

10 February 2017

Human Services Inquiry
Productivity Commission
Level 12, 530 Collins St
Melbourne 3000

Dear Commissioners

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 goes to the overall terms of reference of the inquiry into introducing competition and informed user choice into human services and focusses on the service system as a key characteristic of the human service architecture and the importance of values as overarching guides to citizen outcomes.

We reiterate our 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) The Human Services Inquiry is taking place against a background of fiscal constraint, deficit management, and structural changes to government budgets and reduced government expenditure and these are likely to have a much more pervasive impact on the quantum and quality of human services provision than any of the competitive initiatives canvassed. The budgetary forces driving contemporary social policy, in addition to the demographic challenges ahead, mean that the search for cost savings is likely to be at least as important to government policy makers as the promotion of greater consumer choice.

- 2) 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 approximates 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.
- 3) Promoting user choice is a centrepiece of the background to the Inquiry and this is a laudable policy goal. While the value of "improving consumer choice" is, at a philosophical level incontestable, the practical achievement of it in an area such as 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.
 - 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 least equally relevant. Trust in the provider is also frequently cited by community members in their preference to utilise local government services, for example.
 - 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) In practice, contestability can be 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 changes 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. 48¹

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 (instances leading to higher client-staff ratios).

- 5) 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 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.
- 6) "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.
- 7) 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.
- 8) 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

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

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.

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.

A key characteristic of human services is missing from the schema in Figure 1 – that of the service system. All services operate within a system that relies on referral, assessment, allocation and provision. Trying to describe the characteristics of human services as users, providers and government stewardship without reference to this system is flawed and will lead to perverse outcomes, particularly for people with complex needs that require both specialised services as well as continual interaction with mainstream health and welfare services.

The service system has been built over many years with constant adjustments and policy shifts to incorporate new political directions as well as funding and other resource allocations. It is a complicated system built on a range of knowledge sources. An example is the 'meal on wheels' service which has been available for over 70 years in Victoria. It has been posited by some economists that privileging consumer choice would allow for more efficient and effective provision as the older person would be able to choose what they want to eat within the funds allocated to them when it suited them. (The suggestion was that consumer choice for daily pizza should be supported)

The choice for consumers in the current meals system is extensive and runs to diversity of cuisines as well as those requiring particular diets. The menus have also been devised over many years to provide nutrition for the older and frail population which would meet daily requirements. The delivery of these meals has a monitoring dimension which checks the wellbeing of the recipient. This is not to say that the current system does not and should not innovate but to indicate that there are many outcomes in the provision of food which may be overlooked or trivialised in the mantra for choice and control.

The definition of the outcomes sought prior to commissioning in whatever form is an exercise which should be approached with the utmost rigour. The values and principles underpinning the service architecture and design should be articulated and the jurisdiction responsible for implementing service commissioning provided adequate time and resourcing to develop capacity and capability.

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 that there will be ample evidence of the strengths and challenges of these approaches over the next couple of years and that the learnings from 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 Jan Black, Policy Adviser,

Yours sincerely

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