

**9.0**

# **Economic and community development**

*This chapter highlights the importance of economic and community development for improving the living standards of Aboriginal and Torres Strait Islander people. The chapter examines the link between economic development and service delivery, changes in thinking that are required to support development and the role of government in getting framework conditions right.*

## Key points

- The lack of economic development and opportunity is an underlying driver of community dysfunction and ongoing reliance on government support. Development is needed to drive the creation and accumulation of wealth within communities, provide employment and reduce welfare dependency and associated problems.
- Discrete communities developed from mission and government protector eras and are not based on local economic opportunities and comparative advantages. However, the potential for development may be greater than current conditions suggest, as many prerequisites for development have long been missing.
- The approach to the relationship between Aboriginal and Torres Strait Islander people and government needs to change. The role of government needs to shift from service provider or 'fixer of problems' to 'enabler'.
- When a policy or service is designed, an important consideration should be that the policy or service supports development, or at least does not impede it.
- Government should not intervene in communities in a way that displaces or crowds out local investment in, and ownership and control of, commercial activities, including retail stores.
- The income support system is intended to help alleviate poverty. The effect of the system—as opposed to its objectives—is to weaken the incentives to transition from education to work or from welfare dependency to work.
- A step-change in individual and institutional incentives is needed. Achieving the changes will require coordinated policy responses led by communities working in cooperation with the Queensland and Australian Governments. As many incentive problems are generations in the making, solutions require long-term policy commitment.
- The inquiry's proposed structural reforms can incorporate a place-based approach to development, and are a suitable framework for coordinating policy to achieve the needed changes in incentives.
- Given the severity of the unemployment problem, employment outcomes need to be improved through economic development, improved support for mobility and employment substitution strategies.
- The Queensland Government has in place policies to increase the Indigenous employment share in the public sector. Monitoring of progress needs to be more transparent and detailed.

Economic and community development is needed to drive the creation and accumulation of wealth within communities. Development will improve both economic and social outcomes through providing employment and reducing welfare dependency and its associated problems.

Many important development issues have been raised during the inquiry. Some are examined in this chapter, such as:

- adverse incentives created through state-funded provision of services
- how policy choices can unintentionally crowd-out investment and development
- supply-side and demand-side issues in achieving improved Indigenous employment outcomes.

Other chapters also examine issues where there is a large cross-over between development and service delivery:

- land tenure is a critical issue for development affecting the delivery of services and home ownership through to business investment and the development of industry (see Chapter 12)
- education and training prepares people for employment and provides other benefits in communities that impact on service delivery and development (see Chapter 15).

## 9.1 Why development is important for service delivery

### Aspiration for change

Consultations revealed a deep desire amongst Aboriginal and Torres Strait Islander people for greater economic opportunity. The lack of opportunity is a fundamental cause of community dysfunction and ongoing reliance on government support. The reliance on government money is seen by many as creating perverse incentives which, in turn, discourage enterprise and perpetuate ongoing dependence on services delivered and funded by government.

Economic development reduces the dependence of Aboriginal and Torres Strait Islander people on governments for their livelihood. Greater independence or freedom expands the range of choices available to individuals and their families, including the range and quality of services available.

A lack of economic opportunity is evident in the discrete communities. Cherbourg, a discrete Aboriginal community with a population of around 1,300 people, provides an example. It is located 6 kilometres from Murgon in the South Burnett region of Queensland. Murgon, a town of just over 2,000 people, has a commercial precinct, with a number of cafes, a shopping centre, hardware store, chemist and a range of other businesses providing services to the community and surrounding areas. Cherbourg does not have a main street. There are no shops, other than a very small takeaway store and funeral service, and the only services are those that are government funded.

### How economic development affects service provision

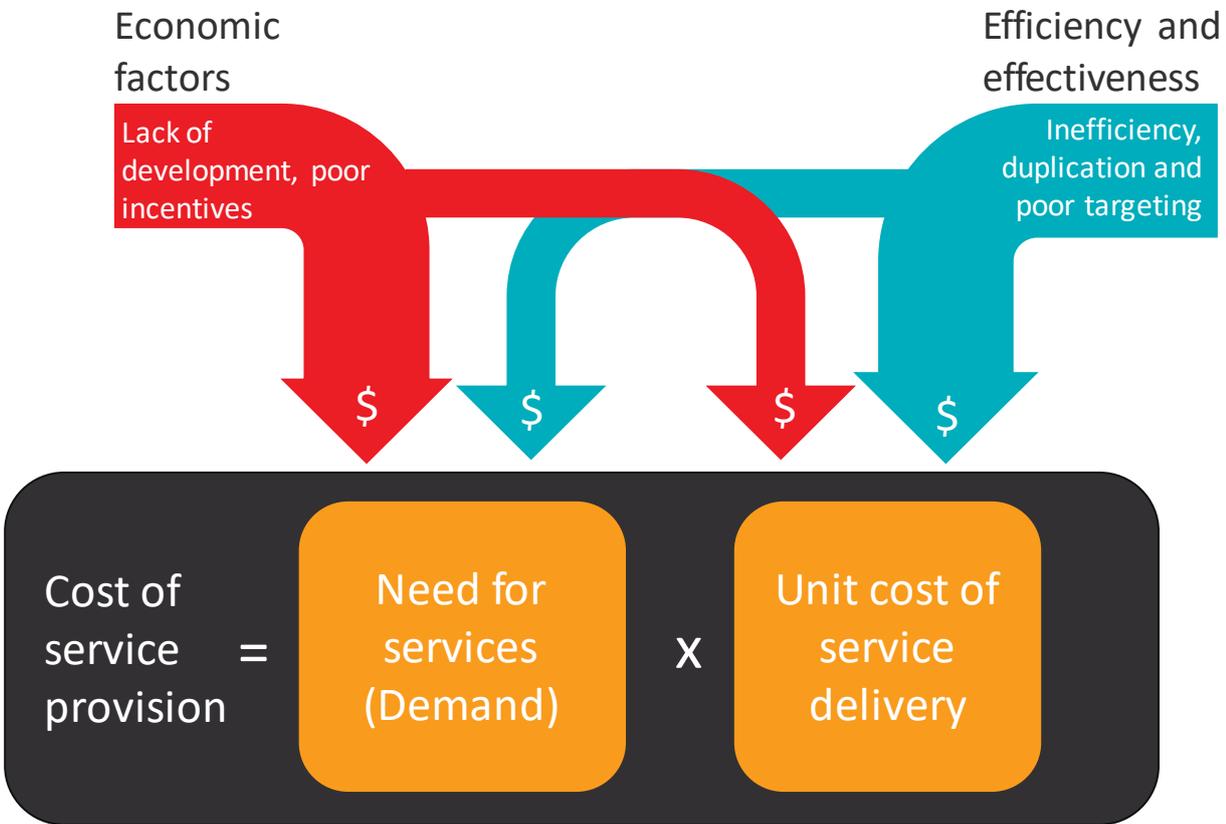
Expenditure on services to discrete and remote communities depends on the quantity of services and the average cost of providing those services.

Successful service delivery directly affects expenditure primarily by raising the efficiency of service provision. For example, services being delivered at lower cost while achieving the same outcomes, or services that better achieve their objectives for the same level of expenditure.

Economic development, on the other hand, has an indirect effect on service provision and mainly influences expenditures by reducing demand by improving wellbeing. At the same time, economic development and wealth creation increases the sustainability of communities and reduces reliance on externally provided funding.

Economic development will also have some influence on the cost of service provision through impacts on the efficiency with which services are provided (Figure 51).

**Figure 51 Economic development and service delivery programs**



Note: The figure depicts the financial cost to government and taxpayers and not a broader economic concept of costs. A larger arrow indicates the main mechanism through which the cost of service provision is affected.

## 9.2 Changing the approach

The relationship between people living in communities and governments needs to be reconceptualised. A re-framed relationship will affect how problems are perceived and the role of individuals, families, communities, councils, and the Queensland and Australian Governments in achieving improvements in standards of living.

Central to this change is a recognition that improved service provision will not solve the underlying problems in communities.

### Improved services will not solve the underlying problems

Providing services at lower cost, or providing services which better achieve targeted outcomes, does not address the underlying drivers of service demand.

Without economic development, communities will remain welfare-dependent and continue to live with the negative impacts of dependency and passivity. To a significant extent, this outcome depends on the choices of those who live within the communities. However, policies at all levels of government also have a large impact on the future viability and welfare of discrete communities.

There are many government policies with the objective of alleviating hardship. Income support payments assist with buying food, paying utility bills, and so on. But these policies change the incentives which influence the choices (where they are available) made by individuals and communities. For example, in terms of self-reliance, taking responsibility for one's actions, investing in one's own capabilities or the capabilities of children, deciding where to live and behaviours which affect the individual, family and community.

Some services can contribute to conditions supportive of development (for example, where services help stabilise community safety). Other services help prepare individuals for future opportunities (such as basic education). But, the basic problem remains that services could be tripled—which would provide some short-term positive results in terms of indicators—yet dependence would become further entrenched.

## Economic development is critical

Economic development is a necessary condition to significantly improve living standards. Without economic development, improvement in social outcomes will remain limited and cultural heritage will be threatened:

*Until the Indigenous people of Cape York can largely generate their own incomes they will be dependent on income transfers, where someone else takes all of the rights and responsibilities to make decisions and take actions on behalf of a relatively powerless people. Economic development is therefore closely linked to self-determination ... The reason for emphasising the importance of economic development is not that the economy is more important than cultural and social issues. It is that without economic advancement, Indigenous Australians are more likely to lose their heritage and identity. (Pearson 2005a, p. 4)*

In a local newsletter, the Mayor of Lockhart River Aboriginal Shire Council wrote:

*I think the biggest challenge for us, in Lockhart, is to get children to school.*

*And the other challenge is, when kids finish school, to get them into a job.*

*That's probably our two biggest challenges. (LRASC 2016, p. 4)*

Efforts have been made to provide local Indigenous people with jobs in government-funded services in their communities, but more remains to be done. In addition, there remains a lack of local economic development and private sector job creation which is needed to expand employment opportunities over the longer term.

## More wealth creation

Existing policies overwhelmingly focus on distributing resources and the cycle of servicing 'need'. Much of what happens in communities occurs in the public sphere. Significant growth in the private sphere (sector) and the community voluntary sector is needed, in absolute terms and relative to the size of the public sphere.

Remote and discrete communities rely on funding provided from outside the community for services provided within the community. This makes them dependent on the decisions and preferences of those providing the resources, and primarily means dependence on governments acting as an agent for taxpayers.

Dependence on others—the opposite of empowerment—can be reduced if Aboriginal and Torres Strait Islander people living in remote and discrete communities are able to generate their own wealth. Evolution of economic, political and social conditions at the local level is needed to raise the level of wealth generating activity occurring locally as the basis for sustainable increases in wellbeing.

While the problems in communities have been evident for decades, the weight of policy effort and resources remains directed squarely at (largely passive) service delivery. There are, however, encouraging signs. Recent community-led initiatives and some initiatives within governments are putting greater emphasis on economic opportunity and development. Some are explored throughout this report.

## Finding

Policy design and decision-making processes need to embed a number of changes in approach:

- a recognition that improved service delivery will not significantly reduce the underlying problems
- a greater focus on local wealth creation and the pursuit of opportunity
- Indigenous people becoming responsible for their own, and their family's, welfare
- a shift in the role of government, to more of an enabling role.

### 9.3 Viability and service delivery costs

Discrete communities have not developed based on local economic opportunities and comparative advantages.

This inquiry has not considered the long-term viability of individual communities, but has focused on things that government can do so that individuals and families are able to maximise their economic opportunities. However, the concept of viability and the implications for service provision are briefly discussed.

The question of viability may be viewed in terms of various considerations, including the ability of traditional country to provide healing or coping mechanisms for Indigenous peoples (Moran 2009). Viability can also be considered using a simple model which defines viability along two dimensions:

- an acceptable level of wellbeing—which should be set primarily by those living in the communities, but should also consider reference to the broader population
- an acceptable level of outside support—primarily determined by political decision-making processes in the Queensland and Australian Government (Cape York Institute 2005).

The lower the level of required outside support, and the higher the level of wellbeing, the more a community is economically viable.

For a given population size, development can reduce the aggregate cost of service provision to a community through, for example, reducing welfare dependency and social dysfunction, lowering the demand for many services. Development can also lower the average per unit cost of providing services (for example, where development results in a more skilled labour force that reduces the need for costly fly-in/fly-out services).

Given the high cost of providing services to any remote community (Indigenous or non-Indigenous), even with development the per capita cost of service provision to remote and discrete communities will remain high. Greater public acceptance of resource transfers to support communities is more likely if:

- there is a clear long-term objective or 'end-game'
- the public can see that progress is being made
- there are clear lines of accountability for the resources consumed in providing services.

## 9.4 Getting the economic framework right

To improve living standards of communities, development needs to be driven from the local level and from individuals and institutions acting outside of government.

There are key areas where Queensland Government policy is very important for development, particularly in relation to the broad range of policies that constitute the 'economic framework'. In this space, the Australian Government also has a large role to play.

Institutions and government policies establish the broad economic framework in which people and businesses make choices and act. This includes policies and institutions that establish property rights, raise taxes and influence incentives to invest in people, capital and knowledge. Getting the economic framework right is necessary to support investment and growth.

In 2005, the Cape York Institute (CYI) set out the conditions needed for development on the Cape (Table 24). At the time, there were major shortfalls in each of the conditions, such as, incentives for people to benefit from work and good infrastructure. Consultations for this inquiry indicated that these shortfalls also applied in non-Cape communities.

In the intervening 12 years, there has been progress on some prerequisites, such as land tenure. However, consultations also indicated that some problems may have become more 'locked-in' (see the discussion concerning NPARIH in Chapter 13).

**Table 24 Conditions for development**

Prerequisite	2005 status
Incentives for people to benefit from work	Welfare payments dilute incentives to work and study; obligations from family members can result in high effective tax rates; income management issues.
Incentives for people to be educated and healthy	Low levels of health and education infrastructure and service delivery; low returns on education.
Good governance	Governance and capacity issues of community councils; councils involved in many business-related activities.
Access to financial capital to build assets	Banking facilities virtually non-existent.
Good infrastructure	Areas are very remote; access to markets difficult and expensive.
Social capital/order (respect, trust, accountability, enforcement of law)	Law and order issues and social capital deficiencies.
Protection of property (legal protection of individual ownership)	Current communal land structures make individual land use difficult and hard to use as collateral; home ownership virtually non-existent.

Source: Cape York Institute 2005; Pearson 2005b.

There is a risk that greater government involvement in development, beyond getting the economic framework right, could be counterproductive. New development policies could easily lead to unintended consequences, impacting negatively on the momentum that appears to be building behind private and community-led development initiatives.

## Support for the pursuit of opportunity

Development requires a mindset which seeks out opportunity. To identify and pursue opportunities requires individual initiative and belief in one's ability to succeed.

Nurturing a culture which pursues opportunities encompasses opportunities for community development as well as economic development, such as through a healthier culture of voluntary participation in communities.

Both capabilities and incentives matter for the pursuit of opportunity and they are often interrelated. They can be improved by increasing the returns or rewards to:

- investments in human capital, such as education and training
- changes that improve service provision
- institutions supportive of economic development, for example, by better aligning financial incentives with the requirements of development
- business investment, including through reducing the risk of investment (for example, reducing sovereign risk in communities associated with uncertainty of tenure)
- economic participation, for example, the decision to supply labour and transition from dependence on income support payments to employment
- changes in personal behaviours.

## Progress in Indigenous business development

Achieving economic development and wealth creation means the ongoing development of an Indigenous private sector, with more people in remote and discrete communities engaged in private enterprise as owners or employees, and in voluntary activities in their communities. It means a smaller proportion of activity in communities is part of the process of external grants, public administration and service delivery.

There is significant potential for Indigenous business development and it appears that positive momentum is being built, with strong growth in the number of Indigenous businesses (Hunter 2013). A House of Representatives inquiry into Indigenous business development found support for a growing Indigenous business sector:

*Whether as individuals or community based enterprises, Indigenous people are increasingly seeking business opportunities. Some of this pressure may come from demographic shifts. Indigenous people are a young and growing population—more than 60 per cent are under the age of 25 years. They have a future focus on raising families, education, housing and jobs. Indigenous business mentors also report an entrepreneurial attitude among young Indigenous people: explaining that they have 'very little fear about going out and taking risk. (House of Representatives 2008, p. 11)*

Fitzpatrick (2017, p. 11) stated:

*It's boom time for Indigenous business, as positive procurement policies and growing corporate involvement encourage a new generation to engage with commerce.*

He identified many stories of successful Indigenous enterprises:

*Just one of a range of community development programs run to strict business governance models through the Alice Springs-based Central Land Council, WETT has directed \$18 million over the past decade into training, boarding school placement, student excursion and other educational activities that leverage resources ownership into community gains ... WETT founder Barbara Napangardi Martin, from Yuendumu, likens the approach to holding a protective umbrella over Indigenous policy-making, "It's a metaphor where government ideas are like the rain, and all those ideas are changing all the time, but with the umbrella we can keep our good ideas underneath, so the government can't ruin them". (Fitzpatrick 2017, p. 12)*

However, national trends may not be a good indicator of what is happening in Queensland's remote and discrete communities:

*Most Indigenous entrepreneurs or self-employed business people are in the south-east corner of Australia, where Indigenous education outcomes are better and where there is greater demand for goods and services ... Interestingly, the most successful Indigenous businesses, from a financial perspective at least, tend to be those that operate outside of Indigenous communities. (Hudson 2016b, pp. 4–5)*

## Removing obligations and celebrating profit

The creation and survival of an Indigenous business involves many challenges (Box 9.1). Some are common to any business, and some are more specific to an Indigenous business.

Growth in exports from communities is required for a significant improvement in a community's trade balance. Currently, communities import almost all the goods they require (food, vehicles, fuel and so on). Payment largely comes from taxpayer funding. Developing businesses which are capable of exporting to markets in the rest of Australia (including other communities) and overseas will significantly increase self-reliance.

## Box 9.1 Difficulties in establishing and running an Indigenous business

Communities often have valuable resources upon which businesses can be developed. They may be location, scenic or mineral rich land, art, and a unique culture. There may also be difficulties that prevent business development. Some are unique to Indigenous businesses and others are not:

- remoteness from markets, resulting in very high transport costs
- inadequate local and external commercial support services
- poor agricultural resources
- inadequate and uncertain capital funding
- communities may have goals for their businesses beyond profit maximisation. These typically include employment and training, autonomy, cultural maintenance and development, and caring for their land
- depending on the community and context, the Indigenous style of decision-making is non-authoritarian and consensus-based and this results in business decisions being made slowly
- community politics interfering with business decisions
- difficulties in gaining normal banking services such as loans and overdraft facilities
- lack of skilled labour and expertise, including managers and directors
- the businesses are small and there is a very high rate of failure amongst small businesses generally
- they are often new businesses and so there is no history or experience of that type of business in that environment (for example, a tourism business on Aboriginal land)
- where Indigenous people take over an existing business, the existing business is often run down and requires a lot of capital to redevelop it to industry standards (for example, cattle stations)
- because businesses often receive government financial support, they are subject to government requirements that are costly and are in excess of those required of a comparable non-Indigenous business
- lack of capital, especially for large projects such as pastoral, tourism and mining developments
- businesses are often not a local initiative, but an idea thrust upon the community.

*Source: Stanley 2002.*

A community's trade balance can also be improved where a local businesses can displace imports of goods and/or services to the community.

An Indigenous business in a remote or discrete community that is able to meet the above challenges, survive and grow, should be celebrated. Profit is an indicator of success and without it no business will survive. A successful business, run on purely commercial principles, makes important contributions to help change conditions prevailing in the community.

Where a business is requested to perform a role that it would not undertake as part of its normal business operations, then it should be funded for the service (for example, to provide training in excess of what it needs to function as a viable business). Imposing further social objectives on Indigenous businesses increases their likelihood of failure (and decreases their likelihood of starting-up in the first place).

## Failure as part of a process of learning

When an Indigenous business fails, it is important that a development or learning perspective is adopted if some form of policy response is being considered.

Business failure is part of a process of learning for both Indigenous and non-Indigenous businesses. An example is the recent closure of the Hope Vale banana farm, pending re-organisation (Box 9.2). The experience has provided lessons that informed other enterprise efforts on the Cape, such as, Cape York Timber.<sup>26</sup>

Cape York Timber, established in 2013, produces high-quality Australian hardwood while providing Indigenous employment and training. It harvests on Indigenous properties, is a profitable 100 per cent Indigenous-owned business, and is trying to build an industry (or rebuild one that used to exist).

Learning from the banana farm experience, Cape York Timber has an explicit commercial objective with the intention of being a viable business in competitive timber markets. External management expertise was brought in from the Victorian timber industry with the longer-term objective of transferring knowledge and skills to local Indigenous management. Management stated that the same expectations apply to Indigenous employees as to employees at a commercial enterprise—investments in training are based on the same requirements as in any successful timber enterprise.

The need for a more commercial footing appears to be what is planned for a restructured banana farm:

*Cape York Enterprises, with possible support from Jawun secondees, will oversee future restructuring of the farm. This includes winding up the existing legal entity, overseeing its transfer back to Hope Vale Foundation, designing and implementing a strong operational model, and securing additional funding. A farming contractor will be engaged for a 'clean up' process, experienced management will be appointed, and a skilled local labour force will be developed over time. Negotiations are planned with an industry partner regarding a marketing agreement and provision of consultancy service. (Jawun 2016, p. 2)*

---

<sup>26</sup> Site visit and personal discussions with management and Cape York Partnerships.

## Box 9.2 The Hope Vale banana farm

The Hope Vale banana farm was a 80 hectare banana plantation established on already cleared land, purchased by the Hope Vale Aboriginal Shire Council with funding from the Australian Government in 2008. The project was initiated through the Hope Vale Aboriginal Shire Council and Dole Australia Pty Ltd with support from both the Australian and Queensland governments.

The farm has ceased trading and is insolvent pending re-organisation. Consultations indicated that some barriers to the successful operation of the farm were:

- conflicting commercial and non-commercial objectives; for example, whether the farm was meant to be a commercial enterprise or a training farm where training expenditure was more than could be justified for the commercial operation of the farm
  - if a commercial enterprise, insufficient plantation scale to sell in open, competitive markets
  - if a training farm, no appropriate external funding sources to subsidise (pay for) non-commercial activities
- management by 'committee' with too many players involved
- lack of management expertise.

These barriers may or may not have proved fatal for the farm. However, in 2014 the plantation was hit by cyclone Ita which destroyed nearly 90 per cent of its crops. A report for Jawun stated:

*Production and income never recovered and the farm has not turned over a profit since, with most effort spent on cleaning and maintenance. A relatively inexperienced management and the modest skills of the local workforce made recovery, already a huge task, even harder. Then in March 2016 the farm's industry partner and 25% shareholder Dole Australia (local subsidiary of global fruit and vegetable giant Dole Food Company), closed all Australian operations and discontinued its operational involvement at the farm. This ended an arrangement whereby Dole Australia provided operational expertise to the farm and purchased all fruit produced at an agreed price through an offtake agreement. (Jawun 2016, p. 1)*

## Displacing and crowding out investment opportunities

Government policies can accidentally displace or crowd-out investment opportunities, including opportunities to invest in, own and operate businesses in communities. When this occurs, a valuable opportunity to learn and build capabilities is foregone. Given that few economic opportunities currently exist in many communities, it is important that government does not displace those that do exist, and allows for new opportunities to be captured.

Council decisions can impact on the development of an Indigenous business culture:

*[...] those business opportunities that do exist in Indigenous communities tend to be dominated by council acting in partnership with non-Indigenous entrepreneurs and businesses. Council control and (structurally embedded) overreach crowds out the private sector. Council should not be the driver or the gatekeeper for emerging economic activity but rather an effective regulator and enabler—a private sector needs to be able to develop independently but with the regulatory support of government like in any other town. For example, in Aurukun there has recently been increased business activity with the establishment of accommodation and restaurant which is largely a positive development for the town. However, the business is run by non-Indigenous people in a partnership arrangement with the Aurukun Shire Council. The local shop is also run through a similar arrangement, as is the art local centre. This is unlike the situation in any other town, and it can crowd out entrepreneurial opportunities for local small business, and lead to a concentration of power and opportunity in certain family groups. (CYI sub. DR15, p. 9)*

The specific decisions in Aurukun may or may not have made sense, given alternatives. But, there is a need for governments to take a long-term view, consider options within a development framework, and provide the investments (support) needed to instigate change.

The Queensland Government's ownership of retail stores provides a case study illustrating the issues of displacement and crowding-out, and problems in balancing competing policy objectives.

### Why does government own retail stores in communities?

The Queensland Government, through the statutory body Community Enterprise Queensland (CEQ), owns most retail stores in discrete and remote communities. CEQ's stated aims are to provide communities where they operate with a 'range of food, drinks and household items essential for a healthy life, at a fair price' (DATSIP 2016). As discussed in Chapter 8, CEQ is a new entity formed through the amalgamation of IBIS stores and DATSIP Retail Stores.

Government ownership of retail stores in communities—whether CEQ, or the former IBIS and DATSIP Retail Stores—is rationalised on the basis that there is too great a risk that, without government involvement, the store will fail, and the community's food supplies will suffer. Partly, this perception is related to the commercial difficulties with owning and operating a store in remote communities:

- Remoteness means goods need to be transported long distances, with unreliable infrastructure, resulting in high freight costs.
- The small size of most communities means that scale economies are not achieved, for example, in transport costs or store operations, and it may be difficult to recruit staff.
- Climatic conditions, combined with long transport distances, can affect the quality of food delivered, particularly perishable goods.
- Reliable refrigeration can be a problem in remote communities where there are regular power outages, problems with back-up diesel sources, and/or where communities are reliant on outside mechanics to fix refrigerators and freezers (ABC News 2015; House of Representatives 2009; Hudson 2010).

Partly, however, government ownership is rationalised on the basis that there is 'a need to improve the health of Indigenous people in remote Australia by addressing nutrition-related health problems [and] unreliable food supplies'.<sup>27</sup>

---

<sup>27</sup> See <http://outbackstores.com.au/about/background/>.

## A barrier to development

The objective of improving health outcomes is an important issue (discussed in Chapter 17). However, government does not need to own stores to support improvements in health in communities or to ensure security of food supplies. Consideration needs to be given to whether there are:

- any adverse impacts from government ownership, and/or
- other ways of achieving the same outcomes.

The key risk is that government ownership and control diminishes local-level responsibility and can impede the development of a culture of individual/community action and enterprise. As discussed in Chapter 8, governments do not own retail stores in Indigenous communities anywhere else in Australia (or in New Zealand, Canada or the United States).

By choosing to own retail stores, government monopolises the retail market (for example, it is usually the only grocer in town given the size of the market). It directly displaces the business that would otherwise provide the same product categories, which could be an Indigenous-run business (either a local Indigenous business or an Indigenous business operating across communities).

Government ownership can crowd out investments in other markets, or crowd out investments which have not yet occurred:

*[T]he goal should be to try and normalise these communities, not add to their dependence on government... Although the Outback Stores initiative may be useful in addressing poor management practices and reducing uneconomic cultural practices, it has also resulted in some unfortunate and unintended consequences.*

*The \$77 million of government funding that has gone into Outback Stores has created an unequal playing field and made it harder for independent community stores to keep operating. Government involvement and subsidies to Outback Stores will make it less economically attractive for communities to run their own stores or to explore alternative methods of obtaining fresh fruit and vegetables, such as growing it themselves. (Hudson 2010, p. 1)*

Government-owned stores may use their monopoly position in one market to expand into other product markets, driving existing local businesses out of business. For example, stakeholders raised concerns that the CEQ store in one community was planning to expand into prepared fast food which would likely drive out of business the locally owned fish and chip shop.

Whether concerns about displacement and crowding-out are perceived or actual, comparably sized 'mainstream' communities have a much healthier retail sector and an active business community. Government ownership of stores contributes to a stagnant business culture in remote and discrete communities.

A secondary concern commonly cited with government owned entities, is that they tend to be expensive (usually due to inefficiency) and do not have incentives to meet the wants of consumers. These concerns were reflected by stakeholders, with concerns about food costs and quality. As noted by the Legislative Assembly in 2005:

*There is considerable disquiet in the [Palm Island] community regarding government ownership of the retail store and private ownership by organisations from the mainland of other services provided to the community such as the air, ferry and barge services. This is seen to reduce employment opportunities, take profits which otherwise would be invested back into the community and, in the case of the retail store, unnecessarily increase the cost of living. (Legislative Assembly of Queensland 2005, p. 8)*

## Alternatives that do not impede development

Where governments assume responsibility for something that should be an individual, local or market responsibility, then the policies that follow are likely to be different to those where the role of government is envisioned as enabling change. Assuming the local community wants some form of policy response, government should choose policy instruments that address the problems, but do not impede longer term development.

To achieve a reliable supply of quality food, there are alternative policies to ownership and control, including licensing regimes, contracting-in external management expertise and subsidy policies. Where a government wishes to subsidise a particular good or service, it can provide an explicit subsidy appropriated through budget processes.

A network of stores offers some advantages compared to small, independent local stores (for example, backoffice scale economies, buying power and external expertise in the management of retail stores). However, it is not government ownership that delivers these benefits as they are available under any ownership/governance structure. Alternative models capable of capturing the benefit of a network of stores, while not damaging the development of an Indigenous business culture and individual capabilities, include:

- cooperative arrangements<sup>28</sup>
- communities contracting in retail store management expertise, or backbone support, from other Indigenous organisations, such as, ALPA (Box 9.3) or Outback Stores.

---

<sup>28</sup> See <http://www.coopdevelopment.org.au/communityenterprises.html>

## Box 9.3 Retail stores in remote Indigenous communities— alternative approaches

### Arnhem Land Progress Aboriginal Corporation (ALPA)

ALPA is an Indigenous corporation providing retail, employment and community services across the Northern Territory (NT), Cape York and the Torres Strait. It has 27 stores with 8 stores located in Far North Queensland operating as Island & Cape Retail Enterprises Store Committees (the Committee). The stores are operated as 'member' stores or 'consulting' stores where ALPA has been brought in to assist a community.

The Committee's role is to support the store managers, Yolŋu supervisors and store workers in resolving local issues that arise in relation to the store. The Committee is also a conduit for feedback from the community in regards to store matters such as range or trading hours.

ALPA has worked with indigenous suppliers to supply clothing products for stores; for example, Queensland businesses KLT Culture and Bundarra have been used. Its retail consulting arm—'Australian Retail Consultants'—provides retail services (for example, it helps stores improve their management, provides relief management, and on-the-job training), finance and accounting services, and shop-fitting services.

In July 2015, ALPA was instrumental in handing back a local store to the traditional owners at Gunbalanya (Oenpelli) community. The store had been owned by the West Arnhem Shire since 2008. ALPA previously operated the store for the Shire and also helped to establish the Adjumarllarl Aboriginal Corporation representing the local traditional owners in 2012. With ALPA's relationship with the West Arnhem Shire and the Adjumarllarl Aboriginal corporation, ALPA was able to work with both parties to ensure the best outcome for the store and the local traditional owners.

ALPA also operates Australian Retail Technology, which supports delivery of technical retail operations across the network (including shop fit-outs, POS (Point of Sale) system installations, back office and Time Target systems, CCTV installations, ROS4U online shopping kiosks and fibre optic cable installation, plus Helpdesk support across over 50 sites in the NT, Queensland and South Australia).

Source: ALPA 2016.

### Transition strategy

Calls for government to remove itself from the ownership and management of retail stores are neither new or solely from communities. For example, recommendation 12 of the Legislative Assembly of Queensland Palm Island Select Committee Report in 2005 stated, 'The Minister for Aboriginal and Torres Strait Islander Policy should pursue transferring ownership and management of the Palm Island retail store from Government to an entity capable of demonstrating appropriate capacity, pricing policies, product selection, local employment policies and profit investment'.

The legislation underpinning the CEQ reform includes one form of an exit or transition strategy which would allow the ownership and control of stores to transfer to communities. Communities can apply to the Queensland Government, through CEQ, for the transfer of stores to local ownership. CEQ is required to make a judgement on whether to enter into a transfer arrangement having regard to the criteria in 60Y(5) of the *Aboriginal and Torres Strait Islander Communities (Justice, Land and Other Matters) Act 1984*.

If CEQ supports the transfer request, CEQ then seeks Ministerial agreement. This raises potential conflicts-of-interest as what is best for CEQ as an organisation may not align with what is best for communities. Moreover, developmental objectives are not considered as part of the assessment.

There is also a question about the onus of proof. No other community is required to make a case that they are capable of running a retail store. Some stakeholders, while noting the new formal transfer mechanism, highlighted the paternalism and pessimism embedded in the existing approach to retail stores ownership in Queensland.

The legislation should reflect a policy intent focused on development and the assumption that the ownership of stores will transfer, with government introducing policies to support the transfer process. For some communities, the transfer process would be short, while for others it would take time. There are many avenues for assisting communities to prepare for and manage stores, if requested by communities.

## Regulatory impediments to development

New industries are needed in and around communities for communities to be sustainable. However, regulations can impede development, or make the costs of development so prohibitive that opportunities are never realised. For example, for agriculture to develop on the Cape, there needs to be a willingness to permit clearing and create new water licences. In the case of CYP's attempt to build a timber industry, while there is a good potential supply of logs from Indigenous land on Cape York for the next 50 years, this supply is very vulnerable to regulatory change (for example, new environmental regulations).

Part of the problem is that regulations may seek to achieve objectives other than development objectives. The relative value placed on achieving the objectives of the regulations and development objectives may be quite different for people living in communities compared to those influencing the introduction of the regulations.

The severity of the unemployment problem in communities suggests that development objectives should receive a much greater weight when considering the merits of proposed regulations, compared to the case if unemployment rates were similar to regional centres and cities).

## 9.5 Employment

### High and persistent unemployment

The problem of high unemployment is present across communities and persistent since at least the late 1970s. Official statistics significantly understate the unemployment problem as the rates of unemployment do not capture those who have dropped out of the labour force (Figure 52).

For mainland discrete communities, over half of the working age population are not in the labour force.

Figure 52 Indigenous employed, unemployed and not in the labour force, 2016



Notes: Non-remote is defined as including all Queensland Aboriginal and Torres Strait Islander People minus Torres Strait and mainland discrete Indigenous people.

Source: ABS 2016a.

## Mechanisms to increase local employment

Improved Indigenous employment outcomes can be achieved through:

- *reducing supply-side impediments to employment*: policies and underlying conditions contribute to a range of impediments to participation in employment. Policy reforms could address the problems of:
  - skills gaps (Chapter 15)
  - weak financial incentives for jobseekers to seek, accept and maintain employment
  - disincentives to mobility
  - sub-optimal incentives for employment service providers
  - sub-optimal system-wide incentives supportive of development
- *output effect*: economic and community development increases activity in or around communities expanding the demand for labour from existing or new businesses and community organisations
- *substitution effect*: this involves substituting Indigenous labour for non-Indigenous and non-local labour
  - governments (Australian, Queensland, local) can employ additional local labour in core administrative functions of government and/or in direct service provision activities
  - where governments contract local service provision, the service provider can choose to employ local labour. Governments may have policies guiding procurement decisions which favour Indigenous businesses and Indigenous employment, and they may impose conditions on contracts
- *technology and capital-labour substitution*: investment in capital (e.g. the construction of housing and roads) taking account of the abundance of local labour due to high unemployment.

## Supply-side barriers to employment

This section identifies and discusses how to reduce barriers to Indigenous people participating in employment, with a focus on mobility and incentive issues.

The Queensland Government can influence important supply side issues, for example, mobility and the development of human capital through education and training (Chapter 15). Further, its decisions influence the scope for coordinated approaches with the Australian Government; for example, through place-based approaches to development.

However, the Queensland Government does not have significant policy levers in other areas:

- incentives to work: the Australian Government controls income tax policies, income support payments and the setting of private sector awards (including rates of pay)
- labour market matching services: Australian Government policy dominates the market for job placement or matching services through Job Services Australia (JSA) and the Communities Development Programme (CDP).

Other options could be considered by government to strengthen the incentives for mobility and employment (summarised in Table 25), particularly where working in cooperation with Australian Government policy. The Australian Government could include these options within a place-based approach to development driven by communities, and also involving councils and the Queensland Government.

**Table 25 Options for addressing supply-side barriers to employment**

Options	Responsibility	Supply-side incentive issue addressed
Job search requirements	Australian Government	Toughening job search requirements supports additional investments (effort) in finding and re-locating to work (if necessary)
Portability of social housing entitlement	Queensland Government	Reducing disincentive to mobility from loss of social housing subsidy
Income support payment structures	Australian Government	Increasing the financial incentives to work by reducing the rate at which income support is withdrawn as additional income is earned, including through 'holiday periods'
Income support eligibility criteria	Australian Government	Increasing the financial incentives to find work by changing access to payments
Reforming employment service provider payment structures	Australian Government	Reforming CDP payment structures to minimise the problems of parking and creaming
Addressing incentives within a place-based approach	Joint	Coordinating Australian Government policies (the income support system and employment policies) with Queensland Government policies (service delivery and employment policies) to fundamentally change the welfare to work system
Funding of place-based approaches	Joint	How place-based approaches are funded, including the inquiry's structural reform proposal, can have significant impacts on 'system-wide' incentives. There are a number of options which could address externality problems in decision making, and better align incentives for improvements in service delivery and development

## The problem of weak financial incentives to work

The objectives of the income support system is to provide long-term income support for those unable to provide for themselves, and to provide temporary support to others:

*The income support system helps different people in different ways. For some it provides long-term support to meet basic costs of living, where there is no real prospect of recipients improving their circumstances through employment... For others, income support is a transitional payment to support recipients through a period between jobs, the transition from education to work, a period of re-skilling or temporary incapacity. (DSS 2016, p. 26)*

The income support system is intended to help alleviate poverty. The effect of the system—as opposed to its objectives—is to weaken the incentives to transition from education to work or from welfare dependency to work. Income support payments and other assistance available through governments, such as social housing, can provide an annual income that is roughly equal to, or even better than, full-time employment in low skilled award paying positions. Weak financial incentives:

- contribute to cases in communities where available advertised jobs go unfilled. Consultations identified examples where paying advertised jobs received no applicants (including for jobs without qualification or other high skill requirements)
- reduce the incentive to relocate to where employment is a more viable option
- reduce the returns to personal behaviours and investments that increase the likelihood of obtaining and holding work. This, at a minimum, delays career progression which means that it is a longer period of time before the individual is capable of earning a wage level sufficient to offset the lure and trap of income support payments.

The income support system contains a range of mechanisms to try to target assistance to those who truly need it, while not providing a barrier to employment for those capable of work. However, these mechanisms are highly imperfect.<sup>29</sup>

## Social norms and employment expectations

Social norms or rules play an important role in communities in forming expectations to seek and remain in employment. Norms that support an expectation of self-reliance and employment influence an individual's reservation wage.<sup>30</sup> As jobseekers may value their relationships with other members of the community, including how others perceive them, the wage that they require before accepting work is lowered. Under a different community set of expectations, the individual may choose not to work at the prevailing wage on offer.

Further, what is initially a reservation wage problem can become a long-term unemployment problem where 'employability' declines as the duration of unemployment increases.

A common feature of community-led development initiatives is changing norms and expectations to influence behaviours, such as in relation to family responsibilities, school attendance, and employment.

Government policies affect the evolution of social norms and expectations, and can either support or impede community-led initiatives. A policy stance that more frequently takes an enabling approach provides greater space for individuals and communities to take greater responsibility for decisions and outcomes.

---

<sup>29</sup> See DSS 2016 and Saunders 2000.

<sup>30</sup> A decision to be employed means sacrificing one's time that could have been spent on other valued activities (e.g. spending time with family and friends, playing sport, hobbies or relaxing). An individual's 'reservation wage' is the lowest wage rate an individual would accept for the job on offer. The more that the foregone activities are valued by the individual, the higher the wage offer has to be before the individual is indifferent between working and not working.

The design of service delivery policies should consider whether and/or how the provision of the service will impact on the development of positive social norms and employment expectations.

## Mobility

Indigenous people have historically often moved from one location to another to trade, for employment or, more often, for other reasons:

*Indigenous people in remote and rural Australia are frequently moving between places. Movement was and still is the key to the maintenance of both relationships to places and to kin in Aboriginal Australia....There exists what might be described as a culture of mobility amongst the Aboriginal population of Australia. (Memmott et al 2006, p. 1)*

More recently, mobility has become an issue because of the impacts of government policies which effectively break the nexus between employment and income.

### Why employment mobility is important

The lack of economic development in most communities influences employment outcomes by reducing the demand for labour. Improved economic development and growth of a private sector will expand the number and range of jobs in communities, but this will take time.

Even under optimistic development scenarios, and attempts to transition jobs in communities to residents of the community (substitution strategies), there may not be enough opportunity locally to make a major change in employment outcomes:

*The number of Indigenous unemployed and jobseekers on Cape York far outstrips the number of jobs that are available locally with many local jobseekers either unskilled or semi-skilled. Let's take Coen and Aurukun as examples:*

- *In Aurukun, the vast majority of the total population of 1300 is welfare dependent, and there are about 360 registered jobseekers.*
- *In Coen, the majority of the total population of 264 is welfare dependent, and there are about 61 registered jobseekers.*

*Not only are the majority of Indigenous residents in Aurukun and Coen long term welfare-dependent, the local 'economy' in each place continues to be almost entirely sustained through the transfer of government funds. (CYI and Cape York Land Council 2014, p. 6)*

Mobility is also important because it can contribute to economic development through, for example:

- unskilled workers moving to employment outside of communities, gaining skills through employment (learning-by-doing, basic generic skills, plus potentially formal qualifications), which then gives them the skills/qualifications to apply for skilled vacancies in their home community
- as a transfer mechanism for bringing new knowledge and skills to the community
- the development of personal and other relationships to increase integration between the community and the broader economy
- changing expectations and enforcing positive social norms.

## Services as a barrier to re-locating for work

For most people, the decision to move from a community to a regional centre, city or other locale where there is employment will take account of many factors that influence the relative attractiveness of different locations.<sup>31</sup>

Queensland Government policies—particularly for social housing—discourage re-location to where jobs are available:

*Low-rent housing is an impediment to getting and keeping a job. Paying only a small amount of rent, or no rent, and not having to put much effort into the upkeep of a house makes it unattractive to move to a location with much stricter requirements through a private rental market. Similarly, the prospect of taking up one of the few real, paid jobs in a community is made less attractive because of people's fear of losing their heavily subsidised houses if their wages are high enough to take them over the income limit for social housing. (Forrest Review, p. 172)*

*The region surrounding Cloncurry is rich in opportunity for employment. Dajarra is in close proximity of two major mining operations and a large pastoral company ... A real impediment to indigenous persons gaining meaningful employment relates to the current social housing and indigenous community housing models. It is common to hear of Dajarra residents gaining employment with the large mining operation in the area, only to resign shortly thereafter to avoid the prospect of losing their existing home. (Cloncurry Shire Council sub. DR9, p. 9)*

Housing shortages where there are jobs can also discourage mobility:

*Our housing shortage is so extreme that Council and other employers are unable at times to fill positions—in other words, there are jobs available but no housing. Providing housing in Burketown has the potential to take some pressure off Doomadgee, and enable Burketown locals to return to live and work in their home town. (Burke Shire Council sub. DR18, p. 5)*

## Existing support for employment mobility

To partially offset the disincentive effects of some policies, the Queensland Government (Box 9.4) and Australian Government have expenditure programs which assist mobility. The Forrest Review commented that mobility support was available, it just needed to be taken-up.

The take-up of programs is often underwhelming, in part, because potential participants are not aware of their existence, with the changing and chopping of programs being a contributing factor. Further, since the Forrest Report was released, the Remote Job Communities Program (RJCP) has been replaced by CDP. The funding available to support mobility is less under the CDP program than under the RJCP's Participation Account mechanism, in part, because of the backloading of payments (CYP 2017, p. 21).

Further, CDP suffers from the same disincentive effects on employment and mobility as the former CDEP program, whereby people become institutionalised on work-for-the dole, rather than transitioning to employment. CDP outcome payments for finding jobseekers a job are not high enough for providers to invest significantly in this outcome rather than focusing on providing Work for the Dole activities.

<sup>31</sup> Some of the factors include: motivational-related factors; the presence of social networks in the new location (e.g. family and friends); the social conditions present in the home community (e.g. the prevalence of problems); the individual's perception of the move as being a rewarding pathway; the presence of obligations (e.g. contributing to the care of the elderly, looking after siblings) which raises the 'cost' of moving; the likelihood of finding employment and the relative financial rewards; the direct costs of moving (e.g. transport costs); the proximity of regional centres; the ability to cover living costs for a transitional period until such time as income is earned; the potential loss of access to social housing and the relative cost of accommodation in the new location; and the ability to find accommodation (often without personal references and with limited awareness of mainstream housing markets).

## Box 9.4 Mobility assistance

The Queensland Government's programs impacting on mobility include:

- the Youth Employment Program (YEP): an employment support program for young Aboriginal and Torres Strait Islander people who are finishing high school and looking for work or considering further education. DATSIP staff help youth with choice of career; link to job vacancies; connect to culturally capable services; with pre-employment support; support for any life challenges that make it difficult to find work; and access to training opportunities.
- the Employment and Education Housing Program (EEH): helps eligible Aboriginal and Torres Strait Islander people re-locate from remote communities to take up employment, education or training opportunities in regional centres. Successful applicants are offered housing support for the length of the employment, education or training course that they are in. The program is available in Townsville, Gladstone, Rockhampton, Toowoomba, and Cairns.

Australian Government programs that support mobility include:

- The Indigenous Youth Mobility Programme (IYMP) (now the Indigenous Youth Mobility Pathways Project) helps young people to transition to a new location to further their education and training, as well as to gain employment. Potential entrants to the program apply directly helping to minimise contact between the welfare system (e.g. Centrelink) and school leavers, possibly helping to set them on an alternative pathway (CYP 2017, p. 26).
- The Relocation Assistance to Take Up a Job program focuses on the long-term unemployed, is not restricted by age, and can be accessed by Indigenous or non-Indigenous people. Up to \$6,000 is available to long-term unemployed job seekers if they move to a regional area to take up a job, or up to \$3,000 if they move to a capital city.
- The Job Commitment Bonus for Young Australians provides up to \$6,500 for Indigenous and non-Indigenous long-term unemployed young Australians to find and retain employment.

## Uniform standards as a barrier to participation

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

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

Applying uniform national standards in communities, based on a national level of wealth that does not exist in communities has the consequence that resources consumed in meeting the standard could have been used for alternatives that may provide a greater contribution to welfare. Uniform national or state-wide standards are not necessarily the standards that a community would choose.

Standards can also impose barriers to economic participation in communities. Consultations raised concerns about the ratcheting-up of labour market standards or credentials and the effect this can have on the incentives for continued participation in employment, and/or re-entry to the labour force.

When state-wide 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 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. Consultations highlighted these problems in several communities.

Adopting place-based approaches, involving both Queensland Government and Australian Government participation, can help address the problem of uniform standards. For example, Cape York Welfare Reforms legislation was introduced by the Australian Government that allowed aspects of the income support system to be varied in the region covered by the agreement.

## Employment service provider incentives

Australian Government funded employment service providers under CDP face financial incentives that lead to the problems of:

- **Creaming:** where providers prioritise unemployed claimants with fewer barriers to work, who are felt to be easier, cheaper and more likely to move into paid work, in order to release outcome payments.
- **Parking:** where providers neglect claimants with more substantial barriers to work, who are considered unlikely to move into paid work (and hence to generate an outcome payment) without considerable, and usually expensive, employment support (Carter and Whitworth 2015).

There has been significant chopping and changing in labour market programs since the phasing out of CDEP in 2007. The Senate has been reviewing the appropriateness and effectiveness of the objectives, design, implementation and evaluation of CDP and is due to report in December 2017. Submissions to the review have argued that CDP needs significant reform, including to the structure of payments that influence incentives to cream and park:

*The current CDP design embeds incentives for providers to park clients. Arguably, when compared to previous incarnations, such as RJCP, it deepens these incentives.*

*Removal of shorter term outcome payments (for example, for seven or 13 week placements) further encourages providers to focus solely on those they can successfully place for at least 26 weeks. (pers. comm. with CYP, 28 November 2017)*

## Achieving a step-change in individual financial incentives

### Strengthening incentives and support for mobility

The Forrest Review's (2014) recommendations on what state and territory governments should do to better support mobility focused on housing policies (p. 177). This included mechanisms to make the subsidy provided by social housing 'portable', and providing improved access to housing at the location where jobs are available.

The lack of portability impedes non-government initiatives to support mobility. For example, if a Prescribed Body Corporate (PBC), community organisation or large NGO wanted to invest in accommodation to support mobility, the costs of the investment will only be covered if market rents are charged to the tenant. However, the level of rent charged would be significantly above the social housing rent. Therefore, there is a financial disincentive to mobility that reduces the demand for accommodation. The PBC or other investor could choose to take a loss on its capital, but this is unlikely to be viable at the scale required to address the underlying problems.

To overcome these problems, various mechanisms could 'cash-out' the social housing subsidy, or some portion of it. A Queensland Government payment could be made directly to the PBC or other investor, or provided to the jobseeker in the form of a voucher tied to the provision of accommodation.

## Income support payments and the need for coordinated policy responses

Providing financial assistance through the welfare system is intended to be transitional for most people, but has contributed strongly to welfare dependence in communities. As a result, many options for improving individual jobseeker incentives involve adjustments to the system of income support payments, including:

- adjusting payment eligibility criteria; for example, the age at which payments are available
- reducing the rate at which support payments are 'clawed back' or taper when additional income is earned through employment
- inserting or increasing a threshold ('free area') before additional earned income initiates the claw back or results in the removal of assistance
- increasing the 'cut out' level of income before assistance is ended
- providing holiday periods before earned income initiates the claw back or results in the removal of assistance
- better integrating means testing under multiple payments
- adjusting marginal income tax rates and thresholds so that the effective tax rate on earning additional income is lowered (DSS 2014, pp. 72–75).

These options strengthen financial incentives as they increase the take-home pay from work (the 'carrot'). Other options such as job search and Work for the Dole obligations are the 'stick'. Breaches of the obligations can lead to the withdrawal of income support. Eligibility criteria can be used to deny access to payments for those who should be capable of finding work.

All of the above options are dependent on the Australian Government's design of income support payments and employment programs, and reforms may be difficult politically. Nonetheless, the current performance of these systems and programs is a significant determinant of the level and characteristics of demand for Queensland Government services.

The interjurisdictional separation and demarcation of drivers that could potentially push and pull people into employment remains a critical issue and one that could be overcome. It requires a willingness of the Queensland Government and the Australian Government to work together, and with communities, to design a coordinated set of reforms to strengthen the financial incentives to move from welfare to work, or to transition from school directly to employment.

### 'System-wide' options for a step-change in incentives

The proposed structural reforms involve an authorising body (Chapter 7). Funding options for the authorising body could have a large impact on system-wide incentives and support for development and better employment outcomes.

When a choice is made that does not support development in communities, part of the cost of the choice falls on people not party to the choice. For example, if a choice is made at a local level that produces worse employment outcomes than an alternative option, then income support payments made by the Australian Government are higher than they otherwise would be, and the demand for services provided by the Queensland Government may also be higher than it otherwise would be. The external impacts of the choice are not internalised (considered within) the decision making process.

These types of externality problems are common across tiers of government. The choices of one government effectively shifts risk or costs to another government. Even within a tier of government, these problems occur between departments.

In considering what functions to transfer to the authorising body and how to fund the body, there is scope to better align incentives—to internalise within the decision making process a larger proportion of the costs and potential benefits of the decision.

For example, using micro-level data it would be possible to project future expenditures on income support payments. The net present value of those projected expenditures could form part of the funding pool provided to the authorising body, with the authorising body making the payments to individual families (the actual processing of payments may just continue through Centrelink). The authorising body then has a direct financial incentive to reduce the need for income support payments if, as part of the funding agreement, governments agree that any excess funds are retained for other purposes. Therefore, any community-driven strategy that made significant inroads into improving employment would result in additional resources being available to communities.

This type of option is a variant on the Queensland Government's three social investment pilots (see Chapter 8). There are similarities in aligning incentives for improved performance, and the need for making basecase or status quo service demand projections in order to reward better than projected performance.

Another funding approach which could better align incentives for development involves the hypothecation of minerals royalties (or part of) to authorising bodies, at least for those regional bodies where there is minerals development potential. This would result in stronger regional incentives for development as the benefits of development are more clearly tied to the region.

From a regional or community perspective, aligning incentives can make a real difference (e.g. it can help sell needed change when the benefits of the change are more visible and internalised within the region). The overall agreement (contract) between the government and the authorising body can specify other aspects of funding and functions which mean that hypothecation can result in a net increase in resources available locally (rather than governments giving with one hand while taking with another).

From the government's perspective, funding to the authorising body comes out of consolidated revenue either way, so hypothecation arrangements are generally not favoured as they can reduce budget flexibility. However, where hypothecation aligns incentives and alters decisions and behaviours, it can have positive consequences for state service delivery (for example, reducing the need for services), funding requirements and taxes.

## Finding

Achieving a step-change in incentives requires coordinated policy responses led by communities and involving the Queensland and Australian Governments working in cooperation.

As many incentive problems are generations in the making, solutions require long-term policy commitment.

This inquiry's proposed structural reforms are a suitable framework within which to coordinate policies guided by a focus on long-term development.

The design of service delivery policies should consider whether and/or how the provision of the service will impact on the development of positive social norms and employment expectations.

## Increasing the demand for local Indigenous labour

The following sections focus on increasing local employment through substitution strategies and technology choices. Options to improve employment outcomes are summarised in Table 26.

**Table 26 Options for increasing the demand for local labour**

Option	Responsibility	Mechanism for increasing demand
Transparency and accountability of progress against employment targets	Queensland Government	Improves incentives for increasing Indigenous employment in Queensland Government administrative and service delivery functions
Independent and transparent evaluation of procurement policies	Queensland Government	The Queensland Procurement Policy (QPP)/Queensland Indigenous (Aboriginal and Torres Strait Islander) Procurement Policy (QIPP) should be evaluated by an independent body with outcomes transparent to communities. This will improve accountability and facilitate adjustments to the policies over time
Community-led devolution of service responsibilities	Australian and Queensland governments	The Queensland Government should have a mechanism in place for consideration of community applications for devolution of service functions. Community organisations hire proportionally more Indigenous people
Project targets and timeframes driven by local conditions	All tiers of government	The need to maintain tight timeframes to meet budgets biases employment choices against local Indigenous employment where investments in skilling may be required, or performance uncertain
Linking technology choices with supply chain and industry development considerations	All tiers of government	Investment choices on the type and quantity of capital to employ influences the level of demand for labour and the skills required, and can influence broader local supply chain development

## Employment in the Queensland Government public sector

The Queensland Government can influence local employment through the demand for labour created by its own service delivery activities (the substitution effect). Where government directly delivers services in communities, it has the ability to influence the number of jobs filled by local Indigenous people through agency employment policies.

### Achieving employment targets

As part of its Moving Ahead strategy, the Queensland Government set an Indigenous employment target to be achieved by 2022:

*Implement a whole-of-government workforce strategy to increase the proportion of Aboriginal people and Torres Strait Islander people working in the Queensland Public Sector. Under the strategy, all Queensland public sector departments will be required to improve their existing practices in attracting, recruiting, retaining and developing Aboriginal and Torres Strait Islander staff, and contribute to an aggregate 3 per cent target on the direct employment of Aboriginal and Torres Strait Islander staff by 2022 (All departments). (DATSIP 2016g, p. 8)*

Previous Indigenous employment targets have achieved some success.<sup>32</sup>

The objective of increasing the Indigenous employment share in the public sector was a central part of the National Partnership Agreement on Indigenous Economic Participation (NPAIEP) in 2009.<sup>33</sup> The Australian, state and territory governments agreed a set of employment targets with Queensland's target set at 2.6 per cent to be achieved by 2015 (Forrest Review, p. 185). At the time, the Indigenous employment share was 2.1 per cent.

Indigenous employment in the Queensland public sector has varied within a fairly tight band between 2 per cent to 2.25 per cent over the period 2005 to 2015 (based on headcount data) (PSC 2016, p. 25). There were fluctuations in the employment share over the period, but no trend increase.

The Forrest Review (2014, p. 50) recommended that the Australian, state and territory governments set an Indigenous employment target of four per cent (with no agency less than three per cent) to be achieved within four years (2018). To achieve the targets, the following implementation steps were recommended:

*holding department and agency heads accountable for meeting the target and milestones towards it*

*requiring that progress towards the target be published in agencies' annual reports and be monitored quarterly on the CreatingParity website*

*increasing the number of offers of cadetships to first Australian university students and ensuring there is a guaranteed job at graduation.*

Variants of these recommendations could be applied in Queensland. The first recommendation (holding agency heads accountable) could include accountability for achieving employment targets. In the context of Commonwealth employment targets and NPAIED:

*Public accountability can also provide inducement to senior managers to be more strategic and focused on the objective of increasing Indigenous employment in their organisations. At this point in time, the Review considers that such a sharper focus is the best means of achieving a quantum improvement in performance—there is ample experience in what can be done, the greater challenge is to be focused on doing it. As noted above, the scope for a sharper focus is evidenced by the fact that only 27 per cent of APS Agencies have 'formal' Indigenous Employment Strategies in place. Within the APS there is active consideration of proposals for Secretaries being required to report publicly and regularly on their strategies and outcomes contributing to meeting the COAG target for Indigenous employment. The Review supports such a step. (DOFD 2010, p. 355)*

To improve transparency and public accountability, the Public Service Commission's state of the workforce reports could provide enhanced data on Indigenous employment numbers and shares, and could include regionally-based data.

The third recommendation on cadetships, or similar options, could be considered as part of the development of the Queensland Government's whole-of-government workforce strategy.

<sup>32</sup> ANAO 2011 assessed the Australian Government's performance under the National Jobs Creation Package and the NT Jobs Package which aimed to create around 2000 sustainable jobs across Australia in employment areas previously subsidised through CDEP activities. The report found that a significant number of jobs had been created, with the majority of jobs created through funding arrangements with small, non-government, Indigenous community organisations.

<sup>33</sup> The National Partnership Agreement on Indigenous Economic Participation supported the target set by the Council of Australian Governments to halve the gap in employment outcomes between Aboriginal and Torres Strait Islander peoples and non-Aboriginal and Torres Strait Islander peoples within 10 years. The NPAIEP expired on 30 June 2013. The agreement aimed to: create properly paid, sustainable jobs in government service delivery; strengthen government procurement policies to maximise Aboriginal and Torres Strait Islander employment; incorporate Indigenous workforce strategies into major Council of Australian Governments reforms; and increase public-sector Aboriginal and Torres Strait Islander employment and career development.

To address the unemployment problem in communities, a concerted strategy needs to be in place to increase Indigenous employment in local service provision and capital works programs (as well as through mobility, industry and longer term development).<sup>34</sup> Any notional employment target specifically for services provided in communities would need to be much higher than three to four per cent because, in part, existing Indigenous employment shares are already higher. The scope for further increases will vary by community.

Rather, agencies should have workforce strategies to help prepare local jobseekers to transition into jobs currently filled through external labour. Akin to the benefit of public reporting against employment targets, an option is to require agencies to report on the number of Indigenous people active in their programs (being skilled-up), the number of jobs successfully transitioned to locals, and the number of jobs in service provision in communities not transitioned. Agencies would be required to report publicly through their annual report, and the PSC would report on whole-of-government outcomes. Indigenous people and others should be able to see a clear strategy and progress against that strategy.

Given the magnitude of the challenge in communities, to make serious progress will require that workforce strategies be well resourced. As data to support the above reporting is unlikely to be immediately available, actions (and resourcing) to improve systems will be required.

Part of the challenge of achieving the employment targets will be to improve the work 'experience' of new and existing Indigenous public sector employees. Assuming Indigenous people confront the same issues in the Queensland public service as in the Northern Territory public service (see Ganter 2016), maintaining consistency of employment can be challenging.

Performance against employment targets will be affected by changes in the boundary between the public service and employment outside the public service. Some services provided by the public service to communities may have higher Indigenous employment shares than for the public service more generally. If these services were devolved to greater local control, and employment shifted outside the public sector (for example, service provision was contracted to an Indigenous NGO), then the achievement of the employment target is made more difficult. Even so, the process of devolution over time is highly likely to increase Indigenous employment compared to direct public sector provision.

## Agency choices on local versus external labour

Agencies providing services in communities will often face a choice between hiring external labour (fly-in, fly-out or drive-in, drive-out) versus employing a community resident.

Communities expressed concerns about external employment displacing local employment. It is not clear how much progress agencies have made in ensuring that local employment is hired, where possible. However, this needs to be balanced against the reality that many communities, because of their small population bases, do not have the level of demand required for people with specialist skills to live locally. Bringing these skills to the community provides a valuable service. Like in goods and services, trade in labour benefits both parties.

That said, consultations suggest that reliance on outside labour is greater than can be justified by the need for specialist skills.

The investment in training that will be needed to support achievement of the Queensland Government's employment target (as well as similar Australian Government targets) will help reduce the instances of jobs being filled by external persons when, with appropriate support/training, a local person could acquire the capabilities necessary for the position.

The choice of local versus external labour also features for contracted services.

<sup>34</sup> An example is the cross-agency integrated infrastructure planning under DATSIP's Program office. Planning for the provision of capital works includes examining local workforce work readiness, working with employment service providers, and altering the timing of capital works to achieve a smoothed works program that improves local employment participation and training opportunities.

## Procurement and contracting for services

### Contracted Indigenous organisations hire more locals

Contracting can increase local/community participation in the provision of services, where government withdraws from direct service provision in favour of contracting the service, and Indigenous organisations are successful in tendering for provision.

As Indigenous organisations hire a larger proportion of Indigenous people in their workforces than either private industry, non-Indigenous NGOs or governments on average, contracting can improve local employment.<sup>35</sup>

In the health space, this continues established trends where governments are slowly stepping back from directly providing some health services and enabling ACCHOs to provide primary health care and wellbeing services.

In employment services, the Australian Government has been working with the Yarrabah Shire Council to increase the participation of community organisations:

*The Yarrabah trial will allow jobactive employment services to be delivered in the community by the community. This will benefit Indigenous Australians in Yarrabah as jobactive services will be better aligned to the community's social and economic priorities. The pilot will not impact Transition to Work or Disability Employment Services. To build the capacity of Yarrabah to deliver jobactive services, a flexible funding pool will be available to deliver local employment projects, for example a community skills development activity.*

*The Government will engage with the existing jobactive providers about their phased withdrawal and to ensure Indigenous Australians enjoy continuity in service provision. (Yarrabah Aboriginal Shire Council sub. 11, p. 9)*

### Are better local employment outcomes and better service provision complementary?

Ideally, awarding a greater share of service provision contracts to Indigenous organisations would improve service provision and local employment outcomes. This is most likely in areas of service provision where cultural contexts and complex inter-relationships underpinning wellbeing play a large role.

The case for Indigenous organisation provision of services primarily rests on the argument that on-the-ground Indigenous organisations are more likely to be successful in tailoring the service to the specific needs of the community, are able to implement the delivery of the service in a way that takes account of local contextual factors, and have the relationships and authority that the services will be taken-up. Community consultations, evidence from the literature, and the direction of important reforms (e.g. the health transfer process) support or are based on these ideas.

Local employment can help build trust and connections with the community that support improved service provision outcomes. A common problem with external service providers relying on FIFO, or short to medium contract labour positions filled from external candidates, is the constant change in personnel in the context of the need to make investments in personal relationships to support quality service delivery.

---

<sup>35</sup> Using data from Industry Capability Network (ICN) Queensland, Hunter 2014 finds that Indigenous businesses have substantially better outcomes for Indigenous employment than non-Indigenous businesses. Using census data, Hunter 2013 found that the more Indigenous entrepreneurs in an area, the better the overall Indigenous employment outcomes.

## Evaluating who wins the contract

### Value-for-money and the scope of costs and benefits

When the government contracts the delivery of a service to a community, it expects that the service provider will deliver value-for-money. This may mean that the winning tenderer provides the least cost service (with costs defined narrowly). Alternatively, it may mean that the winning tenderer provides the service that maximises the benefits of the service given the cost of service provision, with costs and benefits defined broadly.

'Costs' may include not just the resources consumed in the provision of the service and paid for by the contract, but also any negative impacts on the community that take place outside the scope of the contract. 'Benefits' may include not just the value of the service to those who receive it, but also potential local development impacts, including local employment outcomes. However, the difficulties and risks of taking into account these broader benefits and costs are significant (discussed below).

### Contracting and the role of external NGOs

There is concern in communities about the role of large, national NGOs in delivering contracted services. Much of this concern results from the outcomes of Australian Government tenders; for example, employment services under CDP and Job Services Australia.

Contracting reforms are argued to have displaced or impeded the development of local community organisations, with negative consequences for local employment.<sup>36</sup> While external NGOs also provide local employment, they may provide less local employment than many community-based organisations.

### Should a 'capability building' output be part of contract evaluation criteria?

The criteria used to evaluate supply bids and award contracts may undervalue the longer-term benefits of local community organisations' participation in service delivery, building capacity and the better employment outcomes that might be achieved:

*Government's formulation of what are the "funded outputs" for services and programs in Indigenous communities needs to recognise that community capacity-building and community governance are significant outputs of government investment in themselves. Hence, there may be greater net benefit from funding an Indigenous community organisation to deliver a service in a way that invests a significant portion of the available funding in internal capacity building of the organisation (e.g. training of staff, developing the board, developing governance policies and procedures), even at the sacrifice of a slightly lesser level of direct service outputs than might be achieved from an existing large non-government organisation that has the capability to apply all the funding to service outputs. Government funding models need to recognise and place a value on the capacity-building outputs, as it is this capacity that has the potential to create long-term positive change in Indigenous communities. (Michael Limerick sub DR05, p 5)*

The value of the potential benefits of a local organisation providing a service versus an external NGO or other provider will be highly specific to the circumstances of the contract, the community, and the behaviours of the competing bidders. Quantifying or putting a weight on the potential benefits—the capacity building output—is not feasible on a case-by-case basis. When evaluating alternative bids, how is a procurement officer to weigh such costs and benefit differences when they rely on such uncertain impacts?

<sup>36</sup> For critiques of CDP, see Jordan & Fowlkes 2016 and CYP 2017. For evaluations and critiques of the former CDEP, see Hudson 2008, Dockery & Milsom 2007, and Hughes & Hughes 2011. DEEWR 2012 evaluated the services to communities provided by Job Services Australia.

One approach is to apply a broad 'rule-of-thumb' that accepts higher cost bids from a local supplier compared to an external NGO or other external provider up to a certain percentage cost-differential. For example, under the Queensland Procurement Policy (QPP) 2017, agencies are required to conduct a local benefits test for all 'significant' procurement.<sup>37</sup> Under the test, a local supply bid can be up to 30 per cent more costly than a non-local supply bid (where the bids offer an equivalent quality of a good or service) and still be awarded the contract.

However, the real cost is higher than 30 per cent once the costs of taxation are accounted for. Estimates of the marginal excess burden of the least efficient state taxes are in excess of 50 cents on the dollar.<sup>38</sup> On a \$100,000 supply contract, accepting a supply bid \$30,000 higher ( a supply offer of \$130,000) results in an additional cost to taxpayers of at \$45,000 (\$30,000 plus the efficiency cost of raising that \$30,000).

The Queensland Indigenous Procurement Policy (QIPP) sits under the QPP and covers, amongst other things, contracted services provided in remote and discrete communities (Box 9.5). QIPP seeks to increase the value of Queensland Government procurement spend awarded to Indigenous businesses to three per cent of 'addressable' spend by 2022.

### Box 9.5 Queensland Indigenous Procurement Policy

The QIPP seeks to increase the value of Queensland Government procurement spend awarded to Indigenous businesses to three per cent of addressable spend by 2022. Successful implementation of the QIPP is intended to result in the following outcomes:

- Increase the capacity and capability of Indigenous businesses to successfully tender for Queensland Government contracts.
- Growth and development of a diverse and sustainable Indigenous business sector in Queensland by increasing the capacity and capability of Indigenous businesses to supply to the Queensland Government but also to supply to the private sector through supply chains.
- Improved employment outcomes and opportunities for Aboriginal people and Torres Strait Islander people to participate in the Queensland economy.

The QIPP applies to budget sector agencies only (i.e. not to Government-owned corporations or statutory bodies). An 'Indigenous business' is defined as one that is at least 50 per cent owned by an Aboriginal person/s and/or a Torres Strait Islander person/s.

The target of three per cent is measured against addressable spend and not all agency procurement. The definition of 'addressable spend' is based on new agency contracts in markets where Indigenous businesses have the capacity and capability to supply. Procurement activities that may be excluded relate to funds that are subject to interdepartmental transfers, grants, legislative requirements, existing Standing Offer Arrangements, or existing contracts.

The QIPP includes set-asides which will require agencies to first look to engage with Indigenous businesses where various conditions apply. Set-asides must still be subject to a competitive process, seeking to increase the number of Indigenous businesses in the market and the process should account for the relative value and risk associated with the procurement.

Source: DATSIP 2017c.

<sup>37</sup> The QPP defines 'significant' as a procurement for goods and services identified by the agency as being high expenditure and/or for which there is a high degree of business risk.

<sup>38</sup> See QCA 2015, Chapter 11 and appendix F, for a discussion of the deadweight losses of taxation and estimates of marginal excess burdens.

The QIPP has similar features and objectives as the Australian Government's Indigenous Procurement Policy (IPP), including procurement targets and mandatory set-asides.<sup>39</sup> Setting procurement targets based on the origin of goods and services, race, or the characteristics of a business, preferences some businesses over others. The evidence that national and state-wide local preference policies do not provide economy-wide net benefits is very strong (a survey of the evidence is provided in QCA 2015).

The explicit intention of preference policies is to transfer resources to targeted businesses. Resources may be transferred away from non-targeted businesses. Additional resources are transferred from the general taxpayer to targeted businesses when government purchases a lower quality (higher cost) good or service compared to alternative supply offers. This effectively results in an increase in taxation.

In addition to the costs of preference policies where they raise government procurement costs, and the state-wide efficiency losses from higher taxation, preference policies suffer from lack of transparency and increase procurement risks, such as, through providing greater scope for corruption in procurement practices by increasing greater discretion in the award of contracts.

However, the conditions prevailing in communities are not those that prevail elsewhere. It is possible that the policies may produce a net benefit to residents living in communities given the very large structural unemployment problem. It is also possible that the policies might result in at least a neutral state-wide impact if they contribute to fundamental change over time in communities.

As with the QPP/QIPP, preference policies are usually supported by measures that seek to reduce the barriers to the target group participating in government procurement processes, which can be an important problem for small Indigenous enterprises and organisations:

*Many community based organisations and businesses just don't have the capabilities or capacity to tender and are locked out of what is supposed to be a competitive process. While departments don't see it as their responsibilities to build capacity or capability. Most senior managers in Departments are non-Indigenous and life may be a lot simpler dealing with another non-Indigenous NGO manager with an organisation culture, capabilities and capacity more aligned to the departments. (Turnour sub. DR10, p. 10)*

Measures to address these problems may involve providing information on how procurement processes work (for example, workshops and online resources) and publishing forward procurement plans. It may involve agencies giving consideration to how they structure requests for tender (for example, breaking-up work packages in a way that supports small and medium sized business participation). These forms of assistance to target groups support achieving value-for-money in procurement (for example, they increase the competitiveness of the procurement process by broadening the range of suppliers).

### **The problem of targeting assistance**

Black cladding usually refers to joint venturing arrangements where major non-Indigenous businesses partner with smaller Indigenous businesses to benefit from targeted funding or procurement policies. Black-cladding can result in the leakage of resources (benefits) to non-Indigenous partners. This has been a criticism of the IPP (Hudson 2017, Jacobs 2017). It is not known if black cladding is a significant problem across procurement under the IPP, or more a matter of some high profile cases drawing attention to the issue.

On the other hand, partnering arrangements can provide other benefits for Indigenous managers and workers; for example, where there is a transfer of knowledge or skills from the non-Indigenous business, or where the joint venture supports the Indigenous business in developing deeper linkages with the 'real economy'.

<sup>39</sup> Information on the IPP is available at <https://www.pmc.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp>.

The IPP has been subject to the criticism that it lacks clarity in objectives. Is the objective of the policy to increase opportunities for Indigenous businesses and develop a stronger Indigenous business sector (Hudson 2016), or is it to increase Indigenous employment? These objectives tend to be complementary as Indigenous businesses hire more Indigenous workers as a share of their workforce. However, the black cladding problem can result in policy assistance effectively buying only a small increase in Indigenous employment (assuming that there actually is a real increase in employment (that is, additionality) and not substitution of Indigenous employment away from other activities).

One proposal for reforming the IPP has called for any company, where the Indigenous employment share is greater than 70 per cent Indigenous, being considered an Indigenous company under the IPP regardless of who owns the company (Mundine 2017).

These problems are also likely to occur under the QIPP. Clear QIPP evaluation plans should be in place, with evaluations independently undertaken and reported on publicly. Incremental modifications to QIPP should be undertaken as problems arise and solutions found.

## Finding

The Queensland Government has in place policies to increase the Indigenous employment share in the public sector. Monitoring of progress needs to be more transparent and detailed.

The Queensland Government has recently implemented procurement policies that seek to both support Indigenous businesses and improve employment outcomes, including in communities. Evaluation plans need to be in place, including that evaluations are undertaken by an independent body with outcomes made public to communities and other stakeholders.

## Community driven devolution of service responsibilities

Some councils are seeking to increase the role of community organisations in contracted service delivery:

*We note the aim of increasing government positions in communities, but we are pushing that community organisations in Yarrabah are able to provide services wherever possible. We would recommend that if there are changes to the contractual system, then negotiations should occur to identify what current government services/positions could be delivered by a local community organisation. (Joint YASC & YLF sub. DR14, p. 7)*

The Queensland Government could review the services across government that it would be willing to consider for contracting. Alternatively, it could allow community planning processes to identify potential services to be contracted.

As discussed earlier, communities can apply to the Queensland Government for the transfer of ownership and control over retail stores to the community. The 'community' can be a co-operative, council, local entrepreneurs or some other form of ownership structure.

A similar, structured mechanism could be applied more broadly. The policy would be that the Queensland Government will consider community applications for:

- services directly delivered by agencies to be put to contract
- the transfer of service functions to community ownership and control. The policy would specify the functions within-scope of the policy, or a set of principles or characteristics of functions it will consider for potential transfer.

The policy supports development objectives through devolution of authority and increased local participation, while also supporting improved local employment objectives.

## Project targets and timeframes driven by local needs

Consultations expressed concerns that Australian and Queensland Government requirements to deliver programs within tight timeframes and to meet specific targets can alter the costs and benefits of hiring local labour versus contracting in labour. Contracted-in labour often involves existing relationships between providers and agencies and known capabilities, whereas hiring local labour might involve investments to build capabilities either through formal training or on-the-job training. Apart from the extra funding that may be necessary to support investments in local capabilities, the choice to use local labour might introduce additional risk to the project as a result of both cost and timing considerations.

To rebalance the equation more in favour of the employment of local labour in delivering projects and services, government should ensure that the process of establishing targets and project timeframes accommodates the needs of local Indigenous people to participate fully, which may include, for example, adjustments to funding to support investments in skills development, and longer delivery timeframes. The contracting reforms discussed in PC (2017) and adopted in Chapter 8 will also support improved local employment outcomes.

## Choice of technology and implications for employment

The Queensland Government, councils, community organisations and businesses face choices when considering how best to address the need for the provision of a good or service. For government agencies these choices occur both where a good or service is provided directly or where provision is contracted. The cost of producing a good or service is a function of:

- the amount of labour required multiplied by the wage rate
- the amount and price of intermediate inputs that are consumed in producing the good or service (such as energy and materials consumption)
- the cost of the capital employed and consumed in production, including whole-of-life cycle costs
- the level of technology.

Typically, different types of capital could be employed (e.g. different housing construction techniques and materials, different road construction and maintenance machinery and equipment, and alternative garbage collection and disposal models). The choice of capital to invest in usually has implications for both the amount of labour required to produce a good, or provide a service, and the skills required to do so. Technology choices that are complementary to high skill levels can bias investment against local jobseekers. There are also usually trade-offs between the number of employees required to provide a good or service and their skill levels.

Different choice 'bundles'—the specific combinations of labour, capital and intermediate inputs—can have similar whole-of-life costs while resulting in different employment outcomes. Where a bundle has a higher cost, but also has higher labour demands, then, given the high rates of unemployment in communities, what is the value from a community perspective in choosing the higher cost bundle (assuming they have the authority and financial resources to do so)?

The provision of housing under NPARIH provides a case study in how the unintended consequences of a number of policies influence the choice of housing designs and combine to foreclose on, or at least not support, local industry development (Box 9.6).

## Box 9.6 Remote housing construction technology

The *Remote Housing Review* found that NPARIH had generally achieved targeted employment outcomes:

*In Queensland, officials reported the highest rate of Indigenous employment, showing a steady increase from 36 per cent in 2010–11 and reaching 87 per cent in 2014–15. In 2015–16, Aboriginal and Torres Strait Islander apprentices and trainees worked 101,040 overall core hours (across approximately 632 FTE positions), and 25,325 hours (across approximately 159 FTE positions), on social housing construction and other housing and infrastructure projects in remote and very remote Indigenous communities. The strong employment outcomes were largely supported by the Panel’s observations on consultation visits. (DPMC 2017, p. 57)*

However, employment outcomes could have been improved beyond small trades employment by making different housing design decisions. The choice of designs, while guided by national guidelines, appear influenced by existing policies which produce poor outcomes:

- the housing stock is a social housing stock—there is very little private ownership
- social housing results in different incentives for tenants than for private home owners. Social housing tenants have no financial incentive to maintain or improve a home which they do not own, although they do benefit from the 'service' provided by the house
- the difference in financial incentives contributes to the lower level of effort tenants put into the upkeep of homes compared to homeowners. A moral hazard problem is present in that the lack of ownership alters behaviours so that less care is taken in avoiding behaviours that increase maintenance and repair costs
- under NPARIH, basic tenancy requirements and tenant responsibilities have been significantly weakened, which will likely re-inforce or contribute to a further erosion of behaviours
- the expected higher maintenance and repair costs influences the financial decision of choice of housing construction technology. Technologies which minimise maintenance requirements are preferred (for example, are harder to damage—built to be 'hosed out')
- these technologies (besser brick, concrete slabs and metal roofing) are imported from southern locations, and there is little prospect to produce these inputs locally, in contrast to designs with higher wood content (hardwood flooring and decking).

The consequence of these choices is that the provision of social housing does not support the development of upstream supply chains for the supply of inputs to home construction, although there is potential for further development of a timber industry. The choices may also reduce demand for labour for ongoing maintenance (recognising that councils have made progress in this area).

## 9.6 Summary

Getting the economic framework right requires changes in policy. But governments need to exercise significant caution in unilaterally implementing policies to support economic development. Expenditure programs and other policies should be coordinated within a place-based approach focused on long-term development.

Active policies to support development run the same types of risk as has been realised in government service provision. The provision of services, including those to alleviate hardship, resulted in unintended consequences by creating conditions that led to a permanent and growing 'need' for further service delivery. Top-down active development policies may have similar unintentional impacts.

Progress appears to be happening outside government, led by private and community initiatives. Assisting or enabling those private and community initiatives should be a focus of policy, along with establishing some basic prerequisite conditions for development.

Strengthening individual, institutional and system-wide incentives for change is needed. Aligning incentives, integrating policy within an overall development framework, and supporting governance structures are necessary. These are important features of the reforms proposed in Chapters 7 and 8. The proposed new institutional arrangements and community plans are a useful mechanism for guiding efforts to promote development.

The Queensland Government has implemented policies—employment targets and procurement policies—that may contribute to improved employment outcomes for Indigenous residents of communities. These impacts will take time. However, they are unlikely to be sufficient if not complemented by fundamental changes in incentives and a much improved coordination of policy. These changes need to be led by communities within an institutional framework of the sort proposed by the inquiry.

While a range of issues and options have been considered in this chapter, few of the issues have been looked at in the level of detail required to make major policy change recommendations. And other issues, such as the role of regulation or planning processes in development, have not been considered. Importantly, given the significance of the issues being examined, and their complexity, going beyond the consideration of options is not in the spirit of the recommended reforms which seek to provide communities with much greater scope to drive change.

---

### Recommendation 7

To enable economic and community development, the Queensland Government should:

- remove impediments to Indigenous community private sector activity, including divesting itself of assets that have the potential to displace or crowd out individual or local initiative and investment opportunities, such as retail stores
- make the growth of an Indigenous private sector in and around communities an explicit objective of policy and central to designing economic development policies and service delivery programs.

### Recommendation 8

The Queensland Government should partner with the Australian Government to achieve a step-change in the incentives facing jobseekers to prepare for, seek and maintain employment. This includes investigating ways in which the income support system, and its integration with state service delivery, can be reformed to better incentivise employment and economic participation by residents in communities.

## Recommendation 9

To assist with achieving the Queensland Government's Indigenous employment target, agencies should be required to report publicly on progress in achieving the target, including their progress in preparing local Indigenous people to participate in local service delivery activities.

Reporting may cover the number of people being skilled, the number of jobs that have been transitioned to being filled by a community resident, and an estimate of the aggregate number of jobs in the community in service delivery positions filled by external employees.

Agencies should also review and report on training needs and barriers to employment resulting from increasing credentials and standards.

---