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Professor Ian Harper
Chair – Review Panel
Competition Policy Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Professor Harper

Submission to the Competition Policy Review from the Municipal Association of Victoria

The Municipal Association of Victoria (MAV) is a member based organisation which has legislated responsibility to represent the 79 local government authorities in Victoria.

The MAV welcomes the opportunity to make this brief submission to the Competition Policy review. In this submission we are focussing on the section relating to government services, in particular those community services including health, education and welfare services offered by local government in Victoria and their not-for-profit community organisation partners. As the issues paper outlines - '*The importance of these sectors goes beyond their size. Better human services enable healthier, safer and better educated citizens who can aspire to higher welfare and living standards.*' [1]

We submit that in relation to community services, the principle '*1.3 government should not be a substitute for the private sector where markets are, or can, function effectively or where contestability can be realised*'; be mediated with a further principle relating to enhancing the health and welfare of people and the communities in which they live. Contestability can be usually realised in the community services sector however the consequences can be irrevocable with no net community benefit in the execution.

Contestability should not lead to unintended consequences of:

1. Fracturing the 'value-add' that public sector services offer through integration and co-ordination of responses in a <u>service system</u>

The notion of 'market' and choice is misleading in this case. Rather, the proposed reforms will establish a quasi-market in which there is just one purchaser — the government — and

[1] Australian Government *Competition Policy Review Issues Paper* April 2014 p45

the tenders are let by a particular department for a particular program or service with a particular target group and set of outcomes and accountabilities.

Those most vulnerable in the community for whom this particular program is devised to assist, are likely to require access to multiple programs and services. However the accountabilities for the service are unlikely to anticipate the resources required for integration and coordination transactions. The service and program design and outcomes sought are devised without knowledge or reference to other services or the service system which exists in a community. This type of policy siloing will mean that vulnerable individuals will be unlikely to receive the types of complex, multi-departmental, wrap around services they require.

2. Reducing the sustainability of services and the continuity of service delivery

Within a contestability model, the market must be continuously tested; leading to constantly changing shape of the service sector and the organisations within that sector. The cycle of changing personnel, organisational structures, partnerships and alliances can lead to lack of service continuity and the diminution of trust and engagement. This is detrimental to vulnerable clients. It will also result in sizable transaction costs as agencies win, lose and win business. Finally, it will create an unstable work environment for those people who deliver the services at the frontline.

3. Decreasing the sense of community connectedness and social cohesion.

Community connectedness and social cohesion are enhanced through the leadership that is offered by local community service providers as well as by the opportunities for communities to participate in activity and initiatives that bring people together to a shared sense of place and purpose.

The risk to these desirable goals, inherent in a quasi-market model, is that service provider will no longer be local agencies with deep roots in the community. Rather, when tenders are won by large organisations, including by international multi-nationals, organisational leadership (directors, executive staff) has no visible presence in the community, and may well be in another state (or country). Similarly, the discrete service offer may mitigate against broader community involvement, particularly when conducted by for-profit organisations. In other words, the practice of putting a price on each service may mean that unpaid community service is reduced or lost. This will have the biggest negative impact in small and remote communities.

4. Poor outcomes and reduced choice for consumers and those most vulnerable.
Contestability usually means fewer organisations and a smaller pool of 'players' in a given service sector. The resources that need to be directed to the 'hard to reach' are deployed to meet accountability targets potentially leading to the most vulnerable being overlooked. An example of this tendency is Job Network/Job Services Australia. It is Australia's largest quasi-market. It is quite efficient in getting some types of job seekers into work. However, it has a poor track record on helping the hardest to reach, particularly those with multiple barriers. Another risk with the proposed system is that smaller agencies with a particular focus such as culturally and linguistically diverse or aboriginal populations can be disadvantaged.

5. Reduced wages, tenure and conditions for frontline staff who deliver the services

During the Compulsory Competitive Tendering process in the local government sector in Victoria, there was a 20 per cent drop in wages of the lowest paid. Reduced wages and the casualisation of the workforce impacts on outcomes for the service user and on the sustainability and quality of the service provision. The proposed system might result in this type of wage squeeze occurring more broadly.

6. Discouraging volunteering and philanthropy

The Productivity Commission estimates that there are 4.6 million volunteers in Australia with an imputed value of $15 billion [2] to the Not-for-Profit community services sector. Although the participation of volunteers is not precluded from for-profit service organisations, it will not be at the same level nor will the community building activity be as evident.

7. 'Mission drift'

Encouraging 'mission-drift' whereby focus on improved efficiency and financial performance discourages not-for-profit agencies from supporting those hardest to reach and most vulnerable. As service providers move to greater differentiation and stakeholder roles in responding to different contested funding programs, the greater the risk of moving away from those people who are the most vulnerable and hardest to reach. Core values of loyalty and 'going the extra mile' to seek the best and most effective outcomes for the community/client are at risk of being replaced by purely commercially driven business decisions.

8. Reducing geographic coverage and accessibility to services

In relation to geographically remote areas - there is likely to be little functioning market and local government or the not-for-profit sector is likely to provide the only institutional structure to support many services, and therefore any moves between providers will be even more fragmented and may endanger the ongoing involvement of the only potential providers. Another point, related to this, is the potential to effectively push public service/not-for-profit providers to a 'residual' provider in the most challenging circumstances. I.e. the private market only provides services to those areas that it can easily make its profit. The point is touched on previously in the description of the job seeker system.

9. Limiting services offered

The structure of the competitive model and purchasing service by service often mitigates against the development of the comprehensive range of place based services such as those currently provided by Victorian local government and other community providers. The outcome being sought isn't just the direct service provision but the link into the service planning and support that only a government agency can provide.

In conclusion, we value the opportunity to be able to respond and wish to assure the Panel that the concerns expressed above do not preclude the recognition of the need for all governments to seek value-for-money and efficiency and effectiveness in service delivery. However as found in the House of Representatives Report (1998) titled 'What Price

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[2] Productivity Commission 2010, Contribution of the Not–For-Profit Sector, Research. Report, Canberra

Competition'[3] maintaining a public sector oversight regarding the best outcomes for the community requires further research into the range of impacts and issues with the contestability continuum before services are subjected to contracting or tendering.

The MAV would appreciate the opportunity to meet with the Panel to discuss the issues raised and the direct impacts experienced by Victorian councils in the planning and provision of services such as community aged care and child care.

Yours sincerely

ROB SPENCE
Chief Executive Officer

[3] Parliament of the Commonwealth of Australia June 1998 What Price Competition? Report on the Competitive Tendering of Welfare Services Delivery