

26 July 2016

Professor Stephen King
Commissioner
Human Services Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VIC 8003

Dear Professor King

SUBMISSION TO INQUIRY INTO HUMAN SERVICES – IDENTIFYING SECTORS FOR REFORM

Save the Children Australia welcomes the opportunity to provide comment in relation to the Productivity Commission's inquiry into potential reform in the provision of human services.

Our society's capacity to deliver a high functioning social services sector is increasingly under pressure. An ageing population, new technologies, increasing expectations and other factors are all contributing to rising costs. At the same time, we have made extremely limited progress on solving complex problems like entrenched disadvantage, particularly in indigenous communities. As a result, we must find ways to improve outcomes from our existing expenditure.

Save the Children believes that there are many opportunities to improve social services sector productivity. The Inquiry's focus on sectors within human services where the introduction of competition, contestability and informed user choice could improve outcomes is one of these opportunities.

Identifying those human services that are best suited to competition is an important part of ensuring that resources are directed to providing the services that users most value, and providing them in an affordable way. However, in identifying which human services are best exposed to increased competition it is vital to recognise that:

- Many human services are provided in a context that may have few, if any, of the characteristics of a functioning market. In particular, information about the effectiveness and efficiency of different services and service providers is often very poor and hard for users to find and apply;
- Users typically access multiple services so needs are often best met by better "joining up" services;
- Optimum results are often achieved by collaboration and joint production of services rather than competition between service providers;
- Efficiencies are likely to be derived by decentralising service elements that respond to local needs rather than achieving scale through a "one-size fits all" approach.

However, we encourage the Productivity Commission to consider other areas that may generate as much or even greater improvements in social sector productivity, rather than focusing solely on the benefits of increasing competition and contestability. In particular, Save the Children encourages the Productivity Commission to consider the following three areas:

- Service delivery reform;
- Encouraging reform within the not-for-profit sector; and
- Increased focus on evidence and outcomes.

1. Service Delivery Reform

Social policy is a continually evolving area with new initiatives regularly introduced to address increasingly complex, and often interrelated, social policy problems and individual needs. Government responses to these issues at both a societal and individual level have evolved in a piecemeal fashion. Hence, not surprisingly, we have a human services sector that delivers some services to some groups and individuals well and, to others, poorly.

Generally speaking, the sector provides poor outcomes to people suffering from multiple disadvantages. There are a number of reasons for this poor performance that have been well documented:

“People with multiple disadvantages need to simultaneously access a number of services to make progress, so services must be integrated (Vinson 2007; McArthur et al. 2010: 33–35). We know interventions must be contextualized to the local community’s needs and leverage the strengths and assets that a local community may have. This requires local people to be empowered to respond to local conditions. We know we must integrate the social aspects of any solution with economic aspects. And we know that funding, measurement and accountability mechanisms must support joined-up, long-term solutions.”¹

In addition, the system incentives as currently configured work against efficient or effective outcomes in relation to this group. The incentives, or more often disincentives, in the present human services system are summarised in a recent paper entitled *The Challenge of Change* (quoted above).

The introduction of competition, contestability and informed user choice may help to address some of these incentive problems. For example, consumer directed care and the actuarial approach in the disability area has significant promise. However, governments must be careful to ensure that by introducing competition in the delivery of human services, they do not exacerbate the system’s existing perverse incentives.

Further, competition alone will not address the need to join up services, to contextualize services to local needs and to integrate social and economic aspects of any solution. Instead, governments can help to address these issues by introducing improved incentives to the sector, including:

- Mechanisms that promote competition while recognising the crucial role that intermediary service providers can play in bundling services and responding to local needs;
- Funding arrangements that support organisational capacity building and sector consolidation, in addition to the primary outcomes sought through service delivery;
- Introducing more “‘boundary riders’ – people who understand the capacity and limitations of each sector and can successfully navigate them to achieve improved collaboration”² - in government, in the community sector and in the private sector; and
- Rewarding community organisations that invest in robust monitoring and evaluation.

Program example

Save the Children is piloting a specialist intensive youth mentoring and case management program, *Strong Tomorrow*, for young offenders in Armadale and Kununurra, in Western Australia. The Program is designed to reduce the rate of offending among young people aged 10-17 years and provides a single service that helps young offenders navigate through the myriad of services (eg housing, education, training, financial and relationship services) that aim to prevent them from re-offending.

The mentoring and case management approach, which means young offenders have one point of contact so that the wide range of services are “joined up” for them, has shown very promising early results. Rates of reoffending have been reduced significantly and consequent savings to WA Police have been significant (a more detailed outline of Strong Tomorrow is at Attachment A).

¹ Ronalds, P. 2016. ‘The Challenge of Change’. In *The Three Sector Solution*, ed. John R Butcher and David J Gilchrist, 338-9. Canberra, Australia: ANU Press.

² Op cit. 349.

2. Not-for-Profit Reform

The Productivity Commission's 2010 research report *Contribution of the Not-for-profit Sector* estimated that there were 600 000 not-for-profits operating in Australia. Historically, they have performed a huge amount of important work in the social services sector which government and the private sector either could not, or would not, undertake. The contribution that NFPs have made over many decades is enormous and not disputed.

The sector is not immune from the need for reform, although simply subjecting the sector to increased competition may not be the answer for improving productivity. There are undoubtedly structural impediments that would not necessarily be addressed with increased competition, and may actually be caused through ineffective settings in competitive frameworks. For example, according to some experts, the current government tendering model sees thousands of community organisations 'try to invent independent solutions to major social problems, often working at odds with each other and exponentially increasing the perceived resources required to make meaningful progress'³.

Government tendering also often provides active disincentives to collaboration. Increasingly, government tenders have short lead times, involve significant uncertainty about the outcome, set contract periods that are relatively short, and create intense competition for a reduced funding pool. For small NFPs, the value of finding the relevant expertise and then devoting the time to seek to improve collaboration in the face of these pressures is highly questionable.

Even if community organisations succeed in building effective partnerships and demonstrating impact, community sector leaders know that there is at best only a weak correlation between delivering outcomes and increased government funding and vice versa.

As a matter of principle, tender processes should encourage, rather than discourage collaboration and make the investment of NFP time and effort to collaborate worthwhile. In this area more transparency and improved consultative processes are required, and longer lead times for bids and longer contracts are critical. These processes will drive real sector collaboration and may incentivise sensible forms of NFP consolidation where mission and purpose are aligned.

NFP collaboration – tangible benefits

In mid-2015, Save the Children Australia and Good Beginnings Australia officially merged. Both NFPs had been working towards the same goal - to improve the well-being of vulnerable children in Australia and around the world – and often found themselves programming alongside each other in a range of Australian settings. Recognising the synergies between the two organisations led to a realization that the ambition of both could be better met by combining resources rather than competing for the same limited pool of funds and personnel.

While a considerable amount of effort and goodwill was required to achieve the merger of two well-established and well-recognised entities, savings of approximately 10 per cent per annum of Good Beginnings total revenue are now being achieved. In addition, program quality has improved.

3. Outcomes focused approach

As already highlighted, in the human services sector it is particularly important to identify desired outcomes and set policy parameters and funding frameworks to achieve these, based on the evidence of 'what works'.

In order to ensure that the most effective services are provided to those who need them at a price they can afford, it is crucial that careful consideration is given to achieving outcomes. In order to do this, robust data is required to understand where needs are, and are not, being met. Importantly, evaluation mechanisms need to be planned during program design and integrated into the program logic and intended outcomes, rather than being an unfunded program afterthought. Careful attention must also be paid to how services are implemented.

By way of example, it is noted that the Department of Social Services collects detailed information about recipients of services over time. It is essential that there is more effective use of this vast and informative dataset to understand how incentives influence service delivery and how they can be changed to affect better outcomes. Can the data be used, for example, to evaluate how effective services are in achieving outcomes, where collaboration has proved effective, where

³ Kania, J. and Kramer, M. 2011. 'Collective Impact.' *Stanford Social Innovation Review* (Winter), 38.

synergies might drive cost efficiencies, and how that information can be made available to agencies, businesses and NFPs considering offering services?

In 2012, the World Bank published a report, *Building Better Policies*⁴, that included a case study of a monitoring and evaluation system that was in place in Australia in between 1987 and 1997 which was said to support “evidence-based decision making and performance-based budgeting”⁵. The system required all programs delivered on behalf of Government to be presented to Cabinet every five years with evidence of impact before there was any possibility of funding being renewed. The World Bank analysis of this policy concludes that this approach created strong incentives for rigorous measurement matrices to be built into program design leading to more robust and better targeted programming.

Conclusion

Save the Children welcomes the Productivity Commission Inquiry into Human Services. The introduction of increased competition, contestability and informed user choice may well be beneficial to the targeting and delivery of a swathe of human services if it better aligns incentives to achieving the outcomes and impact that are sought. However, we consider that service delivery reform; not for profit reform and a greater focus on evidence and outcomes are three key areas for active consideration.

I trust that this submission is of interest to the Commission and look forward to continuing discussions as the Inquiry progresses.

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⁴ Lopez-Acevedo, G., Krausse, P. and Mackay, K. (eds). 2012. *Building Better Policies: the nuts and bolts of monitoring and evaluation systems*. Washington, DC: The World Bank.

⁵ Ibid., p. 197.