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Submission to the Productivity Commission's Inquiry into Human Services

Centre for Policy Development
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About The Centre for Policy Development (CPD)

CPD is an independent, non-partisan public policy institute. Our mission is to foster an Australia that embraces the 'long-term now'. In doing so we seek a future for Australia based on shared prosperity and sustainable wellbeing. One of our three key research programs - *Effective Government* - is dedicated to understanding the role for an active, capable and effective government in the 21st century.

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CPD's Submission to the Inquiry

Our submission relates to Part 1.C (i) of the Inquiry's Terms of Reference, that is:

The effectiveness of previous reforms intended to introduce greater competition and user choice, and the pathway taken to achieve those reforms, through investigating...case studies of existing practices and trials in Australian jurisdictions.

In December 2015, CPD released *Grand Alibis: How Declining Public Sector Capability Affects Services for the Disadvantaged*. The report examined the impact of competition and contestability principles on the capability of the public sector to design and deliver services for disadvantaged citizens. Overall, our report argues that the blunt application of market-based principles – predominately manifested in outsourcing human services - has eroded the experience, skills and policy toolkits that the public sector needs to develop the best policy responses, whether these are deployed publicly, privately or as part of mixed models. This erosion of capability has far-reaching consequences for the effectiveness of essential human services and for the wellbeing of disadvantaged Australians who rely on them most.

Our main case study focused on the market-based system operating in employment services.¹ We also outlined the emerging trends regarding the adoption of these principles for the delivery of both corrective services and disability services in various states and territories.²

Key findings from *Grand Alibis* that are relevant to the Inquiry are outlined in this submission. The full report is attached and contains deeper analysis of these and other related issues that will no doubt be of relevance to the Inquiry.

Our report recommends that the Productivity Commission consider the impacts of earlier human service delivery reforms on public sector capability, particularly in the design and delivery of policies and services to address entrenched disadvantage. The review should also consider the capability required for the public sector to discharge effectively an increasingly complex role in human services policy, funding, regulation and delivery over time. In both respects, Australia's decades-long experiment with 'choice and contestability' in a fully-outsourced employment services system, and persistent policy challenges associated with long-term unemployment, make employment services a natural case study for detailed analysis by the Productivity Commission.

Two of the co-authors of the report, CPD Policy Directors Rob Sturrock and Sam Hurley, are available for further discussion.

¹ See Chapter 2, 'Employment Services – A Two Speed System', p23 - 32 and Chapter 3, 'Grand Alibis and Limitations of the Employment Services System', *Grand Alibis: How Declining Public Sector Capability Affects Services for the Disadvantaged*, p33 - 47.

² See Chapter 4, *Grand Alibis*, op cit., p.48-56.

Key findings

For the purposes of the Inquiry, the key findings from CPD are as follows:

- 1. There is insufficient evidence to show that the optimal role for government is limited to that of ‘market steward’.**
- 2. The operation of the employment services market over the past 18 years demonstrates the perils of relying on competition and contestability principles without considering impacts on public sector capability, as well as alternative service models.**
- 3. Delivering effective human services that meet social requirements is complex. The Inquiry must identify the most suitable reform options without just defaulting to market-based solutions.**

These key findings are expanded upon in this submission, with further information contained in the full report that is also attached.

1. There is insufficient evidence to show that the optimal role for government is limited to that of ‘market steward’

The Inquiry suggests that one of the effects of introducing further competition and contestability into services is that the government takes on the role of market steward in a competitive system. The Issues Paper states that ‘Governments have an important stewardship role to ensure the quality of services, protect consumers, and make ongoing improvements to policies and programs’.³ Whether the preferred role for government is as market steward in human services is still open to critique.

Designing and delivering human services on the basis of rigorous evidence is clearly in the best interest of the Australian community over the long term. However, there is a lack of evidence examining the longitudinal impact of competition and contestability principles on human service design and delivery. This includes an absence of long-term evidence about the impact on services when government shifts from delivery to being market steward. As a result, policy debates regarding the role for government in human services are often limited to ideological contests that unduly limit the reform options on the table.

For instance, the Howard Government decision in the late 1990s to move the delivery of employment services from the Commonwealth Employment Service to a market-based system was done without a firm evidence base or credible analysis justifying the decision.⁴ Full-scale outsourcing was completed in 18 months without any meaningful pilot projects testing the feasibility of the market that the government was creating.⁵

Almost twenty years on, path-dependent decision making in human services portfolios – where there is a lack of evidence to justify the service design – remains a fundamental problem. As competition and contestability principles are applied more broadly in human

³ *Human Services: Identifying sectors for reform*, Productivity Commission Issues Paper, June 2016, Australian Productivity Commission, p17.

⁴ *Grand Alibis*, op cit., p44.

⁵ *Grand Alibis*, op cit., p44.

services at the state and territory level, and the government shifts to operating as market steward, public agencies tend to retreat from direct service delivery. Instead they outsource service delivery to not-for-profit and for-profit organisations.⁶ This in turn is having a net negative impact on both service quality and long-term public sector capability to design and deliver targeted, effective, quality human services.

In *Grand Alibis*, CPD examined how employment services has operated since 1998, when it was fully outsourced by the Federal Government as a market-based system. CPD analysed employment outcomes achieved by jobseekers, researched the service delivery experience and consulted widely with industry stakeholders. The operation of the employment services market demonstrates that there are significant limitations in the creation of market-based systems in human services where no alternative service model is considered.

2. The operation of the employment services market over the past 18 years demonstrates the perils of relying on competition and contestability principles without considering alternative service models.

CPD welcomes the Inquiry, as the Productivity Commission last examined the entire employment services system in 2002.⁷ This is an ideal time to take stock of the experience of the employment services market and use its evolution to inform policy developments.

There are significant challenges and limitations in the market-based model for employment services that demonstrate the considerable risk to government of relying too greatly on competition and contestability principles in improving service quality and outcomes.

Since 1998, employment services have been fully delivered via a competitive market. During this time services have largely been provided by a combination of not-for-profit and for-profit providers. The government has administered three distinct contractual periods during this time: Job Network (1998 to 2009); Job Services Australia (2009 to 2015) and Job Active (2015 to present).

Outlined below are the main limitations with this market-based model, and with the government's role as market steward, as identified by CPD.

A) The system is not delivering adequate outcomes for all jobseekers

The employment services system ('the system') functions at two-speeds, and the employment outcomes delivered to jobseekers over this time can be charitably described as mixed.

Over different contractual periods, jobseekers have been classified into various 'streams' distinguished by individual job readiness. Each jobseeker's 'stream' indicates the level of service they require to find employment. For instance, under Job Services Australia, jobseekers classified as job-ready were referred to Stream 1 where providers assisted in resume preparation, job search, skills assessment and job-search training. Jobseekers with multiple vocational and non-vocational barriers to employment were referred to Streams 2 to

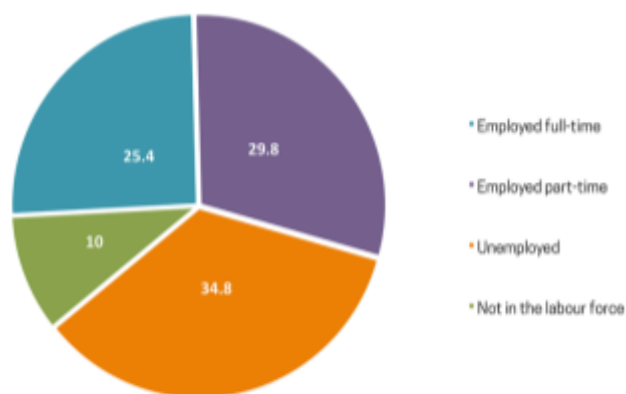
⁶ Chapter 4, 'Future Capability Hazards in Government Human Services', *Grand Alibis*, op cit., p48–56.

⁷ *Grand Alibis*, op cit, p45.

4, depending on the severity of these barriers. Those placed into Stream 4 were the most disadvantaged jobseekers, considered the furthest away from obtaining employment.

The system works relatively effectively for unemployed persons who are already job-ready. As at June 2015, approximately 55 per cent of these individuals were in either full or part-time work three months after they participated in employment services (see Figure 1).

Figure 1: Stream 1 Employment outcomes after three months, year to June 2015 (%)



Note: Not pictured is 21.1% in education and training which overlaps with other categories

However the system does not adequately provide sustainable employment outcomes for the disadvantaged jobseekers, especially those with multiple and complex needs. These employment results are poorest for the most vulnerable demographics: jobseekers unemployed 12 to 24 months; jobseekers from culturally and linguistically diverse backgrounds; sole parents; and job-seeking youth-allowance recipients. Our analysis in Figure 2 below demonstrates that for the year until March 2015, up to 75 per cent of the most disadvantaged jobseekers across these cohorts (those in Streams 3 and 4) were unemployed or had left the labour market altogether after three months.⁸

The results in Figure 2 appear troubling for policymakers. However, the impact of employment services on employment outcomes is difficult to assess without a control group, receiving alternative services, with which to compare. For instance, alternative service delivery systems could trial different service measures, such as case management focused on building long-term relationships with jobseekers and life planning as opposed to short-term activation and punishment for non-compliance. Alternative services delivered to a control group could be delivered by the Department of Employment ('the Department') itself rather than via the market system, to benchmark differences in service delivery approaches. These types of innovations may produce better or more sustainable outcomes for disadvantaged jobseekers. However, the one-track, market-based model utilised in Australia for almost 20 years in various iterations has limited opportunities to experiment with different delivery models, while showing scant signs of improved outcomes for the most disadvantaged job seekers recipients.

⁸ These results do not take into account participation in education and training, which positively contributes to skills and job readiness and is regarded as a positive outcome.

Figure 2: Employment outcomes for disadvantaged cohorts after three months, year to March 2015 (%)



B) Objectives in creating an employment services market have not been met

The Inquiry identified good public services as being high-quality, equitable, efficient as well as accountable and responsive.⁹ The employment services system was established to achieve similar objectives, including the following:¹⁰

- improved service quality;
- greater choice for jobseekers in choosing their service;
- maximum flexibility in how services were organised and delivered;
- a wide range of providers;
- strong incentives for providers to achieve sustainable job outcomes, particularly for disadvantaged jobseekers; and
- achieving better 'value for money', ensuring public funds were 'spent to the best possible effect'.

Overall these objectives have not been met due to the limitations of the system itself. The reality in nearly twenty years of competition and contestability in employment services is that significant structural difficulties have emerged that remain unresolved and are set out below.

- **Difficulty in addressing disadvantage:**¹¹ Despite incentives for providers to tackle the harder cases of unemployment - incentives that have been routinely updated and amended over time - the system still cannot deliver adequate outcomes for the most disadvantaged jobseekers. Instead the system is fundamentally geared towards high-volume, low-margin service practice, focusing largely on assisting the frictionally unemployed. Despite a streamlining of accountability processes and improved incentives for tackling the harder cases, market behaviour has not shifted substantially. As a result, outcomes remain weak for the disadvantaged. As outlined earlier, without an alternative service delivery approach with which to compare, we are not able to say how outcomes may differ with different approaches.
- **Need for prescriptive regulation:**¹² When the system was fully established in 1998, providers were not subject to significant government oversight. It was proposed that competition would ensure that providers operated in the desirable manner. However, a substantial portion of providers focused on the easiest-to-place jobseekers ('creaming') whilst ignoring the more difficult jobseekers or offering them minimal services ('parking') despite earning upfront commencement fees to assist them. As a result, more prescriptive regulation and direct monitoring by government was subsequently imposed to ensure public funds were not misused.
- **Rigidity in service delivery:**¹³ The system was meant to encourage more flexible, creative service delivery by non-government providers. Instead, there is a lack of flexibility for service practitioners to create different policies and programs targeting the more disadvantaged jobseekers. In acting as market steward, the Department has to

⁹ *Human Services: Identifying sectors for reform*, op cit., p6-7.

¹⁰ *Grand Alibis*, op cit., p24.

¹¹ *Grand Alibis*, op cit., p34.

¹² *Grand Alibis*, op cit., p34-35.

¹³ *Grand Alibis*, op cit., p34-35.

perform a difficult balancing act in ensuring probity in the use of public funds by non-government providers (per the above point), whilst also encouraging innovative, flexible and targeted service programs. The result has been a performance review process that focuses on recording inputs and process, stifling innovations by service providers.

- **Shrinking competition and increasingly standardised service:**¹⁴ The system was meant to deliver greater, more genuine competition. In reality the trend is that the larger not-for-profit and for-profit organisations increase their market share in each new contract period, leading to an increasingly narrow and constrained marketplace where there are fewer of the smaller, locally-connected providers. In 1998, there were around 330 providers. This number gradually declined to 66 providers by 2015. The result is a market with increasingly standardised service options with diminishing difference between providers. With no rules around aggregation within the system, the employment services system continues on a path of shrinking competition and diversity.
- **Inability to improve collaboration and integration:**¹⁵ The system is wholly managed as an 'islanded service' by the Department to the exclusion of other government portfolios. As such the system has minimal ability to offer integrated service solutions to stubborn and complex human services challenges. Competition in the employment services market discourages service providers from collaborating, sharing best practice information, or identifying integrated solutions with related human services providers. Successes in integrating service solutions across portfolios has so far been confined to small-scale or low-investment pilots.¹⁶
- **Erosion of public sector capability:**¹⁷ Since the Department became market steward in employment services, the abilities, skills and expertise of the Department of Employment have fundamentally changed. Its capabilities have noticeably narrowed to public tender and contract management. The Department has lost its institutional memory in understanding both the challenges of direct service delivery as well as the community cohorts it seeks serve. The Department no longer has an active, well-resourced and valuable role in designing different service systems.
- **Diminished ability to produce high-quality public policy:**¹⁸ Alternative service design options have been crowded out in favour of a path-dependent reliance on the outsourced service market. The Department cannot respond innovatively to 'on the ground' challenges within the system. As a result, the ability of the Department to develop sound, well-reasoned public policy on employment challenges has been significantly eroded.

Looking to the future, these limitations also mean that the system is likely to be slow in responding to existential shocks to the labour market. For instance, the winding up of the domestic automotive market to occur in 2017 will affect almost 100,000 people employed

¹⁴ *Grand Alibis*, op cit., p36.

¹⁵ *Grand Alibis*, op cit., p36-37.

¹⁶ *Grand Alibis*, op cit., p37.

¹⁷ *Grand Alibis*, op cit., p39-40.

¹⁸ *Grand Alibis*, op cit., p40-41.

across the entire supply auto parts and services supply chain.¹⁹ Whilst the Federal Government and various state governments are allocating money for the employment transition for affected workers, the structural limitations in the system created raises significant questions about its ability to adapt, innovate and deliver sustainable outcomes to a large number of workers accessing its services.

3. Delivering effective human services that meet social requirements is complex. The Inquiry must identify the most suitable reform options without just defaulting to market-based solutions.

Human services is a complex policy area. Service providers must address the multiple and concurrent social needs of service users. If the Inquiry takes a path-dependent approach to reform – looking for ways to develop market-based solutions as a starting point and invariably limiting the role for government to ‘steward’– it risks crowding out other viable alternatives for service design and delivery to the detriment of the human services portfolios.²⁰

It is important to facilitate collaborative and coordinated service delivery in human services due to the complexity of the social needs being met. The most suitable service option may include direct delivery by government, delivery by non-government providers, or a hybrid approach of both provider sets. Indeed, there are compelling policy reasons why government should actively re-consider providing a level of human services directly where it has previously outsourced all responsibility.²¹ Different policy challenges will require government to occupy different parts of the service design-delivery spectrum. But the public role cannot simply be stewarding procurement and contract management within a market-based system.

In the lead up to the Second Stage of the Inquiry, the Productivity Commission should examine how federal departments that deliver human services can be adequately resourced, skilled and incentivised to undertake ‘commissioning’ of human services.²² Genuine commissioning involves developing a suite of viable, innovative alternatives beyond outsourcing. A practical application of commissioning to real-life human services - especially in cases of complex, entrenched disadvantage - requires a clear, consistent and transparent framework for making service design and delivery decisions. It also requires better, more targeted investment in public sector capability in order to ensure government can effectively manage the nexus between service design, delivery and public accountability for results.

¹⁹ John Stanwick, Michelle Circelli and Tham Lu, *The End Of Car Manufacturing In Australia: What Is The Role Of Training?* National Centre for Vocational Education Research and Australian Department of Education and Training, 18 November 2015, p5.

²⁰ *Grand Alibis*, op cit., p41.

²¹ *Grand Alibis*, op cit., p42.

²² *Grand Alibis*, op cit., p43-46, 53-54, 60.