
2 Improving Australia's social infrastructure services

Seeking ways to improve the efficiency and effectiveness of social infrastructure services should be a priority for all Australian governments. Governments typically have been the major funders, providers and regulators of these services, but the nature and extent of government involvement are being re-evaluated to see whether social and economic outcomes can be improved. The coordinated provision of better information on the performance of Australia's social infrastructure services is assisting in this task. Market-based incentives have a bigger role to play in guiding resource allocation and achieving quality outcomes, but care is needed in determining where and how they are introduced.

Why performance matters

The performance of Australia's public and private social infrastructure services — its education, health and justice systems and community services such as aged care — has a major influence on the wellbeing of Australians and on the productivity of the economy as a whole.

Australians benefit from good performance because they all use social infrastructure services at various times in their lives — particularly schools and medical services. People are not only concerned about good outcomes for themselves and their families, but also achieving the broader community purposes of such services. These include high standards of public health (such as the control of infectious diseases) and the development of citizenship skills through schooling.

Effective and efficient social infrastructure is central to the pursuit of equity and access objectives and the provision of a basic standard of living.

- Housing assistance, aged care services, basic health care and child protection form important components of society's safety net for the vulnerable and disadvantaged.
- Access to education and training aims to provide improved lifetime opportunities across all sections of society.

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- Taxpayer funding of health, education and public housing services has made the distribution of income more equal (Harding 1995).

Apart from their direct effect on people's welfare, the performance of these services has an important bearing on productivity and economic growth, and hence the living standards of Australians.

- Health and education services, for example, underpin the productivity of the workforce and are therefore essential to making the best use of Australia's human potential. Education and training develop the workplace skills people need to adjust and prosper in a rapidly changing world.
- The community services sector has an important role in helping individuals adversely affected by change. The provision of an adequate social safety net can ameliorate adverse impacts associated with economic reform. Community support for reform is also more likely if there is fair treatment of those adversely affected.
- An effective justice system underpins confidence in negotiated contracts, protects property rights and upholds the rule of law — all of which are fundamental to the functioning of a modern market economy as well as a civil society.
- Greater efficiency and effectiveness in the funding, provision and use of publicly funded social infrastructure can lower the burden on taxpayers or, by contributing to public sector saving, assist Australia's investment and growth performance.

The search for improved performance in social infrastructure services has been motivated partly by the demands that rising costs and increasing community expectations place on public expenditure. Funding by Australian taxpayers for the major areas of social infrastructure was about \$70 billion in 1997-98, more than one third of all government expenditure and equivalent to almost 13 per cent of GDP. As a large and growing sector, the potential economic payoffs to even small improvements in the performance of social infrastructure services are significant (box 2.1).

Governments are accordingly looking to redefine their roles and concentrate on what they do best in order to improve the performance of social infrastructure services. As users of taxpayer funds and purchasers of services, for example, they are increasingly seeking to obtain better 'value for money' by contracting with private and not-for-profit providers, rather than supplying services themselves. And there is an ongoing debate as to whether people's ability and willingness to pay

Box 2.1 Australia's social infrastructure services are used widely

Education

- Around 2.2 million students were enrolled in government primary and secondary schools in 1997 and 0.9 million in non-government schools. Almost 1.5 million people undertook publicly-funded vocational education programs and 659 000 students were enrolled in university courses in 1997. Governments funded 85 per cent of the \$30 billion spent on education in 1997-98.

Health

- More than 3.6 million patients were admitted to 704 acute care public hospitals in 1996-97. This is equivalent to almost one in five Australians. There were also 32 million treatments not requiring admission. On average, Australians consult General Practitioners five and a half times a year.
- Governments funded an estimated \$33 billion (69 per cent) of health services expenditure in 1997-98, with the remainder being funded principally by individuals and insurers (health, workers compensation and compulsory motor vehicle third-party).

Justice

- Approximately 2.7 million matters were lodged with courts in 1997-98, of which 773 500 were civil matters and 1.8 million were criminal matters. On average, 18 344 people were held daily in Australian corrective facilities during 1997-98.

Emergency management

- Fire services responded to more than 549 200 fires and other primary incidents across Australia in 1997-98, while ambulance services attended more than 1.8 million cases nationally.

Community services

- Governments provided nearly three quarters of all funding for community services. Nearly six million contacts sought information, advice and referral in the area of personal and social support in 1995-96. Approximately 103 000 children were provided each day with centre-based long day care, while a further 97 000 benefited from family day care, and before and after school care. Statutory protection and placement services handled some 80 000 cases during the year.
- Almost 140 000 residential and respite care places (nursing homes and hostels) were available for aged persons in 1997-98. This is equivalent to places for almost one in 11 persons aged 70 years or more.

Public and community housing

- About 344 000 Australian households lived in public rental accommodation and 32 000 households in community housing arrangements in 1996. These housing arrangements covered approximately 5.8 per cent of all households.

Sources: SCRCSSP (1999a), AIHW (1999), ABS 1301.0 and ABS 5510.0.

should play a greater role in decisions about the level and type of services provided, with taxpayer funding targeted more at the poorest and most disadvantaged groups in the community.

Greater efficiency and effectiveness can also mean increases in the level and quality of services provided. In the health sector, for example, concerns extend beyond the cost of a stay in hospital to include the quality and appropriateness of patient care and public accessibility to hospital services. Are correct diagnoses being made, right treatments applied and misadventures minimised? Is the length of stay too short or excessive? Are medical services located where they are needed most? Are waiting times for admission acceptable?

The performance of social infrastructure services assumes even greater importance given that the average age of Australia's population is increasing. A major policy challenge is to determine whether existing institutional arrangements are structured to cope with an ageing population and to ensure that resource decisions are responsive to changing demands — for example, declining future demand for child care places but a growing need for home care support and investment in nursing homes. It is also clear that the capacity of the community to provide health care, community services and income support to an ageing population will depend on the future productivity of the economy as a whole. There is an emerging consensus that, while alarm about the consequences of population ageing in Australia is misplaced, they will require effective management (see the papers by Johnson, Creedy, and Richardson and Robertson in PC/MIAESR 1999).

Shortcomings have been recognised

Shortcomings in the way social infrastructure services are produced and delivered, and unsatisfactory outcomes for users, have demanded increased policy attention. For example:

- Literacy assessments undertaken by the Australian Council for Educational Research in 1996 showed that some 30 per cent of school children in Years 3 and 5 fell short of agreed standards. Students from low socio-economic backgrounds fared worst, with the proportion not achieving accepted standards reaching more than 50 per cent by Year 5 (Masters and Forster 1997, p. 15). Forty per cent of 15 to 24 year olds face difficulties in using bus timetables, ticket ordering forms and other printed materials commonly encountered in daily life and at work (ABS 1997).
- Australian governments have acknowledged that a major weakness in the healthcare system is its focus on providers and programs, rather than on people and outcomes. The capacity to meet people's health and related needs is limited

when that requires coordination across individual programs and/or levels of government (COAG 1996). It has been estimated that the chronically ill (who form around 10 per cent of the population) use around 50 per cent of health care resources. Yet it is the same group, with multiple and complex needs, who have the greatest difficulty in getting help from mainstream programs designed to meet single needs (Paterson 1996).

- An EPAC Task Force (1996) found that the complexity of the existing child care system was not wholly consistent with the efficient and equitable delivery of child care services. Significant administrative costs for parents, providers and government alike, and a range of programs with different eligibility conditions, resulted in some families doing well, while others received little assistance, without good reason.
- An Industry Commission (1993) inquiry confirmed that the provision of public housing can be a cost-effective way of meeting government housing objectives. However, it found that some low-income groups were poorly represented in public housing, many people in need were not being assisted and there were inequities in the level of assistance for people in public and private tenure and within public housing. On average, the subsidy provided to private low-income tenants was estimated at around \$1600 per year in the mid-1990s compared with a subsidy of \$4000 per year for public housing tenants (COAG 1996).
- The Productivity Commission (1999a, p. 39) noted that waiting periods for entry to residential aged care for approved care recipients had nearly doubled in the year to 1997-98 and, while inequities in access to aged care places identified as far back as 1986 had been reduced, rural and remote areas remain underserved.

Evidence of inadequate outcomes and escalating costs have led governments to focus on how to improve the efficiency and effectiveness of publicly funded social infrastructure services. Initially, the effort to obtain value for money in service delivery was pursued through funding and administrative changes. More recently, though, Australian governments:

- have begun to develop more extensive performance measurement and benchmarking as a spur to higher productivity and better outcomes for users — the dearth of nationally comparable performance data has inhibited assessment of the effectiveness and efficiency with which social services are being provided; and
- started to look at ways of improving performance by changing the incentives facing service providers and users and, in particular, exploring the appropriate role of market-based approaches and regulation.

The contribution of performance measurement and benchmarking

Australian governments established the Review of Commonwealth/State Service Provision in 1993 to develop and publish objective and nationally consistent data on the performance of key social services funded and provided by government (box 2.2). The aim was to provide information to enable comparisons of performance and different approaches across jurisdictions, and thereby facilitate well-informed judgments about performance and resourcing levels and assist sound public policy formulation.

The publication of performance indicators and the benchmarking of performance which they enable:

- make the performance of social services more transparent, strengthen accountability for the achievement of policy objectives and permit the monitoring of improvements over time;
- aid assessment of how well governments are meeting community needs and at what cost; and
- assist governments and agencies to learn from the experience of the better performers — a catalyst for improving the effectiveness and efficiency of services which are not normally subject to direct competitive pressures.

Little comparative performance information was available when the Review began its task. Significant progress has been made in filling this information gap over the **four published reports on government services and a range of case studies on the implementation of selected reforms**. It has not been easy — services and their objectives are often complex, indicators can be difficult to identify and measure, and variations in results difficult to interpret. As a result of this work, however, a lot more is known today than six years ago about the provision of these important services.

For each category of social infrastructure, the Review shows performance variations across and within jurisdictions which raise questions about performance, resourcing levels and policy options. For example, why should the unit cost of vocational education be more variable across States than the unit costs of schools? The unit cost of vocational education is one third higher in New South Wales and Queensland than in Victoria, whereas government secondary school costs are about the same. This variability might reflect different scale or dispersion effects for vocational education than schools, different mixes of costly and inexpensive courses, quality or efficiency. Yet Victoria, which has the lowest recurrent unit costs for vocational education and training in Australia, maintains the highest overall employer satisfaction with providers (SCRCSSP 1999a, pp. 32, 190).

A distinguishing feature of the Review's work has been to help focus on what government services actually achieve — not just funding levels and the number of recipients. It has been concerned, therefore, with the quality of outcomes as much as with the quantities of inputs and outputs. For example, it has looked at prisoner rehabilitation, escape rates and deaths in custody, as well as cost per prisoner and the number of prisoners detained.

The Review is reinforcing government efforts to bring greater transparency to the provision of social infrastructure services — including by specifying policy goals and priorities, clarifying responsibilities, identifying resources used and monitoring

Box 2.2 Review of Commonwealth/State Service Provision

The reporting process is managed by a Steering Committee, with the Productivity Commission providing an independent chair and secretariat services. The Review's progress relies on a cooperative effort by Australian governments. It is informed by expert working groups comprising members from the relevant line agencies in each jurisdiction and also draws on other expert agencies such as the Australian Institute of Health and Welfare.

The reporting framework recognises the multiple objectives of government services and that the relative priorities given to each of these objectives may differ across jurisdictions. The framework encompasses the *effectiveness* with which a service achieves its desired outcomes — including access and equity considerations, appropriateness and quality — as well as the *efficiency* with which resources are used in producing the services. Twelve service areas are now monitored:

Education and training	<ul style="list-style-type: none">• School education• Vocational education and training
Health	<ul style="list-style-type: none">• Public acute care hospitals, general practitioners, breast cancer control and mental health
Community services	<ul style="list-style-type: none">• Aged care• Disability services• Children's services• Protection and support services
Emergency services	<ul style="list-style-type: none">• Emergency management
Justice	<ul style="list-style-type: none">• Police• Court administration• Corrective services
Housing	<ul style="list-style-type: none">• Public housing, community housing and rent assistance

whether program objectives are being met. This helps to make the tradeoffs between government objectives more explicit — such as choosing whether to improve the average level of service or to target services better to those most in need.

The enhanced transparency brought about by the Review has also facilitated more informed public debate about the appropriateness of different objectives and a greater focus on the effectiveness and efficiency of the service outputs delivered or purchased. For example, the 1999 report highlighted that the ACT is the only jurisdiction which has increased its number of schools while, at the same time, losing students, and that it has among the highest cost per student. This prompted debate in the ACT about the tradeoffs of having many smaller schools versus fewer larger schools. The broader curriculum choices available in larger schools, impacts on community participation, and additional transport costs in a more consolidated system were recognised as among the factors to be taken into account in deciding school resourcing policy.

While the Review is assisting government agencies in all jurisdictions to identify better ways of delivering services to the community, further cooperative efforts are required to improve the timeliness, quality and coverage of the data. For example:

- Progress has been made on reporting at the national level on social development outcomes from schooling (SCRCSSP 1999a, pp. 71–4). Yet, to date, national learning outcomes data have not been available. It was only in August 1999 that New South Wales, Victoria, Queensland, South Australia and the ACT agreed to adopt nationally comparable literacy and numeracy testing.
- The Review has made some progress in identifying access by Aboriginal and Torres Strait Islander people to mainstream services, but information is lacking on accessibility for other target groups, including those in rural and remote locations.
- There are not yet any nationally comparable data on the quality of aged care services and the efficiency of community services.
- A better understanding of the linkages between different services and ways of delivering services is important if outcomes are to be improved.
 - The Review has moved towards a more holistic assessment of health services. This is in order to understand better the interactions between hospitals, general practitioners and other health professionals in the management of illnesses and the efficacy of prevention/early detection versus intervention strategies in, say, the control of breast cancer.
 - It is recognised that interrelationships within and between other service areas should be explored. Within the justice system, for example, there is a need to understand better the interactions between the police, courts and corrective

services. Better information on the linkages between the health and justice systems could help to clarify the relative responsibilities and funding for services to drug addicts.

Continued development of performance measurement and benchmarking will further inform and drive policy change. However, achieving improvements in the performance of social infrastructure services also requires much more work in evaluating incentive structures for providers, pricing and access policies for users and regulatory performance by governments and a greater understanding of the ramifications of different policy options.

Incentives for better performance

Given the access and equity objectives attached to social infrastructure services, there has been a tendency to argue that these services should be treated differently from ‘normal’ goods and services. Some assert that it is inappropriate to apply economic concepts such as productivity, incentives and competition to service delivery.

However, in order to achieve better outcomes for consumers and increase the capacity to help the disadvantaged, particular attention must be paid to incentives and institutional arrangements, as well as resourcing, in these fields. There is an array of evidence that incentives and institutional arrangements matter in the design of good social programs, as they do in other areas of activity (box 2.3).

Clearly though, education, health and other social infrastructure services have complex equity and efficiency dimensions. Changes to incentive structures to improve performance, therefore, need to be handled carefully. It is a case of determining whether, where and how competition, greater choice and other market-based incentives can be applied effectively to improve outcomes. For example, in its recent review of nursing home subsidies, the Commission emphasised that equity of access to quality aged care must be the main criterion for assessing alternative subsidy regimes. Its recommendations for changes to existing funding arrangements, however, recognised the need to encourage efficient provision (and deter poor management and staffing practices), encourage diversity and choice wherever possible, avoid unnecessary administrative costs and promote transparency.

A number of inquiries — including those by the Industry Commission into charities and competitive tendering and contracting — have also highlighted the particular importance of good implementation to improved social and economic outcomes.

There are some basic questions that policy makers need to ask as a guide to developing better incentive structures:

- Are roles, responsibilities and desired outcomes clear?
- How can governments further shift the focus in service provision away from service providers towards the services which best meet people's diverse needs?

Box 2.3 Incentives matter in social infrastructure

- The Industry Commission's inquiry into *private health insurance* found that one of the reasons for rising costs of insurance and the decline in private health fund membership was the government imposed constraint that insurers charge the same premium regardless of length of membership (IC 1997a). This provided an incentive for 'hit and run' behaviour, and 'adverse selection' problems, with good risks leaving private health insurance and bad risks coming and staying.
- In 1993 in-patient services in Victorian *hospitals* began to be casemix funded — on the basis of the number and medical needs of the patients treated — rather than by block grants based on historical costs. This has led to increased activity, reduced costs per separation and reduced waiting times, with no evidence that the quality of care has changed (Health Services Policy Review 1999, pp. 19–21).
- An IPART review of NSW *Health* pointed to inefficiencies arising from the demarcation of funding responsibilities, whereby the States are responsible for funding public hospitals, whilst the Commonwealth funds general practitioners, specialists, doctors in private hospitals, pharmaceuticals and nursing homes.
 - One result of the incentives to shift costs between jurisdictions is poor coordination of services. For example, IPART (1999, p. 31) noted that about one third of rural hospital beds, and 10 per cent of acute hospital beds State-wide, have been occupied by nursing home-type patients. This has exacerbated hospital waiting times, required costly expansion of hospital facilities in urban areas and delayed rationalisation of beds in rural areas.
- The Industry Commission inquiry into *public housing* found that the more generous subsidies provided to public housing tenants than to low income households using the private rental market, discourage those in public housing from moving to locations which may offer better employment prospects.
 - Another finding was that the unclear delineation of responsibilities arising from intergovernmental funding arrangements meant that Aboriginal and Torres Strait Islander housing suffered from overcrowding and poor maintenance, and failed to meet cultural needs (IC 1993).
- The West Review (1998) of *higher education* noted that, with the largest single element of their budgets still centrally determined, universities could not effectively respond to students' needs and demographic movements. The current funding framework also provides institutions with skewed incentives to invest time and energy in research, relative to achieving excellence in teaching.

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- Do clients have the widest feasible choice over the location, level, mix and quality of services which best suit their needs, and are client needs appropriately signalled to providers and funders?
 - Are coordination arrangements in place across programs and governments to ensure that the range of needs of target groups are met?
 - Is there a role for user contributions and means testing to promote appropriate levels of consumption while still achieving equity objectives?
 - Is there scope to introduce stronger disciplines on performance through tendering the delivery of services and competitive funding arrangements, while maintaining the desired quality of services?
 - Are monitoring arrangements effective in gauging user views on service quality and keeping governments and providers accountable for their performance?

Improving the performance of Australia's social infrastructure services will arguably be more difficult than it was for government business enterprises and other areas which absorbed so much attention in the 1980s and 1990s. Access and equity issues loom larger and the social sensitivities are greater. In the Commission's view, open and consultative public inquiries assist governments and the community to work their way through the complex issues and to develop appropriate courses of action. Given their size and impact on social and economic outcomes, Australia's education, training and healthcare systems are priorities.

