



**Productivity Commission — Human Services:  
Identifying Sectors for Reform**  
Submission from the South Australian Government  
August 2016

## Introduction

The provision of high quality human services is critical to the wellbeing of all Australians and it is incumbent upon governments to ensure that these services can be provided efficiently and sustainably. Of equal importance is providing equitable access to these services to all members of the community.

The South Australian Government is committed to the provision of high quality and affordable services. While the application of competition principles in the provision of human services has the potential to improve service efficiency and pricing, this has to be balanced with the ultimate aim of improving the quality of life of its recipients, and society as a whole.

## Principles

The South Australian Government believes in sharing prosperity, in protecting vulnerable people and giving opportunity to those that experience disadvantage. We believe in creating ways for people to take control and improve their quality of life and we believe that no one should be left behind.

Competition policy is complex – particularly in its application to the human services sector – and any reform proposals must be thoroughly explored and assessed. The case for any government initiative or reform requires clear identification of the purpose or problem to be addressed, identification of government policy objectives including in particular equity issues, and robust consideration of all benefits and costs of such intervention using an evidence-based approach.

It will be critical that consultation and collaboration occur with the non-government organisations, institutions, and communities likely to be impacted by any reform proposal. The South Australian Government believes that everyday Australians must be involved in the decisions that affect their lives.

Competition is a means to an end and not an end in itself (National Competition Council, 2014). Fairness and improved outcomes are equally important. It is therefore critical to ensure that when considering potential reforms, the broader concept of improving human services, rather than achieving efficiencies and delivering competition *per se*, is the central long term objective. This will help to avoid serious policy errors and encourage consideration of other policy approaches to enhancing productivity.

The South Australian Government is concerned about the future of fundamental services that our citizens rely on, like hospitals and schools. The 2014-15 Federal budget cuts to health and education have severely disadvantaged already vulnerable and marginalised members of the South Australian community. A priority for any reform must be better health, education and housing outcomes for Australians, rather than simple budget cuts or cost shifting from the Commonwealth to the states or to low income households. The South Australian Government would welcome a mature national discussion on sustainable funding arrangements for critical human services.

## Considerations

The benefits of measures to enhance competition must be considered and weighed against the potential costs of those measures, including possible adverse impacts on welfare, quality, access and equity and ultimately, who bears the cost of the reforms.

The mixed delivery of human services by the various levels of government and non-government sector requires consideration of the flow-on impacts of reforms on the system as a whole. A consultative, collaborative and coordinated approach will be required.

Current service delivery models are underpinned by existing policy settings (such as the Medicare principles of universal healthcare) which enjoy strong community support and any proposed reform should take account of these wider policies.

There are limitations in the extent to which citizens are willing and/or able to exercise choice in the market for human services, particularly in areas where there are thin markets. This will require careful consideration and planning to overcome.

## Choice

Facilitating user choice requires new approaches that increase citizens' knowledge and enhance their ability to make choices, whilst at the same time recognising there are some limitations to this.

The ability of citizens to make good choices about the service they receive is adversely impacted by a number of factors including:

- whether the service is compulsory;
- the level of knowledge;
- the lack of availability of quality indicators about services to be consumed;
- the time-critical nature of some human services such as emergency care and crisis services;
- the particular vulnerability of some citizens (eg those with cognitive impairment or being treated for addiction);
- regularity of services received (easier to foster choice when service is not episodic); and
- the complexity of the service required.

Significant effort would be required on the part of governments, providers, regulators (and citizens) to ensure adequate education processes and information are made available, and appropriate alternative options (such as advocacy) must be provided for those who are unable to make informed choices or do not wish to exercise their discretion.

Furthermore, whilst choice can drive improvements in things like innovation and efficiency in a system overall, choice in and of itself does not always lead to improved outcomes. The Australian school education system is currently characterised by a high level of non-government providers. This does not equate to higher educational outcomes when compared to countries where there is less competition or choice such as Finland which achieves high education results with a totally state funded school system. This is further supported by the 2013 Grattan Institute report on the 'The myth of markets in school education'<sup>1</sup> which

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<sup>1</sup> <https://grattan.edu.au/report/the-myth-of-markets-in-school-education/>

concluded that increasing competition was not a viable way of increasing the performance of school systems.

In addition the opportunity cost of multiple fixed costs of infrastructure and inherent inefficiency of having two or more schools when a single school would achieve an improvement in the social and learning outcomes for that community must be considered before imposing a market model in an essentially compulsory human service.

## Equity

There will be many cases where there is not enough demand, or the complexity of the needs of the cohort do not make it financially viable to attract suppliers under consumer driven models, and it will be the most vulnerable that will be impacted by this – establishing a viable disability service model for remote communities is one example.

Universal service provision, such as that guaranteed under the Medicare principles, or provided by the public school system, is a public good which promotes democratic ideals and values and at a practical level, ensures that even the most vulnerable in society are able to access essential services in a fair and equitable manner.

In the education sector, increased mobility in student enrolment as a result of increased parent choice (subsidised by governments) may lead to residualisation, where the most disadvantaged students become increasingly concentrated in government schools. The Review of Funding for Schooling<sup>2</sup> noted that the concentration of disadvantaged students resulted in poor educational outcomes.

In relation to service provision to Aboriginal people, in assessing the relative merits of competition policy, consideration should also be given to the importance of including Aboriginal communities in relevant service design and planning, supporting community control of service delivery and recognising that Aboriginal service providers providing specialist services may not have the organisational capacity or economies of scale to compete in an open market and as such may be particularly vulnerable where principles of competition are strictly applied. Importantly, culturally safe and appropriate service provision will support improved access to services and increased service utilisation which in the long term would reduce future service need and cost burdens considerably.

Market based reforms must consider how these preferences can be addressed and to ensure that smaller Aboriginal organisations are supported to compete with larger providers. The Senate Finance and Public Administration References Committee inquiry into the Commonwealth Indigenous Advancement Strategy tendering process, for example, recommended future tender rounds should not be blanket competitive processes and that investment in capacity building and support for smaller community controlled organisations should be prioritised.

## Other considerations

Government service providers often perform functions that are different, or in addition to, the functions performed by non-government or for profit organisations. This includes being a provider of last resort in thin markets, or in coordination of services across multiple systems

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<sup>2</sup> <https://docs.education.gov.au/system/files/doc/other/review-of-funding-for-schooling-final-report-dec-2011.pdf>

for high-needs clients with complex issues, which a non-government agency is less well positioned to do. The aims of introducing competition principles in human services to enhance efficiency or to increase user choice need to take into account these wider functions performed by government providers.

The ability of government to implement efficiency reforms is also affected by some existing structural arrangements, including industrial relations arrangements. This can give rise to significant transition costs from moves to contestable markets.

In sectors such as health, public hospitals do not operate on a level playing field with private providers. Public hospitals provide free and universal access to health services and treat a more diverse population group including a greater proportion of people from low socio-economic backgrounds and/or with complex and chronic conditions that are more expensive to treat. Private providers, in contrast, may choose the focus and nature of their service provision, which can tend to be towards high volume, low cost services which are more profitable.

Public hospitals also perform a vital training, teaching and research function that is not comparable with the services offered by private health providers. As such, driving greater competition in health services would affect a number of baseline assumptions about how the health system operates and is funded.

Similarly, state schools provide education services to all students, whilst non-government schools are entirely selective and have the power of choice over which students they accept, which is often predicated on student performance and parental social economic status. Without a change in funding and policy settings such as making a condition of funding that all schools accept all enrolments, requiring government schools to compete on an equal footing with private schools, such as through a voucher system, would compromise the quality of teaching that government schools can provide. Even if a voucher model is contemplated, it would require additional costs of regulation and enforcement to ensure that disadvantaged students could attend any school in the marketplace. The expectations on public providers in other non-compulsory sectors such as VET bears similarities too.

While increased competition in the provision of community services may lead to service delivery innovations and efficiency gains within non-government organisations, it is important to consider the potential unintended impacts of mechanisms used to increase competition. For example, competitive tendering processes can be very beneficial in clearly determining the outcomes sought by a particular funding program, but can favour larger, professionalised non-government organisations over smaller, community-led organisations, and thereby actually reduce competition in a particular market.

In considering the potential opportunities for greater private sector delivery of services, it will be important to ensure a clear and consistent strategy exists across all levels of government where responsibility for policy development and service delivery cuts across both the Commonwealth and the States. For example, both the Commonwealth and the States invest in mental health and Aboriginal health service delivery. The development of agreed national strategies and objectives should underpin any further movement in this area to engage a broader range of service providers. In Aboriginal Health, considerable investment has been made by all levels of government in developing a skilled Aboriginal health workforce.

Workforce capacity issues remain, however, which must be considered in any broader market-based development of this sector.

## Lessons learnt

Experience suggests that where human services markets are in transition, it is more critical than ever for government to play a role in shaping those markets and ensuring they operate effectively, ensuring quality services to individuals and providing stability and certainty for providers.<sup>3</sup>

### Vocational Education and Training

Lessons have been learnt from exposing the vocational education system to increased competition where it has resulted in unintended consequences and behaviours by some providers such as abuse of funding schemes (i.e. national VET Fee Help), and instability for the public provider.

Government must retain a strong quality assurance and regulatory presence in the VET system to maintain consumer confidence. The experiences in VET should be taken into account in considering any broader reform opportunities in human services.

### Health

SA Health has a number of existing arrangements with the non-government sector for the provision of a range of services including hospital avoidance, early discharge support, transition care, help in the home, mental health and dental health services. Notably, the New Royal Adelaide Hospital Project is also being undertaken through a Public Private Partnership Arrangement.

Any movement towards greater private sector involvement in service delivery requires careful contract management which considers the impact of any potential adverse impacts on service, quality, safety, welfare and equity, alongside the potential benefits that may be derived from financial considerations including efficiency and sustainability. Considerations must also be made of the existing investment in State government infrastructure and workforce and industrial obligations to determine the relative cost/benefit of moving to an alternative service model.

### Ongoing reforms

There are some significant national reforms currently underway in the human services sector, namely the National Disability Insurance Scheme and aged care. These are complex, have long implementation timeframes and are absorbing significant government resources across a range of agencies during the preparation and implementation phases.

In South Australia, we are also improving the productivity and effectiveness of our health services to underpin the wellbeing of families and communities through our Transforming Health agenda. This includes streamlining hospital services to deliver improved patient outcomes, and working cooperatively with the private sector where it makes sense, such as

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<sup>3</sup> KPMG 2014, Unleashing value: rethinking regulation in the human services sector

entering into a contractual arrangement with the private sector for public patients to access highly specialised robotic surgery equipment.

The South Australian Government has been leading the way on competitive service contracting of homelessness services, by re-tendering the whole specialist service system to create a preferred support provider panel (PSP), and then inviting preferred providers to apply for speciality status in youth, domestic/Aboriginal family violence and Indigenous-specific services. Criteria for selection to the PSP included evidence of strong governance systems, and commitment and capacity to provide high quality case managed support.

South Australia is also transferring the management of up to 5,000 public housing dwellings to community housing organisations. To date, the tenancy and property management for around 1,000 properties has been transferred to the community housing sector.

Further concurrent reforms in advance of consolidating the significant efforts currently underway may be challenging and should be paced carefully, to enable learnings from these reforms to inform future efforts. It is worth noting also that significant reforms sometimes create much uncertainty which diminish competition until the system is stable. This has a cost to government, providers and citizens.

## **Potential areas for reform**

Whilst increasing competition and user choice in human services is challenging, given the scale of service provision in Australia, even small adjustments may lead to significant efficiencies or improvement in service outcomes.

For instance, in the area of social housing, subsidies across the community, public and private rental sectors are inconsistent. A productivity enhancing reform could be offering Commonwealth Rent Assistance (CRA) across all housing options to create a “tenure neutral” payment. This would give tenants a broader choice of rental options, noting that CRA would need to be reviewed to ensure no net loss of social housing subsidy. Tenants could potentially also be given an option to “cash out” a certain number of months’ payments, as a deposit towards purchasing a first home.

The South Australian Government is currently looking to trial a homelessness Outcome Based Contracting model for South Australia’s first social impact bond. The proposed program will assist approximately 400 South Australians who are experiencing homelessness. A joint Commonwealth-State underwriting of targeted social impact bonds for homelessness would support the existing sector, represent innovation, and offer a new model of federal-state cooperation in this emerging field of human services reform. Initiatives such as this highlight that contestability is not the only potential mechanism to deliver improved outcomes.

In the area of education, South Australia would be interested in exploring how public-private partnerships could work to support high pressure areas. Given the diversity of providers in the preschool sector, early childhood services may present opportunities for new and innovative service delivery models focussed on increasing quality and access.

The South Australian Government is open to considering the benefits and costs of the approach proposed by Harper that in fostering “innovation in service delivery, governments should encourage experimental service delivery trials” where appropriate.

## **Conclusion**

The human services portfolio includes a wide range of government services providing essential support to all Australians. In considering the introduction of competition and increased user choice into human services, it ought to be recognised that no one size fits all, and States and Territories should be given the flexibility to prioritise areas of reform important to them.

The public interest test must be applied when applying competition policy principles to human services. Competition reforms should recognise the primacy of the citizen and aim to improve on the sustainability, quality and equity of access to services.