

Submission to the Productivity Commission

Inquiry Into Introducing Competition And Informed User Choice Into Human Services

Response to Draft Report May 2017

July 2017

Introduction

This Community Council for Australia (CCA) submission briefly outlines some of the key issues for Australia's not-for-profit sector in response to the *Productivity Commission Inquiry Into Introducing Competition And Informed User Choice Into Human Services* and the Draft Report May 2017.

This submission has been prepared with CCA members (*see listing of CCA members, Attachment 1*) as well as other key organisations working in the broader not-for-profit sector. It is important to note that this submission does not over-ride any policy positions that may be outlined in individual submissions from CCA members.

As noted in our previous submission to this Inquiry, CCA is concerned to ensure any move towards a more competitive and market based approach to Human Services acknowledges three key principles; the need to clarify the goals of human services delivery and desired outcomes by which performance will be monitored; the importance of fully understanding the complexity of the human services 'market'; and the need to reform the contracting / tendering / funding processes of governments across Australia.

Making human services more responsive to individual and community need is clearly desirable. CCA supports the general direction of proposed recommendations outlined in the May Report, but remains concerned that an inappropriate application of market based ideology to human service delivery has the potential to create harm to many organisations and the communities they serve across Australia.

CCA welcomes this opportunity, provided by the Productivity Commission, to actively engage in consultation on this very important issue.

The Community Council for Australia

The Community Council for Australia is an independent non-political member based organisation dedicated to building flourishing communities by enhancing the extraordinary work undertaken by the charities and not-for-profit sector in Australia. CCA seeks to change the way governments, communities and not-for-profits relate to one another. It does so by providing a national voice and facilitation for sector leaders to act on common and shared issues affecting the contribution, performance and viability of NFPs in Australia. This includes:

- promoting the values of the sector and the need for reform
- influencing and shaping relevant policy agendas
- improving the way people invest in the sector
- measuring and reporting success in a way that clearly articulates value
- building collaboration and sector efficiency
- informing, educating, and assisting organisations to build sustainable futures
- providing a catalyst and mechanism for the sector to work in partnership with government, business and the broader Australian community to achieve positive change.

Our success will drive a more sustainable and effective charities and not-for-profit sector in Australia making an increased contribution to the wellbeing and resilience of all our communities.

Current situation - the context

The not-for-profit sector

The NFP sector encompasses over 600,000 organisations - from large to very small, and employs well over one million staff (around 10% of all employees in Australia). Australia's 54,000 charities collectively turn over more than \$130 billion each year and hold over \$260 billion in assets. In the last decade, sector growth has continued at more than 7% a year, higher than any comparable industry group.

These facts tell only a small part of the story. The real value of the NFP sector is often in the unmeasured contribution to Australian quality of life. NFPs are at the heart of our communities; building connection, nurturing spiritual and cultural expression, and enhancing the productivity of all Australians.

The importance of the NFP sector is internationally recognised with many governments now putting in place measures to increase NFP investment and productivity, including new measures to promote increased giving and philanthropy. Smaller government and bigger community is a common theme, driven in part by savings, but also by a commitment to greater civic engagement, social entrepreneurship and productivity within the NFP sector.

In Australia there are currently various initiatives seeking to: promote social enterprise; reduce compliance costs for NFPs; encourage a diversification of financing options to build a more sustainable funding base; streamline and refine the regulation of NFPs and charities; establish less bureaucratic reporting requirements while building community transparency; increase volunteering, increase philanthropy; improve relationships between government and the NFP sector; promote impact investing; and increase sector performance measurement. CCA supports all these activities.

While the recent history of the NFP sector is framed by growth and reform, new issues are emerging. The level of volunteering and individual philanthropic giving as a percentage of income has still not recovered to the highs of 2009. Revenue available to governments is effectively falling in real terms against a backdrop of increasing demands and higher community expectations. Competition for fundraising and funding for services has increased significantly in the NFP sector. Most charities are no longer growing at the rate they were, with many facing real reductions in their total income at the same time as they are being asked to do more, be more accountable and proactively demonstrate their value.

The inability of governments to streamline their own regulatory processes, their tendering processes, contract management and programs monitoring has consistently been identified as a major barrier to improving productivity in the not-for-profit sector in Australia. The lack of certainty in the government regulatory environment, funding and contracting processes also undermines performance and ongoing investment in improving outcomes. For the sector to be more effective, these issues must be addressed.

Competition between providers is often about highlighting differences. Positive change often requires increased collaboration, recognition of shared goals and shared ways of achieving outcomes. Given the size of the sector and its critical role in human services, there is scope to boost productivity by working constructively with the sector in developing more responsive and effective programs and services seeking to achieve shared goals and outcomes. Working better with the sector will require a significant culture shift within many government Departments.

Overview of principles and issues

CCA has previously highlighted three broad principles that inform most discussions about competition and contestability within human services. These three principles encompass many complex factors including both barriers to reform and drivers for reform. These principles have been acknowledged to some degree by the Productivity Commission, but CCA believes there needs to be more attention paid to them if we are to achieve real benefits through the measures proposed in the May Report.

1. Clarifying the policy goal in human service provision is the critical starting point

The most fundamental question in any meaningful discussion of human services delivery is; what is the policy goal of these services? The next question should be; what informs these goals and how are they measured?

The usual response to questions about policy goals in human services are descriptions of inputs and outputs – how many people were serviced and at what cost? Only rarely is there any real discussion about what was achieved in terms of outcomes. There is even less discussion about longer term impact.

A lack of clarity about policy goals and measures results is a failure to understand how best to deliver the desired outcomes. As a consequence, many areas across human services seem to be awash with ad hoc measures being developed by both government departments and the providers of services themselves.

When there is no clear policy goal or the policy goal is removed from the actual program or service allowing no consistent indication of desired outcomes, a vacuum is created in measurement. This vacuum is often filled by input and output measures that rarely inform policy goals or describe the outcomes achieved.

Unfortunately, the lack of specified goals and meaningful measures is common across many human services. If we look objectively at what is rewarded in our health services, it appears illness is rewarded while wellness is ignored. This is because health services tend to operate within an activity based system. Doctors are paid more if they see more sick people or see the same people more often. Surgeons make more if they operate more. Drug companies make more for their shareholders if they sell more of their drugs. Reducing levels of mortality and morbidity across population groups is not really a winner for the current stakeholders of our health services.

In most human services, the policy goal is about achieving a change in the status of those using the services – for instance; improving education, increasing employment, providing housing, reducing illness, reducing imprisonment. Unfortunately, these broader beneficial policy goals are often not seen as critical in program development, or are lost in translation when it comes to implementing programs and services.

For instance, a government may, for very good reasons, have a policy goal of increasing Indigenous junior school attendance and retention. Senior government officials might develop and implement a program to pay for additional social workers to visit the homes of students absent from school and encourage them to attend or to talk to parents.

What gets measured and reported in these programs tend to be activities measures - how many social workers are deployed and how many hours of home visits are conducted. If the government is able to achieve a major increase in the number of hours of home visits, the officials involved might call the program a success even if attendance rates only increase slightly.

In practice, improving Indigenous attendance at school is a complex issue driven by many local factors. There have been successful initiatives such as providing a four-wheel drive diesel bus capable of carrying 25 people between remote communities enabling junior football teams to become part of a regular fixture of inter-community football matches. Only kids who attended school could be selected in the football team. Without the bus it would take many vehicles and adults for the competition to work. Experience tells us that in some communities, this kind of active engagement initiative has increased school attendance by over 30%. Successful investments to increase Indigenous school attendance include; building a swimming pool, setting up a music recording and video production studio, and supporting a mentoring program. What might work in any particular community clearly needs to be informed by those who live and work in the community.

As this example highlights, achieving real change for people is not always about directly intervening in one area of their lives, independent of others. For instance, the best way to improve the health status of someone who is unemployed, homeless, depressed and using illicit drugs may be to provide stable housing, supportive employment and a network of peer support. In the absence of these social determinants of health, the provision of specific health services may or may not be effective.

How do we know what works, or in a market sense – what are we buying? It all starts by setting clear policy goals, talking with clients, local organisations and communities to establish meaningful goals, and then measuring success or failure against the agreed outcomes.

Without clarity about what the policy goal is in any human services delivery program, it is difficult to see how it is possible to begin discussing productivity, contestability or competition.

2. The human services 'market' is not equivalent to commercial markets

If there is such a thing as a human services market, it is diverse and distorted. In most human services provision, normal market forces do not apply. Government is often the main customer and the drivers of government investment are far removed from market based principles.

When the government is the customer, a well presented and thought through funding application or tender counts for much more than years of success in delivering real outcomes within communities. This kind of market encourages more investment in consultancy firms to write funding applications. It does not encourage increased investment in services improvement to achieve better outcomes.

What governments sometimes describe as an outcomes based system of incentives is often no more than an activity based invoicing system. For instance, the most common form of invoicing / reporting for residential drug treatment services is how many beds were occupied for how many days? No one asks how many previously unemployed dependent drug users involved in petty crime are now gainfully employed, have stable housing, are crime free and making a positive contribution to the community?

Even when governments push for more consumer led markets (as with the National Disability Insurance Scheme) the government is still the dominant customer, setting up a relatively narrow band of options, an envelope of choice for people with disabilities and their families.

It usually takes a level of affluence to exercise genuine choice in human services. If you have the financial means, you can choose your school, health services, child care, transport and housing options.

Of course, being able to effectively exercise choice still relies on information and there is often limited information available that provides relevant data about performance. In areas such as aged care, for instance, the capacity to make an informed consumer choice is very limited. There are no consistent measures of quality for residential aged care, no meaningful way of comparing the care provided, no effective way of reviewing the level of encouragement for ongoing physical activity and social engagement (critical factors in maintaining quality of life). Consumers often rely on word of mouth, listings of staff qualifications, or advertising material descriptions of services from the providers.

Those who do not have the means to exercise a choice often have to rely on the government purchasing human services on their behalf.

Where there is 'market failure' and people do not receive the required services, charities or others, including co-operatives and mutuals, tend to step in to provide the human services needed. Charities often have to rely on uncertain or contested government funding within government developed programs; or raising their own funding through fees and charges on services; or fundraising and philanthropy. A very small minority of not-for-profit organisations are able to run their own income producing activities and investments that underwrite their service provision.

Where the fees and charges are significant – as can be the case in education, health, aged care, disability and employment programs - for-profits can often deliver scale and efficiencies that make their prices competitive with charities. It is important to note the many businesses can readily access capital for new ventures whereas most not-for-profit organisations cannot, and that while the not-for-profit will have a purpose of serving their communities, business will be trying to generate maximum profits. Some for-profits see a potential to make money out of human service provision without improving outcomes.

In practice, this means the human services market has multi levels of service provision in each area. Access to services is largely determined by individual capacity to pay and government priorities in providing various forms of funding and support for preferred programs and services. The rationing of human services is common through restricted access and capped government funding.

This is anything but a traditional supply and demand market. The most effective human services provider with the highest quality services, valued by those they serve, offering one of the cheapest prices, may not be preferred by the major customer – the government.

Clarifying each part of the human services market, particularly the role of government, service providers, the service user and their community, is a critical pre-requisite for any meaningful discussion about competition and contestability in human services.

While there is clearly scope to improve the market, to make it more consumer and community driven, to ensure it is informed by the achievement of real outcomes, it would be wrong to assume contestability and competition principles can be readily applied across the existing human services market.

3. Human services will not be more effective until there are real changes in funding / contracting / tendering mechanisms.

'Governments are realising the limitations of the 'contract state' and are searching for more creative ways of applying the experience, knowledge and capability of a wider array of actors to pressing problems in public policy.

This 'third wave' of policy delivery in which government, not-for-profits and business work together for public purposes, will need to accommodate a more elastic concept of 'risk', embrace new forms of shared governance, and encourage experimentation and innovation.

Crucially, policy actors from all sectors will be obliged to engage in a meaningful conversation with constituencies of need. Where, in the past, public policy interventions were 'done to' or 'done for', in the emerging policy environment policy delivery will be 'done with' end users and communities.'

Australian and New Zealand School of Government monograph, '*The Three Sector Solution*' Cited from: <u>https://www.anzsog.edu.au/blog/2016/07/440/the-three-sector-solution</u> posted 18/7/16

Assuming there is clarity about both the human services goal, and the nature of the existing market for particular human services, the question then becomes what is the best way of developing, funding and implementing appropriate human services.

The short answer is that any new approach has to be about the customer / consumer / client, their families and communities. What will work best for them? What will deliver the best outcomes in their lives?

Within this context there are a number of approaches developing in Australia and around the world that may or may not be suitable for application in particular areas of human services. It is beyond the scope of this submission to fully explore all these options. However, it is important to say that at this point in time, many Australian government departments have been reluctant to adopt more consultative and informed approaches in the development of human services. Consequently government departments, like the providers themselves, end up developing their own approaches to contracting and measurement.

It is interesting to note in this context the work the Commonwealth Department of Finance has been engaged in as part of the Commonwealth Financial Accountability Review process that commenced five years ago. The '*Is Less More – towards better Commonwealth performance*' discussion paper provided some good insights into the types of reforms that need to be canvassed.

One option worth considering is to bring greater expertise and effectiveness to the contracting process by outsourcing government contracting of human services to non-government specialists who have the capacity to engage with potential clients and their communities, can manage risk without resorting to micro management of inputs and outputs, understand measurement of service outcomes that are related to policy goals, can assess organisational capacity, and demonstrate a preparedness to take a longer term view of human services.

Other possible ways to achieve greater efficiency, effectiveness and improved outcomes through reform of human services include:

- promoting co-design (with service users, their communities and providers of services)
- *collaboration and collective impact* (drawing on the combined strengths of different organisations in flexible funding arrangements to support community driven goals)
- broader goals (less focused on a particular aspect of a person's life more holistic including social supports, housing, employment, etc.)
- *less micro-management and compliance* (giving organisations a greater opportunity to both succeed and fail)
- greater emphasis on achieving outcomes (better focus on exactly what the service is meant to be delivering in terms of outcomes and impact)
- *more time to develop and sustain programs* (short-term funding is often consumed establishing capacity which is then undermined by future uncertainty)
- *building on what works* (knowing what has been tried and what works is critical to improving service delivery)
- *recognizing the value of relationships* (often the real capacity of an organisation lies in the relationships with clients, families, communities and other service providers)
- drawing on real expertise and grounded knowledge from service providers and users (similar to co-design but beyond the development phase – actively engaging people and local organisations in implementing, monitoring and sustaining human services delivery)
- *place based solutions* (working with communities to develop local solutions that may be adapted from the experiences of other communities)
- *impact investing* (drawing on the capacity to generate income and returns on investment through service provision)
- pay for results (not paying for activity but paying for delivering agreed measurable outcomes).

Within each of these approaches, there is capacity to create options for increased consumer choice, contestability and competition.

The fundamental principle in all these considerations is that we need to improve the way human services are contracted and paid for. This includes overcoming the command and control approach of so many government departments to contracting and tendering services. We must develop more effective ways to link payment systems to improved outcomes for service users.

Key points in response to the Productivity Commission Draft Report

CCA represents a broad cross section of the charities sector including providers of; aged care, housing, health, education, disability, employment, family and community welfare, and services for Indigenous Australians. CCA has encouraged all these groups to make their views known to the Productivity Commission regarding their particular area of service provision. It is beyond the scope of CCA to comment individually on all areas, but for the purposes of assisting the Productivity Commission, we provide the following general comments on proposals within the Draft Report released in May 2017.

CCA supports the summative key points about the current situation, as outlined on page 2 of the draft report

CCA believes the principles outlined in the first two dot points are critical to any reform process:

• This inquiry is about finding ways to put the people who use human services, such as health care, social housing and family and community services, at the heart of service provision. This matters because everyone will use human services in their lifetime and change is needed to enable people to have a stronger voice in shaping the services they receive, and who provides them.

• Competition and contestability are means to an end and should only be pursued when they improve the effectiveness of service provision.

CCA supports the need to reform government services as highlighted in the Report

• Greater coordination: Coordination problems can arise between governments, agencies and providers when, for example, services are funded by more than one level of government, or when services delivered by one provider duplicate or detract from another's. In some cases, policy is developed in government silos which can lead to competing objectives, and stewards losing sight of the users' overall wellbeing.

• More transparency: The provision of information to improve accountability and facilitate performance assessment can benefit all parties within the human services system. Without it, users are unable to assess providers, providers are unable to plan their services, and governments cannot effectively evaluate how providers or systems are performing.

• Smoother transitions: Policy reform in human services is a complex and delicate task. Reforms can be large, costly and disruptive to users and providers, take considerable time to fully implement, and affect the lives of many (sometimes vulnerable) users. Better planning and preparation for change should aim to preserve continuity of outcomes and minimise any negative effects on users from the transition. Transitioning between providers can also be disruptive as users find new providers and build a relationship of trust with them. Information and clarity about changes in advance can help.

These areas are, however, not the only areas where government reform is needed. As CCA has argued in this submission, the need for greater clarity in policy goals, measurement of outcomes, identification of markets, and tendering and contracting processes, are also critical areas of reform.

CCA position in relation to the Draft Report Recommendations

Given the depth of specialist knowledge amongst our membership, it is not appropriate for CCA to endorse the range of recommendations as set out in the Draft Report. CCA will rely on individual members making their views known on the recommendations that directly impact their particular area of service provision.

There are, however, some recommendations that have quite broad implications extending beyond specific areas of service provision. CCA is happy to note its support for some of these recommendations. Within this context, CCA acknowledges and commends the following recommendations:

Draft recommendation 4.1 – and especially this recommendation:

State and Territory Governments should ensure that people with a preference to die at home are able to access support from community-based palliative care services to enable them to do so.

The majority of Australians do not want to die in hospitals and nursing homes, but that is what is happening.

Draft recommendation 7.3 – and especially this recommendation:

The Australian, State and Territory Governments should prioritise the development of user-focused outcome measures for family and community services — indicators of the wellbeing of people who use those services — and apply them consistently across all family and community services.

The lack of clear outcome measures related to the wellbeing of the communities being served represents a critical knowledge gap that undermines effective service provision.

Draft recommendation 7.5 – and especially this recommendation:

The Australian, State and Territory Governments should set the length of family and community services contracts to allow adequate time for service providers to establish their operations, have a period of stability in service delivery and for handover before the conclusion of the contract (when a new provider is selected).

Programs and services cannot be turned on and off like a tap. Acknowledging the investment required to have effective programs established is critical to good service provision.

Draft recommendation 7.6

□ The Australian, State and Territory Governments should provide payments to providers for family and community services that reflect the efficient cost of service provision.

Human services are often not adequately funded, forcing charities and not-for-profits to find additional top up funding if they want to provide quality programs and services.

Draft recommendation 8.1 – and especially this recommendation:

increase default contract lengths for human services in remote Indigenous communities to ten years

It makes no sense to have short term contracts, particularly where establishment of workable relationships and appropriate program infrastructure is both costly and time consuming.

Draft recommendation 9.1 – and especially this recommendation:

 any specialist can accept a referral to a specialist of their type, irrespective of whether another person is named as the specialist in the referral

For the first time, Australian patients may be able to exercise a greater level of choice in relation to specialist clinical services.

Draft recommendation 10.1 – and especially this recommendation:

The Australian, State and Territory Governments should strengthen and expand their commitment to public reporting in the National Health Reform Agreement to better support patients and their general practitioners to exercise patient choice, and encourage performance improvement by hospitals and specialists.

Information is critical in exercising choice, especially in relation to health care. There is a lack of meaningful comparable data about health care providers in Australia.

Draft recommendation 12.1 – and especially this recommendation:

State and Territory Governments should introduce a consumer directed care approach to public dental services.

Public dental care in Australia is a national disgrace. The lack of good oral health is now a telling indicator of disadvantage across our communities. Providing better consumer directed dental care needs to be a much higher priority for all governments.

Conclusion

This submission seeks to highlight CCA's key concerns with the application of contestability and competition to the human services sector.

As noted at the outset, this is a very complex area across many different kinds of service delivery with a broad diversity of desirable goals and outcomes. While CCA supports moving to a more consumer driven model, this kind of reform will be challenging, not the least because governments and their officials see control as protection against risk.

Delivering better human services must be the primary goal, not simply applying a desired ideology around markets and competition.

CCA supports the general direction of the Productivity Commission Draft Report, and in particular, some of the recommendations that may improve the way governments manage the contracting, monitoring and reporting on human services provision.

As CCA has repeatedly emphasised, real reform in this area must be focused on three key principles; the need to clarify and measure goals and outcomes; the importance of understanding the real nature of a human services market driven largely by government; and the need to focus on making human services more responsive to consumer needs and the achievement of their desired outcomes.

There is no evidence that greater competition and contestability will automatically deliver better human services outcomes, particularly in outcome blind service systems where the government is the primary customer. There is evidence that if we give people what they want, they get what they need.

CCA looks forward to ongoing discussions with the Productivity Commission as the inquiry progresses.

Current Membership – Community Council for Australia (Attachment 1)

Access Australia's National Infertility Network, Sandra Dill, CEO Access Housing, Gary Ellender, CEO Adult Learning Australia, Jenny Macaffer, CEO Alcohol, Tobacco and Other Drugs Association ACT, Carrie Fowlie, Executive Officer Arab Council Australia, Randa Kattan, CEO Arthritis Australia, Ainslie Cahill, CEO Australian Charities Fund, Jenny Geddes, CEO Australian Community Support Organisation (ACSO), Karenza Louis-Smith, CEO Australian Council for International Development, Marc Purcell, CEO (CCA Board Director) Australian Indigenous Leadership Centre, Belinda Gibb, CEO Australian Institute of Superannuation Trustees, Tom Garcia, CEO Australian Major Performing Arts Group, Bethwyn Serow, CEO Australian Women Donors Network, Julie Reilly, CEO Business Council of Cooperatives and Mutuals, Melina Morrison, CEO Carers Australia, Ara Cresswell, CEO Centre for Social Impact, Kristy Muir, CEO Church Communities Australia, Chris Voll, CEO Churches of Christ Vic and Tas, Gabriel Hingley, Executive Director Community Based Support (Tas), Murray Coates, CEO Community Broadcasting Association of Australia, Jon Bisset, CEO Community Colleges Australia, Don Perlgut, CEO Drug Arm Australasia, Dennis Young, CEO (CCA Board Director) Ethical Jobs, Michael Cebon, CEO Everyman, Greg Aldridge, CEO Foresters Community Finance, Rhyll Gardner, CEO Foundation for Alcohol Research and Education, Michael Thorn, CEO Foundation for Young Australians, Jan Owen, CEO Fragile X Association of Australia, Wendy Bruce, CEO Fundraising Institute of Australia, Rob Edwards, CEO Good Samaritan Foundation, Catherine Cresswell, Executive Director

Good to Give, Lisa Grinham, CEO Hammondcare, Stephen Judd, CEO Hillsong Church, George Aghajanian, CEO (CCA Board Director) Justice Connect, Fiona McLeay, CEO Legacy Australia, Jennifer Walker, CEO Life Without Barriers, Claire Robbs, CEO (CCA Board Director) Mater Foundation, Nigel Harris, CEO Menslink, Martin Fisk, CEO Mission Australia, Catherine Yeomans, CEO (CCA Board Director) Missions Interlink, Pam Thyer, CEO Musica Viva Australia, Mary Jo Capps, CEO (CCA Board Director) Non Profit Alliance, Kelly Beaumont, CEO Our Community, Denis Moriarty, Managing Director Palliative Care Australia, Liz Callaghan, CEO Philanthropy Australia, Sarah Davies, CEO Playgroup Qld, Ian Coombe, CEO Port Phillip Housing Association, Haleh Homaei, CEO Power Housing Australia, Nicholas Proud, CEO Pro Bono Australia, Karen Mahlab, CEO Queensland Water & Land Carers, Darryl Ebenezer, CEO RSPCA Australia, Heather Neil, CEO (CCA Board Director) SANE, Jack Heath, CEO SARRAH, Rod Wellington, CEO Save the Children, Paul Ronalds, CEO (CCA Board Director) Scope, Jennifer Fitzgerald, CEO Settlement Services International, Violet Roumeliotis, CEO Smith Family, Lisa O'Brien, CEO (CCA Board Director) Social Ventures Australia, Rob Koczkar, CEO St John Ambulance, Robert Hunt, CEO Starlight Foundation, Louise Baxter, CEO Ted Noffs Foundation, Matthew Noffs, CEO Touched by Olivia, Bec Ho, CEO

Variety Australia, Neil Wykes, Company Secretary Volunteering Australia, Adrienne Picone, CEO Wesley Mission, Keith Garner, CEO (CCA Board Director) White Ribbon Australia, Libby Davies, CEO World Vision, Tim Costello, Chief Advocate (Chair CCA Board) YMCA Australia, Melinda Crole, CEO