

Submission to the Productivity Commission Inquiry
into 'Introducing competition and informed user
choice into human services'

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 108 branches and affiliated organisations with a combined membership of over 22,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

CPSA welcomes the opportunity to comment on the Productivity Commission's inquiry into increasing competition and informed user choice into human services. As an organisation representing the views of pensioners of all ages and other low income retirees, CPSA has a keen interest in the coordination and delivery of human services, particularly for disadvantaged groups in the community.

Summary of recommendations:

- **Recommendation 1:** That the Productivity Commission identifies improving the effectiveness of the human services being delivered as the primary goal in its final report into introducing competition and informed user choice into human services.
- **Recommendation 2:** That the Australian Government develops long-term and sustainable funding mechanisms to ensure adequate funding of the human services sector into the future.
- **Recommendation 3:** That the Productivity Commission considers the unequal base off which vulnerable people participate in markets for human services and ensure adequate safeguards are in place to prevent the development of two-tiered systems.
- **Recommendation 4:** That information about human services is provided to prospective users in a timely, accessible and appropriate manner.
- **Recommendation 5:** That the Australian Government puts mechanisms in place to ensure human service providers are accountable for the effectiveness of the services they provide.
- **Recommendation 6:** That the profits of human service providers are regulated to ensure that profitability does not come at the expense of service quality.
- **Recommendation 7:** That prospective human service providers should face barriers to market entry in the form of a rigorous accreditation process, as these barriers protect vulnerable participants in markets for human services.
- **Recommendation 8:** That the effectiveness of human services is measured based on user outcomes in terms of user satisfaction and clinical outcomes.

Introduction

The human services sector is a perennial area for funding review for Governments of all persuasions. Much of this concern about funding of human services stems from concerns about the fiscal impact of an ageing population¹ and a perceived need to ensure sustainable public spending². Such representations of Australia's shifting demographics are overly simplistic and do not account for the myriad of other factors that contribute to the spending on human services³. They also bolster ageist attitudes, which have significant impacts on the lives of older Australians⁴. Further, as Coory⁵ states, 'pessimism about population ageing has stifled constructive debate and limited the number of policy options considered'. The rhetoric around Government funding for human services must shift so as to recognise the significant public benefits they produce. It is critical that spending on human services is conceptualised as an investment, rather than as a cost burden, in much the same way that spending on construction and infrastructure is considered to be an investment. Human services build the capacity of individuals to participate in society and critically support the reproduction of the workforce. The growing demand for human services and particularly care services, when properly funded leads to job creation⁶. Framing human services as a cost burden to society misrepresents the economic and social benefits such services produce and will ultimately lead to inappropriate policy proposals. CPSA urges the Productivity Commission to recognise this when developing recommendations.

The discussion paper identifies the characteristics of 'good' public services to be quality, equity, efficiency, accountability and responsiveness. While CPSA understands all of these factors to be pivotal, this submission views 'good' human services as those which achieve the goals of effectiveness and efficiency, as these capture quality, equity, accountability and responsiveness. Based on Davidson's⁷ conceptualisation, effectiveness refers to the quality of the service, its responsiveness to the needs of service users and the accessibility of the service to those who need it (which Davidson refers to as equity). Efficiency on the other hand reflects the need for

¹ Commonwealth of Australia (2015) '2015 Intergenerational Report Australia in 2055' The Treasury. Available: http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/2015%20Intergenerational%20Report/Downloads/PDF/2015_IGR.ashx [accessed 18 July 2016]

²For example: the latest press club address on aged care was entitled 'The Aged Care Conundrum: Meeting The Care Needs of an Ageing Population Without Blowing the Budget'

³ Johnstone, M. Kanitsaki, O. (2009) 'Population Ageing and the Politics of Demographic Alarmism: Implications for the Nursing Profession' *Australian Journal of Advanced Nursing*, 26(3), 86-92

⁴ Burrige, K. Benczes, R. (2016) 'Grey dawn or the twilight years? Let's talk about growing old' *The Conversation* 21 July, available: <https://theconversation.com/grey-dawn-or-the-twilight-years-lets-talk-about-growing-old-62488> [accessed 21 July 2016]

⁵ pp583: Coory, M. (2004) 'Ageing and healthcare costs in Australia: a case of policy-based evidence?' *Medical Journal of Australia*, 180(11), 581-583

⁶ De Henau, J. Himmelweit, S. Lapniewska, Z. Perrons, D. (2016) 'Investing in the care economy: a gender analysis of employment stimulus in seven OECD countries' International Trade Union Confederation. Available: <http://www.ituc-csi.org/CareJobs?lang=en> [accessed 1 July 2016]

⁷ Davidson, B. (2011) 'Contestability in Human Services Markets' *Journal of Australian Political Economy*, 68(Summer), 213-239.

these services to be delivered in a cost effective manner. Both are crucial, but efficiency cannot occur unless the service is being delivered effectively, as there is no point in funding a service that is not producing the intended community outcomes. Increasing competition and informed user choice in the delivery of human services is likely to generate efficiency gains, but it is critical that this does not come at the cost of effectiveness. Accordingly, CPSA views it as imperative that the effectiveness of human services is accurately measured and that this indicator is prioritised in the evaluation of human services. Given that the discussion paper was more conceptual than concrete, CPSA would like to see more evidence that contestability, competition and user choice will improve the efficiency and effectiveness of human services in the Productivity Commission's final study report.

The nature of Human Services in Australia

The human services sector is facing significant pressures arising from changes in the social fabric of Australian society. These pressures have implications for the organisation and delivery of human services and accordingly must be taken into account when considering the future direction of the sector. Some of the most widely discussed pressures are those brought about by Australia's ageing population, which will see the proportion of Australians over the age of 65 jump from around 14% of the total population in 2011 to over 21% by 2041⁸. At the same time, growing female workforce participation has limited the availability of unpaid household labour, which has in turn boosted the demand for paid human services including aged care, child care and disability care. Accordingly, the Australian Government has become a key player in the provision of human services over the last fifty or so years⁹. However the costs of delivering human services are significant and set to rise alongside demand, thus there is significant impetus to investigate ways in which value for money can be assured. It is therefore critical that the effectiveness of the human services being delivered remains the ultimate policy priority of any human services reform.

- **Recommendation 1:** That the Productivity Commission identifies improving the effectiveness of the human services being delivered as the primary goal in its final report into introducing competition and informed user choice into human services.

The idea that introducing greater competition and informed user choice will improve the efficiency and effectiveness of human services is premised on the fact that these services are delivered in a market setting¹⁰. While this may or may not be true, there are inherent market failures in human services limiting the extent to which competition and informed user choice will lead providers to improve the efficiency and effectiveness of their service¹¹.

Human services, particularly those involving the provision of care, are labour intensive, which has significant implications on productivity¹². Conventional economic theory holds that the

⁸ AIHW (2012) 'Older Australian's at a Glance: supplementary tables' available: <http://www.aihw.gov.au/publication-detail/?id=6442468045&tab=2>

⁹ King, D. Meagher, G. (2009) 'Introduction' in D. King & G. Meagher (eds) *Paid Care in Australia: Politics, Profits, Practices*, Sydney: Sydney University Press.

Goodwin, S. Phillips, R. (2015) 'The marketisation of human services and the expansion of the not-for-profit sector' policy' in G. Meagher & S. Goodwin (eds) *Markets, Rights and Power in Australian Social Policy*. Sydney: Sydney University Press, pp97-114

Meagher, G., Goodwin, S. (2015) 'Introduction: capturing marketisation in Australian social policy' in G. Meagher & S. Goodwin (eds) *Markets, Rights and Power in Australian Social Policy*. Sydney: Sydney University Press, pp1-27

¹⁰ Davidson, B. (2011) 'Contestability in Human Services Markets' *Journal of Australian Political Economy*, 68(Summer), 213-239.

¹¹ Davidson, B. (2009) 'For-profit organisations in managed markets for human services' in D. King & G. Meagher (eds) *Paid Care in Australia: Politics, Profits, Practices*. Sydney: Sydney University Press.

¹² Himmelweit, S. (2007) 'The prospects for caring: economic theory and policy analysis' *Cambridge Journal of Economics*, 31(4), 581-599.

productivity of labour, that is the output per worker per hour, is increased when technological improvements, capital investments or increased skill allow the worker to produce more efficiently. Market competition provides firms with the incentive to increase efficiency, so that they are able to offer products at cheaper prices than competitors. However, in the case of human services (and many other services), the productivity of labour can only be improved to a certain point before the quality of the service is compromised. This point is famously illustrated by economists William Baumol and William Bowen, who used the example of a string quartet. The same number of musicians are required to play Beethoven's String Quartets today as when they were first composed. Reducing the number of musicians improves the efficiency with which music is produced, but reduces the quality at the same time. While technological innovations have spurred some productivity gains in human services, particularly over the last 20 years, the extent of these gains will always be limited by the labour intensive nature of the sector and this must be recognised by policymakers.

The introduction of productivity boosting measures, such as the principle of market contestability, to improve the efficiency and effectiveness of human services is not a solution to the pressing and highly complex policy issues that plague the sector. Given rising demand as catalysed by an ageing population, growing expectations regarding service quality and workforce pressures, the cost to Government of delivering human services is only set to increase¹³. It is critical that efforts to increase competition and user choice in the delivery of human services do not overshadow the pressing need to develop long term and sustainable funding models to ensure Australia can meet the growing costs of human service provision. No amount of competition or informed user choice can offset the growing cost of human service provision under an ageing population. CPSA is concerned that attempts to increase the efficiency of human services in a bid to reduce costs comes at the expense of meaningful policy debates around developing long term and sustainable funding solutions to meet the growing costs of delivering human services.

- **Recommendation 2:** That the Australian Government develops long-term and sustainable funding mechanisms to ensure adequate funding of the human services sector into the future.

¹³ Productivity Commission (2011) 'Caring for Older Australians' *Report No. 53*, Final Inquiry Report, Canberra

The nature of participants in markets for Human Services

The efficient market hypothesis holds that markets are the most effective means of distribution as price signals incorporate and reflect all relevant information. When market participants have access to perfect information they make rational economic decisions, which in turn bolster the efficiency of the market. However, the assumption of perfect information does not hold up in the context of markets for human services. Chester¹⁴ states 'many Australians could be classified as vulnerable market participants due to a range of characteristics such as age, disability, income, employment status, housing tenure, language, education or internet access'. These factors limit the capacity of individuals to access the information necessary to make an informed choice. As a result, those who are considered to be vulnerable are disadvantaged when it comes to participating in markets and likely to experience less choice, poorer quality goods and services and higher prices.

Participants in markets for human services are often limited even further in their capacity to exercise 'informed user choice' by virtue of their need for the service. In the majority of cases, people access human services out of necessity rather than out of choice and as a result often have to make decisions about services in short time frames, with limited information, or a limited capacity to process extensive amounts of information. Further, those accessing human services often have a limited capacity to pay for services out of their own pocket and rely on government funding of some sort to cover the costs. When coupled with a market-based system, this can produce a two-tiered system, where those who can afford to pay gain access to the best services, while those who are unable to pay must accept services of a lower quality, or receive no services at all¹⁵. It is critical that the Productivity Commission recognises the vulnerability of participants in markets for human services and the barriers to informed user choice stemming from this vulnerability, in particular the choice of those who cannot afford to pay for services themselves.

- **Recommendation 3:** That the Productivity Commission considers the unequal base off which vulnerable people participate in markets for human services and ensure adequate safeguards are in place to prevent the development of two-tiered systems.

The timely provision of accurate and relevant information underpins the capacity of users to make informed decisions, with the absence of such information constituting a significant barrier to informed user choice and competition in human services. It is critical that policymakers

¹⁴ p179: Chester (2011) 'The Participation of vulnerable Australians in markets for essential goods and services' *Journal of Australian Political Economy*, 68(Summer), 169-193

¹⁵Commonwealth of Australia (1998) 'Will privatisation and contracting out deliver community services?' *Parliamentary Research Paper No. 15* 1997-98. Available: http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/RP9798/98RP15#pragnosis [accessed 20/07/2016]

understand the information needs of prospective service users, as well as the barriers they are likely to face when trying to access that information. In doing so, it is critical to consider how information is presented. Its accessibility is pivotal.

Accessibility of information: the case of MyAgedCare

Recent reforms to the aged care sector have been designed to facilitate consumer directed care, which is premised on a mix of person-centred care, increased competition and greater consumer choice. A significant part of this has been the development of the MyAgedCare contact centre and website, which is designed to support the flow of information necessary for older people to make informed decisions about their care. The website has a 'find a service' directory and provides information about individual service providers and the care they offer as well as information about the aged care system in general. The contact centre serves as a first point of entry into the aged care system and is focused on registering potential clients so that their needs and eligibility for subsidised care can be assessed. While internet usage among older Australians is on the rise, in 2012-13, just 46% of people over the age of 65 used the internet¹. It is reasonable to expect this figure to be considerably lower among those looking to access the aged care system given that they are generally well over the age of 65. As a result, the information necessary for those accessing the aged care system to make informed decisions about their care is inaccessible to a large segment of that group. The inappropriate provision of information about aged care risks totally undermining the operation of consumer directed age care, which relies on informed consumer decisions. Further, critical information about care services including staff to resident ratios are not publically available, which further undermines the capacity of users to make informed decisions about their care.

¹ABS (2014), 'Household Use of Information Technology, Australia, 2012-13', catalogue number 8146.0, available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8146.0Chapter32012-13>

In addition to the accessibility of information, the quantity and relevance of information intended to support the decisions of service users must be considered. Davidson¹⁶ states 'the assumption of the rational consumer collapses under the weight of the information that has to be processed. This is exacerbated in human services, by the lack of agency of many users to be able to make an informed and accurate assessment of the quality of each provider'. This reflects the fact that

¹⁶ p229: Davidson, B. (2011) 'Contestability in Human Services Markets' *Journal of Australian Political Economy*, 68(Summer), 213-239.

making an informed user choice can be prohibitively resource intensive where there is too much information available or where information is not presented in a way that is relatively easy for the user to understand. It is important to note that in some cases an individual may not be capable of assessing available information in order to make an informed decision. In these circumstances, there must be independent, cost-free support available. Policymakers must fully understand the information needs of service users and the most appropriate ways of delivering this information before attempting to increase service users' exposure to market forces.

- **Recommendation 4:** That information about human services is provided to prospective users in a timely, accessible and appropriate manner.

Ensuring efficiency and effectiveness

Increasing competition in markets for human services will lead to poorer outcomes for service users unless proper checks and balances, in the form of rigorous accreditation and quality monitoring processes, are put in place. In markets for human services managed by governments, competition tends to be introduced in one of two ways: a competitive tendering process, where providers compete with one another for limited funding (eg residential aged care); or through a quasi-voucher licensing system, where individuals receive funds directly, which they can then choose to spend on the services that best meet their needs (eg the National Disability Insurance Scheme)¹⁷. Both of these methods of boosting competition require an increased focus on financial outcomes by human service providers as they are required to prove value-for-money for service purchasers, be that governments or individuals.

While ensuring efficient operations and value for money is not a bad thing in itself, it becomes problematic when human service providers, whose purpose is to maximise social outcomes, are forced to act like profit maximisers in order to retain their share of the market¹⁸. CPSA is concerned that an increased focus on competition and informed user choice may limit the focus on the actual quality of human services by shifting accountability away from service outcomes and onto the financial outcomes of service providers. When profits are the priority, efficiency gains become critical. As labour is generally the most significant overhead cost, providers attempt to increase the productivity of labour either by requiring workers to do more with the same or fewer resources, or by employing less skilled labour at a cheaper rate. While these measures do effectively increase efficiency, they diminish the quality of the service being provided and thus undermine its effectiveness. This is then further compounded by the nature of government managed markets, which hold service providers accountable for financial outcomes, but tend to be limited in their capacity to ensure accountability for the actual services provided¹⁹. CPSA is concerned that an increased focus on competition and informed user choice may limit the focus on the actual quality of human services by shifting accountability away from service outcomes and onto the financial outcomes of service providers. The Australian Government must recognise their position as market makers in human services and ensure that mechanisms are put in place to ensure that the providers which receive public funding are held accountable

¹⁷ Davidson, B. (2011) 'Contestability in Human Services Markets' *Journal of Australian Political Economy*, 68(Summer), 213-239.

Meagher, G. Cortis, N. (2009) 'The political economy of for-profit paid care: theory and evidence' in D. King & G. Meagher (eds) *Paid Care in Australia: Politics, Profits, Practices*, Sydney: Sydney University Press.

¹⁸ King, D. Martin, B. (2009) 'Caring for profit? The impact of for-profit providers on the quality of employment in paid care' in D. King & G. Meagher (eds) *Paid Care in Australia: Politics, Profits, Practices*, Sydney: Sydney University Press.

Goodwin, S. Phillips, R. (2015) 'The marketisation of human services and the expansion of the not-for-profit sector' policy' in G. Meagher & S. Goodwin (eds) *Markets, Rights and Power in Australian Social Policy*, Sydney: Sydney University Press, pp97-114

¹⁹ Goodwin, S. Phillips, R. (2015) 'The marketisation of human services and the expansion of the not-for-profit sector' policy' in G. Meagher & S. Goodwin (eds) *Markets, Rights and Power in Australian Social Policy*, Sydney: Sydney University Press, pp97-114

for the service outcomes experienced by users. They must also ensure sufficient regulation of provider profits so as to offset the incentive to pursue efficiency gains at the expense of service quality.

- **Recommendation 5:** That the Australian Government puts mechanisms in place to ensure human service providers are accountable for the effectiveness of the services they provide.
- **Recommendation 6:** That the profits of human service providers are regulated to ensure that profitability does not come at the expense of service quality.

Davidson argues that the nature of Government managed markets for human services, in particular the profit-maximising tendencies of providers coupled with the vulnerability of service users, necessitates barriers to entry for prospective providers²⁰. While this limits contestability and consequent competition (or threat of competition), such barriers are important if human service providers are to achieve the fundamental objective of delivering effective services that meet the needs of users. There is no point in boosting the efficiency of providers if doing so undermines their capacity to deliver the quality and quantity of services they are funded to provide. Barriers to entering markets for human services generally take the form of an accreditation process, which assesses the suitability of an organisation to provide services. While 'bad' providers still do gain access to the market, accreditation processes are one of very few protections available to vulnerable market participants. Accordingly, these barriers must be retained.

- **Recommendation 7:** That prospective human service providers should face barriers to market entry in the form of a rigorous accreditation process, as these barriers protect vulnerable participants in markets for human services.

Once providers have gained entry into markets for human services, they must be held accountable for the services they provide, that is, how effective is the service? It is concerning that the Productivity Commission's discussion paper suggests measuring the effectiveness of human services by using inputs as a proxy for service quality. Given that human services are intended to meet the needs of people, it would make sense that the outcomes people experience as a result of using the service form the basis of quality evaluation. This reflects the diverse needs of service users and the requirement for human service providers to be sensitive to these needs. What constitutes a high quality service for one person may in fact be detrimental to another person in a similar situation and this is an important consideration when dealing with the concept of choice. For example, in a care setting, a person with motor impairment who values the independence of feeding themselves may find receiving assistance to eat as

²⁰ Davidson, B. (2009) 'For-profit organisations in managed markets for human services' in D. King & G. Meagher (eds) *Paid Care in Australia: Politics, Profits, Practices*, Sydney: Sydney University Press.

detrimental to the quality of their care. A person with the same condition may find feeding assistance as enhancing the quality of their care on the basis that they find the difficulties they experience when feeding themselves to be undignified. When quality is measured on the basis of service inputs such as staff numbers, or the specific workplace procedures and protocols, the actual effectiveness of the service from the point of view of users is not visible and accordingly excluded from consideration. While it is undoubtedly harder to measure the service outcomes users' experience, it is the only way to meaningfully understand the effectiveness of the service.

Providers of human services tend to push back against greater integration of service user outcomes into accreditation and evaluation processes on the basis that user perspectives are subjective and that this sort of information can easily be misinterpreted. While this is true to an extent, it does not mitigate the need to develop human service evaluation mechanisms that place user outcomes at the centre. This need has been identified in inquiry reports into human service sectors²¹. While user perspectives will always be subjective to an extent, it is possible to develop objective indicators based on the outcomes experienced by service users. Ideally, such indicators should incorporate both the users' perspective regarding the effectiveness of the service and clinical indicators developed in consultation with experts. For example, in residential aged care, the National Quality Indicators trial is collecting data on incidence of pressure sores, unplanned weight loss and use of physical restraints as factors relating to the quality of care received by residents. This provides an impartial insight into the effectiveness of residential aged care services from a clinical perspective. This system could be further strengthened by systematically incorporating residents' perspectives regarding the quality of care they are receiving. If service users are to be entrusted with greater choice over the services they access, it makes sense that the evaluation process also considers user satisfaction with the services chosen. It is critical that the outcomes which service users experience are embedded into human service accreditation and evaluation processes.

- **Recommendation 8:** That the effectiveness of human services is measured based on user outcomes in terms of user satisfaction and clinical outcomes.

²¹ For example Recommendation 13 and 14 of the 2005 Senate Report into Quality and Equity in Aged Care. Available: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Completed_inquiries/2004-07/aged_care04/report/index