</tr>
<tr>
<td>Delivery</td>
<td>Shared lead</td>
<td>Secondary lead</td>
<td>Lead</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Oversees programs related to jobs, land and economy (Indigenous Advancement Strategy); children and schooling; safety and wellbeing; culture and capability; and remote Australia strategies.</td>
<td>Oversees delivery of housing, health, education and training, social justice, community and child safety services.</td>
<td>Councils fill service provision gaps; promote economic development; provide social housing; manage community groups. TSRA coordinates and delivers services. Other Aboriginal organisations deliver a range of services including land tenure, health, legal, education, employment and business services.</td>
<td>Significant overlap in delivery of individual programs relating to economic development, health, training, safety and wellbeing. Indigenous councils bear a service delivery burden that is significantly underfunded and unrecognised.</td>
</tr>
<tr>
<td>Regulation</td>
<td>Secondary lead</td>
<td>Secondary lead</td>
<td>Limited role</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Overarching responsibility for land rights; border control; environmental protection; and community protection and control.</td>
<td>Tenancy management, community housing, town planning, land release, zoning, community alcohol restrictions, cultural heritage and family responsibilities.</td>
<td>Local laws include public health and safety, parking, prohibiting or restricting nuisances and environmental hazards, licensing business operations, using local government controlled areas, facilities and roads.</td>
<td>All levels of government jointly and separately govern issues impacting economic development, community protection and control. There is a gap in Indigenous consultation on Commonwealth and state legislative proposals.</td>
</tr>
</tbody>
</table>

### Key

- **Who leads**
  - Lead
  - Secondary
  - Shared
  - Limited role

- **Level of overlap and gaps**
  - High
  - Medium
  - Low
Duplication and overlap in roles and responsibilities

Within the existing institutional structure and funding frameworks, decision-making is concentrated at the Australian and Queensland Government levels. An analysis of arrangements (above) identifies a high degree of overlap in roles and responsibilities in the institutional framework, across policy responsibilities, funding, service delivery and regulation. This is evident across all levels of government and Indigenous organisations, particularly in service delivery and the institutional framework.

At the Queensland Government level, 19 departments are responsible for coordination and policy, with 13 individual departments directly providing or funding services to communities (as discussed in Chapter 2).

The bureaucratic maze means it is difficult to get things done, particularly when the difficulties associated with delivering services into remote locations are added into the mix.

Dispersed and weak lines of accountability

The Queensland Government is accountable for monies spent to the Queensland public including Indigenous people. Local councils are accountable to the Queensland Government for funds provided to councils. Where government agencies commission services, they are responsible to general taxpayers for the funds spent. Service providers are responsible to the Queensland Government. These responsibilities are duplicated for Australian Government services. Basically, there are a lot of overlapping responsibilities which makes for limited accountability.

Service agreements and contracts commonly place obligations on the recipient to report to the Queensland Government on compliance, with limited or no reporting on outcomes to the public and communities. This lack of accountability to the community was illustrated by the response of a service provider to the Mornington Shire Council’s efforts to map the myriad services into their community:

Question: Contact details of the person responsible for all the programs or services you deliver, the length of any contract or period of engagement and other relevant details for each program or service you deliver.

Response: “Not sure why you require this information? This is not something we are required to share or discuss in any community I would need to see a lot more detail behind your request before I approve such a resource intensive task…”

Question: The Key Performance Indicators or Performance Measures for each program or service or in the absence of these how you assess the value of the program or services delivered.

Response: “as above”. (LGAQ sub. 14, p. 6)

Dispersing accountabilities across all parties and relying on compliance reporting mean there is limited genuine accountability to communities or taxpayers, with no party responsible for delivering outcomes.

Indigenous council responsibilities exceed those of other local governments

For Indigenous councils, the scope of activities is often much broader than for non-Indigenous councils. For example, the breadth of activities undertaken by the Yarrabah Aboriginal Shire Council in relation to housing and homelessness matters alone is extensive (Box 5.2).

This arises partly as a result of real or perceived community expectations given the level of need in communities. Councils may also be the only entity in the community capable of taking action, or, at least in smaller communities, there may be no other option. However, the breadth of council involvement is also a matter of choices made by councils. The wide scope of activities raises issues concerning:

- the funding and financial sustainability of councils (Chapter 13)
• the funding and delivery of services in communities where, if funded inadequately or performing poorly, acts to draw councils into activities that they would prefer to withdraw from

• whether financial sustainability issues interact with scope issues to provide incentives that work against development

• whether the resulting concentration of power and control over so many aspects of life in communities is in the long-term interests of communities.

**Box 5.2 Yarrabah Aboriginal Shire Council**

Yarrabah Aboriginal Shire Council (YASC) observed:

> Most community members and indeed government agencies also assume YASC are responsible for the delivery of services outside of their roles and responsibilities, their funding, specified skill sets and statutory reach. YASC inadvertently endure the stress, cost and risk in filling the gap in services at the risk of other service provision, or are negatively targeted and pressured for not meeting these needs. (YASC sub. 11, p. 7)

In relation to housing and homelessness matters alone, YASC roles include:

• housing provider managing tenancy and associated maintenance of 364 social houses

• responsible for strategic land use planning

• responsible for statutory planning—receiving and assessing development applications

• responsible for provision of trunk infrastructure for water, sewerage and drainage

• responsible for maintenance and management of water, sewerage and drainage systems

• responsible for rubbish collection from social housing and expensive ‘out of community’ disposal of that rubbish

• responsible for the gazetted roads throughout Yarrabah

• manages 306 hectares of DOGIT

• manages lands where approximately 50 homeless Yarrabah families reside in wait for placement into community houses

• manages the sale of social houses for purpose of home ownership

• issues leases to other stakeholders to facilitate development of housing for their housing needs necessary for successful service provision

• responsible for Native Title and Cultural Heritage compliance with regards to housing and assets and associated activities under requirements of the Yarrabah Local Government Indigenous Land Use Agreements.
Fragmented and inflexible funding

Grant and program funding is ostensibly aimed at allowing non-government parties to provide services, encouraging competition while ensuring accountability and managing risk. However, the system as currently executed appears to undermine the outcomes it is trying to achieve.

In 2001, the Cape York Justice Study described funding arrangements to community councils as complex and highly fragmented, hampering the ability of councils to undertake proper community and strategic planning (Ellerman 2002, p. 9). There are still concerns in 2017:

*Councils continue to express their concerns about too many funded programs being initiated by state and national capitals relying exclusively on the advice of people who do not live and work in the communities and accordingly, on too many occasions, fail to achieve their desired outcomes.*

*(LGAQ 2017)*

Fragmentation of funding sources can cause problems for service providers. Fragmentation can be a drain on resources due to the constant need to apply for additional funds from multiple sources. To meet the requirements of various funding providers, output/outcome measurement can become excessive and reporting requirements can increase. Fragmentation also increases the scope for a conflict of objectives between service and fund providers, and between various fund providers. Some of these effects have been noted by the current national inquiry into human services delivery in remote Indigenous communities:

*The fragmented nature of services means providers often rely on funding from a variety of sources and programs. These separate sources of funding come with their own compliance requirements, placing a particularly significant burden on smaller organisations (Dwyer et al. 2009). Alford (2014) gave an extreme case of one Aboriginal Community Controlled Health Organisation (ACCHO) with over 90 funding agreements, and an associated compliance burden of about 423 reports annually. Funding also tends to be short term and uncertain in nature. As a result, providers and governments spend considerable time and effort managing funding flows rather than focusing on delivering better outcomes. (PC 2016b, p. 135)*

In many communities, numerous programs and services are provided to comparatively small populations. For example, in Coen, 40 separate service providers deliver around 70 services and programs to a population of just over 350 people. Mornington Shire Council has identified more than 100 programs that are delivered by over 40 agencies, with 10 separate organisations funded to deliver the same four programs (LGAQ sub. no. 14, p. 5).

While not necessarily so, fragmentation in funding may contribute to fragmentation in service delivery, which appears to be a significant issue in remote Indigenous communities:

*The service delivery arrangements for people living in remote Indigenous communities are overly complex. Funding and responsibility for service provision and outcomes are split across governments, departments, programs and providers. Although this is also the case in human services more generally (chapter 8), the negative effects of this are stark for remote communities with high levels of service fragmentation, and duplication in some areas and gaps in others. PC 2016b, p. 134)*
Short-term contracting and system compliance burdens

Community organisations and NGOs receive much of their funding from governments under short-term contractual arrangements. Competitive tendering over relatively short funding cycles undermines the sustainability of Indigenous corporations and significantly reduces the ability of communities to exert control over service delivery (Moran et al. 2014; SFBACS 2016).

A common complaint amongst service providers is that grant funding can create a high administrative burden on organisations, diverting energy and time away from service delivery:

The combination of administrative and fiscal fragmentation and notions of accountability stemming from ‘new public management’ reforms has resulted in Indigenous organisations becoming subject to often unsustainable administrative requirements and burdens. This problem is fuelled by the volume of grants that are often small and short-term in nature. Organisations are therefore caught in a continuous cycle of applying for, and reporting against, grants that have often been provided for very specific purposes with only limited allowances for the administrative requirements that accompany them. This approach to funding perpetuates a sense of funding insecurity, often resulting in organisations committing significant human resources to playing the ‘funding game’. The overburden report (Dwyer et al., 2009), also noted the underutilisation of data by the departments that collate them; and importantly, the overemphasis on corporate aspects of reporting while neglecting to collate evidence regarding meaningful and substantive change or outcomes. (Moran et al. 2014, p. 11)

Costs incurred by funded organisations to meet reporting obligations are frequently not commensurate with the size of the payment received (LGAQ 2017; National Commission of Audit 2014; SCRGSP 2016).

The 2009 Overburden report found that, for financial reporting alone, an average Aboriginal Community Controlled Health organisation will produce 22 financial reports for 20 activity reports (statistical and other summaries of the services provided) equating to an average of 42 reports for 21 grants (Dwyer et al. 2009, p. 78).

Other funding issues

Submissions to the inquiry have raised several other funding issues. For example, the Burke Shire Council raised the issues of:

- funding to rural and remote non-discrete communities who nevertheless have a significant Indigenous population. For example, the council noted that recent Queensland Government budget initiatives to increase expenditure on social/affordable housing and water, wastewater and solid waste infrastructure to assist Indigenous people was only available to discrete communities. The council stated that co-funding requirements are higher for the council (for example, the council has to chip in $3 for every $1 in grant funding compared to 1:1 for Indigenous councils), even in situations where the road it is maintaining is the primary access road to the Doomadgee Aboriginal Shire

- the potential role for funding and incentive mechanisms to achieve greater collaboration between Indigenous and non-Indigenous councils

- the scope for reforming funding arrangements to reward councils for good governance by, for example, reducing compliance (red tape) burdens by streamlining requirements (Burke Shire Council sub. 25, pp. 1, 8–9).

The council considered that greater collaboration between councils could provide benefits in reduced duplication of services.
5.5 Underlying problems

There are reasons why policies fail or under-perform that are systemic in nature, relating to government institutions, rules and processes and not to a specific government, level of government or side of politics.

Problems at each stage of the policy cycle

Many reasons why policies fail are not specific to Indigenous policy, but they are more ‘concentrated’. Some of the reasons are a focus on achieving visible and short-term impacts rather than long-term outcomes; failure to understand the problem and a lack of clear objectives; insufficient attention paid to opportunity costs and unintended consequences; the practical constraints on centralised policy interventions to actually achieve outcomes; poor choice of policy instrument when considering different ways to address a problem; rigidity and uniformity of policy, legal and administrative frameworks; low expectations being a self-fulfilling prophecy; and a lack of transparency and accountability to the people whom service delivery is meant to serve.

There are underlying reasons for poor performance at each stage of the policy cycle. Some of the reasons listed cut across stages—for example, a disposition to intervene is seen both in the policy design process (by agencies) and in the decision-making process (for example, by politicians).

Service improvement relies on understanding the outcomes achieved by a program. Yet, government funding of Indigenous programs is characterised by inadequate transparency, accountability and evaluation—though compliance reporting requirements are extensive, the data collected typically does not provide credible evidence of the program’s impact, account for how the money was spent, or report on whether the program is meeting its intended objectives. Equity, efficiency and effectiveness of service delivery are not demonstrated.

Problems in monitoring, evaluation and feedback processes are discussed in Chapter 10.

A disposition to intervene

There are many reasons why governments and government institutions are disposed to intervene in the lives of Aboriginal and Torres Strait Islander people:

- Governments and other non-Indigenous institutions have usurped ‘responsibility’ for the welfare of Indigenous people over many decades.
- Governments, being ‘responsible’, experience political risk aversion, which drives responses to reported poor outcomes, given broader community expectations.
- A ‘moral’ responsibility exists to right past wrongs.
- Government institutions respond to incentives for expansion or greater control.
- Governments have underlying concerns that Aboriginal and Torres Strait Islander people are not sufficiently capable.
- The underlying belief is held that government institutions and political decision-making processes are more capable than what they are in practice.

Therefore, governments are more likely to intervene when they should not, and/or they are more likely to intervene in a way that is heavy-handed.
Government as problem fixer—where does responsibility lie?

Where there is a policy intervention, it should address an identified problem. The policy intervention should be proportional to the problem and, importantly, consideration needs to be given to the realities that limit government interventions in achieving their objectives. But, the practical limitations on government interventions or the sources of policy failings are rarely seriously assessed (see Box 5.3). As discussed in the sections below, there are numerous limitations on the ability of governments, large bureaucracies and centralised decision-making to actually solve problems in communities.

**Box 5.3 Government as the fixer of ‘market failures’**

Economic policy advice often contributes to the view of government as a ‘fixer’ of problems. Government interventions are to be considered where there are potential welfare-enhancing improvements from intervening in an economy (whether in traditionally ‘economic’ spaces or social policy areas, such as, health and education). The potential for a welfare-enhancing intervention is most likely in those circumstances where a policy intervention can address a ‘market failure’ and improve economic efficiency.

The market failure framework provides a two-stage test:
- First, a policy should address a clear market failure, providing for a potential improvement in economic efficiency and welfare.
- Second, the government policy intervention should be capable of fixing the problem and improving upon outcomes. The second-stage test allows a broad range of perspectives and theory to be applied.

The framework is meant to help guide policy interventions, and it does this in many cases. But, it does not encompass all matters that might be relevant to identifying a problem, understanding the problem and considering whether a policy could improve upon outcomes.

Often the framework is not used in practice, with policies starting from the position based on the accumulation of past policies, or a unilateral political decision, rather than a fundamental questioning of the role of government in relation to the problem.

Even if policies do address some form of market failure, there is rarely any serious consideration of whether a government policy response will work in practice. The second-stage test is rarely applied. If it was, many interventions would not occur, and others would be designed differently.

Given the observed outcomes of policies impacting on Indigenous communities, there is probably no area of policy where the inability to think clearly and truthfully about the limitations of government has worse consequences than in Indigenous policy.
Whether it is the role of the Queensland Government or Australian Government to address a problem is a question that needs to be asked more often:

The objectives of overcoming deficits, disadvantage and poverty immediately invoke the standard tools of the welfare state: top-down government intervention through income transfers and passive service delivery. Individual, family and collective agency is relegated to the sidelines, displaced by the strategies, rules and procedures of the bureaucracy. Failure to achieve progress is taken as evidence of the need for increased funding, further government intervention and better ‘coordinated’ programs. (Empowered Communities 2015, p. 13).

If Aboriginal and Torres Strait Islander people are to take greater responsibility for their lives, governments must take less. Therefore, the responsibility for solving many problems rests with the people residing in the communities.

The issue is not so much that policy targets an identified problem, but that government intervention almost automatically leads to inertia, and that there is a strong disposition to ‘solutions’ that are top-down or centrally driven, despite the evidence that this approach often causes more harm than it does good.

Governments should more often step back to an enabling or facilitating role (discussed further in Chapter 8). This means that the problem is still targeted, but government seeks a solution through assisting individuals or communities to solve the problem.

**Dispersed knowledge and complexity**

The social problems present and the nature of the development challenges are complex problems that top-down and centralised decision-making and service delivery is ill-suited to solve:

*It is up to the bureaucracy to assess these funding proposals against the stipulated criteria. How can panels of bureaucrats know what is needed for development on the ground and how could they assess what is and what is not a worthwhile investment proposal? (Empowered Communities 2015, p. 60)*

A deeper appreciation of the complexity of the mainstream economy and the problems that markets solve can help provide insights on the challenges facing Indigenous policy and public-sector-driven service delivery as substitute ways of coordinating economic activity, including the provision of services.¹¹

Given the complexity of the system and problems, often by the time the nature of a problem is understood well enough to design solutions with a reasonable chance of solving the problem, agreement is obtained on those solutions, and solutions are implemented, conditions have changed. Perceptions of problems and the best solutions are often out of date. By the time an evidence base is established, the world has moved on.

Cultural differences between Indigenous communities and mainstream Australia add to the complexity of the challenge of providing effective and efficient services to communities, as well as achieving development. Differences in culture also occur between different tribes and family groupings within communities, which poses further challenges to achieving safe, prospering communities.

Even when genuine consultation occurs, it is a poor substitute in linking what people want and what is of value to them with the supply of goods and services.

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¹¹ See Boudreaux 2014 and Hayek 1945, and the video ‘I, pencil’ at https://cei.org/i-pencil for an insight on the complexity of producing what appears to be a simple pencil and how decentralised markets coordinate it. The parallel in communities is the challenge of addressing complex social problems (or “wicked problems”), for example, see CYI sub. 026, p. 7 on the causal pathways driving disadvantage.
Challenges in whole-of-government coordination

To better improve the coordination of policy and services, whole-of-government approaches may be adopted. However, whole-of-government coordination efforts within governments face many obstacles and there is limited evidence that they have improved service delivery in communities.

The Australian Government has acknowledged the interconnectedness of the problems it seeks to address, and concluded that whole-of-government approaches are required. Two Management Advisory Committees have described the changes in organisation and processes that are essential if whole-of-government coordination is to work. The changes included five basic imperatives:

- substantial initial cross-agency—stakeholder agreement about the broad purposes to be pursued
- use of the outcomes budget framework to pool resources and to create appropriate accountability frameworks
- lead-agency staff empowered with sufficient authority to manage whole-of-government settings and to lead the engagement of local stakeholders
- empowering these same managers to engage with relevant individuals and interests
- ensure the individuals engaged in those latter roles have the appropriate networking, collaboration and entrepreneurial skills.

Note that this is an internal high level Commonwealth assessment, not that of some external critic. These are the people with administrative skin in the game. In my view, these imperatives are not ever met. (Chaney 2012, p. 59)

Whole-of-government approaches are constrained by the existing institutions, rules and processes of government. The constraints may be so difficult to overcome that major structural reforms are needed to redefine the fundamental relationships between governments, agencies, external organisations and Indigenous people:

Whole-of-government approaches typically entail substantially increased investment in the public sector, arrangements to enhance central strategy and executive control, and efforts to ‘join up’ multiple agencies of government, often through joint agency/funding agreements…[T]he changes in organisation and processes needed to make a whole-of-government approach work… include ‘substantial’ cross-agency agreements, outcomes-oriented budgeting, provision of greater discretion to frontline staff, and stability in commitments over time. What these features point to is that whole-of-government approaches will not work without proper devolution of authority, funding, accountability and coordinated organisation. More to the point, it is clear that fundamental shifts in structural relations are needed between central and local authorities, and among influential private sector players, community members and representatives of public authorities. (Walker et al. 2012, p. 56)

Non-market attempts to mimic the benefits of competition

Competition provides many benefits that systems of non-market provision struggle to replicate (Box 5.4). The absence of competition for non-market activities:

- requires other mechanisms be designed that correct performance that are unlikely to have the same disciplining influence (for example, the Queensland Government’s Performance Management Framework)
- allows for the replacement of incentive structures linked to the external provision of valued goods and services with alternatives that are internal or proxy incentive structures that may better serve the needs of government and providers than communities
impairs the provision of information to non-market decision-makers on what is valued, and how much it is valued, with consequences for the link to internal cost structures and attempts to improve performance. Consultation is an inadequate replacement mechanism.

The activities in communities are dominated by non-market activities. The lack of a dominant private sector means that the problems related to the absence of functioning markets and competition are pervasive. In other words, many of the problems in communities are predictable as outcomes of a non-market form of organising activities and the allocation of resources that is overwhelmingly dominant in communities.

Box 5.4 Why competition supports improvements in welfare

Competition corrects poor performance. Government organisations are not subject to bankruptcy and they usually do not have to worry about competition (Stiglitz 2012, pp. 199–200). The possibility of bankruptcy provides a limit to the magnitude of the losses than an inefficient management can generate, and a natural mechanism for the replacement of management and correction of poor performance.

Competition provides the opportunity for choice. Where there is competition, individuals can reveal their preferences by their acts of choice. The presence of choice forces businesses to come to terms with the costs imposed on those outside their agency as a result of their internal bureaucratic processes.

Competition provides an incentive structure that serves customers. Businesses, in their attempts to attract customers and remain viable, find a mixture of services that best meets customer needs.

Competition provides a basis for comparison. Where only one service is provided, it may be difficult to ascertain whether the service is being provided efficiently.

Competition re-allocates resources towards success. Those firms that are efficient and are able to deliver the kinds of goods and services consumers desire will grow and expand, and those that are inefficient will decline. Business managers have a strong incentive to promote efficiency and to be innovative in developing products and services that better meet the needs of consumers.

Consultation and participation in service delivery design

While communities are frequently consulted, there is little real participation at each stage of the policy cycle from the policy development process through to decision making, implementation, and monitoring, evaluation and feedback processes.

Indigenous people and organisations currently feel like they have little influence in the making of policy by the Australian and Queensland governments, or influence over service delivery:

*It is obvious that geographical issues will impact on the level of service provided from outside agencies. Many Woorabinda residents, however, believe they are not being serviced adequately by visiting services funded to assist their community. The issue is compounded by the fact that local residents have no input into program design to ensure local cultural expectations are met, and no involvement in ongoing decision making ... (fly-in fly-out services) are unable to deliver the best outcomes and have limited accountability to the local community. (Woorabinda Aboriginal and Torres Strait Islander Corporation for Social and Emotional Wellbeing and Health sub. 5, p. 2)*
Clear intentions to consult and co-design are not backed up by supporting institutional arrangements that see no formal mechanism for representation and negotiation to occur on an ongoing basis:

Wicked problems, multi-factoral problems affecting people, such as health, education and employment, do not admit to solutions that do not involve those for whom the program is established. However, I do not know any Indigenous communities or individuals who would claim that their experience of dealing with government has been in line with those preconditions. (Chaney 2012, p. 58).

Other policy design challenges

Designing policy and service delivery is challenging, particularly when addressing complex problems. Some of the problems are listed in Table 14.

Table 14 Other policy design challenges

<table>
<thead>
<tr>
<th>Nature of the problem</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent seeking</td>
<td>Rent-seeking is the economic term used to describe attempts by individuals to use the political process to obtain gains for themselves at the expense of others.</td>
</tr>
<tr>
<td>Special interests over economy-wide impacts</td>
<td>Policy should consider the broader impacts of the policy on the economy or community, not just the impacts on a particular target group.</td>
</tr>
<tr>
<td>Lack of clear objectives</td>
<td>The genesis of a policy may not be based on a considered view of what the real underlying problem is, and the community’s view of priorities. The rationale for policies is often unclear. Even where a policy had a clear rationale when it was introduced, this may no longer be the case as circumstances change.</td>
</tr>
<tr>
<td>Preoccupation with the visible and short-term</td>
<td>The choice to introduce a new policy and how to intervene is too strongly driven by the visible and short-term impacts of the policy.</td>
</tr>
<tr>
<td>Focus on symptoms not underlying causes</td>
<td>The focus on short-term and visible impacts lends itself to a focus on problems which are symptoms of more fundamental or underlying problems. Policies to address the underlying problems may be too long-term and uncertain.</td>
</tr>
<tr>
<td>Poor choice of policy instrument</td>
<td>To achieve a specific objective, alternative policy instruments are available. Governments often choose instruments which offer them a high degree of control and perceived minimum risk, whereas communities are better served by more ‘light-handed’ approaches which give them greater flexibility and control.</td>
</tr>
<tr>
<td>Not targeted to local conditions</td>
<td>Programs are often difficult to implement locally because they are not targeted to local conditions. Attempts to replicate a successful service delivery model in one location to other locations have often failed.</td>
</tr>
<tr>
<td>Failure concerning the logic of the intervention</td>
<td>The logic of a policy intervention sets out how inputs (e.g. labour and capital resources) will lead to a change in target outputs and desired outcomes. However, the assumed relationships may be wrong. For example, errors may be made concerning the direction of causation in underlying relationships, and the direction and magnitude of impacts.</td>
</tr>
<tr>
<td>Insufficient consideration of unintended consequences</td>
<td>A policy may produce unintended impacts beyond the target group of the policy. These impacts may be benefits or costs. Often they involve negative consequences of policy that were not fully appreciated, or were ignored.</td>
</tr>
</tbody>
</table>
### Nature of the problem

<table>
<thead>
<tr>
<th>Nature of the problem</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient consideration of opportunity costs</td>
<td>Resources are not free even if they are provided to someone without charge. All resources have an opportunity cost. One person’s consumption of a good or service means another person cannot consume it. Policies often ignore opportunity costs: the fact that resources are consumed by the policy means that the resources were not used in some other way which may have delivered greater benefits to a community.</td>
</tr>
<tr>
<td>Principal–agent problems</td>
<td>The problem of motivating one party (the agent) to act on behalf of another (the principal) is known as the principal–agent problem, or agency problem in short. Agency problems arise when the incentives between the agent and the principal are not perfectly aligned and conflicts of interest arise. As a result, the agent may be tempted to act in his or her own interest rather than the principal’s. An example is where the state government acts as an agent on behalf of communities. Or, the principal may be the general taxpayer that funds services to communities.</td>
</tr>
<tr>
<td>Moral hazard and behavioural responses</td>
<td>Moral hazard arises when an agreed contract or financial arrangement creates incentives for the parties involved to behave against the interest of others. The income support system leads to moral hazard problems when the presence of income support payments alter decisions, making it more likely that income support will be needed (for example, if people are less incentivised to invest in their own human capital and this leads to a lower likelihood of employment).</td>
</tr>
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### Rent-seeking

In response to incentives, people may engage in rent-seeking behaviour. Rent-seeking behaviour generally manifests itself in the form of special interest groups seeking legislative privilege, either by lobbying for special legislation or by seeking increased allocations of public resources. In both cases, the benefits to the recipients are concentrated, while the costs to the taxpayer or consumer are diffuse. This is due to the incentive structure under which governments and agencies operate.

Rent-seeking is an important reason why policy choices may be driven by the impacts on special interest groups or industries over the economy-wide or community-wide impacts. Rent-seeking can lead to policies that in the aggregate reduce welfare: in other words, the sum of the costs of the policy on those not part of the favoured interest group or industry outweighs the benefits to the privileged.

### A focus on short-term impacts and treating symptoms

Policies often focus on the visible and short-term impacts of the policy or on the short-term benefits of delivering a service, rather than on the underlying problems and long-term. There are many reasons for this:

- The real causes of problems may not be widely understood.
- The objectives may not be clear, or the objectives may not be those of the community.
- The complexity of interactions and relationships may make it very difficult to trace through the potential impacts.
- Short-term impacts are easier to identify and there may be a political imperative to show ‘progress’ (discussed further below).
One of the consequences of an undue focus on visible impacts is that policies, and therefore resources, are too frequently directed at the symptoms of problems and not at solving the root causes of problems. This problem applies in many areas of service delivery. It is most commonly discussed in relation to the resources that are spent on the treatment of sickness compared to resources that are spent on the underlying determinants of why people get sick.

Addressing symptoms is relatively more ‘simple’ than addressing the underlying causes of problems. Addressing symptoms leads more naturally to a policy approach that is more direct and controlling (illustrated in Table 15).

Table 15 Addressing symptoms leads more naturally to a controlling approach

<table>
<thead>
<tr>
<th>Symptom</th>
<th>Problem</th>
<th>Intervening approach</th>
<th>Key nature of policy instrument</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addressing a symptom</td>
<td>Poor quality food and unreliable supply.</td>
<td>Natural inclination to directly fix the problem (e.g. own and manage stores).</td>
<td>Exercise control; direct action.</td>
<td>In the short- to medium-term it may or may not improve outcomes. Not a long-term solution.</td>
</tr>
<tr>
<td>Addressing the underlying problem</td>
<td>Poor quality food and unreliable supply.</td>
<td>‘Enable’ local people to define and fix the problem/ provide scope to learn.</td>
<td>Align property rights and incentives; reduce control.</td>
<td>In the short- to medium-term it may or may not improve outcomes. Longer-term contribution to capability building and development.</td>
</tr>
</tbody>
</table>

Insufficient attention paid to unintended consequences

Government intervention may generate unanticipated side effects, often in areas remote from that in which the public policy was intended to operate. The risk of unintended consequences is increased, as interventions tend to operate through large organisations using blunt instruments whose consequences are far-reaching and difficult to forecast. Unintended consequences occur external to the agency designing or delivering the policy or service, and may not affect the agency’s decisions on whether to introduce a policy or not, or the design of the policy. The often ill-defined nature of both the quantity and quality of government output limits the motivation and ability of analysts to think seriously about the unintended side effects of policies.

Best practice policy design gives serious consideration to the potential unintended consequences of a policy. Four types of unintended consequences can be identified (Table 16).
Table 16 Types of unintended effects of policy interventions

<table>
<thead>
<tr>
<th>Effect</th>
<th>Definition</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Displacement</td>
<td>The positive outcomes from a policy are offset by negative outcomes of the policy elsewhere.</td>
<td>The displacement of crime from one area, where a crime reduction policy is being implemented, to a bordering area.</td>
</tr>
<tr>
<td>Substitution</td>
<td>The effects of an intervention on a particular individual, group or area are realised at the expense of other individuals, groups or areas, or public monies substitute for private monies.</td>
<td>An employer appointing a jobless person from a government scheme, rather than a standard applicant, in order to secure a recruitment subsidy, or hiring a subsidised person while firing a non-subsidised person.</td>
</tr>
<tr>
<td>Leakage</td>
<td>The policy benefits others outside the target area or group.</td>
<td>Jobs generated in a target area are taken by those who live outside it. For example, fly-in, fly-out workers where there are suitably skilled local Indigenous workers.</td>
</tr>
<tr>
<td>Deadweight</td>
<td>The policy supports outcomes which would have occurred anyway.</td>
<td>An employer receives a subsidy to take on workers who were going to be appointed anyway. The subsidy does not result in additional employment.</td>
</tr>
</tbody>
</table>

Legislation can have unintended consequences, as observed in relation to the Alcohol Management Plans (AMPs):

*AMPs require some further thought and linking with other changes. Sly grog creates binge drinking of strong alcohol. Spirits are easier to bring in due to lower volume. Alcohol being so expensive due to its contraband nature is consumed quickly – partly to avoid police detection but also to reduce humbugging from family and friends. Thus AMPs can inadvertently promote high consumption of high alcohol content beverages. There is little doubt that AMPs have had positive effect in places such as Aurukun. Nonetheless some further deliberation on optimum legislation is warranted.*

*(Hannan sub. 24, pp. 3–4)*

The problem of unintended consequences contributes to the maze of policies and funding arrangements. The rationale for a policy intervention may rest on addressing the unintended consequences of earlier policy interventions. The range of policies and services being delivered to address and reduce dependency is an example.
Moral hazard

The problem of welfare dependency in communities demonstrates the potential of policies to produce results very different to those that are intended (Box 5.5). Dependency is also a good case study in the problem of moral hazard, as the provision of support altered behaviours in a way that does not contribute positively to either individual or community welfare.

Box 5.5 The Cape York Institute on the road to welfare dependence

A range of factors have contributed to the collapse of social norms in Indigenous Cape York Peninsula. Indigenous Australians were violently dispossessed from their land, and experienced forced co-location and long periods of living under rigid missionary rule. The lives of Indigenous people in Queensland were for several generations regulated under discriminatory State protection laws. The impact of dispossession varied in different parts of Cape York Peninsula. These events undermined or made irrelevant many of the social norms which governed Indigenous social life prior to white settlement.

However, even under oppressive circumstances, Indigenous people built socially strong families and stable communities, such as the community of Hope Vale. Forty years ago, a majority of people in Cape York Peninsula had internalised strong values in relation to personal conduct and participation in the real economy.

The belated recognition of full citizenship brought equal rights, freedom from discrimination and entitlement to welfare. Three policy shifts at the end of the 1960s and in the early 1970s were unavoidable consequences of the end of discrimination:

- The introduction of equal wages in 1965 resulted in Aboriginal stock-workers losing employment in the cattle industry and shifting to sedentary life in settlements and on the fringes of country towns. This corresponded with a more general downturn in Indigenous employment in many other rural industries.

- Equal Citizenship in 1967 carried with it the right to enter pubs and drink alcohol.

- The Commonwealth Government providing the now idle Aboriginal men with unemployment benefits that could be used to buy alcohol.

However, introducing idle time, free money and the right to drink had the unintended consequence that the preconditions for alcohol abuse epidemics were created … The three policies outlined above were followed by a wave of passive welfare service solutions to the escalating problems in the 1970s and 1980s. Across the spectrum of social and economic life, including housing, legal aid and education, policies were implemented which increasingly displaced responsibility from Indigenous people.

Source: Cape York Institute 2007, p. 20.

Decision-making

Political decision-making determines the content of laws and regulations and sets public policies which influence how resources are allocated in an economy or community. Political decision-making makes choices on the funding of services, who delivers them, and, often, how they are delivered.

The exercise of authority over resources almost entirely happens within the public sphere in communities, as there is very little private sector activity. Career advancement is tied to the processes which allocate resources (provided from external sources) and deliver funded services.
There are many problems with political decision-making in Indigenous policy:

There is a level of frenetic chopping and changing, and policy pulsing, that comes with electoral cycles and as the political pendulum swings from left to right. Key decision-makers are not in it for the long haul, and are rarely in it long enough to learn from their decision-making over time and to be able to use the sum of that experience to drive better outcomes. Fresh-faced ministerial enthusiasms at the state and national level ensure that decision-making in Indigenous policy feels much like a merry-go-round—replete with the same old traps and reinvented wheels. (Empowered Communities 2015, p. 33)

Strong political pressure in responding to community concerns may create an effective demand for action before there is adequate knowledge or time to consider potential side effects. The short time horizon and high time discounts of political actors predispose them to overlook potential unintended consequences of policy.

Indigenous policy is characterised by some recurring problems:

• **Purging**: reforms typically discredit everything that came before. As a result, much developing capacity is swept away with each wave of reform.

• **Policy swings**: policies come and go with regularity, usually overreaching before being replaced (for example, centralisation and decentralisation of powers).

• **Mimicking**: if something is found to work, it is replicated and rolled out in other areas. This often does not work because there are often local factors which are not taken into account, standardisation does not work, or policies or programs have been poorly evaluated (that is, success falsely attributed to policy).

• **Contradiction**: not only do policies and programs overlap, but they also often contradict each other. Programs often have different underlying models for behavioural change, which can be contradictory at the point of impact on their intended beneficiary (Moran 2016, pp. 178–180).

Other problems include the problem of low expectations, political and bureaucratic risk averseness, the maturity of the public discourse concerning Indigenous affairs, political cycles and fads, and the risks of concentrated authority at all levels of government (Table 17).
Table 17 Problems in political decision making

<table>
<thead>
<tr>
<th>Nature of the problem</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low expectations</td>
<td>Having low expectations about the potential for positive change leads to complacency that the best that can be done is not much different to what is currently done. It can erode the building of a consensus for reform and increases the perceived risks of major reform efforts.</td>
</tr>
<tr>
<td>Risk averseness</td>
<td>Both politicians and government agency decision-makers are highly risk-averse. They may see a greater downside risk to making a major policy change than an upside benefit. Part of the problem is that benefits tend to be longer-term in nature, with failings more immediate and in full public view.</td>
</tr>
<tr>
<td>Maturity of public discourse</td>
<td>The risk-averseness of politicians is partly determined by the maturity of public discourse. When the public’s discussion of issues more closely reflects the complexity of the issues involved and is not driven by ‘headline crisis’, then this supports better policymaking. Public discourse can focus too much on failings, whereas a transparent discussion of failings is a necessary part of the process of learning and improvement.</td>
</tr>
<tr>
<td>Winds of policy change</td>
<td>Indigenous policy changes direction frequently. Some of the causes of this problem includes competing political ideologies, policy fads, and the incentive to be seen to be doing something about an important problem that is different from the predecessor government. An underlying problem can be a lack of a clear evidence base around which consensus can be built.</td>
</tr>
<tr>
<td>Risks of concentrated authority</td>
<td>All three tiers of government and their agencies exercise authority over significant resources. Some decisions, and the implementation of policy by agencies, are influenced by the desire to protect that role. This can conflict with reforms that seek to devolve a greater share of authority closer to the people impacted by the decisions of governments. Concentrated authority can also contribute to the problem of rigid institutions and processes, and impede individual and community action supportive of development.</td>
</tr>
</tbody>
</table>

Internal incentives and rising costs

Communities acknowledge that the aggregate envelope of money given to Indigenous-specific policies and through mainstream organisations to provide services in communities is large. However, there are concerns about the proportion of the resourcing that gets consumed by ‘the system’.

Within the public sector, there are inherent biases to expand and consume an increasing share of program costs in administration costs (Box 5.6). There is a disposition towards:

- rising and redundant costs. There is less of an incentive to produce efficiently compared to organisations that face the disciplines of the market sector, and there is less of an incentive to control costs over time
- complex solutions. However complex the original design of policy put to decision-makers, there is a tendency for policies and the apparatus that supports the policy to grow in complexity.
Box 5.6 Why bureaucracies expand

Technical and dynamic inefficiency
Markets link, however imperfectly, the costs of producing or conducting an activity to the income that sustains it. This link is provided by the prices charged for the marketed output and paid by consumers who can choose whether and what to buy. Non-market activity removes this link because the revenues that sustain non-market activities are derived from non-price sources (that is, taxes). The absence of the link separates the adequacy and value of the non-market output from the cost of producing it, increasing the scope for the misallocation of resources.

Non-market activities often exhibit rising costs (dynamic inefficiency) and redundant costs (technical inefficiency). If possibilities exist for lowering cost functions, raising productivity, or realising economies of scale, these opportunities are more likely to be ignored or less likely to be exploited fully by non-market than by market activities.

Internal incentives
Lacking the direct performance indicators available to market participants, public agencies must develop their own standards. In non-market organisations, output is hard to define, feedback from consumers is lacking, and there are often no competing producers providing incentives to control costs; therefore, non-market agencies often develop internal standards that do not bear a clear or reliable connection with the ostensible public purpose that the agency is intended to serve. The maximisation objective

Given the presence of internal incentives, agency decision-makers may seek to maximise the size of their agency or budget, or minimise risks, rather than maximising the value of their outputs over costs for a given level of risk. Agency decision-makers may promote the activities of the agency in the same way a business seeks to expand its activities.

Increasingly complex solutions
Bureaucrats have incentives to design, promote and support complex policy initiatives that both increase the scope for discretion and help increase their budget. Where impacts are complex and difficult to determine, the electorate will have greater difficulty holding elected officials accountable for policy failures. It may be very difficult to identify the net impacts of a policy, and then to assign responsibility.

Sources: Wolf 1988; Butler 2012.

As discussed in Chapter 3, it would appear that a significant proportion of expenditures made on remote and discrete communities is consumed by indirect and other ancillary costs. Stakeholders raised concerns about the efficiency of service delivery and the share of resources consumed by unnecessary administrative and compliance costs:

Indigenous councils are concerned about the amount of ‘leakage’ that occurs between the time funding is allocated to the time the service is delivered to the community. (LGAQ sub. 14, p. 5)

At times it is clear that funding bodies place more emphasis on funding compliance than on actual service delivery outcomes. Often compliance issues raised with the organisation are of a minor nature...Responding to such queries is time consuming and repetitive, and the requests are often generated by Departmental staff with limited understanding of the NGO. (Palm Island Community Company sub. 29, p. 8)
Some systems are in place to help combat these problems, such as the government’s Performance Management Framework.

The problems potentially extend to any organisations who operate in the non-market sector, including NGOs and Indigenous community organisations.

The complexity of the system makes it less transparent, which diminishes the ability of taxpayers and Indigenous people to hold the system to account for the services it provides.

Rigidity of policy, legal and administrative frameworks

The system is often highly inflexible. Laws, regulation and policies can be difficult to change. Inflexibility impedes an approach to policy where the knowledge learned from monitoring and evaluation results in incremental improvements to policy:

The rigidity of national policy, legal and administrative frameworks, and the lack of locally knowledgeable staff, make an iterative learning by doing approach impossible. (Chaney 2012, p. 63)

Rather than reform existing institutions and policy, particularly where solutions cut across levels of government, it is often easier to introduce a new expenditure program. This fulfils the imperative to be seen to be doing something, it responds to internal incentives for expansion, and it avoids the problems of changing existing programs and institutions (including laws and regulations).

The problem of uniform standards and prices

The economic conditions in communities are not representative of the Australian average, yet uniform national and statewide regulations and standards also apply in communities.

Service delivery standards are a reflection of a nation’s wealth, not a generator of it.

When applying uniform national standards in communities based on a level of wealth that does not exist in communities, there are consequences. One consequence is that of allocative inefficiency. The resources consumed in meeting the standard in the community could have been used in alternative uses that would have provided a greater contribution to welfare. Uniform national or statewide standards are not necessarily the standards that a community would choose.

Standards can also impose barriers to economic participation in communities. For example, when statewide health qualifications or credentials are ratcheted up, locals who may have previously worked in the health sector and have sufficient skills and formal qualifications under the old standard, are now not able work without upgrading their formal qualifications. However, there may be significant impediments to upgrading their qualifications, such as no local training providers. And the ongoing process of increasing required credentials can deter continued investments in skills.

Uniform prices also cause problems for communities. For example, the industrial relations framework imposes uniform wages (the price of labour) across regions with widely varying underlying economic circumstances. The public sector wage structure does the same. Centralised uniform wage setting processes increase unemployment, including in communities.
Uniform national income tax rules and uniform national income support payment cause further problems in communities because they also do not take into account local conditions. The combination of centralised wage setting and uniform tax rules and income support payments results in high disincentives to work (effective marginal tax rates (EMTRs) are high).¹²

### 5.6 Key implications for this inquiry

There are opportunities to improve the existing institutional, funding and policy frameworks for service delivery. Effectiveness and efficiency can be enhanced through reforms that:

- correct incentives to achieve better outcomes for individuals and communities
- reduce reliance on government activity
- improve accountability and reduce inefficiency.

There are systemic reasons why these types of reforms are difficult to achieve within the existing system, suggesting that a renewed reform effort is required, and that a new set of arrangements may be required.

Part B of this report sets out a reform proposal to facilitate change.

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¹² When a person on income support earns additional income that income is generally subject to income tax. In addition, the additional income support can lead to income support payments being reduced. The effective marginal tax rate (EMTR) is the combined effect the loss of a proportion of the additional income due to income tax and the reduction in support payments. The higher the EMTR, the less incentive there is to work part-time, to work additional hours, and/or to move from income support to full-time employment.