

HUMAN SERVICES: IDENTIFYING SECTORS FOR REFORM – COMMUNITY SERVICES INDUSTRY ALLIANCE SUBMISSION

About the Community Services Industry Alliance

The Community Services Industry Alliance (CSIA) aims to increase the capacity and viability of community service organisations and secure a prosperous future for the Industry.

CSIA will grow the business of the Community Services Industry by:

- Engaging internally and externally with organisations and stakeholders on industry development matters.
- Influencing and advocating for policy reform, representing the industry at all levels of Government and with other industries.
- Informing and educating on industry benchmarks, best practice and organisational development.
- Leading the industry in identifying challenges and acting on opportunities such as increasing productivity and innovation.

CSIA's Foundation members represent organisations that deliver human and social services across a wide range of areas including health, aged care, disability services, child protection services, housing and homelessness and more. It is from this wide breadth of experience and through the input of our Policy Working Party that we draw our insights for this submission. For the purpose of this submission we will refer to human and social services in terms of community services whilst recognising that these services are only one part of a broader human and social services landscape.

Find out more about CSIA [here](#).

CSIA's submission on increased competition in human services

The Productivity Commission's issues paper poses a series of questions to enable the Commission to seek input into its proposed framework to identify services best suited to reform (Figure 2, Identifying Services Best Suited to Reform, Page 10). In the development of this submission we have not responded to each question in turn but taken them into account in our overall views while writing this submission. The submission focusses on what needs to be in place to enable community service organisations to deliver maximum benefits from increased competition. It points out that these foundational elements need to be in place before or at least alongside further introduction of competition in community services.

CSIA strongly supports the principle of informed user choice across community services as a core principle for reform, particularly where this is linked to a focus on an outcomes approach. However, CSIA is cautious about concluding that there is an automatic relationship in community services between informed user choice and increased competition. We believe that:

- Informed user choice and the benefit that it delivers needs to be understood separately from principles of competition.
- Examples of the use of competition across community services need to be comprehensively analysed for success and failure, particularly in terms of delivering informed user choice, but also in terms of productivity and value for money.
- A wide ranging exploration of the factors that are different in community services compared to the private and public sectors should inform the application of competition.

- Where it is concluded that increased competition will not deliver increased quality, responsiveness, equity, effectiveness and accountability other methods of achieving this should be explored to ensure high quality outcomes.

Moves to increase competition should be informed by an understanding of the unique environment that community services operate in, different from the operating environment of the private sector. A competition based reform agenda needs to address the barriers to maximising outcomes including regulatory, contract and procurement, and data reform. These barriers are in large part a legacy of contract relationships with all levels of Governments resulting in real and perceived limitations to the actions and authority of community service organisations. Including the way they operate to deliver services. Further, a principles based approach to reform should recognise the value add of the not-for-profit providers is essential to effective reform. This value add includes the effort of volunteers and contributions of the philanthropic and corporate sectors that are unique aspects of the business models of community service organisations.

We suggest that the framework (Figure 2) in the issues paper (page 10) include “market characteristics” as a key determinant of services areas best suited to reform. This could include:

- Regulatory and legal
- Contracting and procurement
- Data quality and availability
- Market stewardship
- Cohorts of service users

Community Services and Market Concepts

The use of concepts based on market principles in community services is contentious. As already stated the idea of informed user choice (empowered consumer, consumer, client) is probably the least contentious and indeed in some areas of community services is accepted as a standard reference to the users of services. This includes, health, aged care, employment services and child care. In these areas the application of market principles, including increased competition, is well and truly underway and in some cases has been for decades.

The inquiry should make a thorough and careful analysis of these areas of community services to understand the strengths and weaknesses of the application of increased competition in these areas. Further, it will be critical to understand the policy rationale as to why market based principles were applied in these areas of human service delivery before others. It is our untested view that the policy logic about which areas to reform and why is not necessarily consistent.

In other areas of community service delivery, where models of welfare are dominant, the acceptance of informed user choice is not only less accepted, but more importantly more difficult to apply. This is well illustrated in the area of child protection where it may not always be clear whether it is the family or the child that is the “user” and where statutory intervention compromises choice. These areas of community service delivery are the last frontiers of human services to face reform based on market based approaches.

Competition in contexts such as this might not be impossible, but certainly would pose risks that perhaps would not be found to the same extent in other areas of community services, such as aged care. The current implementation of the National Disability Insurance Scheme is an interesting and complex example of this as participants in the scheme will span some of the most vulnerable in our community to some of the most empowered. These examples of different cohorts illustrate the very

unique nature of human services and the challenges of applying market based mechanisms such as increased competition.

The common ground between informed user choice and human services

A previously stated CSIA believes in the importance of placing people at the centre of decisions that affect their lives. However, concepts such as informed user choice require careful interrogation for their real meaning. For example, does the informed user imply that they have knowledge greater than the average user? What stimulates their interest in acquiring this information? By what means do people go about acquiring this information and how is this managed in situation of extreme disadvantage?

The term “the empowered consumer” is much used in the aged care setting driven by the baby boomer cohort who are described as having a different set of needs and aspirations for their care as they age compared to previous generations. They are generally financially independent (although not in all cases) and can direct their purchases in the market to influence choice, quality and responsiveness. This concept is also emerging in parts of the disability sector with the introduction of the NDIS. The characteristic of the empowered consumer includes:

- Highly informed – able to acquire knowledge that informs decisions as and when they require it.
- Mobile – will move within the market to secure the right services or products.
- Loyal – once they find what they are looking for they stay.
- Hand on – they want to be part of the design of the product and services.
- Global – they shop outside the borders of their local market.

We know that this is not a description befitting many of the people that community service organisations support. Through the mission they define many community organisations are in fact reaching out to people that are highly marginalised both in social and economic terms. Many of these people do not have access to mainstream human services let alone mainstream consumer markets. It is our view that the concept of the empowered consumer exercising informed user choice rests uncomfortably in the context of many of the people community service organisations support.

As previously stated this does not mean that we reject the principles that underpin these concepts, in fact we believe that in general terms there should be a wholesale resurgence of person centred practice across the community services industry. Our caution is that this should be approached by finding the synergies between person centred and strengths based approaches, and case management that informs the practice of community services and the outcomes people seek. This in turn should form the basis of competition between service providers in the community services industry. Appropriately locating competition at the heart of the act of transformation in people’s lives from which the value of these services is derived. This is in contrast to the transactional nature of the private sector where value is defined through act of the transaction and the profit it generates. Such an approach would also allow reform to be built of the culture and strengths of high quality practices within community services whilst still providing for reform.

The experience of competition in community services

Competition in the Community Services Industry is a construct created principally out of the competitive tendering processes used by Governments at all levels. These tender processes are

prescriptive at a program level and in many cases also at the level of inputs and outputs. In some instances, they are blind tenders and applicants have no knowledge at all of the amount of investment that the government intends to make. These factors inherent in tender processes are not conducive to business processes that focus the attention of organisations on the people they serve. We hasten to point out that this does not mean that organisations do not focus on the people they serve in myriad other ways, including through practice approaches. However, we point out the funding approach has a major influence over the activity of the community service organisation.

CSIA believes that the form of competition that community service organisations are used to is not market based competition. It is a form of artificially constructed competition that anecdotal evidence suggest has not to date delivered better service delivery. Where there have been improvements in service delivery it is likely to be through the concerted and committed efforts of community organisations themselves and where innovation is occurring it is often through relationships with philanthropists and the private sector.

Further, we need to move away from tender processes that request collaboration but create competition. The real challenge we face across human services is the integration of services within and across parts of the sector. Adopting commissioning approaches such as those used in the United Kingdom. Commissioning has the potential to engage the end user from the outset, taking a design approach that focusses on integration and considers funding approaches that are conducive to an outcomes focus.

CSIA believes that a thorough exploration of current productivity levels and potential productivity gains in community services may be as effective as increased competition if one of the goals of increased competition is better value for money where government money is invested. Indeed, one is reliant on the other and this is starkly illustrated in the implementation of the NDIS. Community service organisations who cannot achieve a greater level of productivity through their workforce, business systems and service delivery will not be able to meet the price points in the scheme and in turn will not be competitive against those organisations that can.

Business changes that deliver productivity gains have not to date been a core focus of community services, although there are always individual exceptions. This and a range of other business transformation issues, such as the application of technology, place community service organisations at a significant competitive disadvantage to the broader commercial markets. These organisations have multiple and complex stakeholder groups and as previously stated have their business setting orientated to securing government investment. As approaches to government investment in community services change, so too must community organisations reset their business, but not without the time and investment it takes to achieve such business transformation.

Increased competition can only be fairly applied in a market with a level playing field. Not-for-profit margins are three times lower than for-profits (Forecasting the Future, Community Services 2025, Deloitte Access Economics). This leaves community service organisations at a distinct disadvantage when it comes to investing in their own business transformation. It is also important to note that some client focussed services (particularly clients with complex and multiple needs) may not be profitable and therefore may not attract for-profit organisations. This increases the risk of “cherry picking”, creaming and fraud. This has borne out in child care and employment support reforms. In some cases, greater competition has resulted in no evidence of improved outcomes or has worked against improved client outcomes (e.g. employment support).

Market Failure

In circumstances where the supply of services does not meet the demand for services, market failure occurs. CSIA believes that the funding of community services is a response to market failure and at the same time reflects inherent flaws that drive a form of human services market failure. Market failure and market based competition are two sides of the same coin and therefore a discussion of increased competition would not be complete without considering market failure.

An in-depth discussion of the many reasons that people across our communities end up experiencing social and economic exclusion is beyond the scope of this submission. However, the Inquiry must take into account circumstances in which community services are delivered to vulnerable individuals otherwise unable to access the services they need - market failure. The careful identification of the following is critical to this analysis:

- Cohorts of people for whom access to mainstream services is difficult in either an acute or chronic way.
- The non-mainstream services that are critical to meeting their needs and how these services create pathways into mainstream services.
- The political and policy drivers for the delivery of these services now and into the future.
- The impact of fiscal constraint on their continued delivery.

Further, market failure occurs within the “market place” of community services and they include:

- Geography and decentralisation – in Queensland more than 50% of the population resides outside the south east corner where service delivery is concentrated and most accessible. The risk that demand will outstrip supply in regional, rural and remote settings is high.
- Inadequacy of current investment – some areas of community service delivery have historically been underfunded (i.e. disability services) and this results in community service organisations being unable to meet demand. Supply of housing is another example.
- Service inadequacy – in some instances what is being supplied or the interventions or approaches to service delivery may be failing to meet need and need to be redesigned. This resulting unmet need causes people to cycle through the system over and over again.
- A lack of system integration – in some cases parts of the system work against each other to amplify the needs of individuals. This occurs across the interface between homelessness and the supply of housing, emergency medicine and the supply of primary health services, family support and child protection interventions.

The inquiry must take into its approach a nuanced and sophisticated approach to community services and increased competition. The Industry is not homogenous and although increased competition is at play in many parts of the Industry it is not in others. The reasons for this need to be thoroughly investigated in a way that balances the reality of the lives of vulnerable people in our community with the modernisation of an Industry leading to better outcomes.

Wholesale reform requires a new paradigm including a willingness on the part of the Community Services Industry to address issues of productivity (efficiency and effectiveness); changes in the role of government in regard to policy, funding, contracting and regulation; and engagement with the industry to develop a joint plan for market readiness including safeguards for vulnerable clients.

If we do not approach further reform in this manner, we run the risk of tinkering around the edges and simply applying new language over the old paradigm.

The New Zealand Productivity Commission’s report *More Effective Social Services* (August 2015) concluded that system wide improvement can be achieved and should be pursued. It focussed on:

- better ways to join up services for clients with multiple, complex needs
- empowering capable clients to have more control over the services they receive
- less capable clients need close support and more tailored responses without arbitrary distinction between services and funds

These conclusions are not new and community services have pursued an agenda of more integrated service delivery for many years. Despite this many barriers remain including inflexible funding models, siloed funding, contracting constraints, and lack of quality outcomes and performance data. Many of these barriers are the same issues that will affect the effectiveness of increased competition in community services and as previously stated go hand in hand in terms of reform.

Case studies suggest caution

Case studies from child care (ABC Learning) and Employment services where increased competition may not have achieved the desired objectives.

ABC Learning

- Led 'free market' mergers-and-acquisition incursion into child care.
- At the time of its collapse it had a market share of 25% of the Australian childcare market and owned more than 1,200 childcare centres in Australia and New Zealand (plus 1,000 in the US) and had more than 16,000 employees in Australia.
- The company implemented a plan for rapid expansion which was a heavily leveraged acquisition strategy. It grew from a single childcare centre in 1998 to a major corporation with a market capitalisation of \$3.4 billion.
- The collapse of ABC Learning was unprecedented in terms of the nature of its business and its critical place in society creating the potential for significant market failure in childcare.
- It was more than just another corporate insolvency: it had the potential to severely and adversely affect 16,000 employees and 95,000 Australian families throughout all sectors of the Australian community and workforce.
- Those social consequences resulted in a unique collaboration (Bank Receivers, secured creditors, Federal Government and insolvency firm) to ensure the continuation of child care for children enrolled in the unviable centres and keep the unviable centres afloat (through special government subsidies) until a suitable buyer could be found or alternative child care services for affected families could be found.

The intersection between competition and profit can be as fraught as the question of value for money and government investment in non-profit models. Increased competition should not preference one form of business model over another but rather place people and the outcomes they desire at the centre of policy decision making.

Jobs Australia

- Jobs Australia (previously Job Network) emerged from the Welfare to Work policies first introduced by the Federal Government in 1998 resulting in a privatised labour market services sector.

- In 2015, the Federal Government clawed back more than \$41 million worth of false claims by private employment agencies over the past three years.
- The agencies were contracted by Job Services Australia (JSA), a \$1.3 billion-a-year scheme designed to get the unemployed people back into work.
- The scheme's incentives led to unethical financial and performance practices from some contracted organisations including forgery, manipulation of records and the lodgement of inflated claims for fees.
- The performance of agencies is subject to demand and supply in the market - the number of jobless and type and location of jobs linked to job vacancies, skills and job seeker capacity.

Incentives need to be effectively targeted and monitored as the size of the investment in community services is significant and attract unscrupulous businesses and service providers.

Foundational elements to achieve the objectives of increased competition

New role for Government (market steward)

The CSIA supports the Competition Policy Final reports view of the need for Government to maintain a role in human services as market steward and the elements of this new role including:

- foster a diverse range of service models that best meet the needs of individuals and the broader community;
- co-design markets with human services providers to build on the trust and relationships that already exist between service providers and users;
- separate their interest in policy (including funding) and regulation from provision;
- vest rule-making and regulation with a body independent of government's policy (including funding) role;
- allow funding to follow people's choices; and
- fund community service obligations in a transparent and contestable manner.

We are a long way from this. There are some foundational elements that need to be in place before increased competition in community services can deliver maximum benefits. There is little understanding of market stewardship role in Queensland. We need to build capacity within governments and industry to understand and develop nationally consistent policy to transition to this new approach.

The Institute for Government (UK) indicates commissioning models often focus on understanding user needs and choosing the right providers. Market stewardship takes a broader perspective – considering how to set the rules of the market so that competition between those providers works effectively

Market Stewardship “focuses on ensuring long-term outcomes and value for money and involves policy makers:

- engaging closely with users, provider organisations and other interested parties across the system to understand needs, objectives and enablers of successful delivery

- setting the 'rules of the game' and allowing providers and users to respond to the incentives this creates
- constantly monitoring the ways in which the market is developing and how providers are responding to these rules, and the actions of other providers
- adjusting the rules of the game in an attempt to steer the system (much of which is, by design, beyond their immediate control) to achieve their high-level aims.

To support effective market stewardship, government departments and other commissioning organisations should:

- Clarify roles, responsibilities and accountability arrangements
- Be more considered, open and flexible in design
- Focus on competition, market structure and market dynamics
- Increase transparency.

Tom Gash, Nehal Panchamia, Sam Sims and Louisa Hotson; *Making public service markets work: Professionalising government's approach to commissioning and market stewardship*

http://www.instituteforgovernment.org.uk/sites/default/files/publications/Making_public_service_markets_work_final_0.pdf

Regulatory Reform

"Government needs to radically reform its role and relationship with service providers, individuals and the general community. The approach needs to shift from coercive, prescriptive regulation of service providers to empowering both individuals and providers to manage risk and creating the right regulatory conditions for these fledgling markets to thrive and flourish"

(*Unleashing Value: Rethinking regulation in the human service sector*, KPMG)

<https://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Documents/rethinking-regulation-human-services-s>

KPMG points out that regulation of human services is currently

- overly prescriptive
- providing little or no opportunity for innovation
- overly focussed on compliance and enforcement
- based on poor or limited understanding of the real risks
- one size fits all
- limited recognition of the market and sector can contribute to improved outcomes
- duplication and overlap
- focussed on sanctions
- little opportunity to reward strong or outstanding performance

If increased competition, contestability and user choice is to achieve greater quality, efficiency, responsiveness and accountability, there is an urgent need for regulatory reform to encourage and enable innovation.

Funding Reform

New funding models need to be in place including:

- Performance/risk based arrangements and rewarding good outcomes
- Payment by outcomes
- Flexibility – funds follow e.g. the client, step up and step down options that meets changing circumstances and need of clients

Both the NDIS and the Social Benefit Bond trials across Australia are examples of market based mechanisms for funding. They are not free market models. They reflect the characteristics of free market models but are modified to meet the public policy objectives of government accountability. We should not, therefore, take these models to imply a free market approach, but rather see them as a mechanism of funding reform driven at improving outcomes for people and their communities. This approach preference a social and economic inclusion agenda rather than a profit motive.

Procurement and Contracting Reform

“Improving the overall efficiency and effectiveness of community services delivered by the not-for-profit sector has been constrained by the propensity for governments to combine short term heavy handed contract management with extensive reporting requirements to micro-manage service delivery. (Contribution of the Not-for-Profit Sector, Productivity Commission 2010) To achieve this and make the most of increased competition will require:

- A move to commissioning models.
- Collaborative design of services.
- An outcomes approach to contracting and contract reporting.
- A focus on performance, performance management and continuous learning and improvement.

There is a need for a policy shift to drive a new culture and skillset in governments and across the community services industry towards a more mature approach to procurement and contracting.

Data Quality and Availability

Consumer choice is predicated on the availability of performance information. This means:

- Organisations need quality performance data to enable a client to choose a provider based on reliable information about the provider’s ability to perform the service and the price they are charging and mechanism for clients to judge the quality of the service during and after its performance
- There is limited outcomes and quality performance data and comparison is difficult
- Complex clients with multiple needs means there is a hierarchy of outcomes – multiple providers can impact on outcomes

Competitive neutrality

The industry has existing and persistent concerns regarding competitive neutrality, particularly where services are provided by government at the same time as they fund and regulate community service delivery. Further, discussion will be required to understand:

- How we achieve a level playing field for Government, for-profit and not-for-profit providers.

- Consistent approach to regulatory, contractual and compliance requirements across services provided by government, for-profit and non-profit service providers (e.g. National Regulatory System for Community Housing)
- The extent and nature of competitive disadvantage to not-for-profits. Historical arrangements limit the ability of not for profit providers to be competitive (no funds for innovation and system improvement)

Business readiness

Principles of competition in business rely upon an assumed set of capabilities. These capabilities are wide ranging and the subject of a vast array of Industry Development activity across community services (see current examples New south Wales government NDIS Industry Development Funds NDIS, <http://idfnsw.org.au/> and the development of an Industry Development Framework between the ACT Government and NCOSS.) There are also a range of programs targeted to general business many of which are aimed at increased innovation, business growth and employment (see examples Queensland Government's Advance Queensland Program).

- Despite some significant effort in this space there remain real challenges for community service organisations in this space, including:
- The programs targeted at community service organisation may not focus enough on the future, therefore focus on building capability for now rather than the reform coming down the pipeline.
- Programs targeted specifically to community services may not always contain enough "new business skills" such as customer service, marketing, capital raising, product development.
- Programs targeted at the general business community may not regard community service organisations as businesses and therefore fail to provide adequate access to the value of the program.

These programs may also rely upon a basic level of capability targeted at competition for the consumer dollar which as mentioned previously community service organisations may not possess.

In the context of competition reform in community services access these issues are material as they impact the capacity of organisations to compete on a level playing field. Therefore, ongoing and further reform in community services that focusses on competition will also need to focus on high quality, targeted industry development programs that synthesise the necessary traditional skills with those that set organisations up for the future.

Workforce readiness

Reforms in community services that introduce increased competition will have significant impacts on the workforce of the industry. Reforms like the NDIS bring unprecedented changes to the role types, employment status and industrial conditions of community service workers. These changes come with an interesting set of intersecting challenges and opportunities which include:

- How to manage the potential of increased casualization across the workforce due to changing funding models that bring uncertainty to business models?
- How to access large numbers of employees quickly to respond to increased demand?
- How to maintain quality when pricing puts the squeeze on budgets and in turn staff development and training?
- How to find ways to increase the utilisation of existing workforce through strategies that drive productivity?

- How to address workforce issues in rural and remote areas where there are problems with recruitment and retention?

The Community Services industry Alliance is actively exploring these issues and a range of others connected to workforce supply and the National Disability Insurance Scheme through a project called Workability Qld. Workability Qld is a project run through a consortium of CSIA and the Queensland Council of Social Services, National Disability Services and the Queensland Health and Community Services Workforce Council. This project aims to tackle the issues of workforce supply in the context of an increasingly competitive market with the introduction of the NDIS.

Conclusion

The Community Services Industry Alliance supports the further careful exploration of the further application of competition in human services. In particular, we look forward to a thorough analysis of competition in reference to community services. We support a principles based approach that looks at successes and failure of past and current application competition in community services. Where competition is not appropriate other approaches should be explored to ensure a person centred approach that is driven at an outcomes approach.

We look forward to a robust public debate about the issues and in turn consideration of this in policy that is consistently applied but not homogenously applied to community services. Our approach has to take into account the complexity inherent in human services as we move through current reforms and imagine the next wave of reform particularly as it relates to increased competition.

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