



# Productivity Commission Inquiry into Human Services Issues Paper December 2016

NSW Department of Family and Community Services Submission  
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# 1. Introduction

The NSW Department of Family and Community Services (FACS) supports vulnerable people and families to participate in social and economic life and build stronger communities. The cluster provides services to: Aboriginal and Torres Strait Islander people; children and young people; families; people who are homeless; people with a disability, their families and carers; and older people. It does this through services that it provides directly and through funding service delivery by non-government organisations.

FACS strives to improve service delivery to enhance long term outcomes for users and deliver greater value for government investment. Good service design can improve the productivity of government service provision, promote economic participation and increase the productive capacity of the economy. The most effective service delivery will reduce long term disadvantage and dependence on government services in ways that will produce better outcomes for clients and minimise long term liabilities of government.

We welcome the opportunity to highlight relevant current New South Wales initiatives, and identify priority areas to develop the market for delivery of human services.

## 2. Human Services Markets

### 2.1 Market Characteristics

The Harper Review established four key principles that should guide the delivery of human services:

- user choice should be at the heart of service delivery
- funding, regulation and service delivery should be separate
- a diversity of providers should be encouraged, while not crowding out community and voluntary services
- innovation in service provision should be stimulated while ensuring access to high quality services.

FACS supports the Harper Review principles and considers that they provide a useful basis for evaluating reforms in service delivery.

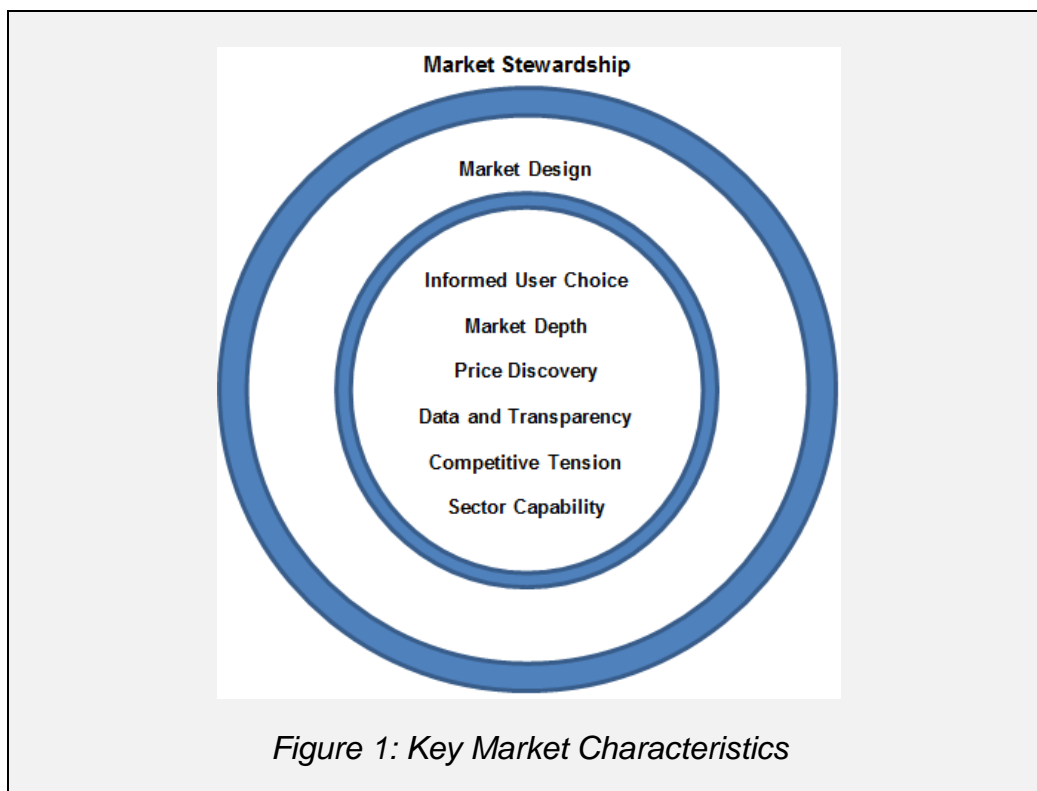
FACS is proposing a number of key characteristics, based on the Harper principles, that can be used to assess the maturity of human services markets. These characteristics are summarised in Figure 1 and Box 1.

Governments have a role to continually and effectively perform a stewardship function to ensure human services markets continue to evolve in ways that meet the community's expectations.

The reform of the human services sector should be considered in the context of the traditional market structure where government's role is as a supplier, regulator, and source of funding.

Meaningful analysis of the human service sector needs to look at specific markets in turn.

Developing market competency and sophistication in the areas identified below in Figure 1 and Box 1 will allow governments to perform their ongoing stewardship role; facilitate greater choice; separate delivery and regulatory functions; and harness the benefits of competition from a vibrant service delivery sector.



*Box 1: Description of Key Market Characteristics*

<b>Characteristic</b>	<b>Description</b>
<b>Market design</b>	The level of government intervention and/or funding constraints in a particular market which either facilitates or thwarts the delivery of services. Rationed services, such as social housing, suffer inherent difficulties in realising market outcomes. Market design significantly influences the other characteristics' performance.
<b>Informed user choice</b>	The degree to which consumers can make considered, well-informed decisions about the products that best meet their needs and the providers they wish to use. This depends on both the capacity of the decision maker and the variety and availability of supply to afford consumers practical choices.
<b>Market depth</b>	The size of the market, including the total value of services delivered and the number of willing participants (both buyers and sellers) engaged in supply and consumption of services.
<b>Price discovery</b>	The robustness of how prices in each market are known and/or determined and whether they reflect regulated or efficient prices.
<b>Data and transparency</b>	The availability of data and metrics to facilitate informed choices by consumers or commissioning of services by governments.
<b>Competitive tension (including contestability)</b>	The degree to which the current marketplace structure resembles an efficient marketplace – whether limited suppliers, market structure and contracting behaviours impede flexibility.
<b>Sector capability</b>	The sophistication of supply to engage in a contestable, market-based or choice-orientated service paradigm.

Each of the service delivery systems or markets considered in the Harper Review and the Commission's current inquiry display different stages of maturity. The most mature markets feature many years of policy development, and are generally funded against a clear vision of intended outcomes for recipients.

The markets under consideration by the Productivity Commission in which FACS operates are rationed markets where governments must determine the appropriate balance between the intensity of the services offered, how widely they are available, and the funding environment. Other services such as family and domestic violence support include services that are provided on an involuntary or crisis basis, which hamper the application of user choice.

Disability services are an example of where government has actively addressed market design to reform an historically rationed market. The introduction of the National Disability Insurance Scheme (NDIS) and earlier reforms in a number of States and Territories have produced solid actuarial data on client needs, funding levels that are sufficient to achieve a clear public policy goal, and system design that has clearly defined how to use forces such as client choice and control and competition between providers to achieve long term outcomes for clients and value for government investment. It is worth noting that this process has taken many years to develop and then deliver at scale. Social housing and family and community service display some of the characteristics of the disability market prior to current reforms.

To create well performing markets, the stewardship role of government needs to extend to market design and development. Policy and procurement should be used to manage demand and supply side of markets and not only outsource functions.

There are a number of activities that government can deploy to improve outcomes in the provider market. These include:

- ensuring services evolve in line with the changing nature of client needs (through ongoing consultation, client and market intelligence and awareness of local and international innovation)
- ensuring a healthy and competitive provider market (identifying barriers for entry and exit; identifying instances of gaming and/or monopolistic behaviour)
- appropriate pricing and effective monitoring regimes, including clear performance and service benchmarks, creating a credible threat to underperforming providers being replaced
- working to support strong providers in thin or highly fragmented markets to help build market competition. Competitive processes are then increased as the market matures and can support it.

## 2.2 Role of Commissioning

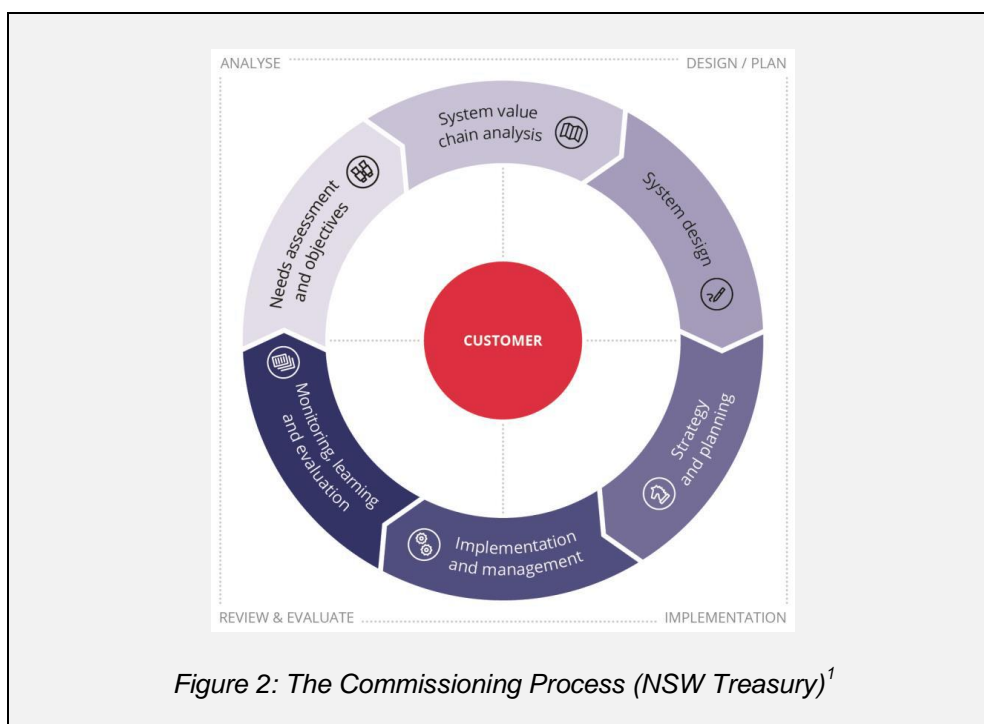
The NSW Government, including FACS, is increasingly using commissioning approaches to link market design to the delivery of agreed client and cost outcomes. This reflects the awareness that current services are not making sufficient impact on long term outcomes for disadvantaged clients.

We see commissioning as assisting FACS to move away from traditional programmatic responses with a predetermined set of services to take a greater focus on outcomes.

The NSW Government has adopted a Commissioning and Contestability Policy that includes a number of critical steps across the stages of the commissioning cycle, specifically:

1. Needs assessment and objectives
2. System value chain analysis
3. System design
4. Strategy and planning
5. Implementation and management
6. Monitoring, learning and evaluation.

Figure 2 below represents the commissioning process for NSW:



<sup>1</sup> NSW Treasury (November 2016) 'NSW Government Commissioning and Contestability Policy' tpp 16-05: 11.

The overall approach is one of considering the outcomes the commissioner is aiming to achieve against available resources, and the pathways to achieving them. Commissioning assists government to understand how tools such as user choice and contestability can best be used to improve market performance and client outcomes.

Client outcomes should be defined early, through consultation with clients, providers and other stakeholders. Outcomes are measurable benefits sought by clients of services.

Other considerations include:

- *Demand analysis* – a detailed analysis of client characteristics, volumes and current service experience to ensure the system is designed around clients' needs. An accurate and transparent forecasting of volumes and case mix is critical to enable market confidence, provider planning and provider viability.
- *Supply analysis* – an analysis of service characteristics, including provider and market maturity, risks associated with service continuity, barriers to service providers adapting to different service models, how much is possible within the budget and volumes required, whether there is an opportunity to introduce competition/contestability to deliver better outcomes (particularly where there is limited scope to introduce user choice).
- *Co-design* – collaborating with service providers to design reforms, including service and funding models, outcomes measures and incentives to ensure they are clear, deliverable, informed by best practice and that service providers are well supported. Co-design is critical to understanding and addressing the challenges commissioning can present for service providers, their ability to adapt to and implement reforms (especially where multiple reform processes happen concurrently or in succession) and ways that Government can support flexibility, innovation and capacity building.
- *Outcomes measurement* – adopting a robust and analytically sophisticated approach to assessing whether the intended outcomes are being achieved, balanced with manageable reporting requirements. Measures need to be designed carefully to ensure the right targets and thresholds are set.



### 3. User Choice, Control and Input

There is a strong focus in the New South Wales Government on the importance of placing citizens at the centre of the delivery of human services.

Enhancing client participation in service delivery generally leads to better outcomes, given appropriate market conditions.

Client-centred service delivery models are increasingly being adopted across the human services sector, such as through the NDIS and consumer-directed aged care. This type of individualised care and greater choice and control are redefining government's relationship with service providers and the general community.

The NDIS experience to date demonstrates that providing users with both choice and control delivers outcomes that better match individual needs and preferences, with the potential for longer term savings to government.

User choice, however, can take various forms. For example, users can directly make decisions about the services they receive, such as deciding which services best support their needs and which organisation is best to provide them. User control is also an important tool to empower service recipients to tailor the services they receive. Even where there is limited choice in provider, they can have a high degree of say over how and when services are delivered to them.

There may be instances where user control is of greater priority to clients than choice of service provider. The NDIS Outcomes Framework Pilot Study found that, for people aged over 25, 76 per cent experienced an improvement in their level of choice and control, while 42 per cent reported improvements in their level of community and social participation.<sup>2</sup> Empowerment and contestability has improved outcomes, with most NDIS participants more satisfied with the quality of supports they receive, even though most did not change providers on joining the scheme.<sup>3</sup>

Co-design processes also allow service users and communities a higher degree of control over the nature of the services they receive. This can be particularly important to assist disadvantaged or more vulnerable groups who otherwise lack the power to exercise informed choice and control over their lives.

FACS continues to support the capacity building and number of Aboriginal Community Controlled Organisations (ACCOs) across NSW that provide services to Aboriginal children and families, including remote indigenous services. FACS and the Aboriginal Child, Family and Community Care State Secretariat (AbSec) are continuing to work closely together on matters such as the Plan on a Page for Aboriginal children and young people 2015-2021. FACS is working with AbSec to

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<sup>2</sup> Outcomes Framework Pilot Study: Summary Report, NDIA, 10 December 2015.

<sup>3</sup> Evaluation of the NDIS, Intermediate Report, National Institute of Labour Studies, September 2016.

develop a strategy designed to ensure ACCOs have a skilled, capable and informed workforce, and can deliver a broad range of services to Aboriginal children, young people and families across NSW.

Adopting a client-centred approach in aspects of human services delivery would be expected to help address the underlying problem of service fragmentation by allowing recipients to procure the set of services that best meets their overall needs.

## 4. Family and Community Services

The number of children and young people being reported to child protection authorities is rising across Australia. In NSW, 79,487 children and young people were reported to FACS at risk of significant harm in 2015-16, an 8% increase from the previous year. Just over 1% of children in NSW receive out-of-home-care services, with the majority placed with extended family or foster carers and supported by FACS or contracted non-government organisations.

In 2016-17 FACS will spend \$1.9 billion on child protection and out-of-home-care services, including:

- Targeted early intervention
- Intake
- Assessment and referral
- Intervention
- Placement and out-of-home-care
- Adoption, guardianship and restoration.

Currently, children and family support markets do not deliver adequate outcomes, particularly for the most vulnerable. There are clear concerns that too many vulnerable children and families face entrenched disadvantage and are heavy users of crisis government services throughout their lives. This results in poor outcomes for individuals and high long-term costs to government.

When assessed against the characteristics identified in Box 1 in this submission, these markets are relatively immature, particularly given they are not funded to achieve an agreed set of outcomes.

NSW considers that there are opportunities to improve outcomes in the area of children and family support and reducing long-term liabilities to government through:

- adequate resourcing to achieve the intended outcomes
- shifting investment to earlier stages of intervention
- using the commissioning process to improve transparency of the unit cost of delivering services
- coordinating funding for services between the levels of government.

A more effective market for delivery of child and family support would consider the factors that influence a child's expected life course, such as parents' mental health, birth weight, stability of housing and household history of family and domestic violence. It would then map out the appropriate points and methods of intervention to achieve an outcome that moves the child's trajectory closer to that of the broader population, and monitor outcomes progressively. Support services and monitoring would be undertaken across a range of government services, including health, education and family and community services. Services would be tailored to the

needs of individual children and families and provide an element of choice and control over the types of services and the way they are delivered.

Box 2 provides a case study of recent NSW reforms to out-of-homecare services that illustrates these market characteristics, with tailored individual packages, coordinated service delivery, an investment approach to optimising where funds are allocated, and a commissioning approach to service design.

*Box 2: Their Futures Matter*

***Their Futures Matter: a new approach – reforms to address the complex needs of children and families***

In November 2016, the NSW Government announced its landmark reform *Their Futures Matter: A new Approach*. The reform responds to the findings of the Independent Review of Out-of-Home Care in NSW, led by David Tune AO PSM.

The NSW Government is significantly reforming its approach to the delivery of out-of-home care (OOHC), adopting a mechanism that combines a commissioning approach to service design, an investment approach to optimising where funds are allocated, tailored individual packages, and coordinated service delivery.

Highlights of the reform include:

- Applying an **investment approach** to service design and delivery, built on **strong client data and evaluation** to guide investment and target services.
- **Tailored support packages** to ensure vulnerable children and families have access to the support they need.
- **Alignment of cross-government funding for vulnerable children and families** to ensure comprehensive and cohesive responses from the whole service system.
- A **single commissioning entity** to ensure commissioned services are coordinated, evidenced based and driven by the needs of children and families.

Under the current system, OOHC providers receive placement-based funding. Under the new model, providers will be paid to deliver services that meet the needs of the individual child or young person. Funding will follow children through what are now seen as separate program areas. The approach will support the progressive implementation of outcomes-based contracting and funding. It will incentivise and thereby drive the behaviour of service providers to achieve the desired outcomes for children and young people.

An investment approach will better target interventions to improve the outcomes of services and ensure the sustainability of the child protection and OOHC system. This will involve undertaking actuarial analyses of the lifetime costs of children and young people in OOHC and families in the system. The investment approach ensures that effort and funding is focused on providing services which have the greatest social return as well as promoting a cost-effective system.

## 5. Social Housing

The market for social housing is characterised by insufficient supply, rationing, and a reliance on future funding for replacement stock.

Currently, the public housing system in NSW houses 110,000 households who, without support, would not be able to sustain a tenancy elsewhere. The number of social housing dwellings in NSW has not increased in line with growing demand and will continue to decline relative to forecast population growth. With an ageing tenant profile and lower exit rates from social housing, the waitlist for social housing has grown to roughly 60,000 applicants.

### *Box 3: National Affordable Housing Agreement*

In 2016-17, the Commonwealth will provide \$430.2 million to NSW for housing services through the Affordable Housing Special Purpose Payment (SPP). This funding is incorporated into the total FACS operating and capital budgets and represents approximately 14 per cent of the total resourcing for the social housing and homelessness system in NSW.

In 2016-17 the NSW Government will spend \$1.1 billion on social housing assistance, tenancy support and homelessness support, while also facilitating private investment in social housing. This includes:

- \$188 million for homelessness services and programs
- \$78 million for Community Housing Providers to fund leasing subsidies for vulnerable individuals and families in the private rental market
- \$55 million for Future Directions reform of the social housing system
- \$1 million rental subsidy to assist war veterans who are homeless or at risk of homelessness.

In terms of the growth of the sector, in NSW the total supply of social housing has increased by over 22,000 dwellings since 2009. The NSW Government provides over 260,000 people with social housing assistance. Since 2013, the NSW Government has turned around the previous 15-year pattern of a net loss social housing stock and now has the biggest building and replacement program of any state.

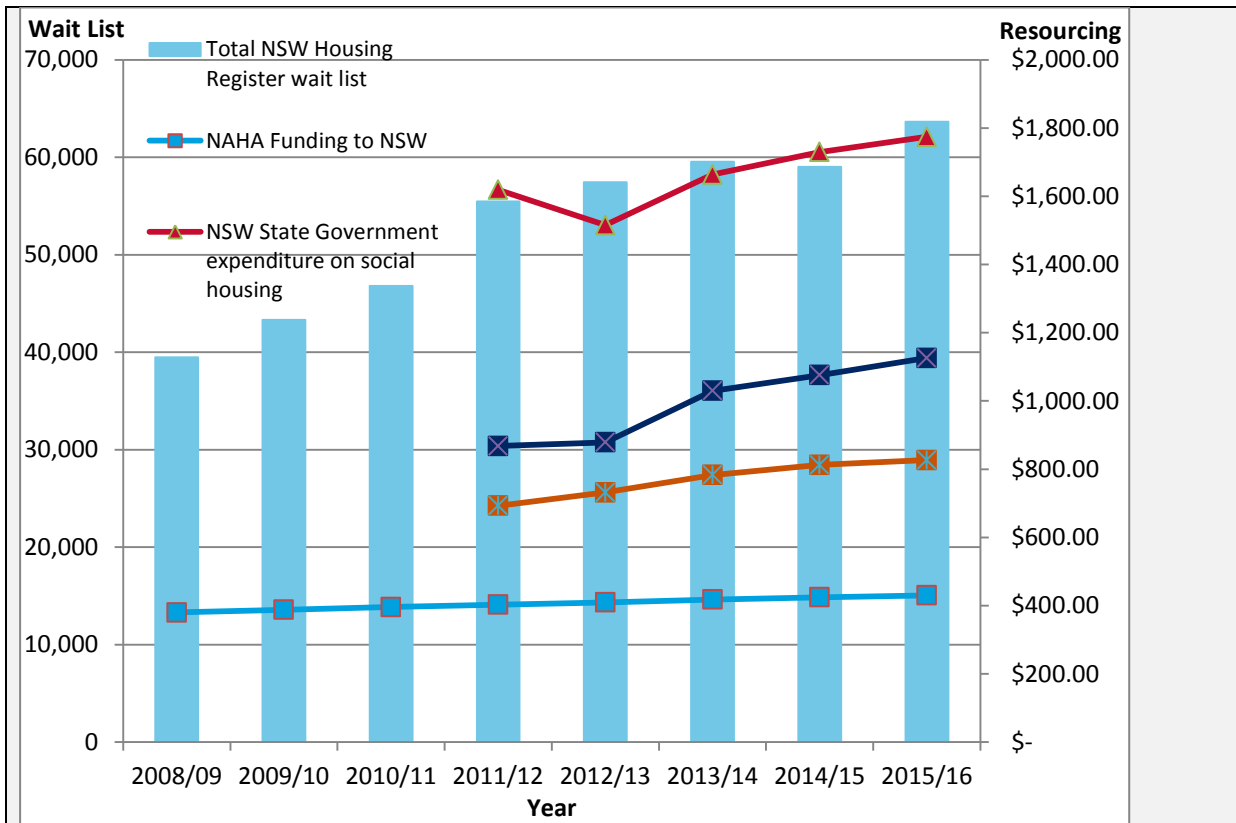


Table 1: Total NSW Housing Register Wait List versus NAHA Funding and NSW State Government Expenditure

The funding levels provided under NAHA have not been set with reference to the aspirational objective of NAHA - that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation.

Indexation of the Affordable Housing SPP is also less than Consumer Price Index, and substantially below the housing price cost index. As a result, funding under the NAHA has declined in real terms over the life of the agreement and the social housing sector cannot meet the increasing demand from a growing and ageing population.

Overall the social housing system in NSW faces significant challenges. The declining affordability of housing in NSW is increasing demand for social housing services. At the same time, the Government faces an expectation to do more for tenants to improve outcomes. But reform proposals, to be effective, require clarity around the purpose and objectives of the social housing system.

The NSW Government is actively addressing the future of the social housing market in New South Wales through the *Future Directions* reforms.

#### Box 4: Future Directions

##### **Future Directions for Social Housing – NSW Government’s vision for social housing for the next ten years**

Future Directions for Social Housing in NSW is the NSW Government’s response to the major reform that is needed in the social housing system. The 10 year reform plan will deliver more social, affordable and private housing more sustainably, and make better use of the assets that the Government owns.

It will engage the non-government and private sectors to deliver housing and tenant services. The approach recognises the role stable housing plays in the lives of people who are not able to live elsewhere. However, it will also provide more targeted and personalised support to increase housing independence and break the cycle of disadvantage for people who need not be reliant on long-term social housing tenancies.

The strategy has three key objectives:

1. more social housing
2. creating opportunities and support for people to leave or avoid social housing
3. a better social experience for social housing tenants.

Key programs include:

**Social and Affordable Housing Fund (SAHF)** is an innovative outcomes-focussed model which provides a stable income stream for up to 25 years to plug the gap between the rental stream received from tenants, government subsidies and the revenue required to sustain a commercially viable project. The SAHF will encourage private and non-government organisations to team up and deliver social and affordable housing dwellings across metropolitan and regional NSW, together with integrated support services. The ring-fenced fund has been set-up with \$1.1 billion in seed capital from the NSW Government. Phase 1 will deliver 2,200 dwellings across the state.

**Communities Plus** is an ongoing program that redevelops social housing sites through the greater metropolitan region and regional NSW and builds sustainable new communities. Over the next ten years, Communities Plus will deliver up 23,000 new and replacement social housing dwellings and up to 40,000 new private dwellings.

**Management Transfers Program** - FACS will transfer the management of approximately 18,000 social housing properties to the community housing sector. Between 2017 and 2020, FACS will increase the share of social housing managed by Community Housing Providers from 19% to 35%.

**Service Improvement Initiatives (SII)**, worth \$280 million over four years, will provide support with private rental and employment, education and health-related initiatives for clients who can be diverted from long-term social housing tenancies.

The 10 year reform plan aims to advance a dynamic and diverse NSW social housing system, where government supports private and non-government initiatives and innovation. Housing assistance under the plan will ideally be seen as a pathway to

independence and an enabler of improved social and economic participation for tenants living in vibrant and economically diverse communities.

As part of an individualistic and holistic approach to breaking the cycle of disadvantage for our clients, the reforms seek to drive conditions for a more evolved and responsive market by engendering:

- a greater involvement of private and non-government partners in financing, owning and managing a significantly expanded stock of social and affordable housing assets
- more competition and diversity in the provision of tenancy management services through the expanded capacity and capability of community housing providers and
- expanded support in the private rental market, thus reducing demand on social housing and the social housing wait list.

A greater supply of social and affordable housing – and enhanced arrangements for the commissioning of broader support services for tenants – will facilitate improved outcomes from the system. Market mechanisms such as user choice and contestability are only some of the factors that can improve outcomes.

The social housing market lacks a robust approach to pricing and has not resolved incorporation of a cost of capital into funding, which is required to underpin adequate maintenance and longer term investment in supply and support a sustainable market. In contrast, reforms to the supply of specialist disability housing under the NDIS have included funding residents for the user cost of capital component of specialist housing, thereby ensuring that a market can develop for the ongoing supply, maintenance and replacement of the housing stock.

Enduring change to the social housing market would require a range of actions by government, notably:

- clarification of the roles and responsibilities of the Commonwealth and States and Territories in the delivery of housing services
- a clear delineation of roles in the provision of social housing, between: procurer of services; funding provider; asset manager; regulator; and tenant manager
- greater price discovery: identifying the true costs of supply of social housing across the market, through improved data transparency
- reform through funding the market to:
  - meet agreed outcomes
  - fund a user cost of capital.
- reform of the National Affordable Housing Agreement and National Partnership Agreement on Homelessness to seek to integrate the policy response to housing and homelessness and provide funding certainty to both.



## 6. Conclusion

FACS is committed to improving the approach to service delivery to enhance outcomes for users, improve value for money, and equip people to reduce long term dependence on government services.

NSW is implementing social housing and family and community services reforms aimed at improving market conditions, community outcomes and productivity, and welcomes a reform agenda to support continued reform in these areas.

The commissioning framework provides the rigour required to deliver improved services through clarifying the intended outcomes and developing the appropriate funding and delivery mechanisms and incentive structures to achieve them. Well-structured markets drive efficiencies, allow for contestability, and provide clients with more choice across a range of better services.

We are moving towards an investment approach that emphasises directing resources to early intervention programs that improve lifetime outcomes with consequent benefits to individuals and the service delivery system.

In considering their approach to human services delivery, governments need to take into account the nature of existing markets and the outcomes it is seeking to achieve, then design and fund services accordingly.

This submission forms FACS' initial response to the issues paper. FACS would be pleased to provide further information and details of case studies if the Commission wishes. FACS looks forward to further engagement with the Productivity Commission in the development of its reform proposals.