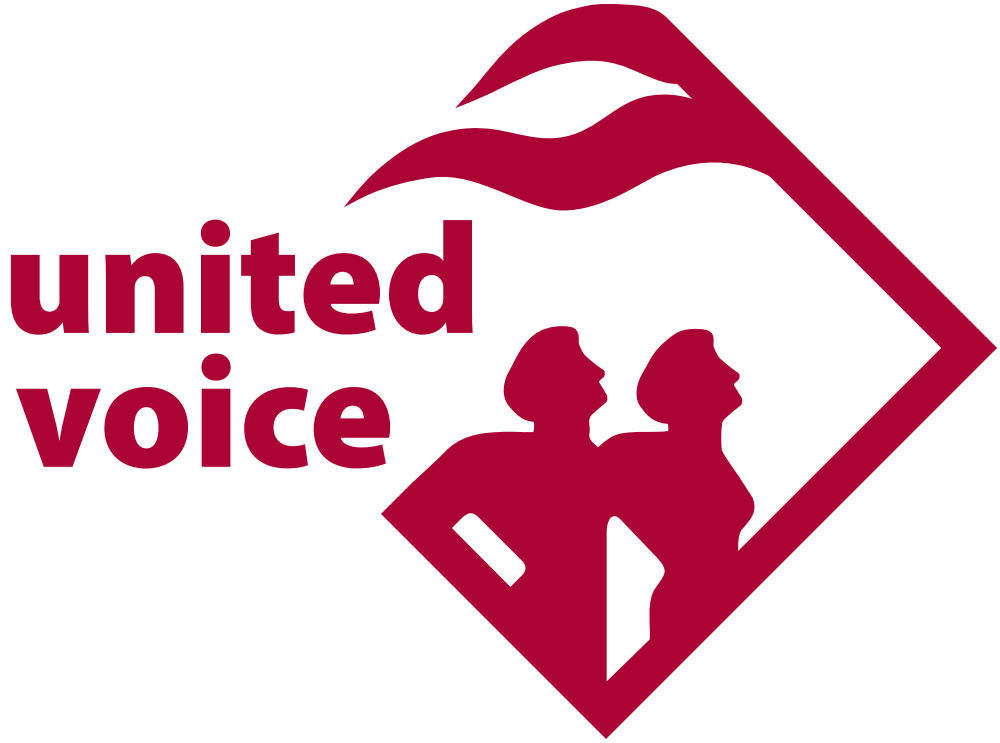


Productivity Commission Human Services Inquiry Submission

About United Voice

United Voice is a union of workers organising to win better jobs, stronger communities, a fairer society and a sustainable future. Members work in a diverse range of industries including education support, aged care, disability support, education and care, cleaning, hospitality, healthcare, security, emergency services and manufacturing.

A large number of United Voice members work in the public sector or in publicly funded sectors. Many United Voice members are in low-paid and under-valued employment, and all rely on government to provide access to quality public services to ensure a fair and equitable society.

For more information on this submission, please contact Dr Frances Flanagan at

Introduction

United Voice welcomes the opportunity to make a submission on behalf of our members to the Productivity Commission inquiry into Human Services.

Our submission considers in particular the Human Service industries where our members work: education (early childhood education and care), health (ambulance and non-clinical hospital workers), prisons, aged and disability care.

United Voice endorses the broader submission made by the Australian Council of Trade Unions (ACTU).

The Commission is seeking participants' views on what constitutes improved human services. Do the concepts of quality, equity, efficiency, responsiveness and accountability cover the most important attributes of human services? If these are the most important attributes, how should they be measured or assessed?

We agree with the Commission's assertion of the importance of quality, equity, efficiency and accountability and responsiveness as key attributes in human services. We would, however, add to this list a fifth attribute: universality. Universality of service provision can be distinguished from the narrower concept of equity. The former contemplates the provision of services to all citizens on a needs-basis, while the latter admits the notion of users accessing the lowest, minimum-standard levels of service markets on a relatively equal footing, correcting for differences in geography, cultural and linguistic background.

While Australia has not historically adopted a pure universalist approach to human services, the limited extent of marketization in health, education and care has been crucial in fostering the high levels of trust and social mobility that exist in our society. Rather than view human services as a cost burden on governments, we contend that they should be understood as a social investment which enlarges the capabilities, and thus productivity, of the Australian population as a whole. Our comparatively successful program of economic liberalisation over the last thirty years has been because, rather than in spite, of the fact that our provision of health, education and care has had a contained role for markets.[1]

1 Deeming, C. and P. Smyth (2015) 'Social Investment after Neoliberalism: Policy Paradigms and Political Platforms', Journal of Social Policy, 44:2, 297-318.

Introduction

We ask that the Commission exercise a high degree of caution in assessing the applicability of microeconomic reform measures to Human Services, and adopt a wider, systems-level view of the economy in its inquiry. Human services provided on the basis of need, we contend, form the cornerstone of a comparatively egalitarian social system that enables other markets to flourish. If such services are marketised further, there is a danger that many of the features of the Australian economy that provide us with a comparative advantage – high levels of trust, good health and education levels, low crime, social mobility – may be jeopardised.

The further marketization of human services is likely to aggravate inequality in our society. Although governments may 'correct' for inequality of access at the lowest levels, markets inherently contemplate a hierarchy of quality of service, which stratifies people into those who can afford 'luxury', 'medium' and 'minimum' levels of education, health, aged and disability care. Such divisions carry unforeseen but profound costs: parents must waste hours of their time driving children across the city to take their children to the school because they are afraid that the local, cheaper school may place their children at a disadvantage later in life. A sense of shame is likely to adhere to decisions to access the bottom standard of care, even if that standard is deemed 'adequate' by external measures.

Marketisation fosters a higher-stakes society, in which all but the most privileged must contend with the daily anxiety that they might suffer a misfortune that could drag their family down to the lowest rungs of education, health and care. Meanwhile, those who can afford top-level service are likely to feel disconnected, defensive and unsympathetic to the predicaments faced by their less fortunate neighbours. The Gonski review process provides an insight into the difficulties and expense of unwinding a system where 'luxury' level provision flows to some sectors of society, while others subsist on service standards that are barely adequate. Restoring a more egalitarian footing is expensive and politically challenging, as those more powerful sections of society with privileged access tend to want to hold on to their relative advantage. We suggest that the long term social costs of creating this level of stratification be taken into account before, rather than after, a correction is necessary.

The notion that productivity in these human services must be 'unlocked' using the same tools of microeconomic reform that have been applied to other sectors assumes that they are, at present, underperforming. Australian public sector organisations in general already perform similarly to private sector organisations; Australia leads the world in its capacity to provide high quality human services in the context of a low-taxing economy.[2] The Commission has, itself, found that in relation to hospitals, efficiency levels in the public and private sector were similar when differences in function were taken into account.[3] We contend that any reform recommendations be premised on specific empirical findings of underperformance and inefficiency on a sector-by-sector basis, rather than on the basis of any assumption that publicly-provided services are inefficient.

2 Stone, C. (2013) False Economies: Bang for our Bucks. Centre for Policy Development. November 2013.
3 Productivity Commission (2009) Performance of Public and Private Hospital Systems. December 2009. Accessible at: http://www.pc.gov.au/inquiries/completed/hospitals/report

The need for a common and transparent framework for assessment

Moving beyond the overarching submission about the value of universality, we would like to submit the following in relation to the assessment and measurement of the other attributes.

For all four attributes, we regard it as essential that a common and transparent framework be applied to the assessment of the existing mechanisms for service provision before and after the introduction of any marketization measures. The history of outsourcing is replete with examples of governments marketising services based on an a priori assumption that marketization will lead to lower costs, greater personalisation of service, flexibility and improved outcomes, while making no empirical assessment of existing circumstances, and then being unable to calibrate the effect of the newly marketised arrangements.

The difficulties of measuring the success of new arrangements are often compounded by the commercial-in-confidence nature of the contracts that are imposed. It has been virtually impossible to assess the impact of privatising prisons in Australia, for instance, by virtue of the patchy, opaque and varied systems of public accountability that have applied to the new regime.[4] Australian government legal services, similarly, have increasingly been supplied by private providers in the last fifteen years, but the data that was collected about the provision of such services before and after outsourcing is highly flawed, based on disparate methodologies and data sets that provide no reliable basis for comparison between the two arrangements.

Even leaving to one side issues of quality, it is impossible to tell whether privatisation has restrained legal costs for the public service or added to them.[5] Similarly, when the government replaced the Commonwealth Employment service with Job Services Australia in 1998 (a group of over 100 for- and non-profit organisations who tender for bids to offer employment services), there was no comparable data gathered before and after the change that would have made it possible to determine its success.[6]

The Productivity Commission's Issues Paper asserts that

> *The benefits of more competitive pressure can include an expansion of options available to users and a reduction in costs for the funders of services (governments and users), that frees up resources to be used elsewhere.*[7]

United Voice, however, suggests that the efficiency of market-based services should not be assumed, but rather empirically assessed against multiple options – including better direct resourcing and updating of existing public services.

4 Andrew, J., M. Baker and P. Roberts (2016) *Prison Privatisation in Australia: The State of the Nation.* The University of Sydney Business School, p. 1.
5 Stone, C. (2013).
6 Stone, C. (2013) .
7 Productivity Commission (2016a) *Human Services: Identifying sectors for reform.* June 2016, p. 8.

Quality

We concur with the Commission's assertion that there is no single agreed measure of quality in any human service.[8] Human services have some fundamental characteristics that distinguish them from goods, and the standard core assumptions of micro-economic theory cannot be applied to them.[9] Rather than attempt to advance highly capacious general measures such as 'the effect that the service has on the user's quality of life', we submit that the Commission look to the specific indicators of quality that have been developed in each sector as a starting point.

The quality of Early Childhood Education and Care services, for example, may be measured against the National Quality Framework.[10] Prisons may be assessed according to the World Health Organisation's 'healthy prison' test, which includes protection from harm; maintenance of prisoners' respect and dignity; provision of basic necessities; participation in programs that prepare inmates for life. Quality in residential Aged Care services should begin with regard to the National Aged Care Quality Indicator Programme.[11]

The qualifications, social standing and skills of the workforce are critical in assessing the quality of human services, and assessments should also take account of qualitative measures of their experience of doing the work, job security, pay, and social status.

What is easy to measure does not necessarily reflect what is most important to measure. Quality in human services will always include intangible dimensions, and we submit that its measurement should not be reduced to easily quantifiable proxies such as service outputs, numbers of staff or user satisfaction metrics.[12] Rather, it is essential to gather qualitative data from the workforce and the users of the service that takes account of subjective experiences and 'follows' them in the long term.

8 Productivity Commission (2016a) p. 7.
9 Davidson, B. (2009) 'For-profit organisations in managed markets for human services' in King, D. and G. Meagher (eds) *Paid Care in Australia: Politics, Profits, Practices,* Sydney University Press, p. 45.
10 Australian Children's Education & Care Quality Authority (ACECQA) (2012) *National Quality Framework.* Accessible at: http://www.acecqa.gov.au/national-quality-framework
11 *National Aged Care Quality Indicator Programme* (2016). MyAgedCare. Accessible at: http://www.myagedcare.gov.au/quality-indicator-programme
12 The latter was promulgated in Productivity Commission (2016) *Digital Disruption: What do governments need to do?* June 2016.

Quality

Qualitative data is crucial because at the heart of human services are relationships, most frequently between a more vulnerable person and a less-vulnerable person. The quality of that relationship, in the context of the care and education sectors in particular, will be deeply related to the extent to which there is continuity, trust and consistency in the relationship, and the extent to which the provider is able to interact with the user in a skilled, attentive, responsive and respectful manner.[13] Relationships in which the carer or educator has the time and capacity to exercise their professional discretion and judgment, and engage in fluid, interpersonal interactions, will tend to be of higher quality. Research undertaken by the Centre for Work and Life at the University of South Australia found that the number one determinant of care quality from the consumer's perspective was positive interpersonal relationships within care provision.[14]

We disagree with the Commission's assertion in its Digital Disruption report that online rating systems may substitute for regulation and occupational licencing.[15] These types of rating systems provide a crude portrait of service provision that has the potential to be highly misleading. There is a selection bias in online reviews, as individuals with (real or imagined) grievances are most likely to post reviews, while those who are content with their experience less likely to do so. The capacity for reviews to be anonymous means that highly prejudicial statements may be made, with no accountability or meaningful right of reply for service providers who are the subject of such critiques. Ratings and comments may be left by relatives or friends of the service user, who may have a perception of the service which is inaccurate. In Human Services, online ratings systems should be apprehended with great caution, and should never substitute for systematic independent analysis and quality oversight.

It should also be acknowledged that the productivity drivers that apply to goods markets will usually undermine the quality of human services. These intangible dimensions of the relationship may appear difficult to measure or even be mistaken for 'inefficiencies', but they are at the core of the relationship.[16] Where such intangible aspects are circumscribed in a misguided effort to improve productivity, or employees work under the constant threat of replacement, a variety of negative consequences arise: quality declines; the 'caring' motivation is stifled; tasks are performed lovelessly, impersonally and to minimum standards.[17]

Marketised relationships contemplated by markets are thin, transactional and easily severed: they are antithetical to the kind of durable, trusting, caring relationships that are the foundation of high quality care. The threat of replacement – the engine of market competition – far from 'keeping providers on their toes', is inimical to quality care, and instead fuels employee detachment, lack of trust, and alienation and waste as staff turnover rises. Marketised arrangments tend to intensify work, putting pressure on employees to provide services to users with complex needs with less resourcing.

13 Engster, D. (2005) *'Rethinking Care Theory: The Practice of Caring and the Obligation to Care'*, Hypatia, 20:3, pp. 50-74.
14 Centre for Work and Life (2014) Client Perceptions of Quality Care in Aged Care Services. September 2014. Accessible at: http://www.qualityjobsqualitycare.com.au/wp-content/uploads/2012/04/2014_QJQC_Perceptions_final.pdf
15 Productivity Commission (2016b) *Digital Disruption: What do governments need to do?* June 2016. P. 63.
16 Scourfield, P. (2007) *'Social Care and the Modern Citizen: Client, Consumer, Service User, Manager and Entrepreneur'*, British Journal of Social Work, 37:1, pp. 107-122; Schmid, H. (2001), *'Nonprofit organisations and for-profit organizations providing home care services for the Israeli frail elderly: A comparative analysis,'* International Journal of Public Administration, 24:11, pp. 1233-1265.
17 King, D. (2007) *'Re-thinking the care-market relationships in care provider organisations'*, Australian Journal of Social Issues, 42:2, 199-212; Folbre, N. and J. Nelson (2000) *'For Love or Money – Or Both?'*, The Journal of Economic Perspectives, 14:4, pp. 123-140.

Equity

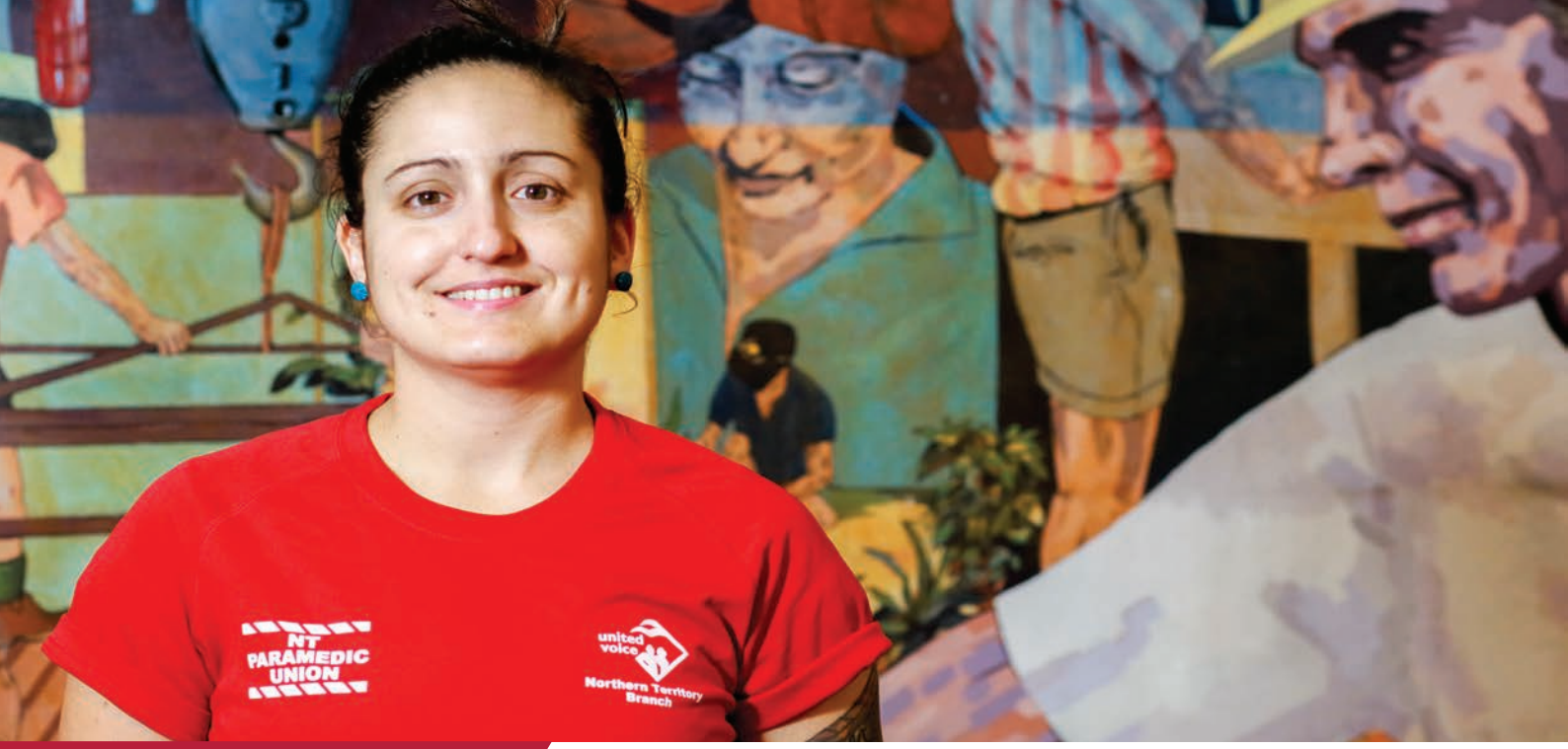
Equity is a pre-eminent value in relation to human services. As we have already argued, the process of marketization inherently reduces equity, as it is predicated on the idea that higher-quality services are available for purchase by users with more resources. Users with greater means and education are advantaged in navigating a market system.[18] Markets incentivise providers to 'cream' the least disadvantaged clients, diverting resources from the neediest.[19] In some circumstances they may also promote under-servicing of users at lower levels, in order to maintain excess demand that can elevate prices and profits.

Assessments of equity should therefore pay close attention to the experiences of people from lower socio-economic backgrounds, with lower educational levels, diminished access to infrastructure and complex needs. Their experiences of accessing care and being responsible for choosing and switching between providers should be at the centre, rather than the periphery, of any assessment of the overall success of increased marketization. Assessments should include qualitative dimensions to capture the intangible aspects that flow from the more individualised logic imposed by marketization: from individual users being cast as responsible for their own care, as opposed to being actors within a broader social system that collectively provides care when it is required. Metrics measuring the impact of marketization on more mainstream users should never be read in isolation.

Over-servicing, as well as under-servicing, should be analysed. The propensity for markets to generate extravagant and excessive levels of service at the top end of markets should be made plain, as should the impact of such disparities on the levels of social mobility, trust and aspiration among the people excluded from them.

A Department of Human Services investigation in 2014 found over-servicing to be occurring at high levels in corporate medical clinics, adding to the burden on Medicare.[20] The Productivity Commission, in its 2015 research paper on Efficiency in Health, cited research that suggested the wastage caused by 'over-testing, over-diagnosis and overtreatment', with over-prescription of pregnancy and knee ultrasounds being examples of the excess perpetrated by private health operators.[21] Research from the US also indicates that there may be actual harm derived from over-servicing in pregnancy ultrasounds, with studies on animals suggesting damage to embryos, as well as evidence that human foetal ultrasounds can produce an overestimation of foetal size w hich can in turn prompt an unnecessary caesarean birth.[22] Over-servicing of wealthy patients indirectly impacts poorer patients' health outcomes, as it diverts scarce resources away from patients who require them.

18 Eika, K. (2009) 'The Challenge of Obtaining Quality Care: Limited Consumer Sovereignty in Human Services', *Feminist Economics*, 15:1, pp. 113-137.
19 Gibelman, M. and Demone, H. (2002) 'The Commercialization of Health and Human Services: Neutral Phenomenon or Cause for Concern?', Families in Society: *The Journal of Contemporary Social Services*, 83:4, pp. 387-397.
20 Scott, S. and A. Branley (2014) 'Primary Health Care investigated again over claims of incentives for GPs to over-service', *ABC News*, 2 December 2014. Accessible at: www.abc.net.au/news/2014-12-01/primary-health-care-investigated-for-potential-over-servicing/5930502
21 Productivity Commission (2015) Efficiency in Health, p. 18. Accessible at: www.pc.gov.au/research/completed/efficiency-health/efficiency-health.pdf
22 Helliker, K. (2015) 'Pregnant Women Get More Ultrasounds, Without Clear Medical Need', *The Wall Street Journal*, 17 July 2015. Accessible at: www.wsj.com/articles/pregnant-women-get-more-ultrasounds-without-clear-medical-need-1437141219



Efficiency

Quality human services have a non-transactional, heterogeneous character which is inimical to efficiency metrics. Efficiency measures should be subservient to measures of quality, equity, accountability and responsiveness in judging the success of marketization in human services. As has been noted, human services are primarily about human relationships between more and less vulnerable people. Their quality is intimately linked to factors that are antithetical to efficiency: the extent to which the provider is able to modulate their interaction with the user in a bespoke fashion; the time available for the provider to build up a sense of trust and mutual understanding with the user; a sense on both sides that the relationship is durable and will continue, free from the spectre of arbitrary termination on short notice.

Measuring relationships by their 'efficiency' is akin to measuring the quality of a piece of music by the speed at which it is played. You could, as the economist Ha-Joon Chang famously proposed, play a minuet at three times the speed, but would that improve it? It is possible to bathe an elderly person at three times the speed, but if it means tearing their skin, will that have improved the situation?

The examples of governments being led by efficiency metrics in assessing market systems are legion. It can lead to unacceptable outcomes that are an affront to the dignity of users and employees. One example among hundreds may be found in Sweden, where staff were told to weigh incontinence pants and allow them to reach a certain volume before changing them.[23]

Similarly, there are many examples of apparent efficiency 'savings' being delivered at the expense of workers' pay and conditions.[24] Widespread use of zero-hour contracts with no guaranteed income, reliance on migrant workers as a source of compliant labour and downward pressure on wages and conditions exemplify the ways in which the workforce 'pays' for any 'savings' made in care services.

Where price-based competition was been enacted in UK ambulance services under the Conservative Cameron government, NHS-owned providers were forced to compete against inexperienced private operators in the tendering process for non-emergency patient transfer services (NEPT). Given that public service employees had better workplace conditions, NHS ambulance services faced a disadvantage in terms of their wage bill when bidding against private operators. In Sussex, the private firm Coperforma who received the contract proved highly unreliable, and left hundreds of patients with cancer and kidney failure stranded.[25] The extent of the scandals to have beset the private operation of NEPT in the UK has led to some contracts being handed back to local NHS-operated ambulance services.

21 Productivity Commission (2015) Efficiency in Health, p. 18. Accessible at: www.pc.gov.au/research/completed/efficiency-health/efficiency-health.pdf
22 Helliker, K. (2015) *'Pregnant Women Get More Ultrasounds, Without Clear Medical Need'*, The Wall Street Journal, 17 July 2015. Accessible at: www.wsj.com/articles/pregnant-women-get-more-ultrasounds-without-clear-medical-need-1437141219
23 Anell, A. (2005) *'Swedish Healthcare under pressure'*, Health Economics, 14 (Suppl. 1), S241.
24 Shutes, I. and C. Chiatti (2012) *'Migrant labour and the marketization of care for older people: the employment of migrant care workers by families and service providers'*, Journal of European Social Policy, 22:4, pp. 392-405.
25 Campbell, D. (2016) *'Ambulance privatisation descends into "total shambles"*, The Guardian, 13 April 2016. Accessible at: www.theguardian.com/society/2016/apr/12/patients-wait-hours-for-ambulances-nhs-transport-service-privatised-sussex
26 Yarwood, S. (2015) *'Bus firm Arriva misses out on £66m patient transport contract as it is handed back to ambulance service'*, Manchester Evening News, 15 December 2015. Accessible at: www.manchestereveningnews.co.uk/news/health/arriva-ambulance-patient-transport-contract-10602092

'Efficiency' should thus not be measured purely in terms of technical and allocative efficiency in relation to particular providers, but rather in terms of society as a whole.

To be most useful, efficiency measures should:

- Recognise the purpose of the service in a broad, rather than narrow way. ECEC, for instance, is concerned with enabling every child to develop and realise their human capabilities, it is not just about minding children to enable their parents to work. If the purpose of the service is mistakenly framed solely as the latter, then it would be possible to credibly claim that an iPad or television could perform the service of an early childhood educator more 'efficiently'.

- Measure long, rather than short-term outcomes. Within the Job Services Australia system, job placement outcomes were only measured on a time scale of three to six months following commencement of a role, which did not enable policy makers to gauge long-term success.[27]

- Control for price fluctuations taking place in the economy regardless of the change in service provision arrangements.

- Be constructed in a manner that is cognisant of the incentives introduced by marketization for service providers to 'game the numbers' in order to meet targets on the part of providers, such as switching users with complex needs from one category of service to another (long-term unemployed people being re-classified as disabled, for instance, in order to improve jobseeker metrics).

- Take account of the costs that are incurred from the duplication of management and the complex communication and co-ordination arrangements which must be made when services are un-bundled into constituent parts.

- Take into account the time, skills, effort and risk that are shifted to users when they are required to search, compare and retain different service providers, including the work involved in terminating arrangements and re-searching when things go wrong.

- Take into account the potential liability of governments to corporations for lost profits in certain legal circumstances (including the obligations imposed by international free trade agreements).

- Take into account the costs associated with the loss of transparency and oversight when services are provided under commercial contract arrangements rather than through direct engagement.

- Take into account the costs associated with the increased risk of providers engaging in speculative investment, mergers and takeovers, with the potential for collapse in care service provision.[28] This includes the costs involved in buying back service providers in the event of bankruptcy or major market failure.

- Take into account the cost of lost career security and job skills for workforces engaged on casual basis.

- Take into account the cost of socially useless activities performed by profit-seeking companies such as advertising and maintaining more capacity than required in order to 'catch' new users, as well as socially destructive activities, such as artificially creating luxury service products to generate profits from wealthy customers, and shifting costs and risks to users so as to minimise costs (e.g. understaffing phone lines).

- Take into account the cost of litigation that may be required to ensure corporations remedy breaches of contracts.

- Take into account the cost of offering citizens economic incentives to take up private services, the sum of which may end up being greater than the cost of having directly provided services in the first place.[29]

- Take into account the reduced ability of the government to effectively monitor and enforce the contract as skills and knowledge are lost internally.

27 Stone, C. (2013), p.11.
28 Scourfield, P. (2007); Salaman, L. (1999) 'The nonprofit sector at a crossroads: The case of America', *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 10:1, pp. 5-23.
29 Pearson, M. and J. Martin (2005, p. 31) in Meagher, G. and N. Cortis (2009) 'The political economy of for-profit paid care: theory and evidence', in D. King and G. Meagher, *Paid Care in Australia: Politics, Profits, Practices,* p. 21.

Accountability and responsiveness

Accountability and responsiveness should be measured in terms of their 'internal' and 'external' dimensions. 'Internal' accountability concerns the mechanisms that make the contractor responsible to the government, while 'external' accountability concerns the ways in which the public are aware of the nature and performance of contacts with private providers. The latter is necessary for democratic accountability. The citizens who have furnished the resources for human services should be able to hold to account those responsible for undertaking them.

There are many instances where private contractors have been subject to financial penalties for inadequate performance ('internal' accountability), yet the public has been unable to discern how such accountability mechanisms operate. Such situations readily lead to a collapse in public trust, as they did in relation to Serco's performance of property services at Fiona Stanley hospital in Western Australia.[30]

Assessment of the accountability and responsiveness dimensions of marketised human service relationships is essential. Responsibility for ensuring they are in place, though, rests overwhelmingly with governments rather than with private contractors. Governments alone are placed to ensure that comprehensive and systematic accountability and responsiveness measures are built in before, and after, marketization. These measures should not be left to ad hoc academic and government enquiries.

> The Commission is seeking feedback on whether the factors presented in figure 2 reflect those that should be considered when identifying human services best suited to the increased application of competition, contestability and informed user choice

We re-iterate our submission that human services should be viewed through the conceptual lens of human investment, rather than as costs to government, and as such we contest the assumption that increased marketization is the most appropriate means to improve human services.

30 O'Connor, A. (2015a) 'Serco's Fiona Stanley Hospital sterilisation contract terminated after failures', *ABC News*, 20 April 2015. Accessible at: www.abc.net.au/news/2015-04-20/serco-hospital-sterilisation-contract-cancelled/6406106

In relation to the factors presented in figure 2, we would submit the following additions/ modifications:

User characteristics:

- Whether the sector is one where consumer sovereignty is inherently limited

The notion of 'consumer sovereignty' goes beyond the willingness and capacity of individual users to exercise informed choice; it signals the fact that in certain sectors, the nature of the service itself constrains the extent to which consumer choices can be made. For instance, in relation to care services, it is the service itself, rather than the user, that fundamentally limits the applicability of 'choice' as a tool of empowerment (although user characteristics may limit the usefulness of the 'choice' paradigm even further).

Research demonstrates that, in practice, consumers find it difficult to make accurate judgments about the quality of care.[31] Care recipients can only access imperfect information about the service they will receive, because it is sui generis to their circumstances and occurs over extended periods of time that cannot be known at the time of choosing.[32] Frail people at the end of their lives who are choosing providers in stressful circumstances with very high switching costs are not in a position to test and exit the market in any meaningful way. Quality is difficult to monitor.[33]

Nature of transactions:

- Whether service quality is linked to the continuity of the relationship between user and provider
- Whether the quality of the service is closely linked to the working conditions and qualifications of the workforce
- Whether decisions about purchasing are made infrequently, at short notice and under pressure
-

In each case, we submit that services that fit these criteria are unsuitable for marketization. Areas where the quality of the service is closely linked to the quality of the working conditions (such as ECEC, aged and disability care) are likely to be eroded by competition between providers over the price of wages. In these cases, the very mechanism alleged to promise empowerment – switching – corrodes the foundations of the service itself.

Costs to users:

- Search and switching costs
- Adapting to new arrangements
- Impact on the quality of service provision as a result of switching providers

Government stewardship:

- Oversight of provision and consumer protection and equity of access
- Costs of transparency and accountability measures

31 Logan, H., F. Press and J. Sumison (2016) 'The shaping of Australian early childhood education and care: What can we learn from a critical juncture?', *Australasian Journal of Early Childhood*, 41:1, p. 64-71; Morris, J. and S. Helburn (2000) 'Child care centre quality differences: The role of profit status, client preferences, and trust', *Nonprofit and Voluntary Sector Quarterly,* 29:3, pp. 377-399; Vincent, C. and S. Ball (2006) *Childcare, Choice and Class Practices: Middle-Class Parents and Their Children,* Routledge, London and New York.
32 Folbre, N. and J. Nelson (2000)
33 Folbre, N. and J. Nelson (2000)

The Commission is seeking participants' views on which human services have the greatest scope for improved outcomes from the increased application of competition, contestability and user choice. Where possible, this should be supported by evidence from performance indicators and other information to show the extent to which:

- current and expected future outcomes — measured in terms of service quality, efficiency, equity, accountability and responsiveness — are below best practice
- competition, contestability and user choice do not exist under current policy settings, or are not as effective as they could be in meeting the goals of quality, equity, efficiency, accountability and responsiveness.

The Commission welcomes participants' views on how best to improve performance data and information in the human services sector.

Our members' industries are all managed markets already, and we submit they are not well suited to the application of further marketization. The following table sets out some key reasons why:

Human Service	User characteristics	Nature of transaction	Supply characteristics	Costs to users	Government Stewardship
Health (ambulance)	Limited consumer sovereignty. Comparative information unhelpful	Emergency, one-off service/ Quality of workforce highly significant in quality of service. Competition for contracts puts downward pressure on wages, which jeopardise service outcomes.	Remote locations more expensive to service, 'creaming' incentives are high	Emergency nature of service makes switching unfeasible	States have struggled to oversee outsourced operations and maintain quality in privatised and partially-privatised ambulance services. Unbundling of emergency, urgent and non-emergency patient transport and back-room functions (such as dispatching) has led to loss of institutional knowledge, de-skilling, increased costs and patient deaths.[34]
Health (non-clinical hospital services)	Limited consumer sovereignty (once a hospital is chosen, there is no choice about the provider of cleaning etc)	Quality of workforce highly significant in quality of service. Competition for contracts puts downward pressure on wages, resulting in poor service outcomes.	Unbundling of clinical and non-clinical services increases management/ co-ordination complexity		Government oversight was inadequate to prevent critical failures in Serco's provision of sterilisation, portering, logistics and IT under their $4bn contract with Fiona Stanley Hospital, which contributed to a patient's death.[35] A $1m penalty abatement payment was insufficient as a mechanism to improve quality, and the hospital ultimately took back control of sterilisation in 2015.[36]
Education (ECEC)	Limited consumer sovereignty. Exit/ switching costs high.	Quality is highly dependent on continuity of relationship and workforce quality	Remote services are expensive to operate and are not viable without direct and additional subsidies; 'boutique' high-end providers are eligible for the same proportion of government rebate	Exit/switching costs high. Further, parents are often reluctant to uproot their child from the centre they are used to, even if a lower cost place becomes available in an alternative centre.[37]	A major provider, ABC Learning, engaged in speculative financial behaviour, leading to sector-wide vulnerability.[38]

Continued over

34 See, for example: Lasry, L. QC (2001) *Metropolitan Ambulance Service Royal Commission.* Parliamentary paper (Victoria Parliament) 1999-2002, no. 72; Government of Western Australia, Department of Health, Office of the Chief Psychiatrist (2015) *Chief Psychiatrist's Review: St John Ambulance Paramedic and Volunteer Suspected Suicides.* November 2015;
35 Piesse, E. (2015) 'Fiona Stanley inquiry: Hospital staff errors contributed to Perth man's death, father says', *ABC News,* 24 June 2015. Accessible at: www.abc.net.au/news/2015-06-24/fiona-stanley-hospital-staff-error-contributed-to-patient-death/6569972
36 O'Connor, A. (2015b) 'Serco ordered to pay $1 million in penalties over failure of Fiona Stanley Hospital contracts', *ABC News,* 10 June 2015. Accessible at: www.abc.net.au/news/2015-06-10/serco-ordered-to-pay-1-million-in-penalties/6536150;O'Connor, A. (2015a)
37 Brennan, D., B. Cass, S. Himmelweit and M. Szebehely (2012) 'The marketization of care: Rationales and consequences in Nordic and liberal care regimes', *Journal of European Social Policy,* 22:4, 377-391.
38 Brennan, D. and M. Oloman (2009) 'Child Care in Australia: A market failure and spectacular public policy disaster', *Our Schools/ Our Selves.* Accessible at: www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2009/04/Child%20Care%20in%20Australia.pdf

Human Service	User characteristics	Nature of transaction	Supply characteristics	Costs to users	Government Stewardship
Prisons	No consumer sovereignty	Quality of workforce highly significant in quality of service. Competition for contracts puts downward pressure on wages, resulting in poor service outcomes. Recidivism is incentivised.	For-profit providers have no incentive to rehabilitate prisoners		Opaque contracting and reporting make government stewardship vastly more difficult than when services are provided by public prisons. Governments have not been able to address chronic problems with overcrowding and understaffing in private prisons such as Fulham (Vic).
Aged Care	Limited consumer sovereignty in some instances. Exit costs may be high, depending on complexity of need.	Quality is highly dependent on continuity of relationship and workforce quality. Decisions often short notice, infrequent, under pressure.	Economies of scale very important, as low-needs and urban care presently cross-subsidises high-needs and remote care	High switching and adaptation costs	The UK government has been unable to exercise adequate stewardship of marketised arrangements in aged care through its Care Quality Commission, which found major failings in the quality of care, In 2010, it abolished its star-rating system in favour of consumer-generated 'Trip Advisor' ratings, only to re-introduce star ratings four years later.
Disability Services	Limited consumer sovereignty in some instances. Exit costs may be high, particularly for people with complex needs.	Quality is highly dependent on continuity of relationship and workforce quality	Economies of scale very important, as low-needs and urban care presently cross-subsidises high-needs and remote care		

In our view, it is not credible to assume that application of further marketization to these sectors will improve equity, quality, efficiency or transparency.

Enhancements in these domains should instead be pursued through:

- increased public investment to enable public, community and non-profit providers to pay professional wages
- increased investment in the workforce, in terms of wages, training and accreditation
- increased funding to standards agencies, and powers to evaluate and enforce quality standards, particularly in the context of industries on the front line for digital disruption.

In the case of ambulance and hospitals, we submit that the Productivity Commission explore the feasibility of returning these services to public hands.

We submit there should be higher levels of scrutiny, intervention in the market and accountability in aged and disability care, private prisons, and ECEC.

Participants are invited to submit case studies of where policy settings have applied the principles of competition, contestability and user choice to the provision of a specific human service. Such case studies could describe an existing example or past policy trial in Australia or overseas. Participants should include information on the:

- pathway taken to achieve the reform
- effectiveness of the policy in achieving best-practice outcomes for quality, equity, efficiency, responsiveness and accountability
- applicability of the case study to the provision of human services in Australia if it is an overseas example.

39 Victorian Ombudsman (2014) *Why it is important to have independent oversight of the Victorian prison system.* Accessible at: www.ombudsman.vic.gov.au/getattachment/a2be77e9-6f00-44be-8546-73c8905b5cb2/publications/presentations/why-we-need-independent-oversight-of-the-victorian.aspx; Victorian Auditor-General (2012) Prison Capacity Planning. Accessible at: www.audit.vic.gov.au/publications/20121128-prisons/20121128-prisons.pdf

40 www.cqc.org.uk/content/care-quality-commission-publishes-its-fifth-annual-report-state-health-and-care-services

Case study: Early Childhood Education and Care (ECEC)

The rapid expansion of ECEC services in the last thirty years has been underwritten by a shift from the community sector to a system of mixed provision, with significant service provision to the for-profit sector. We believe that the trajectory of expansion in ECEC in Australia is a salutary one, which illustrates some of the hazards of rapid and uncontrolled marketization of human service and the centrality of collective investment in quality standards and workforce professionalisation as central drivers of sustainable improvement in human services.

1. Pathway taken to achieve the reform

Up until the 1970s, childcare was essentially a voluntary service delivered predominantly by non-profit entities. The Federal Child Care Act 1972 was a response to women's increased presence in the workforce and the conception of childcare as a feminist issue, and allocated $6.5 million in its first year to non-profit organisations to deliver centre-based day care for 'children of working and sick parents.'[41] A community child care movement emerged, which offered care that was federally funded, community-controlled and regulated at the State-level. The community-based model facilitated the employment of educators with skills and training, while private operators' reliance on fees from parents for revenue meant that they generally employed less qualified staff whom they paid less in order to maximise profit.[42]

The 1980s were characterised by severe shortages and patchy distribution of government-funded childcare places in community-based organisations, which created inequity in families' capacity to access affordable, quality education and care for their children.[43] The route chosen to address inadequate access was the private sector.

In 1991, landmark reforms under the Hawke government offered government subsidies to private for-profit operators. No caps were placed on the number of centres that private operators could set up nor on the subsidies they could claim. Community providers continued to receive additional operational subsidies insofar as they catered to specific sections of the population unlikely to be serviced by the for-profit sector, such as non-English speaking families and children with disabilities.[44]

41 McIntosh, G. and J. Phillips (2002) *Commonwealth Support for Childcare: Historical Overview of Commonwealth Support/Policy,* Parliament of Australia. Accessible at: www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/childcaresupport
42 Logan, H., F. Press and J. Sumison (2016) 'The shaping of Australian early childhood education and care: What can we learn from a critical juncture?', *Australasian Journal of Early Childhood,* 41:1, p. 67.
43 Logan, H., F. Press and J. Sumison (2016), p. 67.
44 Brennan, D. and M. Oloman (2009) p. 119.

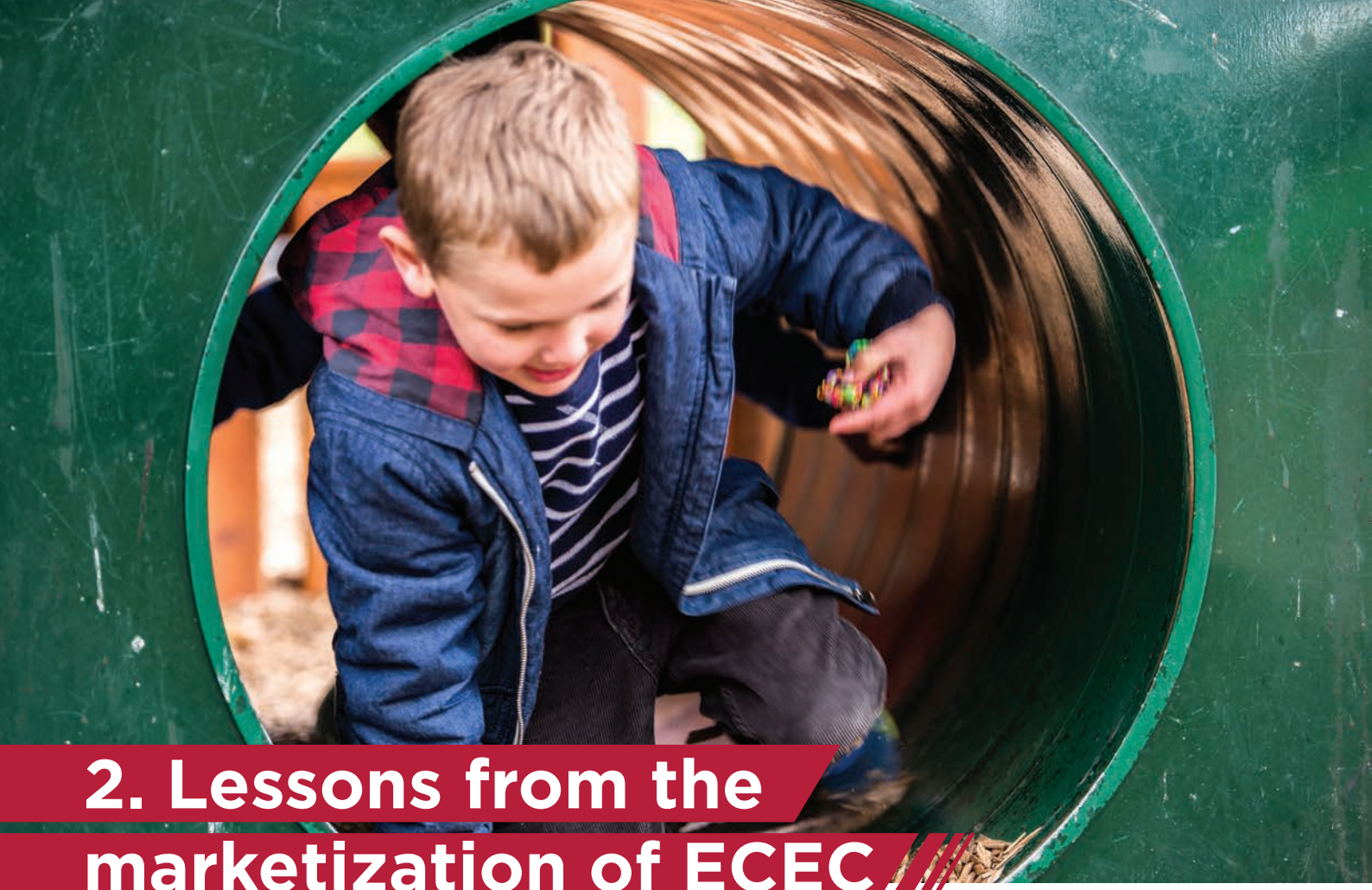
The Howard government implemented a series of changes that would further accelerate the expansion of the private sector. Operational subsidies for non-profit operators were abolished in the 1996-97 Budget, and in 2000, a Child Care Benefit (CCB) payable directly to centres, was introduced. While the overall volume of service increased, there remained significant gaps in provision in some areas. Less-profitable places dedicated to babies reduced, and wages and conditions for the workforce stagnated.

The for-profit corporation, ABC Learning, was listed on the ASX in 2001, shortly after the introduction of the CCB windfall for operators. ABC Learning's business model was predicated on the speculative and highly-leveraged acquisition of existing centres. Its rise was frenetic: from 43 centres in 2001, it grew to 660 centres in 2005 and 1,084 centres in 2007 (Australian figures); at the same time it expanded to New Zealand, the US and the UK.[45] By 2006, at its peak, ABC operated 25% of all childcare services in Australia.[46] ABC's acquisitions had been financed by high levels of debt. It overpaid for centres and licences, overvalued assets, engaged in labyrinthine accounting and auditing practices, and awarded lucrative contracts to family members of executive staff.[47] ABC also placed downward pressure on the regulation of the sector, pursuing extensive lobbying and waging expensive litigation against paltry fines issued for alleged breaches to the Children's Services Act in order to avoid liability over incidents in its centres.[48]

In 2007 the company nosedived, unable to service its $1.8 billion debt. Just before its collapse the company released a statement for the year ending 30 June 2008 which revealed losses in excess of any profits ever made by the company.[49] ABC went into receivership in November 2008 and was delisted. At that time, it was responsible for the education and care of 120,000 Australian children and for the employment of 16,000 educators.[50] The Federal government intervened to prevent immediate closures of most ABC centres at a cost of $22 million, followed by a further sum of $34 million to keep unviable centres open in 2009.[51] The government also had to cover up to $70 million in worker entitlements.[52] ABC learning centres were later sold to a non-profit consortium, Goodstart, in late 2009, with the help of a $15 million loan from the Australian government.

The upheaval caused by the collapse of ABC Learning has reverberated in the sector for almost a decade. ABC Learning's collapse was a failure of both regulatory and accounting processes. Handing over such a significant proportion of ECEC provision to the private sector created substantial vulnerabilities that have hindered improvements to service delivery by successive governments since. Policy settings designed to foster rapid expansion and marketization led to higher overall risks, drove down standards and investment, caused fees to balloon, imperiled children's education and care, and cost the taxpayer unknown amounts. Today, the government still plays a significant and arguably larger, role, paying the lion's share of the costs which have grew under this model, with no capacity to curb price increases and to control the mix of service types.

45 ABC Learning Centres Limited (2007) *Annual Report 2007,* p. 7.
46 Brennan, D. (2007) 'Babies, Budgets and Birthrates: Work/Family Policy in Australia 1996-2006', *Social Politics,* vol. 14, no. 1, pp. 31-57.
47 Kruger, C. (2009) 'Lessons to be learnt from ABC Learning's collapse', *The Sydney Morning Herald,* 2 January 2009. Accessible at: www.smh.com.au/business/lessons-to-be-learnt-from-abc-learnings-collapse-20090101-78f8.html; Brennan, D. and M. Oloman (2009); Kruger, C. (2008) 'How the numbers stacked up in ABC's labyrinthine structure', *The Sydney Morning Herald,* 6 September 2008, Accessible at: www.smh.com.au/business/how-the-numbers-stacked-up-in-abcs-labyrinthine-structure-20080905-4an2.html; 'Shareholder Questions Tender ABC Learning Process', *Courier Mail,* 29 November 2007.
48 'The toddler who escaped from the child-care centre' (transcript), *Law Report,* 9 May 2006. Accessible at: www.abc.net.au/radionational/programs/lawreport/the-toddler-who-escaped-from-the-child-care-centre/3333798
49 Kruger, C. (2009).
50 Brennan, D. and M. Oloman (2009) p. 117.
51 The Senate Standing Committee on Education, Employment & Workplace Relations (2009) *Provision of childcare.* 23 November 2009. Accessible at: www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_Employment_and_Workplace_Relations/Completed_inquiries/2008-10/child_care/report/index
52 Gillard, J. (2009) 'Media Release: Government seeks additional $70 million for redundant workers.' Employment Minister's Media Centre. 15 March 2009. Accessible at: https://ministers.employment.gov.au/gillard/government-seeks-additional-70-million-redundant-workers



2. Lessons from the marketization of ECEC

(a) Quality

There is no question that levels of quality in ECEC have increased in recent years, but few in the sector would suggest that improvements have been as a result of marketization. The National Quality Framework (NQF) and its associated programs such as the Early Years Learning Framework (EYLF) were devised in collaboration between government and not-for-profit organisations, community advocates, with United Voice (then LHMU) playing a driving significant role.[53] Consumer choice has not functioned as a meaningful mechanism for improving quality for a several reasons. An undersupply of services in metropolitan areas, combined with the disruptive effects of moving providers on childrens' relationships with their educators, means that there are strong incentives to families to stick with existing arrangements rather than switch providers.[54] High barriers to entry in metropolitan areas where land costs can be prohibitive to small single-service operators, mean that choices, in any event, are often reduced to one of the corporates which have the capacity to pay the rent in properties in expensive areas within 10km of CBDs.[55] In summary, quality in ECEC has occurred despite, not because of marketised arrangements.

(b) Equity

This sector continues to be beset by the mismatch between supply and demand for childcare services, with gluts in regional areas coexisting with lack of supply in rural areas and years-long waiting lists in metropolitan zones.[56] For-profit private operators run centres in areas in which they can secure high occupancy rates and high fees, resulting in the need for the government to provide additional subsidies such as the Budget Based Funded Programme (BBF) to fund remote and mobile services.

Operators are under no obligation to service the needs of the community and will frequently opt to deliver the most profitable services, which in light of lower staff-to-child ratios in younger age groups, means that families often struggle to secure a place for children under 2. Smaller providers typically cannot engage in the cross-subsidisation that large providers can.[57]

53 Logan, H., F. Press and J. Sumison (2016), p.68.
54 Productivity Commission (2014) 'Chapter 9: The Market for ECEC Services', *Childcare and Early Childhood Learning*. Productivity Commission Inquiry Report v. 2. 73:31, October 2014, p. 349; Logan, H., F. Press and J. Sumison (2016).
55 Productivity Commission (2014) '10.4: Geographic characteristics of access issues', *Childcare and Early Childhood Learning,* pp. 416-426.
56 Productivity Commission (2014) 'Chapter 10: Accessibility and flexibility', *Childcare and Early Childhood Learning*. Productivity Commission Inquiry Report v. 2. 73:31, October 2014, pp. 401-447; Logan, H., F. Press and J. Sumison (2016); Harris, N. (2008) ' Women's reflections on choosing quality long day care in a regional community', *Australian Journal of Early Childhood*, 33:3, pp. 42-49.
57 Productivity Commission (2014) pp. 347

(c) Efficiency

The modality of government funding childcare subsidies through the CCB and the CCR have frequently been the subject of criticism for the incentive they provide to operators increasing their daily fees at rates many times in excess of CPI. For example, in 2008, when the Australian government announced that it would lift the CCR from 30% to 50%, ABC responded by lifting fees by $12/day – ten times the typical increase.[58] Even now, G8's share price fluctuates in response to the Federal government and the Opposition making announcements about increasing or delaying childcare subsidies.

(d) Responsiveness and accountability in ECEC

There is no evidence to suggest that the marketization of ECEC has been the catalyst for improvements in responsiveness and accountability in ECEC in Australia. Rather, the NQF, created in 2012 under pressure from civic bodies, has extended the accountability of individual services through the National Quality Standards (NQS).

While it is now possible for families to gauge the quality levels of most providers by consulting the regulatory authority's (ACECQA) ratings, the financial status and corporate ownership structures of providers are not within ACECQA's purview. It is consequently not possible for families to decisively know whether any particular provider is substantively owned by a family operator, an ASX-listed company, or a private equity firm, since several of the major corporate players operate a 'multi-brand strategy', retaining the original names and profiles of the centres they acquire rather than branding them as part of a single corporate entity.

Marketisation was not the only option for increasing service provision in ECEC, and alternative approaches remain for enlarging capacity, access and quality. Australia could undertake supply-side investment, which would give government greater capacity to control the mix of service types in different locations. Such a system could function in a mixed-market one such as we have in Australia. For example, in Norway, which is also mixed-market, for-profit centres are regulated by the government to ensure they are not making excessive profits, and funding is determined on a dollar amount per place rather than as a proportion of fees charged, which has the effect of limiting fee increases. Australia could also develop a planning system to manage the number of places, whereas currently the government has no capacity to create new places or to limit them where there is a glut. Such investment would not only allow greater control over equity, it would also facilitate short, medium and long-term economic benefit by increasing labour market accessibility for parents. Quality could be directly enhanced through increases in the ECEC workforce's pay and conditions to world-class standard.

58 Walsh, L. 'ABC Learning warned fee hike could backfire', *Herald Sun,* 10 December 2009. Accessible at: www.heraldsun.com.au/news/abc-learning-centres-was-warned-fee-hike-could-backfire/story-e6frf7jo-1225809215228

Conclusion: the need for a cautious approach

In designing social policy in Australia, we have been fortunate in being able to observe social formations elsewhere in the world and learn from them. In the late 19th century, we watched the fierce ideological clashes of Europe that followed the industrial revolution, and crafted a system for labour and capital that was comparatively harmonious and egalitarian. There are similar opportunities to learn from other national experiences with marketization in human services today.

The most emphatic evocation of the impact of marketization, at the macro-scale, is perhaps the Mirror Mirror study, a major comparative analysis of the health care systems of 11 industrialised nations, Australia, Canada, France, Germany, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK and the US. It found that the system that is the most comprehensively marketised, the US, is also the system that is the most expensive and the worst in terms of access, efficiency, and equity.

The system that is the most universal in its provision, the UK's, ranks first in terms of quality, access and efficiency.[59] On a more micro scale, Australia's experience with marketization in ECEC provides a local illustration of the profound limitations of marketization as a tool for enhancing quality, efficiency, equity and transparency, and the immense difficulties governments face in winding marketization measures back. We urge the Commission to take a long-term, system-wide and cautious approach in these matters, and recognise that human services play a particular role in fostering trust, equality and social mobility in Australia; essential ingredients for a productive and resilient society.

59 Davis et al, *Mirror, Mirror on the Wall: How the Performance of the US Health Care System Compares Internationally* (2014 update), The Commonwealth Fund, www.commonwealthfund.org/~/media/files/publications/fund-report/2014/jun/1755_davis_mirror_mirror_2014.pdf