Submission to the Productivity Commission *Inquiry into Introducing Competition and Informed User Choice into Human Services*

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Jesuit
Social Services
Building a Just Society

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Who we are

For nearly 40 years, Jesuit Social Services has worked to build a just society by advocating for social change and promoting the health and wellbeing of disadvantaged young people, families and the community.

Jesuit Social Services works where the need is greatest and where it has the capacity, experience and skills to make the most difference. Jesuit Social Services values all persons and seeks to engage with them in a respectful way, that acknowledges their experiences and skills and gives them the opportunity to harness their full potential.

We do this by working directly to address disadvantage and by influencing hearts and minds for social change. We strengthen and build respectful, constructive relationships for:

- **Effective services** – by partnering with people most in need and those who support them to address disadvantage
- **Education** – by providing access to life-long learning and development
- **Capacity building** – by refining and evaluating our practice and sharing and partnering for greater impact
- **Advocacy** – by building awareness of injustice and advocating for social change based on grounded experience and research
- **Leadership development** – by partnering across sectors to build expertise and commitment for justice.

The promotion of **education, lifelong learning and capacity building** is fundamental to all our activity. We believe this is the most effective means of helping people to reach their potential and exercise their full citizenship. This, in turn, strengthens the broader community.

Our service delivery and advocacy focuses on the following key areas:

- **Justice and crime prevention** – people involved with the justice system
- **Mental health and wellbeing** – people with multiple and complex needs and those affected by suicide, trauma and complex bereavement
- **Settlement and community building** – recently arrived immigrants and refugees and disadvantaged communities
- **Education, training and employment** – people with barriers to sustainable employment.

Our direct services and volunteer programs are located in Victoria, New South Wales and Northern Territory. In Victoria we work with people in the justice system through our Brosnan Services supporting people exiting prison and youth justice facilities. This includes the Corrections Victoria Reintegration Program in North and West Metropolitan Melbourne (Reconnect), the African Australian Community Transition (AACT) Program, Next Steps and Perry House residential programs, the Youth Justice Community Support Service and Group Conferencing.

We also provide a range of other programs in areas such as mental health and complex needs, housing, supporting migrants and refugees through settlement services, as well as providing education and training programs through Jesuit Community College.

In NSW we work with newly arrived migrants, and in Western Sydney we deliver social enterprise and other community building initiatives that provide affordable food, training and employment opportunities. In the Northern Territory we work with Aboriginal communities providing capacity building activities.

Introduction

Jesuit Social Services welcomes the opportunity to comment on the Productivity Commission's *Inquiry into introducing competition and informed user choice into human services.*

Jesuit Social Services is a strong advocate for innovative and quality human services. Our programs have developed in response to local community needs, working with the community to support those most vulnerable in our society. This submission draws on our experience undertaking this work, including by partnering with governments in the delivery of a wide variety of human services.

In Victoria, Jesuit Social Services works as part of a vibrant and diverse community services sector that has a long history of working together with government in the development and delivery of innovative responses to significant issues of social concern.

As the Treasurer's Terms of Reference make clear, this Inquiry is primarily to 'focus on innovative ways to improve outcomes' in human services, 'through introducing the principles of competition and informed user choice.'[1]

This Inquiry represents an opportunity to fully examine the critical issues involved in improving outcomes in human services. It provides an opportunity to look more closely at the findings of the Harper Review,[2] and to gather evidence to assess proposals for reform.

We urge the government to look closely at recent experiences of commissioning and tendering of government services in Victoria. There needs to be a robust evaluation of these reforms to ensure that vulnerable communities do not lose out through marketization. Such an approach could enable governments to avoid some of the mistakes that have emerged from the hasty implementation of commissioning processes by Commonwealth and State governments in recent years.

This submission makes general comment, and then addresses the specific queries set out in the *Issues Paper*.

Our submission to the draft report of the Competition Policy Review 2014

Jesuit Social Services made a submission to the *Draft Report* of the Competition Policy Review 2014. The *Draft Report* made sweeping recommendations for strengthening competition across a diverse range of human services. Our submission argued that the report relied upon a narrow understanding of human services, i.e. as commodities that can be broken down into clearly defined components (inputs, outputs and outcomes). We rejected the assumptions that formed the basis of the report, namely that applying competitive principles to human services delivery will automatically enhance a wide range of outcomes. Our submission called on the Panel to ensure that competition policy does not erode the wider role of human services in building individual capabilities, cohesive communities, and a more civil society.

The following summarises the main points from that submission, which we believe are also relevant for this Inquiry:

- Genuine diversity, choice and innovation in human service provision is possible and desirable, but requires collaboration and partnerships between organisations that are driven by a strong sense of civic

mission, as well as a genuine commitment to building relationships and networks that empower people and communities.

- Human services work within, and often seek to change, wider community and societal contexts, and inform the development of new solutions to complex social problems; functions that operate outside of the market.
- More sophisticated models of governance and partnership for service delivery should be developed instead of a 'one-sized fits all' separation of regulatory, funding and provision.
- Indiscriminate application of competition principles to human services undermines collaboration, partnership, civic mission and genuine commitment to empowering communities.
- Choice should not simply mean being able to choose between different services that offer the same thing. Genuine choice requires a diverse range of service options and types that focus on building agency and empowering people. This requires investment in services with high quality standards and a focus on relationships.
- Diversity in the provision of human services must not simply provide a means to cut costs by contracting these services to for-profit providers. Jesuit Social Services does not believe that the case for for-profit human service provision has been made.
- The government must take greater account of the very mixed experience of competition and for-profit provision in human services. Where competition has been increased in human services, particularly through the introduction of for-profit service provision, promised gains in efficiency, quality, adaptability and innovation have often not been realised. Implementation is crucial and requires careful and considered planning with high levels of stakeholder engagement.
- Where human services impact significantly on the rights of people, where power imbalances exist, or duties are owed, there should be a strong preference for government delivery unless a strong case exists, and safeguards and accountability are in place.
- Community organisations can value add to service delivery. Where appropriate, community organisations should work together with government to co-develop and deliver services that meet organisations' mission, add value for government, and improve quality to community.
- Implementation of increased competition into human services must not erode the wider role of human services in building individual capabilities, cohesive communities, and a more civil society – nor stifle collaboration and innovation.

Summary of our recommendations to this Inquiry

- Ensure that any implementation of competition policy does not erode the wider role of human services in building individual capabilities, cohesive communities, and a more civil society – nor stifle collaboration and innovation.
- Reinforce the important role played by government and human services together in addressing complex and dynamic social problems (i.e. addressing entrenched disadvantage).
- Recognise that community organisations should not be seen simply as government service delivery arms, but as co-producers of policy and program solutions.
- Recognise that the role of government must be greater than that of a service purchasing agency – in some circumstances government will be best placed to deliver services.
- Promote genuine choice as opposed to a choice between different services that offer the same thing.
- Within services there must be a strong focus on promoting agency and empowering service users.

General comments

The *Issues Paper* states that 'Australia's human services sector is facing significant challenges, including increasing demand for services due to the ageing population, the effect of technology and cost increases associated with new and more complex service provision demands. Finding innovative ways to improve the efficiency and cost effectiveness of the human services sector, and to target services to those most in need, will help ensure that high quality service provision is affordable for all Australians and leads to improved outcomes for the economy and individuals'.[3]

The Commission contends that establishing choice and contestability in government provision of human services can improve services for those who most need them, and that if managed well, this can both empower service users and improve productivity at the same time.

We agree that the human services sector is facing significant challenges. There is a significant unmet need for services and high demand in nearly every area of human service delivery. We need to ensure we are providing innovative, accessible and high quality human services.

The Commission states that 'high-quality human services are essential for our communities to flourish and for people to develop the capabilities they need for economic, social and civic participation'. We concur with this view, and would add that human services are an investment in our society. They build capabilities so that people can realise their hopes and aspirations, contribute to more cohesive and inclusive communities, and assist people during times of crisis.

As we stated in our submission[4] to the Competition Policy Review, the role of human services is a vital function of the modern state. Strong democracies, like Australia, rely on a dynamic interchange between community service organisations, broader civil society and government to continually develop and improve our collective responses to complex social problems. This inter-relationship is a much deeper and more fundamental function of the state than other purchaser-provider relationships that governments engage in.

Human services are not a simple matter of consumer choice - they are much more than this. Human services are vital in creating a more just society. Human services often exist as a response to the failures of the market and have a significant social change dimension that is fundamentally at odds with the principles of commodification and competition that the Australian Government is pursuing.

We believe that genuine diversity, choice and innovation in human service provision is possible and desirable. This requires collaboration and partnership between organisations that are driven by a strong sense of civic mission, as well as a genuine commitment to building relationships and networks that empower people and communities. The application of competition principles to human services undermines many of these features. Too often the winners have not been service users or taxpayers, but for-profit providers and their shareholders.

Our intent in providing this submission is not to discount the value of competition in all contexts, nor to preserve the status quo of service provision. For almost 40 years Jesuit Social Services has worked with the most marginalized members of society. We want efficient and effective human services that build capabilities, and continue a critical civic dialogue. We advocate strongly for high quality, innovative human services, that not only deliver holistic responses to complex social problems, but that build community and strengthen the social fabric of our communities. We do not believe that the level of competition and contestability that the government is proposing can deliver on these outcomes.

1. What constitutes improved human services?

Jesuit Social Services is a strong advocate for achieving better outcomes for communities right across the human services sector. As a society we need to do better in addressing entrenched social problems, closing the gap for Aboriginal communities, improving educational outcomes, addressing entrenched localised disadvantage and achieving better outcomes for people experiencing multiple disadvantage. However, we believe that the scope of the Inquiry portrays a narrow view of human services as commodities that can be broken down into clearly defined components (inputs, outputs and outcomes). While this analysis may make sense for more discrete functions, such as waste collection, it fails to understand the complexity of human services or the wider benefits that are achieved through investment in them.

While the attributes identified in the Inquiry (quality, equity, efficiency, accountability and responsiveness) are all essential for human service delivery, there are other attributes that are also critical in order for human services to foster a cohesive, inclusive and just society. These include a commitment to equality, social justice and improving collective responses to complex social problems. Competitive funding models are unlikely to encourage a broader service focus on identifying systemic issues or innovative solutions to social problems.

The broad application of competition and contestability in human services will not automatically improve outcomes in human service delivery and may in fact have a detrimental impact in terms of accountability, responsiveness, quality and efficiency. For example, the application of the 'government as purchaser' approach to services where there are serious imbalances in power between government and citizens, such as criminal justice services, child protection, and in social security, has contributed to increased complaints and poor outcomes.[5] These experiences illustrate the challenges that arise where the role of government is diminished.

One example includes the experience in Victoria, when a market for prison services was created in 1993. The role of government changed from 'rowing' (delivering services) to 'steering' through separate regulation and purchasing functions.[6] During this period three private prisons were built which the government regulated through performance-based service delivery contracts.[7] This process saw the development of new accommodation, changes to performance frameworks across the prison system, and the development of accountability systems for private prison contractors.[8]

Almost immediately this separation resulted in major performance problems and broader issues related to the process. Most notably there was a series of deaths during the first months of operation of the Port Philip private prison and major safety issues at the Women's Metropolitan Prison that resulted in the prison being taken over by the state. An independent review of the management and operations of private prisons completed in 2000 found significant issues with contracting, leadership and coordination across the system.[9] These were directly linked to the separate regulation, funding and delivery functions. The review noted that the state's duty of care to prisoners was undermined by the arms-length relationship between the regulator and service providers.

The review called for a 'renewed focus on collaboration rather than competition, and on promoting the notion of a system rather than an industry'.[10] In 2003, significant reforms saw the steering/rowing model abolished in favour of a single corrections entity, Corrections Victoria, taking a much more direct oversight of prison operations, including of the two remaining private prisons.

In order to measure human service outcomes and determine the quality of outcomes we need to go back a step to understand the purpose and context for human services. An example to consider is education and the role of schools. While the level of educational attainment of an individual student is something that can be reasonably understood and measured, the role of schools goes beyond this. Schools are civic institutions that serve a much wider civil purpose. Human services contribute to building individual capabilities, cohesive communities, and a more civil society. Human services are defined by social mission and values that include citizenship, fairness, justice, representation and participation.[11] The corrosive effect of competition principles on this civic purpose is noted by Professor Alan Reid AM:

> *Such approaches further entrench a distorted view of the public and the public good by privileging individual self-interest... The public good is greater than the sum of its individual parts, and is arrived at through rational, respectful and critical deliberation among the public. It seeks to maximise the benefits for society as a whole. In education this would result in policies which promote collaboration and a sense of community rather than individual competition[12].*

Quantitative indicators often only provide a partial measure of performance against outcomes, making it necessary to use them in combination with other quantitative or qualitative indicators. For example, while providing insight into outcomes, NAPLAN results on their own are unlikely to fully quantify quality, equity, efficiency, accountability and responsiveness in schools.

We would also highlight that changing the role of government in human services from provider to regulator and contractor does not diminish the need for accountability and compliance. Often 'managerialist governance networks' have replaced traditional public service delivery.[13] In some cases a consequence of this change is that rather than seeing themselves as partners or collaborators in service delivery, 'it fosters hostility between government officials and non-profit providers'.[14] These issues have the potential to undermine working relationships that would contribute to the iterative improvement of services over time.

Development of relationships of reciprocal value between government, service providers, and the wider community to advance social and economic outcomes are critical to improving service provision. The importance of these types of institutional relationships was recognised by the Productivity Commission's Inquiry into the role of the not-for-profit sector (2010), which noted that the type of relationship that a funding model fosters between government and service providers was critical. A range of different models offer a way forward, including co-production, participatory public services, multi-stakeholder governance,[15] relational contracts, integrated governance[16] or 'market stewardship'.[17] The challenge is moving beyond rhetoric and actually realising meaningful and inclusive relationships across service development and delivery.

Areas of our work provide examples of how reciprocal relationships between government, service providers and wider community have directly led to improved service provision. The Victorian youth justice system shows how relationships between government and community service organisations have been utilised to develop a shared approach across the system, with policy and service responses contributing to the realisation of this approach. This has played a part in successes across a range of measures, for example:

- Rates of young people incarcerated in Victoria declining by 75 per cent since 1981[18]
- Victoria maintaining a stable youth offending rate that is the third lowest in Australia[19]

In terms of service delivery, roles are played by both government and community services depending on what particular outcome is sought. For young people on custodial or community based orders, supervisory functions are undertaken by the Youth Justice Division of Victoria's Department of Health and Human Services. However a range of services focusing on the wider needs (housing, health, education) are contracted out through competitive tendering to a diverse set of community-based organisations with strong track records and linkages across the community sector.

Partnership is embedded in service delivery through consortia and governance mechanisms that include regional and statewide forums of key stakeholders. This feeds into wider partnership and joint work between government and stakeholders in the community. Government plays a key role in enabling these partnership processes through leadership and the investment of goodwill and resources. Oversight and accountability is enhanced through supervisory and complaints functions exercised by the Youth Parole and Youth Residential Boards as well as the Victorian Ombudsman, the Auditor General, and the Commissioner for Children and Young People.

The Victorian youth justice system exists in an enabling context due to a shared commitment across Victoria Police, the Courts, the Victorian Government and the community sector. It demonstrates many of the features of a successful approach to public policy and service delivery in a highly challenging area. We believe this has been the result of strong leadership and commitment by government and the community sector to partnership, clear roles and responsibilities across the system, openness and flexibility in service design and delivery, and strong systems for transparency.[20]

Indeed, the Victorian Royal Commission into Family Violence found that integration of services and collaborative relationships are critical to positive outcomes in human services, particularly for women and children experiencing family violence. Coordination and integration of responses, sharing of information between agencies (where appropriate) and working together are key features that risk being undermined in a competitive environment.

Any efficiencies gained through marketization of human services may come at the cost of quality. We are aware of examples of cost cutting and low levels of investment in services by for-profits that undermine service quality, including in areas such as Vocational Education and Training, child care, and employment services. There are incentives for for-profit providers to reduce costs in order to implement their business model. We are not aware of any evidence that demonstrates the innovation that for-profits bring to human services. These issues reflect a broader concern around the impact of profit motives on the social objectives of human services. For example, there is strong evidence that it leads to 'gaming' of services to maximise revenue at the exclusion of more difficult groups, who are often those most in need of assistance[1].

There is considerable scope to improve outcomes in human services. This will come from increased collaboration, partnership with government, strong leadership, commitment to equality and social justice, and collective efforts to solve complex social problems. The application of a market model to address complex and entrenched social problems will only corrode these essential elements and ultimately lead to poor outcomes for government, the community and individuals.

[1] 'Gaming' is understood as situations where service providers respond in undesirable ways to reward structures. A major 'gaming' related issue in human services is failure to service people with more complex issues as they are less profitable (Gash, Panchaia, Sims, & Hotson, 2013).

Jesuit Social Services position –

- **Ensure that any implementation of competition policy does not erode the wider role of human services in building individual capabilities, cohesive communities, and a more civil society – nor stifle collaboration and innovation.**

- **Reinforce the important role played by government and human services together in addressing complex and dynamic social problems (i.e. addressing entrenched disadvantage).**

2. Factors influencing potential benefits of increasing competition, contestability and user choice

The *Issues Paper* describes many types of user choice – including that 'users can directly make decisions about the services that they receive (for example, a person with a disability deciding which services best support their needs) and which organisation will provide services to them (for example, deciding between different residential aged care facilities)'. Further to this, the Commission recognises that the user's choice may be assisted or facilitated through an agent or intermediary, and in some cases organisations or governments may take the needs and preferences of the user into account when making decisions on the user's behalf.

In our view the concept of choice presented by the Commission obscures a range of issues that underpin genuine choice. Genuine choice is dependent on the level of control accorded to service users by both government and/or service providers and the availability of the right service types to meet users' needs. We know from experience that real choice is often enhanced more by a smaller set of diverse service options than a nominal choice among 'cookie cutter' services. In an environment of increasing competition, strong performers that are small but directly tailored to the needs of the distinct groups they serve, are at risk of being pushed out by larger organisations with better brand recognition. This reduces diversity and thereby choice. This experience has been apparent in employment, child care, vocational education and training and mental health.

Recent experience of reform to community mental health services in Victoria (in 2013 and 2014) has demonstrated the nature of this challenge. A stated aim of reforms was to build a community mental health system that 'improved client and carer experience, with greater choice and meaningful involvement in decision making'. The reality of reform saw funding cut to a diverse range of services that had built up specialisations over many years, replaced with a less flexible service model with two to three large mainstream mental health providers providing generic options in each region of the state.

Specialist services catering to high needs groups such as homeless people and young people with co-morbid mental illness and drug and alcohol issues were hit the hardest, despite these service models having a strong track record in successfully engaging people who themselves chose not to access more generic service responses. An independent review of the new arrangements highlighted the pitfalls of a hasty approach to service sector re-design and found that rather than increase choice the reforms led to:

- a 20 per cent reduction in the number of people accessing mental health and drug and alcohol services since the changes
- increased delays and blockages in referral pathways

- increased barriers for vulnerable groups being able to access services
- reduced opportunities for early intervention and relapse prevention.

Empowering people to critically navigate the options open to them in gaining assistance is inherent in our strengths-based approach and more broadly through Jesuit Social Services' commitment to social justice. However, people in vulnerable circumstances should not be required to navigate a system in which marketing and promotion tactics can lead to people making ill-informed 'choices' and thereby failing to receive the assistance they need.

People generally do not engage with human service systems in the same way a consumer engages with 'a market'. Complex problems require complex and holistic responses that not only address the symptoms of the problem but work to prevent problems by addressing the social causes. Many of the problems facing people who use human services are associated with stigma and shame, which affects not only individuals but often their families and their communities. Problems such as family violence, mental illness and offending behaviour, for example, involve difficult choices and deep personal struggles. Providing assistance to people in these situations is rarely straightforward and requires sensitive, holistic responses, and engagement grounded in trust and relationships. This requires collaboration and a culture of openness and cooperation between agencies. Markets and competition inherently work to the interests of the service or product provider – so that learnings are guarded and there is little or no impetus to contribute to the broader knowledge base. This works to drive down creativity, innovation, responsiveness and choice.

Beyond the issue of choice between different types of services, it is also important to consider how the approach within a particular service impacts upon people's sense of agency and level of empowerment. We believe that it is vital that a strengths-based approach be adopted. An integral tenet of all strengths-based practice models is putting the client, their goals and aspirations, at the centre of planning and service delivery. These approaches have been shown to produce positive outcomes.[21] There must also be adequate resourcing of services to make this a reality, particularly in providing specialist services and higher levels of flexibility for highly disadvantaged people and those with complex needs.

Further issues relating to the manner in which people exercise choice and service quality must also be taken into account. Flexibility needs to be built into services from the outset to ensure that people have the opportunity to exercise choice. This should take into account research into the nature of help-seeking behaviours among particular groups of people, such as young people[22] or people with alcohol and drug issues.[23] The challenge of engagement may require flexible entry points or even assertive forms of outreach to engage people and support them in accessing services where they then exercise a high degree of choice.

Levels of funding are crucial to ensuring genuine choice, as major issues arise where resources are not available to provide genuine choices for service users.[24] This is a significant issue in employment services with tight financial models and a pressure to reduce costs, leading to standardised and often minimal levels of support.[25] Research into these services shows that the differences between providers has diminished over the past decade, and that there is now a high degree of standardisation in services.[26] Similarly, in the aged care system providers have been allocated set numbers of support packages for older people through tender processes but the number of people approved for packages exceeded the number. As a result genuine choice was diminished.[27] Here we must recognise the broader return on investment that results from providing adequate funding to respond to the range of issues experienced by people accessing services.

Choice navigation relies on capacity, information, and confidence. While we want individuals to have choice over a variety of services, people may not have a sense of what they should want or expect in terms of services. Human services are often mediated by professionals who have significant influence over what people seek to choose. We also need to remember that using human services is not always an option that is chosen by some but is chosen for them (e.g. child protection, some mental health services).

Jesuit Social Services position

- **Promote genuine choice as opposed to a choice between different services that offer the same thing.**

- **Within services there must be a strong focus on promoting agency and empowering service users.**

3. The nature of service transactions/supply characteristics

The *Issues Paper* notes that the nature of the relationship between the service recipient and the provider will have a bearing on whether services are suited to increased competition, contestability and user choice. We are pleased to see that the Commission notes that 'for some services, building a relationship between the user and the provider is a very important part of the service model and, in these cases, it is trust in that relationship that drives outcomes'.

As noted previously, the way that people engage with human services, particularly those in vulnerable circumstances, is rarely straightforward or transactional. A transactional approach to human services simply won't work when it comes to people leaving prison or state care, young people living with mental illness or drug and alcohol issues, refugee or newly arrived migrant communities, or Aboriginal communities. Instead, services are at their best when they comprise longstanding and sophisticated networks made up of people, places and institutions that are grounded in relationships of trust. This understanding is supported by the evidence that shows the impact that relationship and community connections can have on people's social and economic wellbeing.[28]

We are pleased to see the Commission acknowledge the drawbacks and barriers to increasing competition, which include the issue of 'economies of scale' and some competing suppliers being unable to achieve the scope or size of their competitors; the way services are funded or commissioned; and poor design or implementation of regulations.

We concur with the Commission that service needs can vary for different groups in the community. Increased competition risks pushing out smaller, strong performers with a depth of expertise and connection to their communities. Far from achieving a vibrant market for social services, experience has shown government has lacked capacity to effectively 'steward' markets for the provision of human services. As a consequence large private organisations have taken over services at the expense of local providers, problematic contracting arrangements have been implemented, gaming of services is commonplace and, as a consequence, in some areas government has taken back a role in service delivery.

For example, in 2008, the Victorian Government introduced a series of significant reforms to implement a demand-driven funding model, the Victorian Training Guarantee (VTG), including subsidising student places on a per hour basis. The aim of these reforms was to make industry more responsive to future skills needs.

In 2012, the Government further deregulated the VET market and cut funding for student support services, equity programs, staff wages and capital maintenance costs in TAFE institutions. This saw TAFE enrolments drop by 35 per cent between 2012 and 2014.

In 2014, following widespread rorting of Government subsidies, particularly for foundational skills courses, a number of changes were made, such as a supplementary accreditation for Registered Training Organisations (RTOs) to deliver foundation skills courses, limiting the number of courses an individual could undertake each year and changes to subcontracting. These changes resulted in:

- A rise in VET sector enrolments
- A rise in the number of private providers and an increased private market share
- A decrease in the quality of provision and a rorting of the system by private providers exploiting vulnerable learners.

Whilst the introduction of the VTG initially saw a significant increase in enrolments by vulnerable learners, the effect of the low quality provision and the withdrawal of adequate support has seen this trend reverse. The decline in the engagement of disadvantaged learners indicates systemic problems with the Victorian VET sector's ability to address the educational needs of vulnerable learner groups. Without immediate reform to the system, these people are at high risk of becoming further entrenched in disadvantage.

The use of markets in public services is not a new thing. Indeed many in the community sector are presently grappling with the implications of moving from grant-based relationships to contracts. We have seen reforms across a number of sectors that have sought to harness the strengths of markets but these have typically not had the impact that was desired. There are various reasons for this, but one of the key factors is that markets do not simply self-regulate. We need evaluation of past efforts for any future cases.

Human services are characterised by the need to be able to adapt flexibly not only to the individuals who use their services but to the broader social changes that may be occurring in order to adjust future service responses. Increased competition and contestability will risk reducing human services to the mechanistic delivery of services with a sole focus on delivering individual outcomes to the exclusion of working with communities and partners to prevent and alleviate entrenched social problems. Not-for-profit organisations use their connection with service users and their communities to advocate more broadly on their behalf. They do this through contributing their grounded practice experience to growing the collective knowledge base for solving complex social problems. Although the logic of market-based-consumer-led forces driving change is a compelling narrative, we would do well to remember that it takes a lot of effort to develop effective markets.

Jesuit Social Services position

- **Recognise that community organisations should not be seen simply as government service delivery arms, but as co-producers of policy and program solutions.**

4. The potential costs of increasing competition, contestability and user choice

The *Issues paper* notes that the benefits from reform need to be weighed against the potential costs incurred by service users, governments and providers. We are pleased to see the Commission recognise that the potential costs of reforms need to be carefully examined. To this we would add that governments must learn from past reforms through a comprehensive evaluation of their impact.

Introducing increased levels of competition, contestability and informed user choice into human services will undoubtedly involve costs to service users, government, service providers and the community.

Costs to service users

Increased competition in human services presents significant risks for service users, particularly highly vulnerable groups. Tightly defined contractual goals or outputs to the exclusion of collaboration and innovation to meet people's needs has been shown to have perverse outcomes. An example of this in practice has been in employment services, which have been delivered under contract by a range of providers for nearly two decades. An ongoing issue with these services has been their inability to meet the multiple needs of the most disadvantaged jobseekers.[29] In the words of the former CEO of one agency that delivered services in this system, *'Often there is no scope for agencies to develop their own unique service approach, because the contract is so specific'.* [30] Ultimately, the end result has been low levels of performance in achieving positive outcomes for this group and ineffective use of significant government resources.

The argument goes that separating the functions of purchasing and provision and giving more control to consumers will generate competition between providers, which in turn will ensure that providers are responsive to consumers, and will be incentivized to become more efficient and more innovative. Those who do not deliver what people want will receive no business and will disappear; i.e. the market will self-regulate.

These ideas relate to the ability of consumers to be able to act with a degree of sovereignty to achieve desired outcomes, that they can do so rationally (meaning that there can be a judgment on the basis of sound evidence), there are few barriers to entry and all partners have a reasonable degree of intelligence and information about services.

Care must be taken with client-directed funding models to ensure that they do not threaten the quality and continuity of care provided to service users. These potential impacts are arguably greatest for the most vulnerable who may lack capable networks of support or capacity to advocate for themselves.

Costs to government

We concur with the Commission that governments have an important stewardship role to ensure the quality of services, protect consumers, and make ongoing improvements to policies and programs. The introduction of increased competition, contestability or user choice will require changes to the stewardship function, which has associated costs for governments. As noted in the *Issues Paper* this might involve the introduction or expansion of initiatives to inform consumers about alternative services to assist choice navigation.

One of the arguments that is often made in support of market-based reform is that government has failed in terms of provision in human services and should therefore leave it to the market to deliver more effectively. But this seems to negate the fact that there is a far more active role that needs to be played by government in a context of market-based reform.

Increasing competition in human services will have a significant regulatory cost for government. Safeguarding the interests of disadvantaged or vulnerable users is critical in human services. Many people engage with human services to gain assistance with complex and challenging issues. This requires services with a deep understanding of the issues, a depth of experience, and a sensitive and skilled program response. Services that are ill conceived or that lack the breadth of understanding of the complex range of issues that service users may present with risk contributing to poor outcomes. Addressing these risks will require government to have oversight of service quality, develop clear standards, and establish regulations and systems for monitoring performance. Human services require more than simple contract management and instead require significant engagement with a range of different stakeholders. Significant steps forward in terms of the ability of governments to operate a market stewardship perspective are much needed. It will take ongoing hard work in order to ensure that the appropriate sorts of systems and processes are in place – and this will look different around the country depending on the particular local context.

Costs to service providers

There is a risk that profit-driven services will select services users that suit their business model. In doing this they reduce their costs and appear to have better outcomes. The cost, however, of failing to respond to people with more complex issues will continue to be borne by not-for-profit organisations, who because of their commitment to their communities and their mission will provide a service.

A shift in the landscape towards a competitive market would be extremely challenging for community organisations as they would be forced to divert valuable resources towards competing in a crowded market. Existing not-for-profit organisations may need to compete for survival by over-reaching into service areas in which they are not as skilled, raising risks to their organisation, staff and services users. As noted previously, strong service performers who are small will risk being pushed out as larger organisations with better brand recognition are likely to dominate the market, and this will lead to reduced diversity and innovation within sector. The long-held collective experience, expertise and community connections of these smaller organisations risks being lost.

Costs to communities

Not-for-profit organisations generally have long histories of engaging with their local communities and have developed a strong reputation as a valued part of the community. It is this commitment that attracts people to work as volunteers in these organisations. Volunteers in not-for-profit organisations are a significant resource to the community and to government. They not only assist in service delivery, but also participate in strengthening the social fabric of their communities. Businesses and the corporate sector also recognise the wider community benefits of the mission of not-for-profit organisations and often generously donate staff time, practical assistance and other resources. The combined investment of time and goodwill by staff, volunteers, local community and business striving towards shared community goals is a highly valuable resource. This could easily be lost by increasing competition, as for-profit providers push out established not-for-profit organisations.

Further to this, not-for-profit providers have developed ways of leveraging community resources to support the people they work with. They know their communities and they know how to best engage with them.

Because human services are so often a trusted part of the fabric of communities, they play a significant role in promoting the sharing of responsibility for social problems. Unlike the private sector, the not-for-profit sector invests all of its resources into its programs and communities. Surpluses are invested in people and communities, rather than shareholders.

Increased competition and contestability in human services potentially will come at a vast cost to government, service providers, service users and the community. Not only will there be significant and ongoing increased regulatory costs in order to safeguard the rights of vulnerable populations, but governments will face losing valuable community resources.

Jesuit Social Services position

- **Recognise that the role of government must be greater than that of a service purchasing agency – in some circumstances government will be best placed to deliver services.**

Summary recommendations

We welcome the opportunity to continue to contribute our views to the Inquiry. In summary, our key concerns and recommendations to the Commission are:

- Reinforce the important role played by government and human services together in addressing complex and dynamic social problems (i.e. addressing entrenched disadvantage).
- Recognise that community organisations should not be seen simply as government service delivery arms, but as co-producers of policy and program solutions.
- Recognise that the role of government must be greater than that of a service purchasing agency – in some circumstances government will be best placed to deliver services.
- Ensure there is robust evaluation of the recent experiences of commissioning and tendering of government services to ensure that vulnerable communities do not lose out through marketization.
- Avoid undue haste in implementation of any reforms and ensure careful and considered planning with high levels of stakeholder engagement.

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