

29 July 2016

Stephen King  
Productivity Commissioner  
Level 12, 530 Collins St  
Melbourne 3000

Dear Commissioner Stephen King

**PRODUCTIVITY COMMISSION INQUIRY INTO INTRODUCING COMPETITION AND INFORMED USER CHOICE INTO HUMAN SERVICES**

The Municipal Association of Victoria (MAV) is the legislated peak body for local government in Victoria, representing all 79 municipalities. Our response to the issues paper addresses concerns with the potential unintended consequences in the human services area of introducing competition and the complexity of informed user choice.

The Association holds the strong view that poorly executed and siloed contestability processes can lead to unintended consequences of:

- Fracturing the 'value-add' that public sector services offer through integration and coordination of responses in a service system which is based on collaboration
- Reducing the sustainability of services and the continuity of service delivery
- Decreasing the sense of community connectedness and social cohesion
- Reduced wages, tenure and conditions for frontline staff who deliver the services
- Discouraging volunteering and philanthropy
- 'Mission drift' from those most in need
- Reducing geographic coverage and accessibility to services
- Limiting services offered

1) Value-add of public sector oversight and collaboration

At a day-to-day, operational level cooperation fuels the planning, coordination and delivery of community services; and it will remain at least as important as competition in the design and delivery of human services into the future. In any extension of competition principles to the community services, measures will need to be adopted to ensure that cooperation remains at the forefront of local service delivery systems and inter-agency relationships.

2) Inability of the market to foster a designed and comprehensive service system

The market analogue in its traditional formulation fails in community services and requires substantial modification to make any sense, or to be capable of being, even partially, realised in practice. At best it will be a quasi-market. The nearest practical approximation to a market in the orthodox sense in community services are managed markets, where the "invisible hand" of



classical economic theory is replaced by the very obvious hand of government aimed at, among other things, directly influencing distributional and service quality outcomes. 'Markets' do not of themselves take or have responsibility to ensure an adequately planned and designed service system to meet the needs of the whole community.

### 3) Service considerations valued by consumers in addition to 'choice'

The extent to which choice is of primary importance to many consumers of community services is arguable: service quality, timeliness, reliability, stability, continuity and cost are likely to be at least equally relevant. Trust in the provider is also frequently cited by community members in their preference to utilise local government services, for example.

While the value of "improving consumer choice" is, at a philosophical level incontestable, the practical achievement of it in an area such as the community services is much more complicated. In the provision of community services, for a range of reasons, the concept of choice will inevitably be circumscribed. These are listed below:

- The notion of choice in human services is often a heavily modified one. From the individual consumer's perspective, where as a result of incapacity, or disadvantage it can consist of choice by proxy (involving for example other members of the family), or what has been described as "mediated choice". This is a constraint on choice that has little to do with a lack of service options, or alternatives. However, another dimension of choice failure in community services is the absence of a repertoire of broadly similar services from which to choose. Historically this is the result of funding, cost and resource efficiency factors. Importantly there is no evidence that this funding brake on consumer choice will change in the short to medium-term.
- The challenges of achieving greater consumer choice in community services, as the UK Experience illustrates, are magnified for disadvantaged groups and for consumers in regional and rural areas. In part this is because the operation of market failure, which undermines the efficacy of competition and market forces in community services generally, is more widespread and difficult to address in these localities and amongst consumers with complex problems. Geographical location and scale, as well as the dimensions and "technology" of the service in question will impact on the attractiveness, or otherwise, of particular community services "markets" to different providers.
- "Informed choice" in the personal and often multi-faceted interventions of community services is difficult to obtain as the field is characterised by high levels of information asymmetry. At an individual agency level, as well as across an aggregated service system, consumers experience significant knowledge deficits. The existence of advocacy and brokerage agencies to neutralise the information disadvantages experienced by community services consumers is reliant upon government funding, which in itself has become increasingly rationed and scarce under constrained budgetary processes
- In any case choice should not be the only, or even lead, policy driver in community services: service quality, the scope for individual agency and participation in decision-making, an integrated and easily negotiable service system, and service models that are locally referenced, that actively address disadvantage and identify changing social needs, as well as build community cohesion and community capacity, are integral to the functioning of an effective community services system.

### 4) Rhetoric of choice used to drive budgetary constraint

In practice contestability is often driven by budgetary objectives as much as those aimed at creating consumer choice and service diversity. Human resources represent the major cost of production in community services and one instrument of cost-cutting, commonly used in

Australia and overseas in the past, is that involving reduction to the working conditions of staff employed to deliver community services programs. This in turn can have a negative impact on the service packages and/or service quality received by consumers:

"The quality of a service is critically dependent on the personal and professional skills of staff and the relationships they develop with users, and thus significantly reducing the number or quality of staff or the time that they spend with clients can fundamentally alter the nature of the service that is provided." Davidson in King & Meagher eds. (2009) p. 48 <sup>1</sup>

Rather than contestability leading to more choice and better tailored services it can, in the worst circumstances, lead to the reverse. The cost imperative, can have attendant consequences for the staffing of human services (where new technology and "innovation" can in some instances lead to higher client-staff ratios).

"Capacity constraints" in community services are endemic rather than episodic, rationing and ever-tighter targeting are characteristics of the field and the constant battle for resources in community services limits service development, experimentation and innovation.

#### 5) Transaction costs of wholesale contracting

The transaction costs associated with the separation of funding, regulation, commissioning and service delivery, as well as with the management of information flows and the coordination and monitoring of a more diverse and changeable service system, Third party regulation and new licensing and commissioning systems will incur considerable administrative costs. Additional claims on the budgets of governments will be required if the interests of vulnerable consumers are to be adequately protected.

#### 6) Public sector in a mixed economy

Government service providers constitute a program delivery alternative, a mixed economy comparator and, where relevant, a best practice exemplar. If choice is to be at the forefront, then consumers should be able to choose government-provided services where desired. Government services can be perceived as more trustworthy, reliable and accountable compared to private-for-profit services. However, there is the danger that government service providers will be primarily allocated the function of providing the "default option" and hence required to carry the onus of an expensive residual role. In contrast other types of service providers, not constrained by the same "default option" obligations, will be free to "cherry-pick" their way through the service system.

The MAV is aware of the role of the Primary Health Networks in commissioning services and the National Disability Insurance Agency in putting choice and control at the heart of disability reform. It is our contention the strengths and challenges of these major public sector investments should be closely examined before further significant changes are contemplated to human services provision.

For further information or clarification please contact Clare Hargreaves, Manager Social Policy [chargreaves@mav.asn.au](mailto:chargreaves@mav.asn.au) on 96675543.

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<sup>1</sup> 1 Bob Davidson, "Contestability in Human Services Markets", *Journal of Australian Political Economy*, No. 68, Summer 2011/12, 213-239.

<sup>2</sup> 2 Bob Davidson, "For-profit organisations in managed markets for human services", in Debra King & Gabrielle Meagher eds., 2009, *Paid Care in Australia: Politics, Profits, Practices*, Sydney University Press, Sydney NSW.

Yours sincerely

A handwritten signature in black ink, consisting of a large, loopy initial 'R' followed by a long, horizontal, slightly wavy line extending to the right.

ROB SPENCE  
Chief Executive Officer