# Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform

Productivity Commission Preliminary Findings Report, Overview, Canberra.

Commonwealth of Australia 2016



Except for the Commonwealth Coat of Arms and content supplied by third parties, this copyright work is licensed under a Creative Commons Attribution 3.0 Australia licence. To view a copy of this licence, visit [<http://creativecommons.org/licenses/by/3.0/au>](http://creativecommons.org/licenses/by/3.0/au). In essence, you are free to copy, communicate and adapt the work, as long as you attribute the work to the Productivity Commission (but not in any way that suggests the Commission endorses you or your use) and abide by the other licence terms.

Use of the Commonwealth Coat of Arms

For terms of use of the Coat of Arms visit the ‘[It’s an Honour](http://www.itsanhonour.gov.au/coat-arms/index.cfm)’ website: <http://www.itsanhonour.gov.au>

Third party copyright

Wherever a third party holds copyright in this material, the copyright remains with that party. Their permission may be required to use the material, please contact them directly.

Attribution

This work should be attributed as follows, *Source: Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform, Preliminary Findings Report*.

If you have adapted, modified or transformed this work in anyway, please use the following, *Source: based on Productivity Commission data, Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform, Preliminary Findings Report*.

An appropriate reference for this publication is:

Productivity Commission 2016, *Introducing Competition and Informed User Choice into* *Human Services: Identifying Sectors for Reform*, Preliminary Findings Report, Canberra.

Publications enquiries

Media and Publications, phone: (03) 9653 2244 or email: maps@pc.gov.au

|  |
| --- |
| The Productivity Commission |
| The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.  The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.  Further information on the Productivity Commission can be obtained from the Commission’s website ([www.pc.gov.au](http://www.pc.gov.au/)). |
|  |

# Opportunity for further comment

The purpose of this report is to seek feedback from participants on the Commission’s preliminary findings, and any further issues that should be considered before the public release of the study report in November 2016. The Commission welcomes further written comment on the preliminary findings in this report, and will undertake consultations and hold roundtables to facilitate feedback from participants to inform the preparation of the study report. Interested parties are welcome to put forward services they consider should be recommended for reform in the second part of the inquiry. The due date for submissions is 27 October 2016.

Further information on how to provide a submission is provided on the inquiry website: [www.pc.gov.au/inquiries/current/human-services/make-submission#lodge](http://www.pc.gov.au/inquiries/current/human-services/make-submission%23lodge%20)

# Terms of reference

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

I, Scott Morrison, Treasurer, pursuant to Parts 2, 3 and 4 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake an inquiry into Australia's human services, including health, education, and community services, with a focus on innovative ways to improve outcomes through introducing the principles of competition and informed user choice whilst maintaining or improving quality of service.

**Background**

The Australian Government is committed to working in partnership with State and Territory Governments and non-government service providers to ensure that all Australians can access timely, affordable and high‑quality human services, which are appropriate to their needs, and are delivered in a cost-effective manner.

The human services sector plays a vital role in the wellbeing of the Australian population. It covers a diverse range of services, including health, education and community services, for example job services, social housing, prisons, aged care and disability services. There are some features that are common across the range of services and models of service provision, while other features are unique in nature. Complexity arises from differences in the characteristics of the services, and of the individuals receiving the services, the objectives sought, and the jurisdiction and market in which the services are being supplied.

While governments have made progress in introducing competition, contestability and user choice to human services provision, the efficiency and effectiveness of the delivery of services within the sector varies significantly between jurisdictions. Service delivery frameworks in the human services sector that are inefficient and/or ineffective can result in significant costs to the economy and individuals, including poorer outcomes and reduced productivity.

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.

**Scope of the inquiry**

The Commission is requested to examine the application of competition and user choice to services within the human services sector and develop policy options to improve outcomes. These options should lead to improvement in the sector’s efficiency and effectiveness and help to ensure all Australians can access timely, affordable and high quality services, which are appropriate to their needs, and are delivered in a cost-effective manner.

The Commission is to undertake the inquiry in two stages.

1. The first stage will deliver an initial study report identifying services within the human services sector that are best suited to the introduction of greater competition, contestability and user choice. The Commission will examine:
   1. the current level, nature and future trends in demand for each major area of service delivery;
   2. the current supply arrangements and future trends, including the scope for diversity in provision and informed user choice, alternative pricing and funding models, and the potential for contestability in supply by government, not-for-profit and private sector providers;
   3. the effectiveness of previous reforms intended to introduce greater competition and user choice, and the pathway taken to achieve those reforms, through investigating:
      1. case studies of existing practices and trials in Australian jurisdictions; and
      2. international examples of best practice.
2. In the second stage, the Commission will undertake a more extensive examination and provide an inquiry report making recommendations on how to introduce greater competition, contestability and user choice to the services that were identified above.
   1. In providing its recommendations, the Commission’s report should identify the steps required to implement recommended reforms.
   2. In developing policy options to introduce principles of competition and informed user choice in the provision of human services, the Commission will have particular regard, where relevant, to:
      1. the roles and responsibilities of consumers within the human service sector, and the service or services being considered;
      2. the factors affecting consumer use of services and preferences for different models of service delivery, noting the particular challenges facing consumers with complex and chronic needs and/or reduced capacity to make informed choices;
      3. the role of the government generally, and as a commissioner, provider and regulator, in the delivery of human services;
      4. the role of government agencies in designing policy, commissioning and, in some cases, delivering human services in a client-centred way that encourages innovation, focusses on outcomes and builds efficiency and collaboration;
      5. the role of private sector and not-for-profit providers;
      6. the benefits and costs of applying competition principles in the provision of human services, including improving competitive neutrality between government, private and not-for-profit service providers;
      7. how best to promote innovation and improvements in the quality, range and funding of human services;
      8. the challenges facing the provision of human services in rural and remote areas, small regional cities and emerging markets;
      9. the need to improve Indigenous outcomes; and
      10. the development of systems that allow the performance of any new arrangements to be evaluated rigorously and to encourage continuous learning.

**Process**

The Commission is to undertake appropriate public consultation processes including holding hearings, inviting public submissions, and releasing issues papers to the public.

The Commission will publish the initial study report within six months of receiving these Terms of Reference. The report will set out the findings from case studies and international experiences and identify which services within the human services sector are best suited to the application of competition, contestability and informed user choice principles.

The final inquiry report, including policy recommendations and a path and process to ensure sustainable, efficient and effective reform, will be provided within 18 months of receiving these Terms of Reference.

S. MORRISON  
Treasurer

**[Received 29 April, 2016]**

# Contents

Opportunity for further comment iii

Terms of reference iv

Contents vii

Abbreviations ix

Overview 1

1 Introduction 3

2 Roles for government in the provision of human services 5

3 Competition, contestability and user choice 7

4 The Commission’s framework 11

5 Services identified for reform 14

The full report is available from [www.pc.gov.au](http://www.pc.gov.au)