



Submission by Good Shepherd  
Australia New Zealand  
Productivity Commission Inquiry into  
Human Services - Identifying sectors for  
reform

August 2016

Author:  
Dr Kathy Landvogt  
Head of Women's Research, Advocacy and Policy Centre

Key contact:  
Kathy Landvogt  
Good Shepherd Australia New Zealand  
6 Paterson St., Abbotsford, VIC 3067

[www.goodshep.org.au](http://www.goodshep.org.au)

© 2016 Good Shepherd Australia New Zealand

## About our organisation

### Good Shepherd Australia New Zealand

This submission has been prepared by Good Shepherd Australia New Zealand, a community services organisation that aims to disrupt the intergenerational cycle of disadvantage with a focus on women and girls. We achieve this through services that address social and economic exclusion. A central part of our mission is to challenge the systems that entrench poverty, disadvantage and gender inequality. We do this through research, advocacy and social policy development.

Our specific expertise is in:

- **Safety and resilience** – supporting women to be resilient provides a buffer between an individual and adversity, allowing them to achieve improved outcomes in spite of difficulties.
- **Financial security** – supporting women to ensure they have access to sufficient economic resources to meet their material needs so that they can live with dignity.
- **Educational pathways** – assisting women and girls to overcome the obstacles in their life that hinder them from achieving their educational/vocational capacity.
- **Outcomes and evaluations** – developing evidence-based program designs across all Good Shepherd Australia New Zealand programs and services.
- **Research, Social Policy and Advocacy** – needs research into emerging issues, identifying effective change interventions for program design, policy analysis and advocacy.

Good Shepherd Australia New Zealand is part of a global network of services and advocates established by the Congregation of the Good Shepherd, with representation at the United Nations as a Non-Government Organisation.

## Contents

Contents .....	4
Introduction .....	6
Part one: Overview .....	8
1.1 Identifying the problem for reform.....	8
1.2 The role of government .....	8
1.2.1 Social investment .....	8
1.3 The role of the not-for-profit sector.....	9
1.3.1 Civil society and the market .....	9
1.4 The importance of collaboration .....	9
1.5 The concept of choice.....	11
1.5.1 Preconditions for choice.....	11
1.6 Funding approaches .....	12
1.7 Competition .....	13
Part two: Elements of improved service provision .....	16
2 Improved service provision .....	16
<i>Are quality, equity, efficiency, responsiveness and accountability sufficient to constitute improved service provision? How should they be measured? (Issues Paper p 6)</i> .....	16
2.1. Key elements.....	16
2.2. Tension between elements .....	16
2.3. Outcome measurement.....	16
2.4. Uncoupling individual user choice and competition.....	17
Part three: Factors impacting on competition, contestability and user choice.....	18
3 Scope for improved outcomes .....	18
<i>Competition, contestability and user choice (Issues Paper p12) and examples of services where these have been applied effectively (Issues Paper p13)</i> .....	18
3.2 Nature of transactions (Issues Paper p15).....	19
3.3. Supply characteristics (Issues Paper p17).....	20
3.4 Potential costs to users (Issues Paper p19).....	20
3.4.1 Poor quality outcomes.....	20
3.4.2 Disengagement.....	20
3.4.3 'Churning'.....	20

---

**Productivity Commission Inquiry into Human Services, August 2016**

---

<b>3.4.4</b>	<b>Service gaps</b> .....	<b>20</b>
<b>3.5</b>	<b>Government stewardship (<i>Issues Paper p19</i>)</b> .....	<b>21</b>
<b>3.5.1</b>	<b>Long-term negative impacts on services</b> .....	<b>21</b>
<b>3.5.2</b>	<b>Political and social disengagement</b> .....	<b>21</b>
<b>3.5.3</b>	<b>Increased costs of regulation</b> .....	<b>21</b>
<b>3.6</b>	<b>Costs to providers (<i>Issues Paper19</i>)</b> .....	<b>22</b>
	<b>Conclusion</b> .....	<b>23</b>

## Introduction

Good Shepherd Australia New Zealand (Good Shepherd) welcomes the opportunity to contribute to the *Productivity Commission Inquiry into Human Services – Identifying sectors for reform*. As part of the diverse and continually evolving community services sector working in partnership with State and Federal governments, and as a civil society actor within a highly networked policy ecosystem, Good Shepherd has a deep and abiding concern with the outcomes of services for disadvantaged Australians.

The community services sector is experiencing rapid system change combined with new challenges of multiple and entrenched disadvantage amongst our service-users. We have now been adapting to these trends over several decades, responding through a combination of improved business systems, collaboration and innovations in service delivery. Quality systems are now embedded within our organisations and are part of our business. We have evolved from a 'compliance culture' to a 'quality culture': this takes time and cannot be assumed, especially in organisations new to community service delivery. Across the sector outcome measurement frameworks are in place, or in the process of being implemented, to suit the outcomes of our services. Competitive tendering is now standard in much of our government funding, and the sector is continually experimenting with new types of partnership to ensure the needs of our citizens and communities are met. These reforms have been driven by commitment to high quality services targeted to those most in need, delivered with the most efficient and effective use of resources. Nonetheless there remain many shortcomings in our services, and improvement continues to be needed.

There is little evidence that increased market competition will solve these problems and considerable evidence that shows otherwise. The argument that separating government (purchasing) from delivery (provision) and giving more control to consumers will increase competition and therefore improve service responsiveness holds some unwarranted assumptions. Often the regulation required to achieve this has actually forced government funders reluctantly back into using a heavier managerial hand. Proposals to further increase competition and contestability, or introduce new forms of it, should be examined very thoroughly. There is much experience to learn from, including some clear market failures that have damaged people and communities, as well as some improvements resulting from collaborative funding model reforms.

Taking a market approach to a new level without proper testing presents unacceptable risks for government, services and individuals. We are therefore pleased that the Productivity Commission is asking where the factors required for market success exist (and by implication where they do not), and what costs will offset any benefits. Good Shepherd believes it is important to seek further evidence of any potential benefits rather than assume that adopting a particular funding model will automatically produce change.

Close examination reveals that there are many policy threads bundled together within each of the three concepts of 'competition', 'contestability' and 'user choice'. These concepts need to

---

**Productivity Commission Inquiry into Human Services, August 2016**

---

be untangled, and scrutinised for both the costs and the benefits they might bring to the marketplace of services.

The concept of market-driven user choice is far from transparent and needs to be interrogated. Increasing user choice is a growing trend in community services, taking many forms and serving multiple purposes. While it is grouped with competition and contestability as a seemingly natural 'set' in this Inquiry, user choice is in fact not dependent on either competition or contestability, unless it is defined only in the narrowest of ways. User choice is universally valued and already embedded in much of the sector, although most organisations also acknowledge that we need to do more to learn from service users how to improve service quality, equity and responsiveness.

We need better outcomes for service-users, and more responsiveness to their needs and preferences, but redesigning the service system into a contestable and highly competitive market is a high risk strategy. There is little to indicate that greater competition and contestability will lead to better services, or even to cost-cutting overall. The key driver for greater efficiency and innovation is more likely to be collaboration between services and with government within a networked public governance model. The interest in marketisation not only flies in the face of the evidence but also threatens to undermine these positive trends.

## Part one: Overview

### 1.1 Identifying the problem for reform

#### 1.1.1. Unmet demand

It is not clear exactly what problem is the target for potential marketisation reform. Without a clear definition of the problem there is a serious danger of leaping to the wrong solution and making things worse. There is certainly huge and growing unmet demand in our community service sector. Failing to meet all the needs is a problem, but one due largely to funding shortfalls and the creation, through economic changes and policy failures, of new needs such as unemployment and homelessness. Quality of services can also be a concern, and continuing efforts are needed to ensure they are the best they can be.

#### 1.1.2. Inadequate funding levels

Community services need adequate levels of funding to deliver the social outcomes required. A corollary of this is that cutting costs must not be a driver for any reform. If the problem is that we need to leverage more resources from non-government sources, this should not be at the expense of fairness and equality. The consequences would be severe for social cohesion and democratic engagement as well as for individuals in need of services. Complex needs are not usually amenable to 'quick fixes'. The people we work with need services that are not one-size-fits-all, and these need to be funded appropriately.

#### 1.1.3. Market assumptions

Maximising efficiency is important, as is better quality of life and services for people in need. However, the assumption that market mechanisms are best placed to achieve greater efficiency needs to be closely scrutinised. The Inquiry asks us which areas 'competition, contestability and user choice' might work in. This implies that there are some areas where it would not. The analysis presented in this submission indicates that most areas in the community service sector are not suited to increased market sector competition, and further, that there are more effective ways to increase user choice than increasing competition in the market.

### 1.2 The role of government

#### 1.2.1 Social investment

The bottom line for government is to deliver on its protection and fairness for vulnerable community members. This requires some redistribution to ensure adequate investment in social benefits. This is by and large the community's expectation: ensuring all Australians have the chance of a decent quality of life is a far more cherished goal than providing market choice for its own sake. Driving costs down through competition is likely to be a counterproductive strategy, not least because funding community services to address social priorities is a social investment not a 'cost'. Less social investment means a weaker society, and ultimately a weaker economy as the economy depends on the society. Social cohesion and the democratic contract rely on individual wellbeing and the common good that sustains individuals. Undermining social cohesion creates more social problems and hence subsequent costs.



### **1.2.2. Strengthening the social fabric**

The community processes that strengthen civic engagement, neighbourhood trust and mutuality should be funded as well as services delivered to the individual. This is not an argument against individually responsive services but an acknowledgement that the whole is greater than the sum of the parts when it comes to social wellbeing. Some of the mechanisms that underpin society are community engagement, service collaboration, co-design of services, and participatory democracy. These activities are not suited to marketisation, but are all vital to government in projecting its agenda and engaging people in its vision across multiple policy areas, and should be supported and protected. There is a serious risk of market failure if all funding is directed through individuals and not to the communities and society that sustain those individuals.

## **1.3 The role of the not-for-profit sector**

### **1.3.1 Civil society and the market**

Beyond the visible marketplace, and in fact making it possible, is a world of social relationships, community life and public goods produced by the gift and social economy. These relationships cannot be reduced to a quantifiable contract. Civil society supports all marketplaces in this way, but perhaps the community services sector and its service-users benefit the most. Not-for-profit organisations drawing on immense reserves of volunteer effort, private equity (through philanthropy), and democratic engagement.

### **1.3.2 Creating public goods**

Not-for-profit organisations bring goodwill and community resources to the table in any funded service contract, and these should be given proper value in any competitive process even though they cannot be costed in monetary terms. Failing to account for these public goods in a market process could lead to their loss. Community service organisations attract these public goods (many of them actually created with private equity in the form of donations) through their identity as not-for-profit organisations acting for the social good. People donate because they recognise our organisations are filling a gap that the for-profits do not, and that their donation is going to the cause and not to shareholders. If for-profits are part of a competitive funding environment people may well withdraw their support from not-for-profits, believing they are not needed now there is a 'commercial' market.

### **1.3.3 Market failure**

The community sector has always provided services in areas of market failure, such as hard to reach populations, remote areas or more complex interventions. This is widely accepted by economists of all persuasions. Full-profit providers do not bear the additional costs of meeting these needs. Funding these areas will probably always need subsidisation unless quality and reach are to be sacrificed.

## **1.4 The importance of collaboration**

### **1.4.1 Integrating services**

The community sector has been experiencing a wave of collaboration-based reform. For example, Victorian government commissioning now always requires some level of integration and partnership to deliver funded services – whether through consortia, lead agency arrangements, or integrated system design principles. Governments are recognising that where government funding is very thin as it is in community services, it is

important for providers to complement rather than compete with each other, if people in need are to have every chance of receiving assistance. There may be only one suitable service in the area that is a match for the person's specific needs. What is important is that it is a high quality service, and that the person has access to it wherever and whoever they are. Finding the right service requires services to collaborate and create effective referral systems.

Good Shepherd has conducted a social network analysis of the referral links between financial support services within several local areas, discovering highly networked systems that connect people with a range of services<sup>1</sup>. Typically financial counselling and emergency relief services, for example, are found closely linked with emergency housing, health/mental health services, alcohol and drug services, family violence support and community legal centres.

#### **1.4.2 Partnerships with government**

Community services have increasingly been delivered in partnership with government, especially since governments have preferred to outsource delivery wherever possible. Co-design is a welcome new trend in public governance, regarded as especially useful for 'wicked problems'. Entrenched, multiple and complex issues require multiple parties, sustained effort and layered strategies to shift. This type of collective impact requires a high level of engagement with the community sector, and harnessing their diverse resources.

To be a useful partner in delivering services for and with government, the community service sector needs to be able to bring its unique contributions to the mix, complementing other partners' contributions. Introducing sharper market mechanisms threatens to turn organisations inwards to focus on survival and self-sufficiency rather than achieving collective impact.

#### **1.4.3. Innovation**

Innovation in community services is constant, both to meet rapidly changing social needs and to respond to funding cuts and efficiency drives. Innovation is usually aided by cross-organisation and cross-sector collaborations. For example, significant innovations in responding to economic abuse in the context of family violence resulted from a collaboration between the community legal and family violence sectors through the 'Restoring Financial Safety' project<sup>2</sup>.

If competition is to support innovation through incentives, it needs to do so without undermining collaboration. This is quite possible, as the community service sector operates within a 'relational' type of competition which co-exists with high levels of collaboration<sup>3</sup>. However, the design of tenders and compliance must factor in these considerations, for

---

<sup>1</sup> Landvogt, K. 2014, *Collaborating for Outcomes: Networks in the financial support service system*, Good Shepherd Australia New Zealand

<sup>2</sup> Camilleri, O., Corrie, T. and Moore, S., 2015, *Restoring Financial Safety: Legal responses to economic abuse*, Good Shepherd Australia New Zealand

<sup>3</sup> Keast, R., 2016, *The two faces of competition: which is best for the social services sector?*

<http://www.powertopersuade.org.au/blog/the-two-faces-of-competition-which-is-best-for-the-social-services-sector/25/7/2016>

example by avoiding clauses that preclude discussion between potential bidders in a tender.

## **1.5 The concept of choice**

### **1.5.1 Preconditions for choice**

For the concept of choice to be relevant and robust, the service choices must be affordable and in adequate supply for people to be able to switch provider. In rural and remote areas, as well as areas of costly specialisation, providers must be enticed and supported to provide services. These services must be adequately funded, whatever the mechanism. Choice navigation relies on having the capacity, the information and the confidence to make a choice. This can be difficult to achieve, given the nature of vulnerabilities and circumstances of community service users. As indicated in the discussion of user characteristics, we cannot assume people will behave the same way in this market as they do in others. We cannot assume they have sufficient agency, knowledge, or skill to make more than an arbitrary choice. Sometimes they do not actually have a choice at all, such as when the service is mandated by the state to protect children or the service user themselves from harm.

We also need to account for the feelings associated with using the service (often shame, guilt, sense of failure). These can be enormous barriers to approaching services, seeking information about them, and negotiating a needed service.

Trauma and stress have been proved to limit problem-solving capacity<sup>4</sup>. Using a rational problem-solving process to select one service from a number of others, while in the midst of a personal crisis, is just not realistic. Additionally, sometimes service users have cognitive limitations, mental health issues, or drug and alcohol challenges that interfere with effective problem-solving.

Behavioural economics shows that humans in general are not rational decision-makers in the marketplace even when we are not under stress or suffering from other difficulties. It is therefore easy for our choices to be distorted by sophisticated marketing even with ready access to the full range of information and capabilities.

### **1.5.2 The costs of choice**

Too much choice is stressful and can cause people to withdraw and make no choice. Decision-making is improved when people have support to understand their options and explore the costs and benefits of various choices, but in a highly competitive environment providers are more motivated to 'sell' their own service rather than support the person to make the best possible decision.

The costs of making a poor choice also need to be manageable. This is often not the case in community services, where a poor choice can be catastrophic for a vulnerable person and their family.

---

<sup>4</sup> See, for example, Miu, A., Heilman, R., Houser, D., 2008, *Anxiety impairs decision-making: Psychophysiological evidence from an Iowa Gambling Task* <http://www.cognitive-neuroscience.ro/doc/11.%20Anxiety%20impairs%20decision-making.pdf>

### **1.5.3 Non market-based user choice**

The needs and vulnerabilities of community service users mean that greater market choice between service providers does not necessarily equate to greater empowerment, autonomy, and self-efficacy. Other forms of choice are usually more important. Service users can and should have options about how they receive the service, who their practitioner is, the timing and type of intervention, and of course the goals to work on and how to work on them. Service-users can and should also be advisers assisting us to improve our services, providing feedback directly rather than through the market mechanism of 'choice'.

## **1.6 Funding approaches**

### **1.6.1 Diverse and networked public governance**

Any changes to funding mechanisms need to avoid the risk of losing the existing investments. The market in most community service areas is already highly diversified. Networked policy development and implementation optimises inputs through a mix of funding plus public goods<sup>5</sup>. In addition to government grants, funds are sourced from private donations, religious foundations, social enterprises, philanthropic trusts, and community fund-raising. Many of these funded services are supported in whole or in part by 'private equity investments' (in the form of donations, philanthropy and so on), made by the community to support vulnerable people. These investments indicate engagement by multiple players, consistent with the contemporary policy trend for inclusive public policy governance, as well as the historical legacies of community organisations.

There is also a small amount of fee-for-service, but community services will never be able to leverage the user-pays contributions that are found in aged care, health or education because our services are for people who largely cannot afford to pay.

### **1.6.2 Limitations of market-based funding mechanisms**

There is a need to maximise effectiveness in a tight funding environment, but it is the effectiveness in improving outcomes for vulnerable and disadvantaged groups not the effectiveness of market mechanisms themselves that must be the focus. Contestability is often wasteful of organisational resources, taking away from service delivery effort by creating insecurity and short-term thinking. Staff expertise is the greatest asset a community service provider has, and is undermined by the casual, short-term appointments and lack of investment in professional development necessitated by contestable funding contracts.

Vulnerable groups respond best to specific service delivery modes (for example outreach, or drop-in) or may require bundled services (eg financial counselling and family violence). There is a lot of effort for little benefit created by introducing market mechanisms without adequate consideration of the match between service and user characteristics.

Economies of scale may sometimes achieve greater efficiencies when the service is highly standardised, but have proved to be counter-productive where niche services have developed to be fit-for-purpose. For example, the re-commissioning of community mental health services in Victoria led to closure of smaller specialist series with relationships with

---

<sup>5</sup> Carey, G., Barraket, J. and Landvogt, K., 2016, *Creating and Implementing Public Policy: Cross-sectoral debates*, Routledge

---

## Productivity Commission Inquiry into Human Services, August 2016

---

many of the most hard-to-reach and marginalised service users. As a consequence those service-users chose not to engage through the new system, making them far more vulnerable to homelessness, public and mental health admissions, and interaction with the justice system, and arguably making the community less safe in the process as well as requiring much more costly interventions.<sup>6</sup>

The processes designed to create more competition can actually reduce competition. For example the number and diversity of employment service providers has dropped as this market has 'matured', without producing improvements in outcomes for the most vulnerable unemployed individuals<sup>7</sup>.

Market mechanisms may actually reduce adaptability and innovation. Opportunities to meet emerging needs, create innovation and use new technological solutions are provided through longer-term tender arrangements not constant contestability.

### 1.6.3 Non-individualised provision

Individually-based funding only accounts for the immediate task, not for all the additional activities that build on that work and contribute to the environment making quality service delivery possible. As indicated elsewhere, services need to be flexible to adequately meet needs. This requires some capacity to deliver services that are not necessarily predicted in the contract.

Prevention work is another example: it requires a non-individualised approach to funding, and usually cannot be measured through tangible outcomes, at least in the short term. There is no financial incentive for preventative work in a competitive environment.

Peer-to-peer support and other collective approaches also cannot be created through an individualised funding model. This includes supporting users to have a voice in policy and service development.

## 1.7 Competition

### 1.7.1 'Relational competition'

Community services prefer to share good practice to create best practice, using a shared services model and open source documents, and sharing costs for some of the organisational infrastructure such as technology. If competition becomes the driving logic behind all our strategic and stewarding decisions, many of these efficiency and effectiveness measures will eventually be lost.

Community services are already competing in different ways for government funding, and in response a highly 'relational' approach to competition has emerged. This is beneficial competition that urges performance on to greater heights while enabling high levels of cooperation, collaboration, and partnering. Good Shepherd is a typical community service in that it competes with other services for most of its government funded programs, but does so in a range of bespoke consortia and partnerships. This may well involve competing

---

<sup>6</sup> Catholic Social Services Victoria, 2014, *A response from Catholic Social Services Victoria to the Community Sector Reform Council on the 2014 recommissioning of Victorian Government services*

<sup>7</sup> Gallett, W. and Olney, S Social Service Futures Dialogue: Issues in Market-based Reform of Human Services: Lessons from Employment Services <http://www.powertopersuade.org.au/blog/social-service-futures-dialogue-issues-in-market-based-reform-of-human-services-lessons-from-employment-services/4/7/2016>

for one service contract against an organisation that we are in partnership with to deliver another type of service. It is a richly networked sector where meeting changing and complex needs with very limited resources has been a driver of innovation and collaboration. These qualities are vital to successful services and any market-based reforms need to carefully factor in potential threats to these ways of working.

Working collaboratively needs to be seen in this context and not as collusion. Sharing information to create better services must be possible and market principles can challenge this paradigm. An un-nuanced approach by contract designers and regulators will lead to organisations behaving self-protectively and will prevent the best possible service solutions emerging.

### **1.7.2 Dangers of collusion**

In a competitive market, there is also a real danger of collusion as providers struggle for market position. This is distinct from collaborating in order to improve outcomes for people on the margins. A key difference between collaboration and collusion is the motivation: we want to keep our organisations viable but we must keep the needs of our service-users uppermost.<sup>8</sup> There is a fine line between collusion and collaboration that could be very difficult to determine and police in marketising such a highly collaborative sector.

### **1.7.3 Perverse outcomes of competition**

A number of perverse outcomes of competition are mentioned in this submission's discussions of collaboration, user characteristics and choice. The evidence indicates that often market-based reforms in the community sector that have occurred have not succeeded<sup>9</sup>. Many perverse effects of competition have been identified through this experience: "Most studies have shown that market principles and especially competition have had an adverse effect on this sector"<sup>10</sup>.

The biggest danger is probably unscrupulous providers exploiting the system. This damages everyone: the service user most of all, but also other providers and the funders. The unclear line between for-profit and not-for-profit can be confusing for vulnerable service users, and slick marketing makes it difficult for them to know who to trust.

Some negative impacts result from the natural advantages accruing to bigger players in the market with the greater brand recognition and resources to put forward their case. This means that the creativity and diversity generated within small 'outlier' services are lost. Additionally, new businesses have wanted to move into assured rather than risky areas, to satisfy shareholders or a large stakeholder base. In the employment services market, where marketisation and privatisation were introduced approximately 20 years ago, there have

---

<sup>8</sup> Corrie, T., 2014, *Placating the Beast: The market-driven Imperative to collaborate*  
<http://www.powertopersuade.org.au/blog/plac/12/3/2016>

<sup>9</sup> Dickinson, H., 2016, *The NDIS, Markets and Self-regulation: If we build it will they come?*,  
<http://www.powertopersuade.org.au/blog/the-ndis-markets-and-self-regulation-if-we-build-it-will-they-come/14/6/2016>

<sup>10</sup> Keast, R., 2016, *The Two Faces of Competition: Which is best for the social services sector*  
<http://www.powertopersuade.org.au/blog/the-two-faces-of-competition-which-is-best-for-the-social-services-sector/25/7/2016>



---

## Productivity Commission Inquiry into Human Services, August 2016

---

been multiple market failures identified: creaming off profitable service users and leaving the 'costlier' ones aside foremost among them<sup>11</sup>.

There are also a number of negative organisational impacts. Constantly competing for survival impedes optimum service delivery, and competition can lead to overreach in going beyond the organisation's core business to compete and grow in the new environment.

The costs 'landing' in other sectors through any marketisation must also be factored into considerations. In some short-term market transactions, externalities are pushed 'downstream' to be borne by crisis responses in other sectors. The health and justice systems eventually pay for 'upstream' failures in education and housing systems, for example, when social disadvantage compounds to produce entrenched health or behavioural problems. In community services the equivalent is servicing the easy-to-reach client with simpler issues to achieve a quick result at less cost, leaving a more targeted, usually smaller service with a more values-driven approach to pick up the pieces. This can be a perverse outcome of competitive tendering which incentivises quick results without due consideration of individual variations.

---

<sup>11</sup> Keast, R. Waterhouse, K. Murphy, G. and Brown, K., 2012, *"Pulling it all together: Design considerations for an integrated homelessness services system – place-based network analysis"*, National Homelessness Research Agenda Project, FaHCSIA

## Part two: Elements of improved service provision

### 2 Improved service provision

***Are quality, equity, efficiency, responsiveness and accountability sufficient to constitute improved service provision? How should they be measured? (Issues Paper p 6)***

#### 2.1. Key elements

We agree that services cannot always be improved uniformly across these attributes of *quality, equity, efficiency, responsiveness and accountability*, but that all of these are important to improvement. We do not think they all have equal importance, however: some have a primary social purpose (quality, equity), while the others are a means to that end. We would add a further element to the proposed list of measures by which service reforms are to be evaluated: services also need adequate resources.

#### 2.2. Tension between elements

It is clear that tensions will exist between some of the elements. Clearly, quality may be undermined by efficiency. For example, while innovations such as centralised phone intake systems bring costs savings and are an acceptable, even preferable, mode of service delivery for some users, they greatly disadvantage some of the most needy individuals. Accountability is vital but somewhat less obviously it also can undermine quality. The evidence from marketised sectors is that a high degree of regulation is required to deliver on the requirements for quality and equity, and when this regulations becomes a dominant preoccupation of the provider in order to safeguard their contract and market position, quality decreases.

#### 2.3. Outcome measurement

We agree that measuring outcomes of a service is often an inexact science as many factors over which service providers have no control impinge on those outcomes. To the extent that outcomes are measurable, the fundamental benchmark should be effectiveness in ameliorating the situation of the most needy people in our society, because Government's responsibility to care for its most vulnerable citizens cannot be avoided even if it is outsourced.

Not-for-profits are guided by a value-based ethos that holds them accountable to their members for delivering benefits to individuals and society. While this is not a guarantee of quality, it does provide an additional check on the performance of not-for-profit community service organisations. For-profit organisations, on the other hand, are accountable to shareholders and owners for delivering financial results. Whereas in not-for-profits a surplus is reinvested in the business, for-profits organisations' surplus is generally directed to shareholders. As market imperatives to get results must drive decisions in for-profits, funding contracts may need greater specificity to ensure client outcomes are delivered. Yet this has proven difficult to achieve and at times counter-productive: specifying very tight deliverables can cut across the ways of working that make it possible to deliver results in complex and challenging circumstances.



**2.4. Uncoupling individual user choice and competition**

There is a market assumption that user choice leads to healthier competition and that competition leads to greater user choice. We do not agree that marketising community services necessarily places more emphasis on the individual user, nor that such an emphasis should be treated as a proxy for service quality, equity, efficiency and so on. As we argue elsewhere, individualised service is more likely to be achieved through a holistic and relational approach than through reducing individuals to mere 'consumers of services'. The nature of the 'individual service-user' and the concept of 'choice' are both central to this discussion and need some reflection.

## ➤ **Part three: Factors impacting on competition, contestability and user choice**

### **3 Scope for improved outcomes**

#### ***Competition, contestability and user choice (Issues Paper p12) and examples of services where these have been applied effectively (Issues Paper p13)***

We do not find indications that service improvements within the community services sector are likely to be remedied by reform focused around increased market-based competition and contestability.

Increasing user choice in our services can improve service delivery, but the type of user choice is critical. The vulnerabilities and preferences of most community service users make market-based user choice less relevant than having respectful, responsive relationships and opportunities for autonomy, self-efficacy and agency in dealings with the service.

#### **3.1 User characteristics (Issues Paper p14)**

##### **3.1.1 Complexity**

The most critical factor in how service are delivered is the service user characteristics. It is in responding to each individual's needs appropriately that service quality resides. By definition, the need that individuals bring to a service makes them vulnerable. Users of community services are extremely diverse and there is usually a large element of professional expertise needed to assess needs and respond appropriately.

In serving very vulnerable populations, service providers cannot make ready judgements on a person's capabilities, capacities and behavioural motivations. A non-judgmental approach is fundamental to the effectiveness of our work. This means that any contestability or other marketisation mechanisms must ensure that these nuanced and non-judgmental approaches that are the basis of best practice, are protected.

##### **3.1.2 Vulnerability**

As partners in delivery we know that many community sector services are used by those who cannot afford to purchase information and support in the for-profit sector. For example, financial counsellors are sought out by people experiencing significant debt or complex situations who cannot afford to pay a lawyer or financial planner. This does not only apply to financial support services: women experiencing family violence, for example, may choose to independently seek out safer accommodation, private counselling, and a family lawyer if they have adequate financial and other resources. Clearly, there is already competition within the community service sector. The reason our not-for-profit services exist at all is to fill unmet needs that markets have not been able to respond to, but that must be met in any healthy and productive society.

### **3.1.3 Limitations to 'shopping around' for services**

There are many reasons that people cannot 'shop around', for example if they need a culturally specific service with bilingual practitioners, or are seeking very specific expertise with a less common problem. It would be wasteful to encourage services to provide a choice that is not actually needed, in a sector where resources are already over-stretched.

The needs of individuals also usually change over time, but if they do not have knowledge of other services they cannot begin to seek out the best service. Rather than shopping around in an open marketplace, they will need to access new services through referrals by known providers.

In the words of one woman struggling to manage on a low income:

*"Poverty is bleak and cuts off your long-term brain... It does not matter what will happen in a month. Whatever happens in a month is probably going to be just about as indifferent as whatever happened today or last week. None of it matters. We don't plan long-term because if we do we'll just get our hearts broken. It's best not to hope. You just take what you can get as you spot it. I am not asking for sympathy. I am just trying to explain, on a human level, how it is that people make what look from the outside like awful decisions."<sup>12</sup>*

The very conditions that create a person's need for a service make it almost impossible for them to devote the mental effort, time and resources required to truly 'choose' that service.

## **3.2 Nature of transactions (Issues Paper p15)**

### **3.2.1 Time and process**

The individual differences of service users need to be accommodated for outcomes to be successful, but this is more than a simple point-in-time transaction, or a choice of one service over another. People need a process to unfold in which a problem is identified, assistance is sought, a story unfolds, internal and external resources are uncovered, risks are mitigated, and a plan is put into place, monitored, supported, and altered when life intervenes with another challenge. This requires time, trust and relationships with a dense network of other services as referral points. The commitment must be to the person as an individual not to an individual service transaction.

### **3.2.2 Relationships**

Community services rely overwhelmingly on trusted relationships. Issues are highly personal and often require support over a considerable time. 'Hard-to-reach' clients especially respond to person-centred services that are there for the long haul. Increasingly, users of community services come with multiple and complex problems and need a joined up service that relates to them as a whole person.

Relationships between service users and providers are critical to the quality and successful outcomes of community services, as much of the preceding discussion has implied. People do not engage with services in the same way as they purchase a product from the supermarket shelf: the act of choosing is more complex, the process more stressful and the consequences usually far greater. Responsibility for matching a person and a service is therefore often best shared between practitioner and service-user rather than borne by the

---

<sup>12</sup> Tirado, L., 2014, "Why I make terrible decisions, or, poverty thoughts"

<http://killermartinis.kinja.com/why-i-make-terrible-decisions-or-poverty-thoughts-1450123558>

service user alone. While the ultimate decision rests with the service-user unless sanctions require otherwise, it is a mutual process. Feelings such as shame, guilt and loss arise because of our society's emphasis on individualism and success. Despite our best efforts, identity and self-esteem can be threatened by the sense of failure that often accompanies needing a community service. The service-provider should be recognizing the vulnerability inherent in seeking a service and attempting to support the person's decision-making process in whatever way is needed.

### **3.3. Supply characteristics (*Issues Paper p17*)**

The local contexts for services are highly varied, as our research into the networks of services in four case study areas, "*Collaborating for Outcomes*", showed<sup>13</sup>. A comparison of service networks in inner urban, outer urban, rural and remote areas showed great variation between sectors. History, geography, characteristics of local populations, state and local government policies and even the individual contributions of long-time practitioners, all combine to require every area's services to co-design a 'service system' (however loosely linked) to meet local needs with available resources. Each local community service system is therefore more akin to a village marketplace than to a branch of a national network of supermarkets (even though these bigger providers are of course part of the networks). A 'one-size-fits-all' approach cannot work.

### **3.4 Potential costs to users (*Issues Paper p19*)**

#### **3.4.1 Poor quality outcomes**

If market reforms fail to deliver service improvements, as Good Shepherd's analysis suggests, the people who suffer most will be service users whose needs are not met, and whose wellbeing and capacity to participate in society will diminish as a result. It is of great concern that the principle of 'do no harm' has the potential to be breached while at the same time a service itself can meet its contracted targets.

#### **3.4.2 Disengagement**

Disengagement will be the result for the most vulnerable groups in the community when the pressure to negotiate a new market becomes too difficult, when favoured services disappear without an adequate replacement, or when services fail to target specialist needs.

#### **3.4.3 'Churning'**

Individual service users continuously moving from one provider to another has often occurred in the energy market as new marketing methods unscrupulously target vulnerable populations. This outcome would be even more damaging in human services, where services are complex and often relational. Resources, opportunities and trust are all lost in the process of needlessly changing services.

#### **3.4.4 Service gaps**

Vulnerable people will also miss out when some service areas fail to attract providers because they are too costly or cumbersome to deliver. Rural and remote services are particularly vulnerable.

---

<sup>13</sup> Landvogt, K. 2014, *Collaborating for Outcomes: Networks in the financial support service system*, Good Shepherd Australia New Zealand

### **3.5 Government stewardship (*Issues Paper p19*)**

#### **3.5.1 Long-term negative impacts on services**

If the market reforms create no incentive for preventative work, all the efforts will be concentrated at the crisis end, neglecting the upstream interventions that will ultimately save money and create long term social benefits. Competition also seems likely to increase the fragmentation of service systems and undermine the networked collaboration and integration that make it possible to meet constantly evolving and complex needs in locally responsive ways.

#### **3.5.2 Political and social disengagement**

Failing to meet the needs of the most vulnerable in our community will increase inequality and threaten the 'social settlement' that underpins our democracy. Governments rely on the broad community acceptance of their agenda. Communities need to trust that governments are working for the good of the whole not just individual parts of the society or economy. A crisis of legitimacy of the state may be the ultimate result of lack of buy-in to the government's market-based agenda.

#### **3.5.3 Increased costs of regulation**

The experience of previous marketisation reforms shows the need for a high degree of transparency and very active monitoring of processes and outcomes. This includes being alert to perverse outcomes that result from contractors fulfilling (or indeed breaching) their contract in a way that runs against public interest. It is important that regulation is 'mainstreamed' in organisations through a quality culture rather than a mere compliance, 'tick the box', culture.

Governments cannot outsource the risk of market failures. They must provide regulation, and that has often required increasing layers of regulatory mechanisms and adjustments (eg energy providers), as players constantly find new opportunities to exploit, benignly or otherwise, the market. The administration costs increase accordingly, not just for government but also for the providers who must then prioritise compliance.

The recent example of the market failures in the vocational education and training (**VET**) sector shows what can happen if markets are opened up to providers with perverse incentives. The people who have suffered from the scams perpetrated by exploitative vocational education providers are frequently from the vulnerable groups that use community services. The policy failures of the marketization of VET are multiple and go across a number of areas. One of these is the assumed benefit of bringing for-profit providers into the market: we need to revisit the reasons that not-for-profits have been the major providers in the past. TAFE Colleges are not there to exploit a market opportunity, they were established because poorer people needed vocational education.

### 3.6 Costs to providers (*Issues Paper19*)

The layers of commercial business development and the bureaucratic regulation that would be required will add significant administration costs to providers. These and other transition costs to service providers should attract government support, just as they do in other industries that are subjected to structural reform. Similarly, there should be adequate time for adjustment as recognised in other industries like manufacturing and agriculture. Any changes must be introduced slowly and carefully.

There is a serious risk of 'mission drift' in attempting to strengthen our position and secure funding: even collaborating to compete can take us off-course:

*"The evolution from philanthropy to co-investment creates an opportunity for the community sector to move from a perception of passive funding by government or philanthropics to actively negotiating their role as co-contributors. The changing paradigm allows for a change in power dynamics and can actually be a positive outcome. Our challenge is to ensure that community organisations continue to be a force that actively questions market outcomes and promotes social justice if we are to transform the system from within."*<sup>14</sup>

Of the many potential losses to existing community service providers the most concerning is this erosion of the values base that determines how we respond to each individual as a whole person, not as a unit of service, an outcome measure, or an income source.

---

<sup>14</sup> Corrie, T. *Placating the Beast: The market-driven Imperative to collaborate*  
<http://www.powertopersuade.org.au/blog/plac/12/3/2016>

## Conclusion

A lot more work would need to be done before the community services sector could confidently move to increased market-based competition without threatening its fundamental purpose of improving outcomes for its service-users. There is an urgent need to adequately consider the failures of previous efforts. We will be advocating strongly for a clear purpose to any community sector reforms, a purpose that reflects government's protective role in society, and for careful planning, scenario analysis, piloting and evaluation of any reform options.

We are concerned about the risks to service-users and urge consideration of potential impacts on the most vulnerable service users. Government's responsibility is to ensure that these most vulnerable Australians do not miss out through any increased marketisation processes.

We are concerned that valuable services, public goods, existing private equity (in the form of donations and organisational assets) and social cohesion will be lost through rushed, clumsy and uninformed competitive processes.

We are concerned at the potential waste of valuable public money on regulatory regimes that will be required if profit-making and cost-cutting incentives are offered through poorly designed contracts. This money needs to go instead to ensuring services are adequately funded.

Community services should not be seen as a sector ripe for marketisation due to its large number of players. Nor should its existing engagement of existing private equity through philanthropy in various forms be taken for granted: this is based on a long history of value-based work and social reciprocity that could easily be undermined rather than supported by market-based arrangements.

It is extremely costly to create new markets. We need to focus on achieving better outcomes for service users by and large within the existing systems, not on introducing new systems that have not been proven to deliver better outcomes. To be efficient stewards of scarce resources, we all need to ensure that we do not waste not just money, but time, public goods, and goodwill, on solving the wrong problem.

We believe that the current challenges for government to manage costs in a tight fiscal environment can best be met through augmenting the existing networked public policy relationships.

Systems need to enable services that are 'fit-for-purpose', based on the same principles we are striving to implement in our services - evidence-based, innovative, and user-informed. There are a number of strong threads in contemporary public policy, some of them mutually contradictory. We need a mapping of the multiple policies across the community service sector to understand where the 'critical mass' for change lies and what the contradictory forces are.

---

**Productivity Commission Inquiry into Human Services, August 2016**

---

Any attempt to use the market itself to solve problems that the market has created should proceed with the greatest possible caution. The market may seem like a ready solution to the complex problems of delivering services within tight budgets, but the evidence indicates that the social and economic costs would be prohibitive in many community service areas.