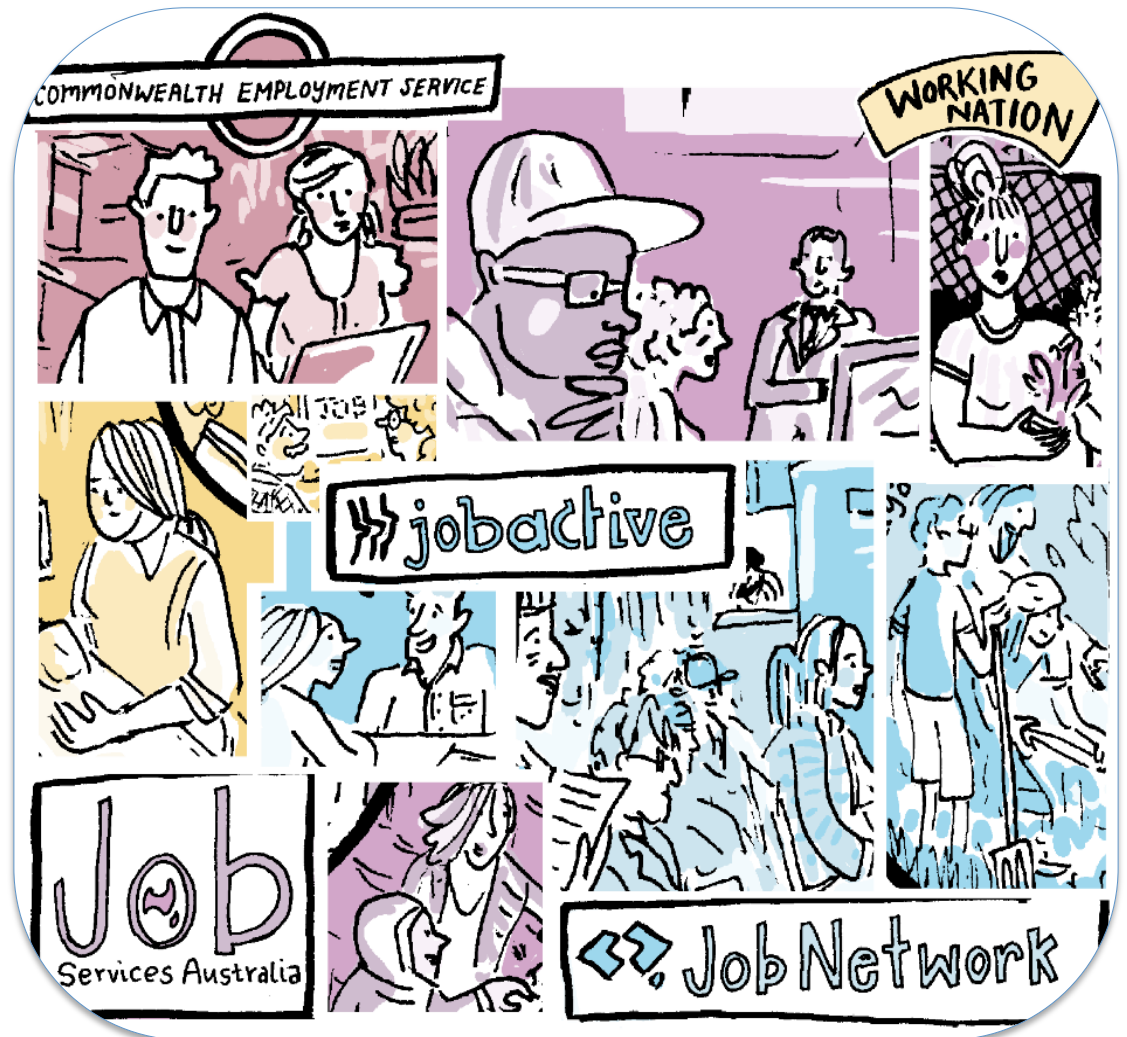CPd

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report

GRAND ALIBIS

HOW DECLINING PUBLIC SECTOR CAPABILITY AFFECTS SERVICES FOR THE DISADVANTAGED

BY KELLY FARROW, SAM HURLEY & ROBERT STURROCK

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Acknowledgments

About CPD

The Centre for Policy Development (CPD) is an independent, values-driven and evidence-based policy institute. Our motivation is fostering an Australia that embraces the long term now. We approach the future with purpose, rigour and ambition, committed to shared prosperity and sustainable wellbeing. CPD's policy development is geared towards an Australia that is equitable, aspirational and truly prosperous – and enlivened by the challenge of shaping a better future at home and abroad. We fuse domestic and international insights, combining fresh expertise to build a progressive Australian agenda.

CPD's core model is three-fold: we create viable ideas from rigorous, cross-disciplinary research at home and abroad. We connect experts and stakeholders to develop these ideas into practical policy proposals. We then work to convince government, business and civil society of the merits of implementing these proposals. CPD has offices in Sydney and Melbourne and a network of experts across Australia and abroad. We're non-profit: donations to our Research Fund are tax deductible. Sign up at www.cpd.org.au.

REPORT SUMMARY

Designing and delivering human services to change people's lives for the better is extremely challenging and fundamentally important. We now know a great deal about the breadth, depth and variety of social need. But despite the best efforts of governments and a range of providers, longer-term solutions to profound sources of disadvantage remain difficult to identify. It is unacceptable that, despite some successes, outcomes for the most disadvantaged Australian are persistently poor. This reflects the inherent complexity and difficulty of the policy challenges at hand, as well as chronic underfunding of social policy, difficulty of measuring wins, and poor data transfer and availability.

This report is built around one key question: has contracting out improved the public sector's capability to address persistent disadvantage and meet complex needs? We argue a predisposition by recent governments to outsource human services risks poorer outcomes for the most disadvantaged and erodes public sector capability to design and (where necessary) deliver effective services for the most vulnerable. Outsourcing emerged to combat systemic difficulties and dissatisfaction within government circles with direct public service provision. The objective was to create a market for service delivery and achieve better, more efficient, and more flexible services, expanding the role for non-profit and for-profit service providers. But despite the promise offered, the results are heavily contested. Across human services there has been a continued failure to deliver lasting outcomes for the most disadvantaged. The government's role in ensuring integrated, flexible and holistic human services is more important than ever. But the capabilities it needs to do so are absent – a challenge exacerbated by delivery models that push government agencies into narrow contract-management roles. For policymakers, disconnection from service delivery and limited evidence makes the hard cases even harder to reach. The pendulum has swung too far.

We say the experience of outsourced employment services is a crucial case. Despite a heavy emphasis on improving outcomes for the most disadvantaged jobseekers, better results remain elusive. The model has produced cost reductions and solid outcomes for better-placed jobseekers but has not delivered sustained social gains for the most disadvantaged. This failure means policymakers are no closer to lasting progress on the interconnected economic and social challenges associated with bad labour market outcomes, particularly for disadvantaged or vulnerable people and groups. This is a formidable and complex task – there are no easy answers or off-the-shelf solutions. But the disconnection between government and the experience, expertise and capabilities needed to develop better alternatives makes engaging with and breaking down this complexity even more difficult. These lessons suggest myopic reliance on outsourcing, or the misuse of commissioning principles for outsourcing, in other human service portfolios, such as in corrective services and disability services, may lead to similar results.

Blurred responsibility for service outcomes has led to the emergence of grand alibis where no one organisation is held accountable for service problems or entrenched failures. This is a fundamental problem for government because advancing wellbeing and addressing disadvantage is pivotal to its moral and democratic legitimacy.

We understand the complex, contested and emotional nature of this terrain. Many actors have a stake. These include public servants, unions, community organisations, academics, businesses, citizens, politicians, and, most importantly, vulnerable citizens themselves. While policy formulation, design, delivery and accountability are dispersed across different actors in different models, government is ultimately responsible for the results. In the long term, government is held to account for service failures, and has a fundamental responsibility to people in need.

What is not in dispute is that government will always have a role in the provision of human services. This role will not be monolithic: different policy challenges will require government to occupy different parts of the design-delivery spectrum. But the public role cannot simply be procurement and contract management. Government is the fulcrum in any human service system and has a valuable and active role to play in achieving lasting social gains for the most disadvantaged. Some areas of human services are so fraught they require enhanced public sector capability, including in direct service provision. In others, outsourcing has a role to play, but comes with costs that must be closely examined. Concepts like 'commissioning' involve a suite of viable, innovative alternatives beyond outsourcing, and require higher investment in public sector capability connected with service design, delivery and accountability, and the way they interact.

It's time for a strengthened, ongoing and transparent framework for making decisions about how to design and deliver effective government services – especially in cases of complex, entrenched disadvantage. Economic and technological changes that supported strong growth and rising prosperity for many have contributed to rising inequality and pockets of entrenched disadvantage for those left behind. As technology empowers and disrupts service delivery, a predisposition to one model over another can crowd out more effective solutions with better social outcomes. Seizing opportunities requires direct institutional understanding of disadvantage within government as manifested in the community, together with the flexibility and skills to identify more appropriate and better tailored service delivery models. This places an additional premium on public sector capability for design, innovation, commissioning, execution and impact assessment to ensure provision of transformative services for Australia's most vulnerable.

Key recommendations

Silver bullets are elusive and the search for them distracting. What we need is a rigorous framework to advance a complex reform agenda. We seek innovative approaches to public sector capability and human service design and delivery with greater objectivity and better evidence. Outsourcing has eroded the experience, skills and policy toolkits that the public sector needs to develop the best policy responses whether these are deployed publicly, privately or as part of mixed models. Our recommendations seek to ensure previous mistakes are not repeated as we face up to complex service challenges that can only be properly addressed if all social policy actors are contributing effectively.

The recommendations are:

1. **Build public sector capability by resourcing government departments to act as effective, persistent policy entrepreneurs,** including by trialling different service models, with the skills and staff to develop the evidence and analytics base on an ongoing basis.
2. **Ensure outsourcing passes a Net Public Impact Test**, which examines as appropriate the financial, economic, social and administrative impact, including reputational risks, loss of capability and public accountability.
3. Improve the evidence base by ensuring that the forthcoming Productivity Commission review of human services considers public sector capability to act on disadvantage, and empowering **the Australian National Audit Office and state counterparts to review confidentiality clauses in outsourcing contracts** before execution.

Box 1: Definitions

Complex needs: An array of problems confronting a person that may require them to negotiate several issues in their life, such as physical or mental illness, substance abuse and disability, giving rise to risk of deprived circumstances or lack of access to suitable housing, employment or meaningful daily activities.[1]

Disadvantage: There are numerous ways to measure and define disadvantage, including the poverty line, deprivation and social exclusion approaches.[2] This report uses disadvantage to refer to distinct or overlapping experiences of poverty, deprivation and/or social exclusion, leading to 'restricted access to resources, lack of participation or blocked opportunities'.[3]

Frictional unemployment: Unemployment as a result of the regular movement of individuals in the labour market according to personal circumstances. However, the labour market is characterised by a large degree of diversity – both in terms of workers and jobs. Workers invest time and effort in searching for the right job, and firms do likewise in looking for suitable candidates. As a result, individuals are not matched immediately with vacant jobs and may experience a temporary period of unemployment.[4]

Human or social services: The delivery of services and financial benefits by government departments and non-government organisations to the community, typically including portfolio areas such as health, disability, aged care, housing, child and family services, corrective services and employment services, amongst others.

Long-term unemployed: A person unemployed for 52 weeks or more.[5]

Multiple and complex needs: An array of problems confronting a person that imply breadth of need (multiple needs that are interrelated and interconnected) and depth of need (profound, severe, serious or intense needs).[6]

Outsourcing: Paying a corporation or another organisation to undertake a service that was previously provided directly by the government. In this report, outsourcing and contracting-out are used interchangeably.[7]

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[1] Victorian Department of Human Services, Families with multiple and complex needs: Best interests case practice model – Specialist practice resource, 2012, p 7.

[2] Committee for Economic Development of Australia, Addressing entrenched disadvantage in Australia, Melbourne, 2015 p 13.

[3] Saunders, Peter et al, Towards New Indicators of Disadvantage: Deprivation and Social Exclusion in Australia, Social Policy Research Centre, November 2007, viii.

[4] Ballantyne, Alexander et al, Unemployment and Spare Capacity in the Labour Market RBA Bulletin, September Quarter 2014, p 8.

[5] Australian Bureau of Statistics, 'Unemployed People', Year Book Australia, May 2012.

[6] Victorian Department of Human Services, Families with multiple and complex needs: Best interests case practice model – Specialist practice resource, 2012, p 7.

[7] Stone, Chris, False Economies: Unpacking public service efficiency, Centre for Policy Development, 2014, p 13.

Persistent or entrenched disadvantage: A severe form of disadvantage affecting four to six per cent of Australians. Cohorts at high risk of persistent or entrenched disadvantage include those with low educational attainment, Indigenous Australians, households with long-term health concerns or disability, those over age 65, jobless households, and households in certain disadvantaged geographic areas.[8]

Privatisation: Government selling a physical asset or an organisation.[9]

Recidivism: Repetitious criminal activity by an offender. The Australian Bureau of Statistics measures recidivism as repeated contact with the criminal justice system.[10]

Service model: The assumption, systems and structures on which the delivery and design of a service to the community are based. This can involve services being delivered by government agencies, not-for-profit organisations, private businesses or a combination of these actors.

Service beneficiary: A person who receives a service from a provider (noting that there are also second order beneficiaries, such as members of the wider community).

Workforce capability: The measure of a workforce's ability to achieve the tasks and objectives of their role through the application of skills, knowledge and attributes.[11]

Workforce capacity: The present or future measure of how much the workforce can do in an operational situation, referring to availability of appropriately skilled staff (such as absolute numbers) and workforce performance (qualitative elements such as staff engagement, motivation and discretionary effort).[12]

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[8] Committee for Economic Development of Australia, Addressing entrenched disadvantage in Australia, Melbourne, 2015 pp 14-.
[9] Stone, Chris, False Economies: Unpacking public service efficiency, Centre for Policy Development, 2014, p 13.
[10] Payne, Jason, Recidivism in Australia: findings and future research, Australian Institute of Criminology, Research and Public Policy Series No. 80, 2007, 4; Australian Bureau of Statistics, Essential Statistical Assets for Australia, 1395.0, 2014.
[11] Adapted from Australian Public Service Commission, 'Workforce Planning Explained' in Workforce Planning Guide.
[12] Adapted from Australian Public Service Commission, 'Workforce Planning Explained' in Workforce Planning Guide.

INTRODUCTION

Effective human services are fundamental to tackling disadvantage and delivering a fair and flourishing society in which anyone can thrive. Some services are transactional and straightforward. Others are extremely complex, dealing with some of the most entrenched, distressing challenges that individuals and communities face. Funding, designing and delivering services to break down and overcome interrelated sources of disadvantage is an incredibly difficult task. Every day, thousands of small and large social actors stare down that difficulty, roll up their sleeves and get to work.

Government's ability to address disadvantage is fundamental to its legitimacy. Many actors have roles and responsibilities, but governments should and will ultimately be held accountable for the effectiveness of key social services. While this accountability has not changed, the role that government plays in the design and delivery of services has evolved considerably over recent decades – especially due to an increased emphasis on contracted-out service delivery models.

This report is built around one key question: has contracting out improved the public sector's capability to address disadvantage and meet complex needs? Through the case study of employment services, it argues that outsourcing can undermine the capability of the public sector to respond to persistent challenges and fulfil public interest thresholds for the design and delivery of social services to the most disadvantaged Australians.

About this report:

The Centre for Policy Development's research on this issue builds on a well-established program of research into public service and effective government.[13] This report draws heavily on invaluable and diverse viewpoints expressed at a CPD roundtable on government service delivery in March 2015. The roundtable brought together representatives and experts from Commonwealth and State departments, public sector unions, charitable, not-for-profit and commercial service providers, community services peak bodies, corporate consultancies and academia. We also conducted interviews and consultations with a wide range of stakeholders and service delivery industry experts, augmenting our own in-house research.

Many of the people and groups we consulted expressed different and sometimes opposing views on the merits, potential and impacts of various service delivery programs, models and methods. While these judgements vary, what was common for all of them was a desire to ensure that social services effectively address disadvantage and assist the most vulnerable – and to ensure that government is playing its most effective role in meeting this challenge. Our own analysis and findings reflect the same desire.

This report explores four key themes:

- **The first is that disadvantage is a persistent and crucially important policy challenge.** Australia is facing a growing crisis of disadvantage.[14] The sources and impacts of disadvantage are complex and interlinked.

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[13] Previous CPD works published under the Public Service and Effective Government Programs include: Stone, Christopher et al, False Economies: Unpacking public sector efficiency, June 2014; Whelan, James, Big Society and Australia: How the UK Government is dismantling the state and what it means for Australia, May 2012.

[14] Addressing entrenched disadvantage in Australia, Committee for Economic Development of Australia, April 2015; Vinson, Tony and Margot Rawsthorne, Dropping off the edge 2015: Persistent communal disadvantage in Australia, Jesuit Social Services and Catholic Social Services Australia, 2015; McLachlan, Rosalie & Geoff Gilfillan, Jenny Gordon, Deep and Persistent Disadvantage in Australia, Productivity Commission Staff Working Paper, 2013.

They disproportionately affect a small share of the population for whom disadvantage has become entrenched. Apart from the deep and persistent impact on their lives, failure to deal effectively with these challenges has wider economic, social and budgetary impacts. As one expert puts it, 'the same families keep turning up on all the lists'.[15] Despite awareness of this challenge and the significant efforts of policymakers and government and non-government services providers, many services are failing to deliver decent outcomes and effectively support those who need them most.

◗ **The second is that while innovations in service delivery hold considerable potential, major changes have not always delivered better outcomes.** Policymakers at all levels recognise that the 'service delivery formula has transformed over the past two decades, and is likely to keep transforming'.[16] Changes in thinking, expertise and technologies have led to major reforms to social services provided or funded by government. Policy professionals and service providers have been in constant and sometimes competitive pursuit of the optimum service delivery model. Over recent decades, this process has seen outsourced services emerge as an orthodoxy. This has occurred amidst contradictory or countervailing demands and forces that have compromised the effectiveness of key services. In theory, the financial and technocratic resources available to government are higher than ever. But the ideological pursuit of small government as a policy objective in and of itself, and a narrow focus on near-term cost efficiency, means that reforms have not always been properly assessed or adequately funded. Despite widespread experimentation and innovation in service delivery, profound service failures persist.

◗ **The third is that changing service delivery models can have a lasting impact on governments' capability to respond to disadvantage.** We argue outsourcing has occurred with inadequate consideration of the long-term implications on government capability – including the capability to deliver services where there is a strong case for public provision, as well as the capability to retain effective design, commissioning and accountability responsibilities, even when services are not directly provided by government.

The long-term role, responsibility and capability of the public sector has been overlooked or de-prioritised in public sector planning and at all stages of service design, implementation, delivery and evaluation. This carries major risks, especially for services which focus on the most vulnerable or disadvantaged. Australians want governments that can deliver results, not alibis. Government responsibility and capability is highly valued by the general public who, continue to see government as ultimately accountable (Box 2). The effectiveness of social services has implications for democratic accountability. Profound service failures can represent a 'democratic deficit' and 'basic failure of governance'.[17] For beneficiaries, the type and effectiveness of services available not only impacts their quality of life but also reflects the nature of their relationship with the government and fellow citizens.[18]

◗ **The fourth is that the evidence base on outsourcing, service effectiveness and public sector capability is missing.** There is a clear view amongst industry experts that as well as being politically contentious, the nexus between evolving service models, government capability and service effectiveness remains factually under-explored and unresolved. As a result, debates about the prospects, achievements and impacts of different service models tend to get stuck in ideological or political frames that make choices

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[15] Discussion with academic expert , August 2015
[16] Lindsay Tanner, CPD Roundtable on Government Service Delivery, March 2015.
[17] Fowkes, Lisa, CPD Roundtable on Government Service Delivery, March 2015.
[18] Stakeholder at CPD Roundtable on Government Service Delivery, March 2015.

about how to provide effective social services even more problematic and controversial. Without thorough public assessments and good evidence, we risk repeating past mistakes and further eroding public capability. Where services are failing and the public sector lacks the capabilities to design or deliver services effectively, we must openly identify these problems, and find solutions. It is beyond the scope of this report to provide all the missing evidence. But it does flag alarm for readers who are interested in maintaining and building the capability of the public sector to effectively intervene to reduce disadvantage.

Box 2: Public expectations of government capability and service delivery role

Public views on the strengths and weaknesses of different service delivery models are mixed. However, recent polling demonstrates a strong public expectation that government retains the capabilities it needs for providing social services, as part of its broader public responsibilities.

An Essential Research poll conducted for CPD in September 2015 asked respondents 'in the long term, how important is it that the government maintain the capability and skills to directly deliver social services, rather than paying private companies and charities to deliver these?'

In total, **82 per cent** of respondents answered that it was either very important or somewhat important that government retain capability and skills for service delivery – with the strongest views from those 35 and over:

Table: Importance of government retaining service delivery skills and capability

How important	Total	Men	Women	18-34	35-54	55+
Very important	48%	43%	52%	32%	52%	61%
Somewhat important	34%	39%	28%	43%	30%	28%
Not very important	6%	7%	5%	8%	4%	6%
Not at all important	2%	2%	2%	1%	2%	1%
Don't know	11%	9%	13%	16%	12%	4%

An earlier Essential Research poll asked respondents to rank services provided by government, the not-for-profit sector and private providers according to a range of indicators of service quality. The results suggest a perception that government-provided services outperform others in terms of their accessibility, accountability and affordability. On the other hand, government services were perceived as performing relatively weakly in terms of providing more personalised and more caring services, particularly compared to not-for-profit providers. Again, older respondents were more favourable towards government services, ranking them higher than young respondents across every indicator.

Box 2 (continued): Public expectations of government capability and service delivery role

Charts: Perceptions of government, not-for-profit and private social services
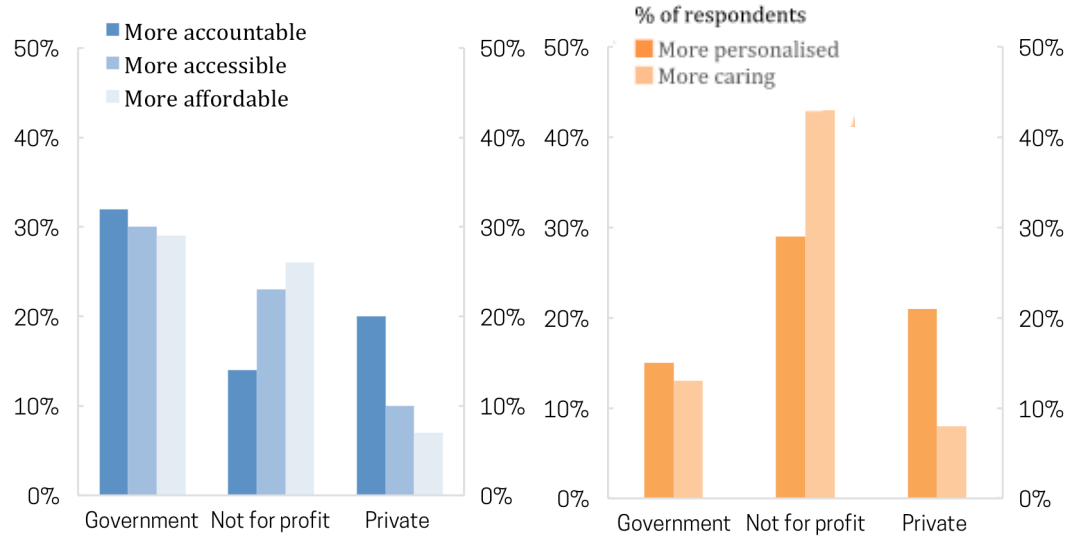
Note: Charts show the percentage of respondents who identified government, not-for-profit or private providers as having the best performance across the different categories. 'No difference' and 'don't know' are omited.

CHAPTER 1: ENTRENCHED DISADVANTAGE AND GOVERNMENT HUMAN SERVICES

The experience of using a social service is a material and personal one. It is the bus ride to a service shopfront; the waiting for an appointment in rows of chairs; the attendance, at training or work-for-the-dole; the punctuated, mostly disconnected interactions with social workers, doctors, parole officers, teachers or case managers; the balance of family imperatives and social life with sometimes arduous administrative hurdles. Those who develop and deliver social services hope that tangible assistance – a safe bed, a job-ready resume, food in the fridge – will support lasting, intangible benefits like a sense of individual capability, fulfilment and agency about the future.[19]

The professional practice of designing and implementing government-funded social services is far less grounded in the ordinary and personal. Necessarily, in some ways it is highly abstracted, and highly impersonal. The singular experience of the welfare beneficiary remains the heart of the endeavour. But the individual becomes anonymous and homogenised in the grand scale of service delivery, amassed with hundreds of thousands of other individual, family or community contexts, and overlaid (or obscured) by a host of political, technological, macroeconomic and socio-economic considerations.

This extraordinary complexity means that all the entities responsible for designing and delivering social services require extraordinary capacity and capabilities to do this effectively. This is especially true for the public sector, which operates both at the front lines of many services, and in more distant roles as system stewards and policymakers.

This chapter begins by considering current indicators of disadvantage in Australia. It highlights the examples of long-term unemployment and recidivism as indicators of the complexity and interrelated causes of key forms of disadvantage, reinforcing the need for services to be integrated and holistic if they are to succeed. It then considers the capabilities that these services require, and how the unique characteristics of government shapes the roles the public sector can and must play.

Persistent disadvantage and complex need

On many measures, living standards in Australia have never been higher. But two decades of uninterrupted economic growth, rising incomes and increasing aggregate prosperity have coincided with increasing inequality, continued long-running disadvantage in many vulnerable groups and communities, and new challenges for those left on the margins of Australia's evolving society and economy. Between 4 and 6 per cent of Australians (1 to 1.5 million people) suffer from entrenched disadvantage, according the Committee for Economic Development of Australia (CEDA).[20] Child poverty rates have remained essentially unchanged since the turn of the century, and the overall poverty rate has risen.[21] Geographically, the most serious disadvantage is heavily concentrated in a small number of postcodes where it has persisted over time. As

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[19] Bodsworth, Eve. What's the difference? Jobseeker perspectives on employment assistance, Brotherhood of St Laurence Research Paper 2015, pp v-vi. Martha 'Capabilities as fundamental entitlements: Sen and social justice', Feminist Economics, 2003, 9(2-3) pp 33–59.

[20] Committee for Economic Development Australia, Addressing entrenched disadvantage in Australia, April 2015, p 8 .

[21] NASTSEM , Poverty, Social Exclusion and Disadvantage in Australia, 2013, p 8.

the *Dropping off the Edge* report, produced by Jesuit Social Services and Catholic Social Services Australia, concluded, 'These communities are not failing – Australia is failing these communities'.[22]

These troubling indicators raise crucial questions about why prosperity has not been more broadly shared, and whether the evolving role of government has strengthened or compromised our collective capacity to address disadvantage.

In exploring these issues, this paper highlights two of the standout indicators of policy and service failure: long-term unemployment and rising recidivism.

The crisis of **long-term unemployment** that followed the deep early 1990s recession prompted major changes in the design and delivery of employment services. Policymakers facing up to the economic, social and political consequences of high rates of long-term joblessness drove major reforms to what was widely perceived to be an underperforming government-centred employment service delivery model.

Today, after almost twenty years of large-scale investment in and continued refinement of an outsourced employment services delivery model, interventions to deliver better outcomes for the long-term unemployed and other disadvantaged jobseekers remain as elusive as ever.

Long-term unemployment stems from a complex set of factors ranging from macroeconomic trends and regional economic developments through to individual and social factors like low education or skills, poor health or disability and poverty or social exclusion (see Box 3). It is pernicious because it steadily erodes skills, motivation and employability. It reflects and reinforces other sources of disadvantage such as ill health, family breakdown, poverty and social exclusion. These linkages mean employment is extremely relevant to a whole range of other service and social outcomes for disadvantaged people and groups, and reinforce that long-term unemployment is an incredibly complex challenge to break down. Problematic at the best of times, the urgency of this challenge is intensifying due to weaker economic conditions. Long-term unemployment today is the highest it has been since the late 1990s. Around 180,000 people are categorised as long-term unemployed by the ABS, and over 500,000 people are long-term Newstart recipients.[23]

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[22] Yule, Andrew, 'Complex and entrenched disadvantage experienced by Australian communities', Dropping off the Edge (DOTE) July 17 2015.
[23] Australian Bureau of Statistics (ABS) Labor Force, Australia, Detailed; Australian Government Department of Social Services, Labour Markets and Related Payments ,September 2015. Eligibility for Newstart payments differs in important respects from the definitions used by the ABS to calculate unemployment. See ABS, 'The unemployed and recipients of government unemployment benefits – difference explained', 6105,0. July 2014.

Box 3: Common cross-service barriers

A wide range of factors serve as barriers to employment for the long-term unemployed. These demonstrate the need for key services, such as employment services, to be better integrated with other service areas regardless of how they are delivered.

Structural and individual barriers to long-term employment may include the following:[24]

- tax and transfer systems may provide a disincentive to employment (such as through the loss of income support and health and transport concessions as recipients enter paid work)
- lack of affordable child care
- lack of affordable transport to education or employment
- lack of internet or computer access
- physical or mental health problems
- disability
- older age
- poor education, literacy, and numeracy skills
- loss of confidence and self-esteem, social isolation
- drug and alcohol abuse
- dependent children with health or behavioural problems
- domestic violence or family breakdown
- housing instability or homelessness.

In Professor Mark Considine's words, 'all the social services say the same thing… [the first concern] is to get people into jobs'.[25] As this report shows, the limited ability of the existing employment services system to do so for some people is a critical and entrenched weakness of the current model.

Rising recidivism in many Australian jurisdictions is another key indicator of disadvantage and of the profound, ongoing challenges in social services that deal with the most complex cases and issues. Nationally, the rate of return to prison within two years after release increased from 38.5 per cent to 42.1 per cent between 2009/10 and 2013/14.[26] This is also reflected at state level, with re-offending rates in Victoria jumping from 34 per cent to 44 per cent over the last five years,[27] and return to prison rates within two years of release rising significantly to around 40 per cent in Victoria, Queensland and Tasmania from 2009/10 to 2013/14.[28]

The example of recidivism is another indicator that disadvantage is a pressing challenge, and that the most difficult cases reflect complex interrelationships between different drivers of disadvantage (and different social services). In Victoria, almost 50 per cent of prisoners had two or more characteristics of serious disadvantage prior to admission to prison, and 40 per cent have a mental health condition. Over 60 per cent of male prisoners (and 45 per cent of females) were **unemployed** at the time they entered prison.[29] Welfare providers, advocates and independent bodies, such as the Victorian Ombudsman, consistently highlight the importance of coordination between different services, and call for urgent investment in holistic and preventative corrective services targeted at the deeper and underlying causes of offending.[30]

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[24] The Benevolent Society, Making employment services work better for disadvantaged families - The Benevolent Society's response to the Employment Services – building on success: Issues paper, 2013, p 7.
[25] Discussion with Professor Mark Considine, University of Melbourne, August 2015.
[26] Productivity Commission, Report on Government Services 2015, Volume C Justice p 22..
[27] Investigation into the rehabilitation and reintegration of prisoners in Victoria, Report of the Victorian Ombudsman, 2015, p 4.
[28] Productivity Commission, Report on Government Services 2015, Volume C Justice p 22.
[29] Investigation into the rehabilitation and reintegration of prisoners in Victoria, Report of the Victorian Ombudsman, 2015, p 32.
[30] Investigation into the rehabilitation and reintegration of prisoners in Victoria, Report of the Victorian Ombudsman, 2015.

Effective social services are integrated, holistic and client centred

The multidimensional nature of disadvantage, and the complex needs of many service beneficiaries mean that effective social services need to be integrated, holistic and responsive to the needs of individual clients and local contexts to be effective.

In the theory and practice of service provision, this means linking-up service design and service delivery as a complete or 'wraparound' package of collaborative welfare interventions that address social barriers collectively, rather than in isolation.[31]

The integration of services is particularly crucial to support people with more complex needs, or multiple barriers to social or labour force participation.[32] Reviews of international and national integrated service models consistently find that joined-up response to 'wicked' problems 'can be resource-effective, enable knowledge and resource sharing, lead to long-term solutions and foster a sense of responsibility'.[33]

These imperatives are clear in the examples of long-term unemployment and recidivism discussed above. The National Welfare Rights Network has argued that 'assistance to improve employment outcomes for disadvantaged jobseekers requires a greater investment in intensive case management, basic skills training and work experience. It also requires better integration between support programs and health, housing and social services generally.'[34] Over the last decade in corrective services, designers and deliverers around the country have been advocating and pursuing a holistic and strategic 'throughcare' model. This emphasises a 'co-ordinated and integrated approach to the management of people who are the responsibility of Corrective Services from their first point of contact with the Department to the completion of their legal order, including their re-integration into the community'.[35]

The imperative of holistic and integrated services is not a new theme in discussions about effective social service delivery. The 2010 public service capability review led by the then Secretary of Department of Prime Minister and Cabinet, Terry Moran, recommended 'integrated and flexible place-based service delivery in areas of concentrated disadvantage (building on lessons from existing place-based trials), and starting in areas of greatest disadvantage'.[36] A review of Victorian social services conducted in 2013 by Peter Shergold found that 'a more integrated and coordinated service approach lies at the heart of raising productivity in the delivery of government services'.[37] The review noted that in recent years 'service integration has been a major plank of policy directions in all Australian jurisdictions'.[38]

Social services that are flexible and responsive to service beneficiaries' needs and preferences, and to the demands of individual and local contexts, are a highly visible priority for today's leading service designers. The National Disability Insurance Scheme (NDIS) for instance, one of the nation's largest social service reforms, 'is driven by the fundamental principle that people with disability, their families and carers are at the heart of the scheme' and seeks to 'empower participants to make genuine choices and to exercise control

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[31] Beadle, Sally, 'Complex Solutions for Complex Needs' in Youth Studies Australia, 28:1, 2009, p 23.
[32] Bodsworth, Eve. 'What's the difference? Jobseeker perspectives on employment assistance', Brotherhood of St Laurence research paper, 2015.
[33] Bond, Sharon, 'Integrated service delivery for young people: A literature review', Brotherhood of St Laurence Research Paper, Melbourne, 2010 p 7.
[34] National Welfare Rights Network, 'Fairness and support in uncertain times, 2012-13 Federal Budget Statement Priorities 2012-2013', p 15.
[35] Stevens, Kate, 'The challenges of implementing throughcare', Conference Paper by NSW Department of Corrective Services given at the Probation and Community Corrections: Making the Community Safer Conference 2002, p 2.
[36] Advisory Group on Reform of Australian Government Administration, 'Ahead of the Game: Blueprint for the Reform of Australian Government Administration', 2010, p 35.
[37] Shergold , Peter, 'Service Sector Reform: A roadmap for community and human services reform', July 2013, p 4.
[38] Shergold, Peter, 'Service Sector Reform: A roadmap for community and human services reform', July 2013, p 11.

over their lives'.[39] This approach draws on Professor Charles Sabel's argument that 'citizen users of the services provided also turn out to have knowledge relevant to public choices; indeed, at the limit, citizens often prove to be co-producers (and hence co-authors) of services as well as consumers of them'.[40]

While integrated, responsive, effective services are a key priority, this can be very difficult to achieve in practice. Responding to a range of different contexts, and benchmarking service outcomes in the face of this complexity, is extremely challenging. Universal, neatly compartmentalised outcomes are not always possible, or appropriate. To take a simple example, for a teacher key outcomes might range from getting students into tertiary education to just keeping them engaged at school. Indeed, Community and Public Sector Union/State Public Services Federation Federal Secretary Karen Batt describes public services as a 'continuum', rather than a bundle of fragmented, prescribed outcomes.[41] Understanding this continuum, and achieving the nuanced, agile service design and delivery that responds to a wide range of contexts and variations in social service needs is an incredibly difficult task.

Effective integration of services also relies on cooperation and co-ordination at all levels, including 'connecting various parts of government together in the policy process'.[42] In practice, responding to the multitude of different individual, geographic and socioeconomic contexts requires significant investment to unlock policy silos and counterproductive budgeting, human resource and accountability arrangements within the public sector.[43] It requires strong and consistent normative recognition that building integrated and responsive services is an enduring function and capability threshold for the public sector, and the investment to match.

At CPD's roundtable, Karen Batt observed that integrated services often suffer from incomplete or token investment, meaning the benefits never actually materialise, 'If you're going to look at outcomes, you have to look at funding models…we talk about having a holistic policy, [but] this isn't being supported by funding across the board'.[44] From a workforce perspective, there are also concerns that the integration of services will become a catalyst for workforce shrinkage, reduced expertise through the generalising of roles and de-professionalising of staff, or diminished workplace conditions through the overloading or combining of critical delivery roles.[45]

Government has an enduring role in human services to tackle disadvantage

Government's enduring accountability for addressing disadvantage means there is a high premium on its capability to understand, and respond effectively to, complex service needs. At the highest level, democratic participation in government is the key means by which citizens can engage with this complexity to shape the services they receive and the societies in which they live.[46] Government's duty to promote and respond to this engagement – and also its duty to protect the needs and interests of the marginalised,

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[39] National Disability Insurance Agency, Building the National Disability Insurance Scheme Progress Report: Year Two, July 2015, p 7.

[40] Sabel, Charles F. 'Beyond Principal-Agent Governance: Experimentalist Organizations, Learning And Accountability' in Enwald Engelen and Monika Sie Dhian Ho (eds) De staat van de democratie: democratie voorbij de staat, p 7.

[41] Batt, Karen, CPD Roundtable on Government Service Delivery, March 2015.

[42] O'Flynn, Janine et al, 'Perspectives on the Capacity of the Australian Public Service and Effective Policy Development and Implementation', in The Australian Journal of Public Administration, 70:3, 2011, p 311.

[43] Wanna, John, Evert A. Lindquist and Penelope Marshall. New Accountabilities, New Challenges, ANU Press, Canberra, 2015, p 266.

[44] Karen Batt, CPD Roundtable on Government Service Delivery, March 2015.

[45] Karen Batt, CPD Roundtable on Government Service Delivery, March 2015.

[46] Lisa Fowkes, CPD Roundtable on Government Service Delivery, March 2015.

voiceless or vulnerable – means that it must have the capabilities to engage with this complexity, and to ensure that services work.

In discharging these duties, the government has a number of strengths and characteristics that reinforce the valuable role the public sector can play. These include:

- **Accountability for the spending of public money, and for how government at any level responds to welfare gaps in the community.** Ultimately, the buck stops with government. There is no normative or legislative obligation on any social entity other than government to continue striving for policy inventions and policy settings that will assist and empower the poorest and most disenfranchised Australians. As noted by the NSW Parliament Community Service Committee in 2013, there is an essential and ongoing role for Government in directly providing services as a last resort, particularly 'where there are gaps in the market due to geography or because of the complexity of a particular client's need'.[47] In service sectors with existing mixed markets, government providers already tend to take on the hardest cases.

- **An unparalleled and assured source of applied expertise.** The accumulated institutional know-how that remains in federal and state departments that have traditionally been oriented towards service delivery should not be undervalued or excluded. It is run down at great expense to the public interest. In areas where services deal with many people with profound disadvantage (including employment services), there is a risk that outsourced delivery models not only fundamentally change the nature of the relationship between the state and disadvantaged people,[48] but also erode the skills and expertise needed to achieve and sustain effective services over the longer term. In an environment increasingly defined by rapidly changing service features, time-limited contractual arrangements, changing executive government priorities and fluctuating market composition, a solid basis of expertise is arguably more important than ever.

- **Breadth and cross service reach.** The breadth and reach of the public sector ecosystem offers a unique opportunity to provide services that are widely integrated and coordinated – a key priority for effectiveness. The roles and expertise of the public sector across federal, state and local jurisdictions mean it is uniquely placed to connect different services and intermediate service design and delivery from a national to a local level. This cross-service reach may be seen as an opportunity to innovate and break down traditional barriers to effective integration. There are immense challenges to doing so, which should only spur further, sustained investment and effort.

Our core argument is that these fundamental strengths and duties of government cannot be effectively drawn upon or discharged by a public sector whose capabilities are being steadily reduced to building and managing one-off design and contract management processes. Different service delivery models and non-government service providers have their place, but government is the fulcrum around which different services interact. This aspect of the role of government is irreducible. Equally, in a rapidly changing and highly complex policy environment, governments must be willing and able to change old practices and models that are no longer responsive to service needs, and to cultivate more suitable roles and capabilities.

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[47] Legislative Assembly of NSW, Committee on Community Services, Outsourcing Service Delivery – Final Report (2/55) 2013, p 49.

[48] Considine, Mark & O'Sullivan, Siobhan, Contracting-Out Welfare Services: Comparing National Policy Designs for Unemployment Assistance, 2015, p 4.

Outsourcing, 'commissioning' and the changing capabilities of government

The mid-1980s saw the start of a systematic program of privatisation or corporatisation of public enterprises and competitive tendering of services in Australia and the United Kingdom, spurred by new ideologies of government administration such as New Public Management.[49] This trend intensified in Australia during the so-called 'marketisation' phase of public sector reform following the introduction of the National Competition Policy in 1993, which mandated competitive neutrality for Australian governments.[50]

In part, these reforms were a response to the service challenges highlighted above. Competition and contestability in service markets were seized upon as a means of making some government-delivered services more flexible, efficient and responsive to the needs of service users. They reflected the growing dominance of a narrow focus on cost efficiency, which saw widespread outsourcing occur alongside waves of departmental budget cuts, workforce cuts, and public asset privatisation programs.[51] We return to a discussion of the real costs of this narrow view of efficiency – technical or cost efficiency – in Chapter 4 of this report.[52]

These reforms fundamentally altered the trajectory of social service delivery, giving rise to large-scale outsourcing of public services to non-government providers including philanthropic, community (not-for-profits) or private companies (for-profits). Of course, Australian Governments have long supported the activities of charitable and community welfare organisations, including their altruistically motivated provision of frontline welfare programs, advocacy and research. But the relationship between government and service providers became highly complex with the rise of outsourced service industries. The long-blurred line between public and non-public service providers is even hazier today.[53]

The outsourcing agenda has expanded considerably in the intervening decade. In some policy, bureaucratic and political circles it is on its way to becoming the 'default position'.[54] This trend is apparent at both the state government level, where the bulk of service provision and delivery responsibility lies, and the federal level. As a result, government services in Australia are moving gradually, in structure and in institutional norms, from a service delivery workforce to a much more contained role as 'market steward'.[55]

More recently, the concept of government as a 'commissioner' of social services has risen to prominence. In 'commissioning-thinking', the chief responsibility of the twenty-first century public sector is to identify broader social outcomes that need to be achieved, and create the collaborative services system to make this possible. In the most basic terms, commissioning is the cycle of assessing the needs of people in an area, designing and then securing an appropriate service'.[56] Professor Peter Shergold's 2013 review of Victoria's social services stated that 'government, having set the policy agenda and determined the budgetary allocations, needs to become the "strategic commissioner" of services purchased from a public economy'.[57] Miguel Carrasco of Boston Consulting Group describes commissioning as a key intellectual

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[49] The extent to which this trajectory was influenced by Thatcherite policies, New Public Management thinking and Big Society principles has been discussed at length in CPD publications Big Society and False Economies (referenced earlier at footnote 13).

[50] Hilmer, Rayner, and Taperell, National Competition Policy, Report by the Independent Committee of Inquiry, 1993.

[51] Whelan, Dr James, Big Society and Australia: How the UK Government is dismantling the state and what it means for Australia, Centre for Policy Development, 2012, p 14.

[52] CPD's False Economies report, referenced earlier, described the different efficiencies: technical (doing the most work with the fewest resources), allocative (allocating resources to the right place) and dynamic (being able to use new technologies and adopt new ways of operating), p 7.

[53] Smyth, Paul. The lady vanishes: Australia's disappearing voluntary sector, Presentation to a lunchtime seminar Brotherhood of St Laurence, Fitzroy, Victoria on 14 August 2014.

[54] Shergold, Peter, Service Sector Reform: A roadmap for community and human services reform, 2013, p 5.

[55] Harper, Ian et al, Competition Policy Review, Final Report, March 2015, p 8.

[56] UK Cabinet Office, Partnership in Public Services: An action plan for third sector involvement. London, 2006.

[57] Shergold, Peter, Service Sector Reform: A roadmap for community and human services reform, 2013, p 5.

question for government, a combination of both 'art and science' aimed at clearly 'defining what we want'. He says, 'we used to call it "service delivery strategy" or "an operating model"… but essentially it's about thinking through who does what, at what cost and performance, and how does data flow in the system'.[58]

The language of commissioning has permeated government service planning across Australia.[59] While conceptually distinct from outsourcing, the two have been closely linked. Indeed, the concept and practice of commissioning has reportedly 'emerged because there is already a significant public service market in operation in most advanced economies in which public, private and not-for-profit service providers operate'.[60] Because it lacks consistent application, and because it has been closely associated with reforms that have aggressively reduced the role of governments in service provision, commissioning has been viewed with suspicion by those resisting the outsourcing agenda. (These concerns are explored in more detail in Chapter 4).

At the same time, it is not necessarily the case that advocates of a commissioning approach take an absolutist view of the role of government in service design and delivery. For example, while Professor Gary Sturgess has emphasised the importance of contestability for effective service provision, in his view, commissioning, where executed properly, does not pre-suppose or prioritise any particular service delivery sector.[61]

The common ground across these viewpoints should be a focus on the capabilities the public sector needs to do its job effectively, and an awareness that a predisposition to outsourcing can alter these capabilities over time. Alford and O'Flynn, in making a compelling call for a more rigorous framework for making decisions about externalisation of services, highlight the range of costs and complexities that need to be taken into account to get service design and delivery right, emphasising that 'it all depends' on the circumstances in question.[62] Putting this more rigorous approach into action depends, in turn, on the public sector's capability to understand and respond to these complexities and contingencies.

On a narrow view, outsourcing requires skills in procurement, contract management and compliance, project management, performance management and evaluation. Similar skills are relevant for service provision run by public sector delivery agencies. Yet even where services are delivered external to government, the public sector also requires broader skills in policy design, analysis and service integration if these services are to contribute effectively to addressing systemic causes of disadvantage. For 'strategic commissioning', strategic planning and policy development are foremost capabilities, requiring public departments to 'undertake rigorous research, gather and analyse data and provide the highest quality advice'.[63] It also requires capabilities to understand and work closely with other policymakers, providers and the communities and individuals that receive services, both on a local and a state or national scale, and across a range of policy issues and portfolios. Box 4 below shows the new capabilities commonly associated with 'government as commissioner'.

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[58] Discussion with Miguel Carrasco, Boston Consulting Group, June 2015.

[59] Harper, Ian et al, Competition Policy Review, March 2015, pp 239-243, 249, 254. In March 2015 the Competition Policy Review headed up by Professor Ian Harper stated that the Government's future role in service delivery is to create diversity through commissioning, in the role as market stewards. The Report of the Panel stated that governments 'should retain a stewardship function, separating the interests of policy (including funding), regulation and service delivery'.

[60] Ernst Young, A Catalyst for Change, Online brochure, 2014, p 5.

[61] Sturgess, Gary, 'A middle way for contestability', The Mandarin, 15 April 2015.

[62] Alford, John and O'Flynn, Janine, Rethinking Public Service Delivery: Managing With External Providers, Basingstoke: Palgrave Macmillan, 2012.

[63] Advisory Group on Reform of Australian Government Administration, Ahead of the Game – Blueprint for the Reform of Australian Government Administration, 2010, p 17.

It is perfectly natural, indeed it is absolutely necessary, that the public sector's capabilities evolve and are updated over time. A minimum requirement for this process is that the skills and human capital required for new delivery models to work can maintain the democratic fundamentals of good government and the public service mandate. This includes the ability to ensure effective provision of social services to reduce disadvantage and respond to the complexity of human needs over the long term.

Box 4: Commissioning competencies

Professors Helen Dickinson and Helen Sullivan from the Melbourne School of Government have highlighted a framework of public sector commissioning competencies, drawing on the experience of English health care provision:[64]

- prioritisation and decision making
- engaging the population in their own welfare
- quantifying, costing and structuring demand
- ensuring services are clinically effective and high quality
- securing services at the optimum cost
- stakeholder engagement
- strategy and planning
- collaboration and partnership
- information and knowledge management
- innovation and best practice
- governance, compliance and accountability
- project and process management
- leadership
- culture, attitudes and behaviour.

An under-explored side of the new service models are the capabilities that are being eroded, or that the public sector is being asked to give up. Trading-off those skills risks eroding long accumulated capabilities and competencies that may be costly, or impossible, to replace. This is especially concerning where new approaches are deployed in a mechanistic or ideologically-driven way that does not engage with the long-term consequences for the public interest, including, most importantly, the ability to achieve better service outcomes for the most disadvantaged. If new approaches are poorly designed, underfunded or overburdened by political or ideological imperatives, and if they don't pay close attention to the public sector capabilities they need to work, irrespective of how services are ultimately delivered – they will fail. Not only will this fail to deliver results, but it will undermine the government's ability to design and deliver effective policy interventions in other areas. This comes not only at great immediate cost to service recipients, but at an even bigger long-term cost to the public interest in more effective services and a more capable public sector. As former Treasury Secretary Ken Henry remarked in relation to decades of outsourcing and recent waves of public sector redundancies, 'many departments have lost the capacity to develop policy; but not just that, they have lost their memory.'[65]

In the next chapter we test how the comprehensive outsourcing of Australia's national employment services affected the government's ability to tackle entrenched disadvantage.

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[64] Woodin, Juliet & Wade, Elizabeth, Towards World Class Commissioning Competency, Birmingham, University of Birmingham, 2007, referred to in Dickinson, Helen & Sullivan, Helen, Imagining the 21st Century Public Service Workforce, Melbourne School of Government, October 2014, pp 14, 31.
[65] Tingle, Laura, Political Amnesia: How we forgot how to govern, Quarterly Essay, Issue 60, 2015, p13.

CHAPTER 2: EMPLOYMENT SERVICES – A TWO SPEED SYSTEM

Employment services are a leading example of the complexity and importance of the task facing those who design and deliver key social services.

Services to connect jobseekers with employment opportunities, and the interaction between these services and the welfare system, are part of much broader policy agenda to increase workforce participation and productivity, and therefore to boost economic growth and wellbeing. At the same time, the state of the economy and the labour market are the key determinants of how many people are looking for jobs, and the number and type of job opportunities that are available at any one time. Many of the factors that determine the near-term success of these services are therefore beyond the immediate control of jobseekers, service providers or policy designers.

There is also a profound link between the effectiveness of employment services and wellbeing at an individual and societal level. Improving the employment prospects for jobseekers is about much more than boosting growth or labour market participation. It goes right to the heart of a number of complex and interrelated policy challenges and aspirations, particularly for the disadvantaged. These range from achieving better outcomes in housing, education and health to enhancing individual self-esteem, self-confidence and agency for people who have struggled with the profound consequences of unemployment, and particularly of long-term joblessness. These linkages mean employment services are a key component of the policy toolkit for targeting entrenched disadvantage. In particular, they have a key role to play in addressing the disadvantage associated with long-term unemployment, a challenge that cuts across many other areas of economic and social policy.

There is no single set of indicators, objectives or outcomes by which employment services can or should be assessed, any more than there is a simple equation for success in a notoriously difficult policy area. However, the ability of employment services to grapple with complex cases and entrenched disadvantage must be central in any assessment. The impact of particular service delivery models on the public sector's capability to engage with these policy challenges must also be a key consideration.

With these factors in mind, this chapter considers the track record of Australia's employment services system, which has been comprehensively outsourced since the late 1990s. Despite the rhetoric and promise that has accompanied the development of this model, we argue that its track record is mixed at best, and that entrenched poor outcomes for the most disadvantaged jobseekers are highly concerning. This raises serious concerns about whether this is feeding into broader policy failures in addressing entrenched disadvantage, and how outsourced delivery models impact the capability of the public sector to engage effectively with this key challenge.

Origins of the outsourcing agenda in employment services

Reliance on outsourced models to deliver employment services is comparatively greater than in other human services portfolios.[66] For almost two decades now, employment services has been fully outsourced. The Commonwealth funds the service for individual users, and a competitive market exists for these users to choose their service providers.[67]

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[66] Considine, Mark and O'Sullivan, Siobhan, Contracting-Out Welfare Services: Comparing National Policy Designs for Unemployment Assistance, 2015, p vii.
[67] Le Grand, Julian, 'Quasi-Markets and Social Policy', The Economic Journal, 101 (408) 1991, pp. 1256-1267.

Prior to the development of the outsourced system, employment services were delivered directly by government through the Commonwealth Employment Service (CES). By the early 1990s, a firm and credible body of opinion had developed inside and outside government that the CES had fundamental shortcomings its service delivery, including institutional inertia, a dominance of systems lacking innovation and creativity'. The rigidity and underperformance of the CES model was accentuated by the severe recession and crisis of joblessness and long-term unemployment in the early 1990s, which drove policymakers to look for policy alternatives – including different delivery models – that might achieve better results.

This process began with the introduction of competition and contestability into the employment services portfolio under the Keating Government's *Working Nation* reforms from 1994 to 1996. However, the election of the Howard Government in 1996 was the major catalyst for large-scale outsourcing of these services, with a competitive outsourced market developed to improve the quality and cost of employment services. The CES, which had operated since 1946, was closed in 1998, and its function outsourced to predominately private and community providers. [68]

The stated objectives of these reforms included the following:[69]

❯ delivering improved quality of assistance services that would lead to 'better and more sustainable employment outcomes' – with a focus on 'real jobs' rather than placements into short-term employment programs.

❯ providing jobseekers with greater choice in choosing their services.

❯ providing a client-driven model where service providers were able to operate with 'maximum flexibility as to how they organise and deliver their assistance'.

❯ introducing a 'wider range of providers' with 'far stronger incentives to achieve sustainable job outcomes' including additional incentives for outcomes for particularly disadvantaged jobseekers.

❯ achieving 'better value for money' with taxpayers having 'an assurance that public funds are being spent to best possible effect'.

Since 1998 Australia has had a series of outsourced employment services systems, managed by governments of all political persuasions: Job Network, to 2009; Jobs Services Australia (JSA), to 2015; and as of July this year, Jobactive.

The mixed record of Australian employment services

Australia's unique approach to activating jobseekers has yielded significant gains to the economy and society.[70]

John Martin, OECD Director of Employment

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[68] Employment National was created out of the CES and functioned as a government owned service provider until mid-2003.
[69] Vanstone, Amanda, Minister for Employment, Education, Training and Youth Affairs, Reforming Employment Assistance – Helping Australians into Real Jobs, 20 August 1996, p 4, see also principles for reform pp 17-19.
[70] Martin, John, OECD Director of Employment, Labour and Social Affairs, Australia's unique approach to helping the unemployed has delivered good results but challenges remain, OECD Press Release, 11 December 2012.

JSA (and before that Job Network) rewards providers for low-level job search assistance. Average caseloads are over 100. This might work when people are close to employment already, but it's not good enough for those with low skills, weak (or no) employment experience, or a disability.[71]

Peter Davidson

Both the CES and the various iterations of the outsourced model have targeted two overarching sets of objectives.

The first is to connect relatively well-placed jobseekers with employment opportunities, providing a job-matching function or services designed to overcome minor impediments to job readiness. In many cases, this involves dealing with large numbers of people who are 'frictionally' unemployed as they search for new jobs, but who face comparatively low barriers to finding employment. A key policy imperative is the ability for service providers to perform this function effectively at low cost.

The second objective is to improve labour market outcomes for more disadvantaged jobseekers. This includes those who have been out of work for an extended period, or are at particular risk of entrenched poor labour market outcomes for reasons relating to age, background, disability or structural mismatch between their skills and those sought in the labour market. This group of jobseekers includes people who are highly disconnected from employment opportunities and for whom multiple barriers to job-readiness can be both cause and effect of other individual and social disadvantages and challenges. Their path to lasting employment, and the broader benefits that come with it, is often long and challenging, and requires more complex and expensive services and policy interventions.

While a range of other policy and political considerations are also at play, the range of challenges that exist on a continuum between these two endpoints have been the core drivers of Australia's evolving employment services system. Within this, while successive governments have emphasised different objectives or favoured particular forms of intervention, tackling disadvantage has consistently been a primary policy objective for these services. The Howard Government identified mass unemployment as 'the greatest single issue facing Australian society'.[72] As Job Services Australia replaced the Job Network, the Rudd Government actively sought to increase the emphasis on helping 'the most disadvantaged jobseekers to acquire the skills that they and employers need'.[73] The ambition to find and provide effective solutions for the disadvantaged is a common theme in the history of the system's operation.

A consistent theme across this evolution has been the two-speed nature of outcomes: adequate results for frictionally unemployed people at low cost, and major shortcomings dealing with the complex, crucial cases of disadvantage. Across various iterations, the system has been relatively successful at keeping the least disadvantaged jobseekers active in the labour market and close to employment, at a relatively low cost. Indeed, the design of the system most suits this cohort of jobseekers. But its performance differs noticeably for long-term jobseekers and others with high levels of disadvantage. In key respects, it has chronically underperformed and under delivered when it comes to servicing the most disadvantaged jobseekers. Despite multiple attempts to recalibrate and improve services to the disadvantaged – and some successes over time – the failure to deliver adequate outcomes appears entrenched. We explore these issues throughout this chapter.

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[71] Peter Davidson, 'Long-term unemployment: the 'Achilles heel' of the Job Services Australia model', 2014, para 2.
[72] The Liberal Party of Australia and the National Party of Australia, Pathways to real jobs: the Federal Coalition's employment and training policy, 1996.
[73] Department of Education, Employment and Workplace Relations, The future of employment services in Australia: A discussion paper, May 2008, p 2.

Box 5: Classifying disadvantage via jobseeker streams

Jobseekers have been classified into various 'streams' distinguished by individual job readiness throughout the various systems that have operated over the past twenty years. Streaming is aimed at guiding service interventions and payments to providers. Each jobseeker's 'stream' indicates the level of service they require to find employment.

Job Services Australia's classifications, which were in operation from 2010 until mid-2015 and are therefore the focus of this report, were based on four streams:

Jobseekers classified as job-ready were referred to **Stream 1** where 'providers assisted in resume preparation, job search, skills assessment and some level of job search training'.
Jobseekers with multiple vocational and non-vocational barriers to employment were referred to **Streams 2-4**, depending on the severity of these barriers. Those placed into **Stream 4** were the most disadvantaged jobseekers, considered the furthest away from obtaining employment.

The new scheme Jobactive re-classifies jobseekers into one of three streams: A, B or C.

The economic and employment context – GFC marks a change in the labour market

Evaluating the impact of our employment services in reducing unemployment and tackling disadvantage is complex, because the system is woven within Australia's broader economic performance.

For most of its existence, the outsourced system has been supported by uninterrupted and unprecedented economic growth. Even at the onset of the GFC labour market conditions remained relatively favourable. As other advanced economies experienced double-digit unemployment, Australian unemployment peaked below 6 per cent in mid-2009. However, the employment services system is currently grappling with tougher cyclical and structural economic conditions than at any other time since services were outsourced. If these pressures continue to intensify, so too will the pressure on governments to find strategies to meet these challenges.

This change in labour market conditions has created a rising challenge of long-term unemployment. While its immediate impacts were contained, the GFC, did signal the end of a stable period of declining long-term unemployment in Australia, along with a transition to a more volatile labour market. Long-term unemployment jumped following the crisis and from 2013 rose further as Australia's strong post-crisis performance gave way to a period of labour market weakness. As Australia's overall unemployment rate rose to above 6 per cent in 2015, long-term unemployment continued to rise. The number of people unemployed for a year or more has doubled since the beginning of 2013. In March 2015, this figure reached 180,000, the highest since the late 1990s.[74] Around half of the long-term unemployed had been jobless for two years or more. Chart 1 shows longer-term trends in short and long-term unemployment.

The number of long-term recipients of Newstart and Youth Allowance income support payments is even larger.[75] Chart 2 shows that in September 2015, almost 540,000 people had been receiving Newstart for 12 months or more, representing 70 per cent of all Newstart recipients. Of this group, more than 300,000 were considered active jobseekers, indicating that the number of people who have been substantially out of work for an extended period is much higher than the ABS long-term unemployment figures suggest.

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[74] Wade, Matt, 'Long-term unemployment: Sharp rise taking a toll on Australia's wellbeing', Sydney Morning Herald, 6 June 2015.

Despite tentative signs of labour market stabilisation in mid-2015, there is still a risk that economic and labour market conditions could deteriorate further in 2016 and beyond.

Chart 1: Short and long term employment

Unemployed people (1000s)

- Long term (12 months or more) ■ Less than 12 months

Total
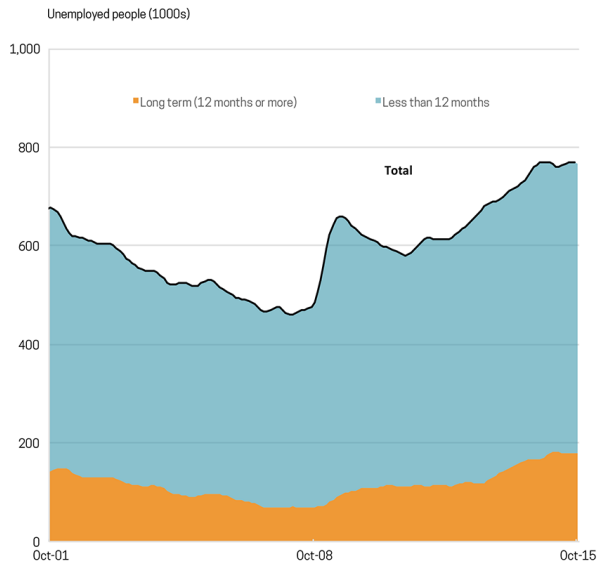
Chart 2: Newstart and youth allowance recipients

Recipients (1000s)

■ Long term Newstart recipients   ■ Short term Newstart recipients
■ Youth Allowance (Other) recipients
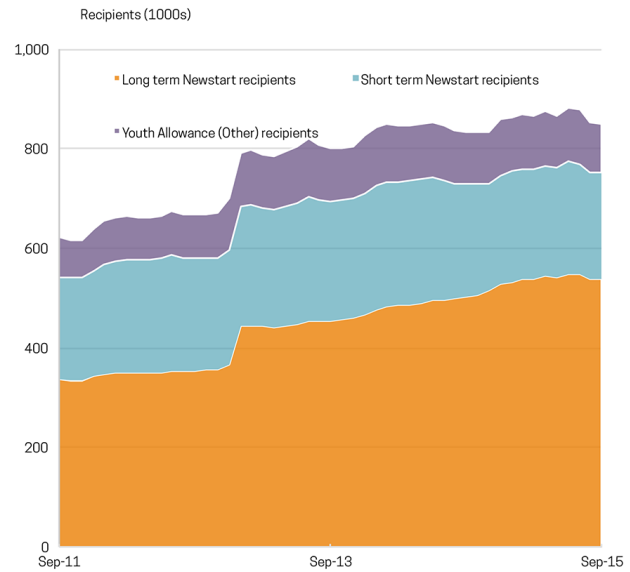
These cyclical variations in economic and labour market conditions can embed serious structural challenges for people who are at risk of entrenched poor labour market outcomes. Certain disadvantaged groups face higher-than-average levels of unemployment, in line with deteriorating labour market conditions. People most affected include those with low skills, from culturally and linguistically diverse backgrounds, sole parents, people with a disability, youth, and people in regional and remote communities. Chart 3 shows examples of unemployment rates for groups identified by the Department of Employment as 'disadvantaged' compared to the total population.[76]

Chart 3: Unemployed and disadvantaged groups (%)

Culturally diverse backgrounds

total pop.

Youth (15 -24)

13.7 %

total pop.

Lone parents

13.2 %

total pop.
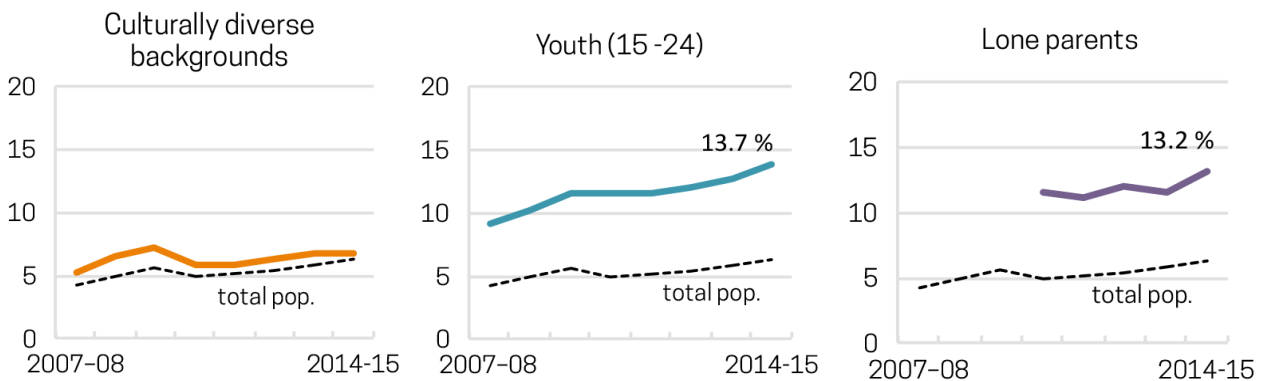
[76] Department of Employment Annual Report 2014-15.

Delivering employment services to frictionally unemployed people

Perception amongst industry stakeholders and policymakers is that Australia's employment services system generally functions well and cheaply for the most job-ready persons. Some industry stakeholders argue that this is the main strength of the system. It is most effective in delivering 'employment outcomes' for jobseekers with low barriers to employment who are relatively well placed to undertaking an active job search, or are kept 'activated' in the labour market by mechanisms like mutual obligations for welfare payments, or the threat of cessation of welfare payments for non-compliance.

For these jobseekers the services tend to be transactional in nature – low intensity, short-term interactions with service providers, with a clearer path to employment outcomes. It provides regular, but often short-term periods of employment which minimise the loss of skills, connections and income associated with longer stretches of unemployment.

The system delivers 'positive outcomes' (part or full-time employment or placement in appropriate training programs) for the majority of job-ready individuals at a low and declining cost. Indeed, Australia has a small overall funding envelope compared to the expenditure on services in similar countries. Government pays providers outcome payments for 4, 12 and 26 week employment placements. This payment system reflects the transactional logic of the system and its tendency to 'churn' through clients.[77] The same logic applies in the drive to keep people 'activated' via job-hunt threshold requirements, even if the search proves fruitless.[78] In extensive reviews of Australia's employment services system, the OECD has concluded Australia sits at the 'leading edge' amongst member nations in its use of activation tools for jobseekers.

The outsourced employment services system can be regarded as effective if assessed on its ability to keep job-ready individuals active and employed, while minimising the direct financial costs to government. Charts 4 and 5 demonstrate the breakdown of employment outcomes for Stream 1 jobseekers under JSA in June 2015, and the steady reduction in costs to government for service outcomes over time.

Chart 4: Stream 1 Employment Outcomes
Stream 1 outcomes: June 2015

- Employed full-time
- Employed part-time
- Unemployed
- Not in the labour force
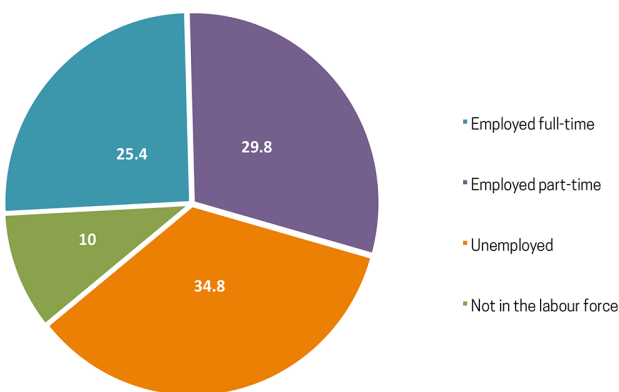
Note: Not pictured is 21.1% in education and training which overlaps with other categories

Chart 5: Evolution of cost over time
Cost per employment outcome

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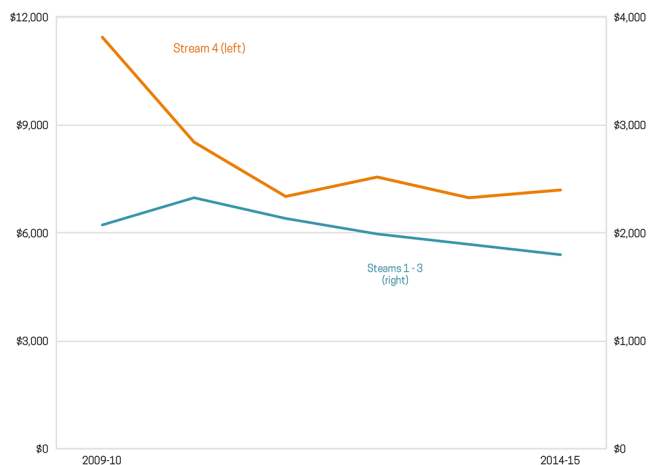
[77] Commonwealth Department of Employment Budget Statement 2015-2016, Section 2 outcomes and planned performance, p 28.
[78] Sheen, Veronica 'Reading between the lines of Australia's employment services 'success' story', The Conversation, 29 January 2013.

Delivering employment services to disadvantaged people

Despite the system's relative strengths for frictional unemployment, the reality is that the majority of people seeking work through employment services do not find it. The inherent difficulty of finding placements when the number of jobseekers exceeds the number of job vacancies has been exacerbated by a weaker labour market, making it difficult for even relatively well-placed jobseekers. The following chart demonstrates that in a period of weakening labour market conditions, employment outcomes across all jobseeker streams declined over the final years of JSA, to rates well below the targets set by Department of Employment. They are particularly weak for the cascading tier of increasingly disadvantaged job-seekers requiring more than transactional, low-intensity services. At the outset of JSA, government made a deliberate decision 'to focus on the most disadvantaged jobseekers'.[79] In 2011, a joint government taskforce into government service delivery for jobseekers noted that despite the difficulty of comparing outcomes across two models, the increased emphasis under JSA appeared to have resulted in stronger positive outcomes for disadvantaged jobseekers, particularly in education and training, compared to results under Job Network.[80] However, further improvements in employment outcomes for the most disadvantaged jobseekers at the early stages of JSA have eroded amidst weaker labour market conditions in recent years. In the year to June 2015, the proportion of jobseekers in employment three months after participating in employment services fell to 40 per cent, 33 per cent and 22 per cent across Streams 2, 3 and 4 respectively. Of those employed, the vast majority of employment outcomes involved part time or casual work.

Chart 6: Employment outcomes by stream 2010-2015 (%)

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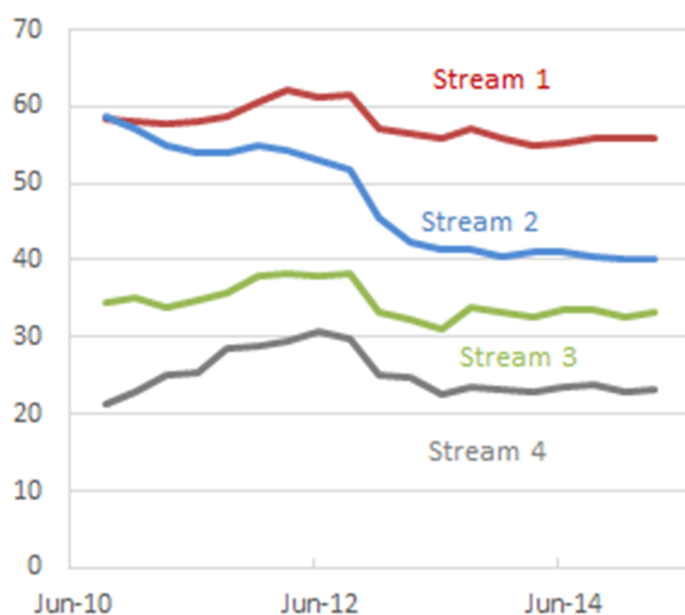
[79] Taskforce on Strengthening Government Service Delivery for Jobseekers, Report to the Secretary of the Department of Education, Employment and Workplace Relations and the Secretary of the Department of Human Services, 30 March 2011, p iii.
[80] Taskforce on Strengthening Government Service Delivery for Jobseekers, Report to the Secretary of the Department of Education, Employment and Workplace Relations and the Secretary of the Department of Human Services, 30 March 2011, see Table 3.1 for list of outcomes, p 19.

The particular difficulty and complexity in delivering employment outcomes for long-term jobseekers has been a consistent theme through the iterations of the outsourced system. Only four years into full outsourcing of employment services, Peter Davidson suggested persistent long-term unemployment should 'sound alarm bells for policymakers' because the system was not working effectively.[81] These alarm bells should be ringing with even greater force today.

In the year to June 2015, across all streams, approximately 40 per cent of jobseekers who had been unemployed for between 6 and 36 months achieved employment outcomes, the vast majority of which are part time. While for some cohorts this represents a modest improvement on recent years under Job Services Australia, there is evidence to suggest that outcomes for long-term unemployed declined under the most recent iterations of the contracted out employment services model, despite an increased focus on calibrating services to reduce the risk of long-term unemployment. Davidson's analysis, strongly suggests Job Services Australia was less effective than Job Network at tackling long-term unemployment.[82] Indeed, employment outcomes for those unemployed for three years or more fell to around 30 per cent in the year to March 2015, well below the near 50 per cent recorded for Job Network Intensive Support clients who received income support for 36 months or more.

While differences in labour market conditions and program design mean that direct comparisons should be interpreted with caution, the relative decline in employment outcomes between 2008 and 2015 was greatest for those who have been out of work for the longest period, and smallest for those with the shortest spells of unemployment (Chart 7).

Chart 7: Comparison of outcomes: Job Network v JSA

Employment outcomes by duration of unemployment/income support (%)

■ JN intensive activation (months on income support, Sep 2008)
■ JSA Streams 1-4 (months unemployed, Mar 2015)
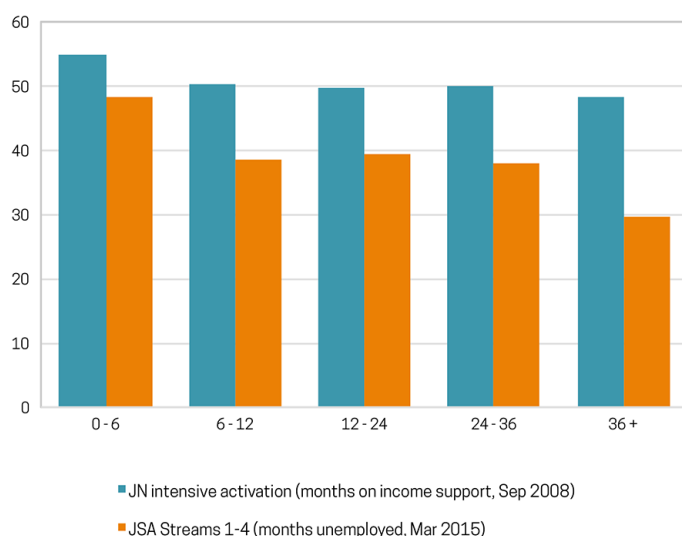
A breakdown of employment outcomes for people from demographics vulnerable to disadvantage provide a striking illustration of the scale of the challenge facing these jobseekers.

The charts below highlight service outcomes in the year to March 2015 for all jobseekers across five potentially vulnerable groups: those unemployed for 12-24 months; indigenous jobseekers; those from cultural and linguistically diverse backgrounds; sole parents; and job-seeking youth allowance recipients.

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[81] Davidson, Peter, Employment Assistance for Long-Term Unemployed People: Time for a Rethink, Australian Council of Social Services, 2003, pp 113-115.
[82] Davidson, Peter, 'Long-term unemployment: the 'Achilles heel' of the Job Services Australia model', 2014.

For each group, with the exception of sole parents, more than half of jobseekers across Streams 2 – 4 (that is, all but the most job-ready individuals) were unemployed or had left the labour market altogether three months after their participation in the employment services system. For the most disadvantaged jobseekers in Streams 3 and 4, jobseekers, this proportion frequently approaches 75 per cent of jobseekers, while success rates for full-time work are all in single digits. For a model heavily premised on the benefits of activation and participation, the failure to keep those people at highest risk of disadvantage connected with labour markets, let alone in paid employment, is startling. (These results do not take into account participation in education and training, which if appropriate positively contributes to skills and job readiness and is regarded as a positive outcome.)

Chart 8: Employment outcomes for disadvantaged cohorts, year to March 2015 (%)
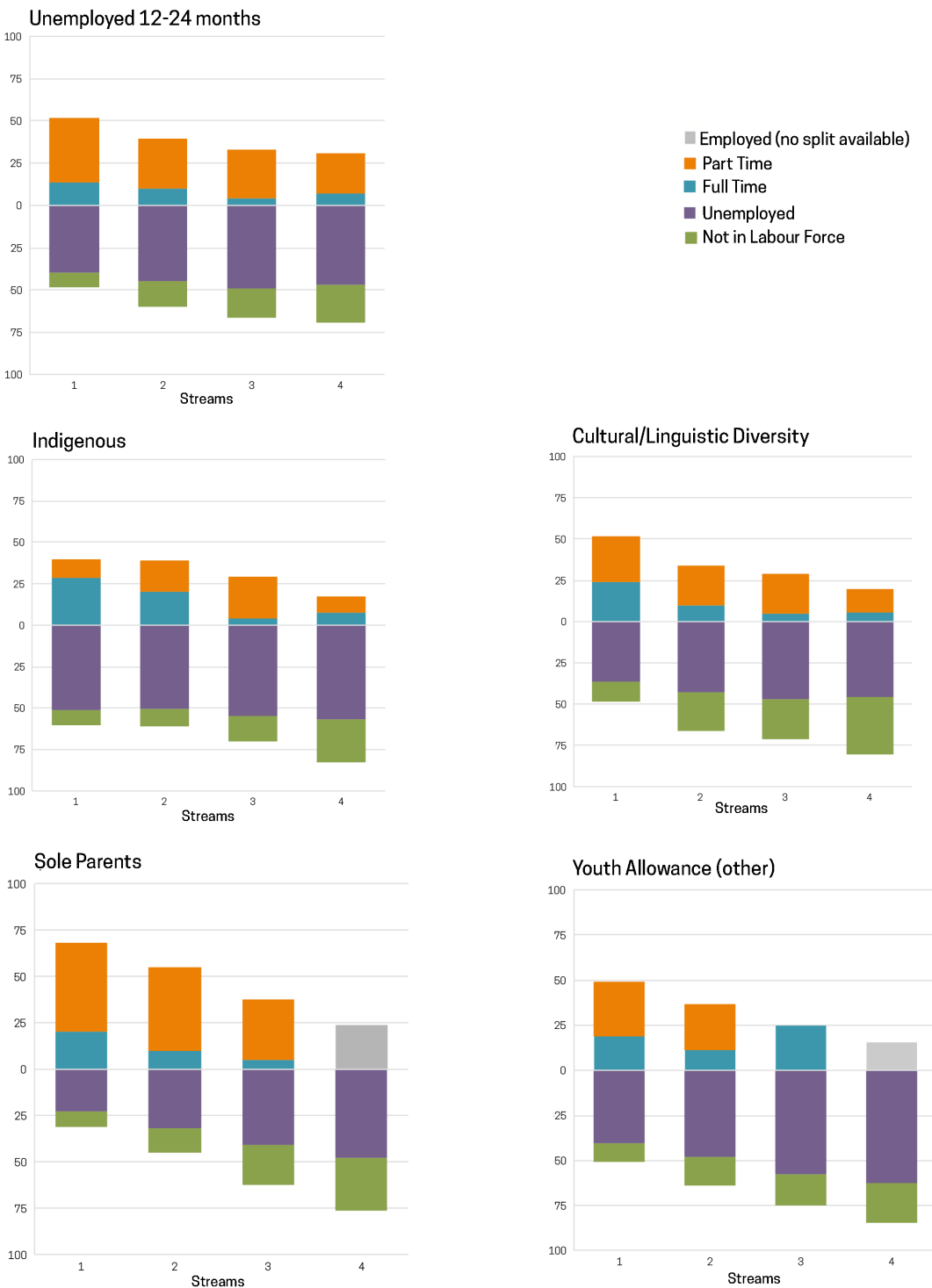
These results represent the most complex cases, in arguably the most challenging labour market conditions in a decade or more. Partly related to labour market conditions, compared to earlier contracts those recent employments services models also face a more diverse and challenging set of client needs, including stemming from factors such as mental health, recidivism and long-term unemployment. This is crucial context for interpreting current outcomes, and comparing them with earlier models. It also reiterates that in challenging circumstances the capability to deal with even more effectively with multiple, complex and interrelated client needs becomes even more important. Despite continued recalibrations and reforms, and notwithstanding some important successes, the current system is struggling to deliver decent results for people who need them the most.

This is a modern manifestation of a policy dilemma for employment services that many different approaches have been unable to crack, under both government-delivered and outsourced systems. Throughout the evolution of the system, public sector policymakers have pursued refinements and policy experiments, including pilot programs and trials, in order to deliver better outcomes. As a result there have been some modest gains in localised, tailored programs for the most disadvantaged. However, the structural limitations of the outsourced system prevent these programs from being scaled and prevent wider, better gains from being achieved across the breadth of employment services. We explore this issue in more detail in the following chapter.

CHAPTER 3 : GRAND ALIBIS AND LIMITATIONS OF THE EMPLOYMENT SERVICES SYSTEM

No human services system in the world is perfect. However, the present Australian system has fundamental problems that should inspire a search for more effective solutions.

Behind the mixed performance record of the outsourced services system lie two major sets of limitations in the system itself. The first set is structural. The system finds it difficult to tackle the harder cases of unemployment and to allow flexibility in service delivery; the system is founded on the need for competition and choice but is increasingly concentrated in terms of market share and standardised in terms of the services provided.

The second set of limitations is linked to the first. A fixation by governments on maintaining and extending the outsourced system, including managing the tensions that are inherent in its design, has severely impacted the ability of the public sector to remedy the more fundamental limitations of the system. Public sector capability to be an effective fulcrum in the design and delivery of targeted and innovative employment services has eroded to an unacceptable point.

The case study highlights the consequences when governments have a predisposition to outsourcing. Once established, over time it becomes the default option and can lead to self-perpetuating cycles of procurement and contract renewal, crowding out a more valuable and active role for the public sector in identifying viable alternative policy solutions and service programs.

The range of mutually dependent stakeholders active in the system, from policy to service delivery to advocacy, mean that all are involved yet none are responsible. Fundamental limitations on the ability of any one actor to drive systemic change, combined with a diffusion of responsibility across each of them, means that grand alibis permeate a system where long-term solutions to pernicious disadvantage remain elusive. This should trouble governments of all political persuasion. 'Governments' ability to advance wellbeing and address disadvantage is pivotal to its moral and democratic legitimacy. Governments may outsource as many human services as they see fit, but they will always be ultimately accountable for the ensuing results, challenges and crises that emerge.

Limitations in the outsourced employment services system

The outsourced system has moved through varying contractual periods, each bringing enhancements and modifications. However the fundamental structure of the system has remained relatively constant. After nearly 20 years of this service system, specific structural limitations prevent improvement in the system and contribute to the mixed performance record explored in the previous chapter. The evolution of the system reveals the risks in designing an outsourced services system with a diminished capability and role for government. This section identifies the following limitations with the system:

• inability to tackle the hard cases of unemployment
• a lack of flexibility in service delivery
• shrinking competition and diversity of consumer choice
• presenting difficulty with collaboration or service integration.

Unable to tackle the hard cases of unemployment

CPD's consultations with a divergent collection of industry stakeholders confirmed what was demonstrated in the previous chapter: that this particular market is fundamentally geared toward high-volume, low-margin service practice. Despite a focus within government in recent years on delivering more streamlined accountability processes and offering attractive incentives to tackle the hard cases, good employment outcomes remains weak for the disadvantaged .

This inability is exacerbated by tight fiscal limits on employment funding, as specific stakeholders argued to CPD. While government enjoys the narrower costs of the outsourced system, this modest funding is a barrier to delivering substantive improvements in the harder unemployment cases. Former CEO of Job Futures and consultant Lisa Fowkes explains how this influences the system:

'The Job Network and Job Services Australia have achieved lower cost per employment outcome but this has been achieved through creating a system that enables and requires rationing of resources at the front line. While these programs purport to invest resources according to need, and across the whole jobseeker cohort, their efficiency is in picking winners.'[83]

This limitation highlights competing tensions confronting governments. As a weaker labour market lends new urgency to the task of addressing long-term unemployment, the limitations inherent in a system that has placed a strong emphasis on achieving lower-cost service delivery will become increasingly stark. There is the considerable risk the two-speed system will fail the disadvantaged at an even faster rate than previously seen.

A lack of flexibility in service delivery

A major rationale for moving to the outsourced model for employment services was to increase flexibility. The intention was to 'liberate' service provision from a 'slow, homogenous, ossified' national provider and mobilise a multitude of non-government service providers regarded as better placed to innovate and adapt to client needs.[84] Twenty years on from this reform, a dearth of flexibility exists for service practitioners to create different policies and programs.

This is another inherent tension – the competing requirements of public accountability versus the risk-taking entrepreneurialism required to deliver targeted, innovative policy to an array of clients with complex, differing needs. The same flexibility that allows for innovation and tailoring of services to particular clients also carries greater risk of divergence from typical service practice and, crucially for governments, the potential misuse of public funds.

Structural rigidity is driven by an intense fixation on process to maintain and measure provider performance. The characteristics of the system include infamously extensive purchasing contracts and guidance manuals, replete with prescriptive lists of approved interactions and activities aimed at controlling provider behaviour. Even the tendering process to win government contracts is widely considered to be burdensome and overly time-consuming for providers to manage.[85] The primary accountability tool, the 'Star Ratings system', has morphed from its original purpose as a tool for consumer accountability into a compliance and tender

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[83] Fowkes, Lisa, Rethinking Employment Services, Whitlam Institute within the University of Western Sydney, 2011, p 8.

[84] Discussion with industry stakeholder, July 2015.

[85] Considine,, Mark, Lewis, Jenny & O'Sullivan, Siobhan.,Twenty-first Century Public Management: The Experimentalist Alternative, Workshop Paper, presented at Crawford School, Australian National Universty, 11-12 February 2014, Barton Lecture Theatre, p 10.

assessment criteria that is arguably open to gaming (see Box 6). The OECD recently noted that Australia's employment programs are 'largely designed within a national framework and providers have limited ability to adjust program design, eligibility and performance management to reflect local labour market conditions'.[86] In 2015, Jobs Australia described the system as 'incredibly complex, with a confusing payment model and thousands of pages of rules that must be interpreted and applied by the individual staff who work day in, day out, with people who are unemployed'.[87]

On the other hand, while flexibility is clearly lacking in the present system, the 'rorting' scandals arising from time to time in employment and other outsourced human services highlight the serious dilemma of reduced accountability for the sake of increased flexibility and policy innovation.[88] The experiences of the first two contractual periods under Job Network highlight the difficulty of providing unrestrained flexibility in human services and fully relying on market-driven behaviour. Certain Job Network providers were 'creaming' or focusing efforts on the easiest-to-place and therefore most profitable jobseekers. This practice was complemented by a practice described by the Productivity Commission as 'parking', in which the most difficult to place jobseekers were placed in 'bare minimum' or indirect services that failed to tackle their personal barriers or assist them to secure employment, despite providers earning upfront commencement fees for the activity.[89] Clearly this has profoundly negative implications for disadvantaged groups in a two-speed system. This lesson remains deeply concerning for the public sector because service provider behaviour can still be *within* the black letter of the contract or departmental guidelines, but clearly not in the public interest. Whilst all agree with the notion of flexibility and fostering innovation, the public sector bear the ultimate risk of crises, misuse of public funds or systemic gaming of policies for material benefit. This in turn creates administrative burdens on providers that stifle their ability to target and tailor their service provision. Striking the right balance is a perilous task requiring sophisticated skillsets.

A number of attempts have been made to deliver on the promise of outsourcing to drive flexible and personalised services. The latest attempt involves the Federal government only paying approximately 45 per cent of service fees upfront, with the remaining 55 per cent to be paid upon demonstration of achieved outcomes.[90] In time we may be able to tell whether this strikes a better balance incentives, yet as we will see later in this chapter the evidence of the impact of services over the long term is largely absent. Nevertheless, as one stakeholder argues, 'the system is getting less and less flexible…the promised land never eventuates, the red tape just grows'.[91]

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[86] OECD, Employment and Skills Strategies in Australia, February 2014, p 9.

[87] 'Jobs Australia Defends NFP Service Provider', Probono News, 24 February 2015.

[88] Besser, Linton, Russell, Ali & Christodoulou, Mario ,'Government recovers over $41 million worth of false claims after 'rorting' of Job Services Australia scheme', ABC News Online, 26 February 2015, Linton, Besser 'Job agencies facing fraud inquiry after audit of fees', Sydney Morning Herald, 21 April 2012; on creaming and parking, see Byrnes, Catherine & Lawn, Sharon, Disability Employment Services in Australia: A Brief Primer, Flinders Human Behaviour & Health Research Unit Margaret Tobin Centre, 2013, p 49.

[89] Eardley, Tony, Outsourcing Employment Services: What Have We Learned From the Job Network, Conference on the Economic and Social Impacts of Outsourcing, Centre for Applied Economic Research, University of New South Wales, 2011.

[90] Jobs Australia, Employment Services 2015-2020 Response to Exposure Draft (Employment Providers), 2014.

[91] Discussion with industry stakeholder, July 2015.

Box 6: The Star Ratings system

The Star Ratings system for employment service providers was introduced to enable users to have better information on the performance of different providers when choosing services. However, over time, it has predominately become a performance measurement and management tool, increasingly configured and utilised by the Department to manage contracts and design tender processes.

Service providers try to align their operations with the star ratings indices as closely as possible,[92] and concerns have been raised that certain providers are dedicating resources to better understand the Star Ratings algorithm and to 'game the system'.[93] Despite the original emphasis on information to clients, ratings have become a tool for intermediating the contractual relationship between providers and the government – with scant evidence that weightings toward disadvantaged jobseekers have been enough to overcome other structural impediments and disincentives to invest in the most challenging cases.

Shrinking competition and diversity of consumer choice

Outsourcing is premised on the ability of a competitive marketplace to support consumer choice and improve both service quality and cost efficiency. Competition is the driving force of all other benefits from outsourcing human services. However, competition has gradually shrunk in employment services and large providers are increasingly dominating a narrow and constrained marketplace.

As the outsourced system has evolved, the number of providers has shrunk from around 330 in 1998 to 66 in 2015. Larger providers (both profit and non-profit) have significantly expanded their market share, and the diversity of smaller and locally-connected providers has narrowed. With larger providers increasing their service prominence, and without the concrete regulatory checks on aggregation that are present (for example, in the United Kingdom model) the system appears set on a path of diminishing competition and provider diversity, with no end in sight.[94]

The lack of competition exacerbates the structural problem of a lack of flexibility in the system. With government as the sole purchaser from a shrinking number of providers, there is limited scope for innovative disruption to routine or typical operational methods. As competition has narrowed, so too have the alternative ideas for improving the system – while the operational and commercial stake of large and powerful providers in the maintenance of the current system continues to grow.

Unable to improve collaboration and service integration

A key expectation of government in contemporary human service design and delivery is that it should improve coordination and integration of services, particularly for people suffering from disadvantage. The way that the employment services market has been designed and outsourced makes fulfilling this expectation extremely difficult. There have been small-scale pilots and previous programs to address this challenge, but these projects have either not been scalable or have lacked the necessary investment to do so.

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[92] Thompson, David, CPD Roundtable on Government Service Delivery, March 2015.
[93] Considine,, Mark, Lewis, Jenny & O'Sullivan, Siobhan.,Twenty-first Century Public Management: The Experimentalist Alternative, Workshop Paper, 11-12 February 2014, Barton Lecture Theatre. Crawford School, Australian National University, p 16.
[94] Discussion with Professor Helen Dickinson, University of Melbourne, May 2015.

The breadth of the challenge to provide collaborative or integrated services is significant due to the stubbornness of cross-service barriers. For many Stream 4 job seekers, the journey toward stable employment requires overcoming a number of significant and overlapping barriers. In 2012, the Department of Employment reported that '93% of Stream 4 job seekers have three or more barriers to employment' (see Box 4 earlier for further information).

Employment service arrangements have responded to these interlinked and cross-service needs with limited success. The table below briefly outlines key attempts in the past 20 years.

Working Nation (1994-1996)	Job Compact	Intensive employment assistance which guaranteed access to employment or training or both for jobseekers on benefits for 18 months or more. Public sector case managers were predominately responsible for counselling disadvantaged jobseekers, working out a plan of action to secure employment, and referring them to time-limited work placement programs.
Job Network (1998-2009)	Intensive Assistance	Individualised assistance determined by the provider for highly disadvantaged and those unemployed for one year or more.[95] Jobseekers found to have significant barriers that could not be addressed by the Job Network were referred to either a disability service or pre-employment intensive support as purchased from community providers via the Personal Support Program (PSP).
Jobs Services Australia (2009-2015)	Employment Pathway Fund	Arrangement to allow providers to purchase external and specialised professional health or psychological services. Providers were given discretion to cross-subsidise or share outcome payments or draw from their own service fees. PSP and other integrated service programs were merged into mainstream services.

A 2011 example demonstrates the possibility of small-scale collaboration in the outsourced system. The Government committed $4.7 million for 'JSA Demonstration Pilots' focusing on improved employment and education outcomes for highly disadvantaged jobseekers. The pilots tested alternative approaches to employment services providers by collaborating with complementary non-vocational services such as drug and alcohol counselling, homeless services, youth and mental health services.

The evaluation of the pilots found that intensive case management by experienced staff can make a practical difference to employment outcomes;[96] that co-location of services offered benefits;[97] and that measuring the number of 'service barriers' in providers' performance management frameworks had early merit.[98]

This is an innovative, collaborative breakthrough that integrates service solutions. What remains unanswered is whether pilots such as these can be comprehensively scaled up to serve a larger volume of disadvantaged jobseekers. Inadequate funding for the intensive, integrated services, in combination with

[95] Fowkes, Lisa, Rethinking Employment Services, Whitlam Institute within the University of Western Sydney, 2011, p 5.
[96] Commonwealth Department Education Employment Workplace Relations, Better Practice Guide 4 – Case Management, 14 June 2013 (available as archived material on docs.employment.gov.au).
[97] Commonwealth Department Education Employment Workplace Relations, Better Practice Guide 5—Organisational collaboration, 14 June 2013 (available as archived material on docs.employment.gov.au).
[98] Commonwealth Department Education Employment Workplace Relations, Better Practice Guide 8: Measuring social outcomes, 14 June 2013 (available as archived material on docs.employment.gov.au).

new uncapped, demand-driven service expectations, only reinforces that the system is a high-volume, low margin 'one size fits all' approach.[99]

Even if the government invested uncapped funds to the more innovative pilots, barriers to integration would likely remain in place. According to CPD's consultations with industry stakeholders, there are various reasons for this:

◆ *Contract-based delivery poses inherent challenges to integration.* Lisa Fowkes says 'success stories in employment tend to be highly individualised, bespoke, closely connected to the ground and adaptable'.[100] But the very nature of national tender processes and contract implementation is quite the opposite. As Gary Sturgess observed to CPD, 'there are limits to the use of market-testing in driving service improvement in government…The fragmentation of delivery networks into a multitude of unrelated suppliers, as well as the replacement of incumbents with new entrants that have limited understanding of the service in question, have the potential to seriously weaken delivery systems'.[101] Similarly, contractual reporting on outcomes is made only to the Department of Employment, which is not responsible for broader societal outcomes in other portfolios.[102]

◆ *Competition amongst providers creates strong disincentives to share information and best practice.* One industry stakeholder remarked to CPD that 'the competitive nature of the marketplace makes sharing successes and best practice difficult – it is like asking providers to give away the 11 herbs and spices recipe'.[103] Another told CPD that 'the biggest barrier that is raised with us is getting our providers to share their expertise. We pay our providers big dollars to get outcomes for long-term unemployed. Lots of services want to get their hands on those payments. They might get the outcomes but they don't want to share the money'.[104]

◆ *Some industry practices serve to isolate some employment services from other areas of human services.* Llewellyn Reynders of the Victorian Council of Social Services (VCOSS) observes that while their members tend to offer employment services in conjunction with other social services, there are also numerous 'sole employment providers [who] tend to be a disconnected sector to the rest or join an employment peak body and that's that'.[105]

◆ *Integration between mainstream employment and specialised services occurs ad-hoc.* How a particular service provider works with other human services is outside of the immediate jurisdiction and control of the Department of Employment.

The Commonwealth Government has attempted to respond to some of the above factors. In the recent Jobactive tender process, the Department of Employment set out a contractual expectation of greater collaboration among providers, asking providers to specify in their tenders how and with whom they will collaborate. The outcomes of this effort are yet to be seen. Notwithstanding, the relative failure of outsourced employment services to integrate with other key services is a major shortcoming that deserves honest attention by government and non-government actors alike.

The limitations identified in this section suggest that a reconsideration of the current approach, from policy development through to service design and delivery, is sorely needed. The system has a built-in inability to

[99] Fowkes, Lisa, Rethinking Employment Services, Whitlam Institute within the University of Western Sydney, 2011, p 13.
[100] Discussion with Lisa Fowkes, Australian National University, June 2015.
[101] Discussion with Professor Gary Sturgess, Australian New Zealand School of Government, July 2015.
[102] Discussion with industry stakeholder, July 2015.
[103] Discussion with industry stakeholder, August 2015.
[104] Discussion with industry stakeholder, August 2015.
[105] Discussion with Llewllleyn Reynders, Victorian Council of Social Services, June 2015.

address disadvantage and allow creative and innovative solutions to see the light of day. The fiscal challenge of tight federal budgets will remain regardless of the future path chosen. However, the eroded public sector capability, after nearly two decades of outsourcing, makes substantive change in the short term incredibly difficult, as will be explained in the next section.

Erosion of public sector capability

The public sector will always be the fulcrum in designing and delivering human services, as well as bearing the ultimate responsibility for successes and failures. It continues to provide policy advice and strategic direction across the employment services portfolio. However, the outsourced service system's complex network of mutually-reliant players, and intricate balancing act of relationships, requires a fundamentally different set of public sector roles and capabilities. Over time, the capabilities of the Department have changed to suit this altered role.

The pendulum has swung too far in favour of narrow contract-management and away from the Department offering an active, valuable role in design and delivery. Service design is still regarded as a pivotal role for Government. Even the contemporary concept of commissioning requires the public sector to increase its expertise and influence in shaping and stewarding services. Miguel Carrasco, remarks that 'one thing it is difficult to outsource is the commissioning role. It must be public – it's a core skill.'[106] This argument applies regardless of whether the best way to deliver service is via private, non-government providers, via public providers, or a hybrid of both approaches.

Over the past two decades, outsourcing has led the public sector to become disconnected from direct service delivery and increasingly lacking the expertise and experience to break down the complexity of human services, identify the key systemic challenges, and design a viable system that can robustly address disadvantage whilst catering for the frictionally unemployed. This fundamental change and, in fact, erosion of public sector capability is important and under-examined.

Disconnection from service delivery

A number of industry stakeholders CPD consulted believe the onset of outsourcing fundamentally changed the cultural and professional dynamic within the Department of Employment. The Department's state offices are staffed with a majority of workers whose main function is 'contract management, stakeholder engagement and local labour market intelligence gathering'.[107] They are responsible for liaising with, and monitoring, the contracted service providers.

As the memory of the CES has receded, so too has the institutional memory of the Department. Lisa Fowkes is telling on this issue, recalling that in the early years of outsourced employment services, the high number of workers with former experience in CES ensured a workforce with the benefit of significant training in assisting jobseekers, case management and labour market management.[108] Those workers also 'had a strong institutional, professional sense of public service ethics'.[109] The qualitative difference is between personal experience working with jobseekers, and experience through the prism of contract management,

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[106] Discussion with Miguel Carrasco, Boston Consulting Group, July 2015.
[107] Commonwealth Department of Education, Employment and Workplace Relations, Annual Report 2013-2014, p 24.
[108] Discussion with Lisa Fowkes, Australian National University, June 2015.
[109] Discussion with Lisa Fowkes, Australian National University, June 2015.

'[c]ontract managers in the Department used to be CES with hands-on experience. Now there's a new generation of managers who have never delivered services to people. They are obsessive about computer screens. This leads to perverse outcomes'.[110]

The public sector disconnect from the outsourced services system is doubly reinforced by the prescriptive rules and processes for competitive tendering of government contracts. These processes minimise interaction between public sector managers and service providers, and shut down lines of communication in understanding how the system could operate most effectively during the contract renewal process. Constructive engagement with service providers on the expectations and requirements of the Department is virtually impossible. Llewellyn Reynders of VCOSS also commented that 'all lines of communication must be down' once the procurement process commences, and that peak bodies are not even allowed to discuss the process with providers in the industry.[111]

Impact on service design and policy development

In fulfilling its roles as contract and market manager the public sector is now completely disconnected from direct service delivery in employment services. It is removed from understanding best practice, as well as the challenges and pitfalls. The capabilities of the public sector to understand, and respond innovatively to, the complex challenges 'on the ground' are significantly eroded. This in turn impacts the development of high-quality policies addressing the challenging labour market conditions and the persistence of disadvantage in the community.

Without a core capacity to deliver services in-house and with institutional disconnection from the employment service experience and all its inherent challenges, the Department relies on the input and feedback of service providers and, to a significantly lesser extent, service users. However, its lines of communication are not strong. The erosion of capability outlined in the previous section means that there is a high risk that the public sector designs human services and develops associated policy in a vacuum, without a working understanding of the necessary inputs and outputs comprising service delivery to achieve lasting outcomes.

Concerns about the link between outsourcing and 'long-term loss of competencies in the public service' have long been raised.[112] One industry stakeholder identified some of those qualitative skills that have been lost: 'institutional experience of what programs or services have worked, which failed and practical knowledge about why'.[113] At a time when government expects localised, flexible, integrated services, the lack of breadth in expertise is likely to be particularly biting for those suffering from disadvantage.

In terms of policy development skills, a full circle is being completed. When outsourced employment services started, public sector staff were encouraged to complete courses in contract management to counteract a lack of experience in this area. Nearly two decades later, the Department has its own well-established tendering unit, including a Chinese-walled, physically secure and customised tender assessment space in Canberra that may be offered to other departments conducting major tender rounds.

The public sector needs to develop a larger policy toolkit from which to seek viable service solutions. This involves serious re-examination of how the public sector can once again connect directly with service

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[110] Discussion with Lisa Fowkes, Australian National University, June 2015.

[111] Discussion with Llewellyn Reynders, Victorian Council of Social Services, July 2015.

[112] Ian McAuley, 'Dumbing Down in Canberra – A Guide to the Public Service Reform Industry (Part 2)', Dissent, 2000, p 9.

[113] Discussion with industry stakeholder, July 2015.

provision, boost its competencies to identify and measure the right outcomes and understand communities. The erosion of public sector capability affects not just policy development but the ability to implement it.

One senior public servant told CPD the very structure of contractual arrangements inhibits policy change being easily responded to by the vast employment services network:

'If [the Department] owned the service delivery end – from policy to delivery – and government had a change in policy, then it's very easy to change it. Where you have contracts in place and you've designed contract around the policy, it's very hard to make a change. The tried and true method to get someone to change the contract is to put money on it'.[114]

Any major system of service delivery faces challenges in evolving its practice and workforce to keep up with social, economic and technological change. However, the pendulum has swung too far away from a valuable, active and connected public sector in employment services. The Department retains the ultimate accountability for employment services and is central to the system's operations. Without a greater investment in the capability of the public sector to play a larger, better role it is unlikely that government or non-government providers will find lasting employment solutions for the most disadvantaged members of the community.

The crowding out of alternatives – avoiding a one-track mind

Outsourced employment services has been described as 'the reform that never ends'.[115] There have been regular alterations of the outsourced system which have become a feature of the system itself. However the recalibrations and changed business practices to the system have not changed the underlying market or extend the role of the public sector beyond disconnected market manager and service purchaser.

This highlights a broader dilemma in empowering the public sector to tackle disadvantage with the latest tools – a predisposition to outsourcing that over time has become the only option on the table. Altering or reforming the outsourced market is currently a self-perpetuating cycle of procurement and then contract renewal. As a result, viable alternative policy solutions and service programs are crowded out, and a more valuable and active role for the public sector in identifying such innovations is equally hindered.

In an area as complex as human services, it is pivotal that governments have a large policy toolkit upon which to draw, supported by an active and effective public sector with the capability to use the toolkit prudently and tactfully. The public sector must be able to determine the most appropriate policy response without a built-in partiality to one model, be it outsourcing, in-house government delivery or a hybrid system of partnering government and non-government providers. Investing in public sector capability helps level this playing field. This starts by re-connecting with services and approaching policy formulation in a more entrepreneurial manner, as outlined in Chapter 4.

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[114] Discussion with senior public servant, August 2015.
[115] Considine, Mark. The reform that never ends: quasi-markets and employment services in Australia: Contractualism in Employment Services, 2005.

Rationales for public sector capability in employment services

During most of CPD's consultations with industry stakeholders, the concept of the Department of Employment delivering a portion of services directly is instantly dismissed. At present they are correct – the eroded capabilities of the public sector render this option unfeasible in the short term. However, investing in and building capabilities and skills for some level of in-house delivery over the longer term has strategic advantages when applied prudently. A targeted use of pilot programs to this end warrants consideration. Developing such capabilities would enhance overall service design and delivery, and inform policy development.

Firstly, in-house production ensures the public sector is directly connected to real-world service delivery and its associated challenges and experiences. On a small-scale, such as through pilot programs or operations in remote locations with low populations, it provides government with a more sophisticated and evidence-based understanding of the complexity of human services and the challenge to create long lasting social gains. This will only improve its capabilities to be a genuine market manager when operating in an outsourced system, with enhanced expertise to understand best practice as well as service failings. This could have the added benefit of stimulating a change in how the public sector accepts risk in service delivery, and encourage a more entrepreneurial, innovative policy response to tackle disadvantage across the outsourced system itself.

Secondly, retaining a component of human service delivery offers a benchmarking of outsourced services, in terms of costs and quality. This is a rationale deployed in New Zealand, where the performance, cost and impact of small-scale in-house production is measured against the outsourced market providing the same services. It builds a more rigorous evidence base for the public sector to understand the effectiveness and efficiency of the services it has externally purchased, and fosters a more collaborative exchange of best practice in and outside government.

Thirdly, it allows governments to maintain a 'credible threat' to external providers in the event that there is significant market failure. This could occur when uncompetitive behaviour, or systemically inadequate performance, undermines government programs or solutions to the detriment of the community. Government would in this scenario have a foothold to re-build a more credible service response to such a systemic challenge.

In-house capability to deliver employment services directly could play a vital role in shaping more innovative and targeted government policy as well as assist policymakers to design the service environment appropriately. Comparable jurisdictions, New Zealand and the United Kingdom, acknowledge the virtue of retaining public capabilities for the reasons explored above (see Boxes 7 and 8). As a result they are 'intelligent customer[s]' when purchasing services from outside government, as they better understand what constitutes effective and efficient service provision.[116]

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[116] Tom Gash and Theo Roos, Choice and competition in public services: learning from history, Institute for Government, August 2012, p 11.

Box 7: Maintaining public employment service capability in New Zealand

In New Zealand, the Ministry of Social Development (MSD) predominately provides employment services via over 1700 specialist case workers in 160 service centres across the country. This is on the basis that 'high-volume, low-intensity employment services fit well with the provision of income support services' and that publicly managed job centres are more viable than private ones in rural and remote areas. Moreover, in the Youth Service program, which targets young people at risk of long-term benefit dependence due to either lack of education or employment opportunities, it contracts a network of 41 non-government providers to deliver services in most localities.[117]

As distinct from the Australian model, MSD retained substantial in-house service delivery in Wellington and Whanganui 'to assess the effectiveness of contracting this service'.[118] In an open tender, MSD set the price against the cost of in-house delivery by departmental case workers. MSD also retains flexibility to shift resources between different programs regardless of whether services are provided in-house or by third parties, enabling MSD to respond to pressing social problems as they evolve over time.

Box 8: The 'strong spine' of civil service capability in the UK

In the United Kingdom, from 2010-11, the Department of Work and Pensions (DWP) introduced private providers to address long-term unemployment. DWP adopted the 'prime provider' model, where two to three prime providers were awarded contracts in each of the 18 administrative regions across the UK, and in turn commission other non-government organisations to deliver specialist services in those regions. Payment by the government is predominately made to prime providers based on sustainable work solutions for clients. These reforms are viewed as improving market diversity and stimulating innovation, similar to the reform rationales in Australia from 1994-1998.

However, the UK Civil Service retained responsibility for delivering short-term unemployment services aimed at activating people in the labour market and assisting employers to advertise and recruit workers. Some stakeholders, including civil servants and former ministers, view the retention of public sector responsibility for this cohort as a 'strong spine' that allows government to assign individuals with specific needs to specialists and enables a more rapid response to shifts in demand. In particular, the government's response to the spike in joblessness during the GFC was viewed as a 'far swifter and more effective response than would have been the case if the entire employment service has been outsourced'.[119]

Towards a more sophisticated decision-making framework for human services

A rigorous approach to designing human services, buttressed by strong public sector expertise, experience and connection to service delivery, is fundamental to evidence-based decision making that weighs the public impact of a service option against the benefit to the community.

Unquestionably there will be times when the public sector should undertake service delivery. This may occur where disadvantage is so acute or entrenched that there is no market incentive to respond, or where the human service challenge is so complex and interconnected that only a holistic approach by government will make inroads into the challenge. Equally, there will some cases where sophisticated commissioning processes conclude that outsourcing will be effective. Nevertheless, without a more evidence-based

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[117] New Zealand Productivity Commission, More effective social services, August 2015, 15 Sept 2015, Appendix B, 9-10; New Zealand Ministry of Social Development, Here is Your Update: News for Community Representatives, July 2012, Issue 21, 1-2.

[118] New Zealand Productivity Commission, More effective social services, August 2015, 15 Sept 2015, Appendix B, 9-10; New Zealand Ministry of Social Development, Here is Your Update: News for Community Representatives, July 2012, Issue 21, 1

[119] Gash, Tom & Roos, Theo, Choice and competition in public services: learning from history, Institute for Government, August 2012, p 11.

approach to decision making within the broader human services portfolio, there is a significant risk that outsourcing will continue to crowd out viable alternatives that could take advantage of new thinking, technology or delivery models. Given the weakness of the evidence base, which we explore below, retaining some level of in-house production may be an effective means of benchmarking the quality of predominately outsourced human services, and ensuring a connected, real-world policy toolkit

Where is the evidence justifying outsourcing?

Service design decisions in an information void

The task facing policy designers separated from direct experience and expertise with service delivery is made harder by a lack of clear evidence on what works. In an era of public administration which claims to value evidence-based policy, it is very difficult, if not impossible, to test the competing assertions about optimum models for service delivery, whether in narrow terms of cost-effectiveness or on broader criteria. Thus it remains incredibly fraught for the public sector to design and deliver services with a credible evidence base to justify decisions, including in particular outsourcing.

A prescient warning about this evidence vacuum was made by the Brotherhood of St Laurence in 1995, during the *Working Nation* employment services era:

'Mechanisms to properly measure the results and impacts of contracting are needed to inform government bodies and the community and allow a careful consideration of the appropriateness of this policy direction.'[120]

Despite such warnings, the decision to move to a wholly outsourced service system by the Howard Government was made without a robust evidence base to justify it. The Government considered that its outsourcing reform was 'the most significant reorganisation of labour market assistance arrangements since the establishment of the CES'.[121] Yet it did not have rigorous evidence to affirm that outsourcing was the best policy option for tackling an issue the Government itself labelled the 'greatest single issue facing Australian society'.[122] Full-scale outsourcing was subsequently completed in 18 months without any meaningful pilot projects testing the feasibility of the market that the government was creating.[123] This lack of evidence on the most effective policy course for tackling unemployment, and in particular disadvantage, remains a fundamental problem with the system today.

Despite the sophisticated information and communication technology now at our disposal, we still do not understand with confidence the net impact that outsourced employment services have in the community over the long term. This in part reflects the inherent difficulty of comparing successive models and outcomes from different contractual periods. There has been constant re-categorisation of government spending for employment services, changing government programs as well as revised contractual outputs, outcomes and jobseeker classifications. There is also an inadequate availability of data from these periods. Data gaps are an incredibly important issue needing to be redressed, as without quality data collection and

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[120] Brotherhood of St Laurence, Setting the right direction: principles by which to assess the contracting out of human services, Industry Commission Inquiry into Contracting Out by Public Sector Agencies 1995, p 2.
[121] Vanstone, Amanda, Minister for Employment, Education, Training and Youth Affairs, Reforming Employment Assistance – Helping Australians Into Real Jobs, 20 August 1996, p 3; Costello, Peter, Treasurer of the Commonwealth of Australia, Budget Speech 1996-97, Delivered on 20 August 1996.
[122] The Liberal Party of Australia and the National Party of Australia, Pathways to real jobs: the Federal Coalition's employment and training policy, 1996.
[123] Discussion with industry stakeholder, July 2015.

analysis, services cannot be adequately targeted and personalised, and it will remain challenging for the public sector to measure the net impact of service provision over the longer term. There were recurrent warnings about the difficulty of measuring policy and program impact. An early analysis of the Job Network in 2000 noted that factors like changing labour market policy interventions, outsourcing arrangements and macroeconomic conditions could obscure any clear picture of service effect, making it 'hard to compare the Job Network from what preceded it'.[124] The task is even more difficult today after several contract iterations.

The problem extends beyond a lack of data and opaqueness of information to a general apathy within our democratic institutions to scrutinise this multi-billion-dollar service industry in recent years. Significant lines of enquiry are absent that should be publicly pursued to evaluate the development, funding and implementation of major policy decisions in employment services. For instance, the Productivity Commission's *Report on Government Services* is regarded as the key tool to measure and report on the equity, productive efficiency and cost effectiveness of government services'.[125] In its twentieth edition, released in early 2015, an epic publication that covered 16 separate social service areas, employment services were not covered at all. In fact, the Productivity Commission has not comprehensively looked at the delivery of employment services since 2002.[126]

Additionally, the daily operations of providers in the outsourced system are protected by commercial-in-confidence provisions. A recent report led by Emeritus Professor Richard Mulgan made firm recommendations on the urgent need to enhance transparency in outsourced services. The report observed that contractors in outsourcing arrangements are exempt from a number of accountability and transparency provisions that apply to government agencies carrying out similar functions, including freedom from political inquiry, government audit, administrative law, and Freedom of Information legislation.[127] The report found that public access to information about outsourcing, including performance information, is generally in the public interest.[128]

The government draws democratic and moral legitimacy from empowering and aiding the disadvantaged. A rigorous and well-maintained evidence base on the long-term impacts of outsourcing is fundamental in understanding the strengths and weaknesses of the employment services experiment, and to guard against repeating mistakes in other portfolios. The government cannot undertake impartial service design and delivery, and policy development in the future without developing it. It is also overwhelmingly in the public interest that more substantive information should be collected, collated, analysed and made available to the parliament and the community on the specific providers for which the government pays to deliver core services to those in need.

Limited evidence on the impact on public sector capability

Not only is there an absence of evidence on the impact of outsourcing services in the community, there is a similar lack of evidence on the impact it has on public sector capability. Governments must understand the

[124] Abello, David & Eardly, Tony, 'Is the Job Network benefiting disadvantaged jobseekers?', Social Policy Research Centre Paper No 77, October 2000, p 5.
[125] Council of Australian Governments, Senior Officials and Heads of Treasuries Working Group, quoted in Productivity Commission, Report on Government Services 2015, Chapter 1, pp 1-2.
[126] Productivity Commission, Independent Review of Job Network Inquiry Report, 2002.
[127] Australian and New Zealand School of Government & the Queensland Information Commissioner, Transparency and the Performance of Outsourced Government Services, Occasional Paper No. 5, March 2015, p 11.
[128] Australian and New Zealand School of Government & the Queensland Information Commissioner, Transparency and the Performance of Outsourced Government Services, Occasional Paper No. 5, March 2015, p 9.

impact of their service decisions on the capability of their public servants, irrespective of the model of service delivery they chose. However, this again has been a structural problem in the outsourced employment services system from the outset. The Howard Government did not give substantive consideration to such impacts as it moved the Department of Employment from being a direct service provider to a services purchaser and market manager.[129] The lack of adequate evidence obscures the actual impact of outsourcing on the role of the public sector.

Important opportunities have been missed to improve the evidence base on the change in public sector capability and determine whether the Department is suitably aligned to present challenges in human services. The pilot capability review of the Department conducted following the *2010 Blueprint for Reform* has not been publicly released and there appears to be little appetite within government to update the findings.[130] The Australian National Audit Office (ANAO) has certainly conducted a number of reviews of employment services, including the most recent in 2014 which looked at the Department's management of JSA. Its audit focused on the functioning and performance expectations set by the service system itself.[131] It did not provide a holistic assessment of the existing public capability to respond through service provision to long-term and persistent challenges in employment and welfare. Likewise, the Australian Public Sector (APS) Commissioner's *State of the Service* series, which looks at human capital and capacity building in broad sense across the APS, does not provide any detail on the capability and skills of separate Commonwealth departments.

At an institutional level, the Department's public mission and capability requirement appears to be increasingly shaped by the overriding model of service provision, and not the other way around. Simply, the Department has been captured by the outsourced model. The Department of Employment's Strategic Plan 2014-2017 emphasises the importance of building 'a strong and effective network and corporate function which works collaboratively with partners to build capability, support delivery and enhance accountability'.[132] The three delivery priorities listed alongside this aim are supporting jobs growth policies; designing and implementing the new Jobactive tender and Work for the Dole impetus; and reducing red tape for providers.[133] This exemplifies how the overarching purpose and identity of the Department as an institution of the public service, and embodiment of 'the public good', has altered significantly from past self-identification.

Beyond asking whether the Department even has capacity to fulfil these current corporate functions, a question must be asked how the alterations of outsourcing have impacted its capability to respond to disadvantage through employment policies and programs. Without a wide-ranging and periodic capability assessment conducted by an independent investigator or assessor, it will not be possible to answer that question with any certainty. Being unable to answer this question is a blow to our system of government and the democratic expectations between government and citizens.

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[129] Vanstone, Amanda, Minister for Employment, Education, Training and Youth Affairs, Reforming Employment Assistance – Helping Australians Into Real Jobs, 20 August 1996, pp 27-8.

[130] Advisory Group on Reform of Australian Government Administration, Ahead of the Game – Blueprint for the Reform of Australian Government Administration, 2010, Recommendation 8.1.

[131] The Auditor-General, Performance Audit Management of Services Delivered by Job Services Australia, Audit Report No.37 2013–14, p 15.

[132] Commonwealth Department of Employment, 'Enabling the Department', Strategic Plan 2014-2017.

[133] Commonwealth Department of Employment, 'Delivery', Strategic Plan 2014-2017.

Conclusion: an ominous case study in an era of outsourcing

It's a deceptively beautiful system; as long as no attention is paid to the corrosive implications for individuals.[134]

The latest iteration of the outsourced model, Jobactive, has been heralded as part of a 'bold new experiment' in service delivery that emphasises 'partnership' between the Department of Employment and service providers.[135] It emphasises flexibility with a greater focus on outcomes in an attempt to drive collaboration and innovation. Designers have stated that risks are being taken, that 'it is worth trying things and failing fast if you need to.'[136] Only in time will we see whether it offers a new, improved way of servicing a diverse range of jobseekers. Similarly aspirational statements were made at the start of each new outsourcing arrangement since the mid-1990s. Furthermore, there are other human service areas that appear to be subject to accelerated outsourcing which we will explore in Chapter 4. It is concerning that governments still fixate on outsourcing without heeding the lessons of related service experiences such as those laid out in this case study.

As we wait to see whether Jobactive is truly a break from past endeavours, the case study of employment services is a powerful demonstration of the high risks posed if government continues to have a predisposition to accelerate outsourcing of human services, without a credible evidence base measuring the intended impact, and without learning from past experiences. The employment services market is almost 20 years old yet its record is mixed at best, with the system running at two different speeds. Its net impact on the community, its ability to deliver lasting social gain, is relatively unknown, but we do know more conclusively that better employment outcomes for disadvantaged members of our community remain elusive. There are structural limitations built into the outsourced system that presently prevent an improved, more effective service from emerging that is holistic, integrated and better at targeting personal need.

The economic and social concerns that inspired outsourced delivery of employment remain equally if not more pressing. Yet, the responsibility for reforms is hidden by grand alibis in a fragmented and dispersed network of mutually dependent actors. Due to the considerable erosion of public sector capability and its isolation from direct service experience over two decades, the government is not in a position to play a more valuable, active and effective role. Its skills and expertise are built around contract and market management, and thus outsourcing has become a self-perpetuating cycle that crowds out other service models from emerging.

This topic is complex, sensitive terrain and clearly no single answer is available, but we are not making necessary progress towards better social gains, and our public sector does not have the best available toolkit. Mechanisms for more effectively targeting disadvantage, not to mention entrenched and disadvantage, via employment services remain as elusive as they were at the time the CES closed.

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[134] Discussion with Lisa Fowkes, Australian National University, June 2015.
[135] Easton, S, 'Collaboration is king, but 'healthy silos' may still have their place', The Mandarin, 26 October 2015.
[136] Leon, Renee, 'Halton: get over the fear of failure or drown in red tape', The Mandarin, 22 October 2015.

CHAPTER 4: FUTURE CAPABILITY HAZARDS IN GOVERNMENT HUMAN SERVICES

The lessons learned from the experience of outsourced employment services should be taken into account at the highest level of public sector decision making. Without taking the lessons of this case study on board, we expose future Australian society to hazardous gaps in public sector capability to deliver effective human services.

The inherited and entrenched incapability of government to move beyond outsourced service models is only the beginning of the problem. As demand for integrated, flexible and personalised services builds up over time, there is a risk that the public sector will be forced to rummage among a cut-off, less-skilled and increasingly homogenised non-government service landscape for slightly amended contract models or purchasable services. Left unchecked, underperforming services have significant immediate consequences for recipients, which can build into systemic social and economic policy failures over time. While even the consequences of ineffective services remain less visible, blurred accountability means that multiple actors can avoid taking responsibility for significant public policy failures. But in the longer term it is government that will, and should, be held to account and left to find new solutions to challenges that become more complex and entrenched.

Hazards ahead for public capability and service outcomes

The trends identified in this report pose many hazards to the future capability of the public sector. We briefly discuss three:

❷ Public policy and workforce capability hazards associated with major reforms in **disability services.**

❷ The public policy and workforce capability hazard in **corrective** services.

❷ The administrative hazard of misapplication of **'commissioning'** as a skill-set for the public sector.

A looming precipice: disability services

The NDIS is Australia's most comprehensive reform for transforming a human services sector into a competitive market. It has been described as 'the biggest social reform in Australia in over 30 years' and enjoys cross party and community support.[137] The long-term objective of the NDIS is to empower people living with a disability to choose the quality services and supports they need to access to pursue their life goals and aspirations.[138] According to the ABS, as many as 4.2 million Australians – almost 20 per cent of the population – have a disability. This underlines how important it is to get the design, execution, implementation and evaluation of the NDIS right. Learning and improving will be a continuous, iterative process.

The design of the NDIS is premised on a functioning marketplace of providers who will compete for service users. This involves a transfer of service and care provision from government to charitable and private providers, with Commonwealth and state governments shifting from being service funders and major providers, to actors that 'facilitate the development of a mature market'.[139] The National Disability

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[137] Commonwealth Parliament Joint Standing Committee on the National Disability Insurance Scheme (NDIS), 'Progress report on the implementation and administration of the NDIS', November 2015 (NDIS Progress Report November 2015), p. 79 [5.2].
[138] Commonwealth Department of Social Services, NDIS Integrated Market, Sector and Workforce Strategy, July 2015, p 10.
[139] Commonwealth Department of Social Services, NDIS Integrated Market, Sector and Workforce Strategy, July 2015, p 10.

Insurance Agency (NDIA) overseeing the NDIS is aiming to facilitate a 'softly regulated' market, with consumers being able to 'vote with their feet' in the face of poor service.[140]

In principal, the innovative integration and individualisation of services is exactly what contemporary services should aspire to, in order to more effectively meet the needs and preferences of disadvantaged or complex needs service users. It is also an extremely complex challenge, replete with significant uncertainties and risks. From a workforce planning and capability perspective alone, the changes are profound. The transition to the full NDIS nationally is expected to require a doubling of the disability services workforce by 2019/20, to a total of 162,000 full time employees, as well as significant adaptation and expansion of capabilities to more effectively respond to individual client control of services.[141]

The scheme is still being trialled, and a significant amount of the operational detail is still to be established. In 2014, an interim report by KPMG examining the NDIS rollout sounded alarm bells that should be heeded by all stakeholders, especially in light of the lessons learned from outsourcing of employment services and in other areas.[142] The report maintained that key design features had yet to be agreed, including 'the role of government as an enabler or provider of services' (which is 'important in managing the transition of different market segments to the full Scheme'), 'how the Scheme will link with mainstream services', and how potential failures of the market to provide 'adequacy or quality of supply' should be addressed.[143]

These concerns are to be expected in the early stages of development. However, several of these remain today, some ten months before the implementation of the transition phase of the Scheme begins, and without many of the transitional bilateral agreements approved.[144] In November 2015, the Joint Standing Committee on the NDIS delivered its second progress report on the implementation and administration of the NDIS to the Federal Parliament. Several of its conclusions reinforce the importance of learning from the wins and losses of the fully outsourced model unpacked in our case study, including poorer outcomes for the most disadvantaged and loss of public sector capability.

Four recommendations in particular make for careful reading:

- ❯ Recommendation 5, which asks the NDIA and the Commonwealth Department of Social Services for more in-depth research on 'the viability of various Local Area Coordination delivery models before any commitment is made'.
- ❯ Recommendation 10, to increase funding for research 'to establish robust data on the scale and nature of disabilities in Indigenous communities'.
- ❯ Recommendation 11, which urges 'all haste with the finalisation all [sic] of the bilateral agreements for the transition phase'.
- ❯ Recommendation 12, which requests the Government and Disability Reform Council to 'agree effective roles and responsibilities including funding regarding Information, Linkages and Capacity building (Formerly Tier 2 supports) and access to Mainstream services'.[145]

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[140] National Disability Insurance Agency, Building the National Disability Insurance Scheme Progress Report: Year Two, July 2015, p 22.

[141] Commonwealth Department of Social Services, NDIS Integrated Market, Sector and Workforce Strategy, July 2015, p 19.

[142] KPMG Report, Interim report: Review of the optimal approach to transition to the full NDIS, July 2014, Report

[143] KPMG Report, Interim report: Review of the optimal approach to transition to the full NDIS, July 2014, Report, pp 8-9

[144] National Disability Insurance Scheme, Progress Report November 2015, p 80 [5.10].

[145] National Disability Insurance Scheme, Progress Report November 2015, pp xiii-xiv.

The report also makes clear the ultimate responsibility of governments to collectively manage the Scheme's fragility: 'While it is hugely important these [transitional bilateral] agreements are done properly and done well to ensure risk is mitigated and that they are fit for purpose for all concerned—particularly the Commonwealth—it is also, in such a nascent market, important to promote confidence and certainty for all involved'.[146]

Two paragraphs of the Joint Committee's analysis are worth repeating in full:

> '[5.14]: Finalisation is also required on the roles and responsibilities for Tier 2 services (Information, Linkages and Capacity building (ILC)) and access to mainstream services. Both were recommendations in the last committee report.
>
> [5.15]: A consistent issue raised by many witnesses is that of 'gaps in service', both for individuals who were found 'ineligible' for the Scheme and required access to Tier 2/ILC supports and where mainstream services have been withdrawn. This affects access to a range of services such as medical and education services.'[147]

Perhaps most concerning is the Joint Committee's statement that outcomes on identical recommendations in 2014 'are proving elusive'.[148] With this in mind, the Joint Committee called for the reinvigoration of the National Disability Strategy 'to ensure that people don't fall through the cracks between the NDIS and state-based systems'.[149]

Very importantly, the report highlighted four reviews overseen by the NDIS Board over the past year. Two stand out: a 'capability review to assess NDIA processes, systems and the expertise of its people to deliver the NDIS roll out' and a 'review of business capabilities to assess what of the NDIA functions can be outsourced to private and non-government providers'.[151] The Joint Committee goes on to say 'the primary issue facing [the NDIA] over the coming 18 months will be its ability to expand quickly to provide the necessary services across Australia', which would be a test of 'the Agency's resilience and agility'.[152] They continue: 'what is not in doubt is the transformative effort required to satisfy the needs of the Scheme', particularly in 'developing the skills and capacity of the workforce'.[153]

Box 9: State public sector capability and the NDIS – experience in WA and NSW

One vital touchpoint as the NDIS rollout continues is the competing trials in **Western Australia,** between the Commonwealth's NDIS model in Perth Hills and the State Government's NDIS 'My Way' model in the Lower South West. The Western Australian Government insisted upon this comparative study to inform future service models.

Early reports from the two-year trial suggest My Way could be a better way, partly because it is built off two decades of government and non-government experience in Western Australia, and particularly due to the quality of the local area coordinators.[150] Evidence tabled in Senate Estimates in April 2015 pointed to the following differences between systems: (i) providers being paid quarterly in advance under My Way, not after a service is delivered under NDIS; (ii) average package costs of $24,508 for My Way compared to $33,657 for the NDIS; (iii) a greater focus by My Way coordinators on assisting participants to explore 'informal and community supports before 'driving them toward

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[146] National Disability Insurance Scheme, Progress Report November 2015, p 80. [5.11].

[147] National Disability Insurance Scheme, Progress Report November 2015, pp 80-81 [5.14] [5.15].

[148] National Disability Insurance Scheme, Progress Report November 2015, p 81 [5.18].

[149] National Disability Insurance Scheme, Progress Report November 2015, p 82 [5.22].

[150] See Young, Emma, 'My Way or the high way for the NDIS: leading disability services provider', WA Today, 17 June 2015, available here.

[151] National Disability Insurance Scheme, Progress Report November 2015, p 4 [1.23].

[152] National Disability Insurance Scheme, Progress Report November 2015, pp 83-84 [5.33].

[153] National Disability Insurance Scheme, Progress Report November 2015, p 89 [5.60].

funded supports' under My Way, with some of these connections coming out of a funding 'plan' under NDIS; and no time limits on developing an individual plan under My Way, as opposed to a preference for no more than three sessions under the NDIS.[154]

The preliminary conclusion presented to Senate Estimates was that the 'My Way model is showing greater effectiveness', primarily because of 'the strong and continual relationship with a My Way coordinator who links people to informal supports and community'.[155] It is too early to draw definitive conclusions, but the role of the Disability Services Commission of Western Australia in this process, particularly its desire to build on existing capability, points to the value of resourcing government departments to act as effective, persistent, policy entrepreneurs.

New South Wales, one of the first states to undertake the full NDIS rollout, is an example of the potential capability bleed that the public sector will face as new disability service markets are rolled out across the country. The NSW Government will remain a 'stakeholder in the NDIS and have a say in the way it evolves'.[156] But by July 2018 the Ageing, Disability and Home Care part of the Department of Family and Community Services will no longer provide frontline disability services, including supported accommodation and home care services.[157] At full roll-out, approximately 140,000 people with a disability in NSW will purchase services from a privatised market,[158] with no in-house service delivery from the public sector. Similar to the employment services scenario, this opens up the dilemma that the state government will no longer have practical responsibility, expertise or service proximity on the delivery side. The Public Services Association estimates that the NSW Government will transfer approximately 14,000 frontline service workers to the NGO sector during the transition.[159] Logistical and operational considerations of such a massive human capital transfer aside, this represents an enormous loss of direct service expertise and experience from the public sector, as well as a significant life transition for people currently receiving public disability services.[160]

While operational responsibilities and a level of risk can be transferred to an outsourced services market, final responsibility to the public to maintain a quality and effective social service cannot be transferred. As in earlier scenarios of total service outsourcing, there is no assurance or evidence that the public capability risks have been identified or remedied to protect the broader public interest, in case of market failure in particular regions or particularly vulnerable or disadvantaged individuals.

Privatising the deprivation of liberty: corrective services

The deprivation of individual liberty by order of the state is a fundamental government responsibility, and as Lindsay Tanner argued to CPD, one of the most radical exertions of state power over its citizens.[161] Corrective services delivered by states and territories are conventionally considered non-transferable from government. Yet the push for greater contestability, and identifying alternative delivery models to public provision, is expanding further in this area.

Corrective services utilises a mixed model. In the 111 custodial facilities across Australia there are 85 government-run prisons, and nine privately-run prisons operating in Victoria, New South Wales, Western

[154] Senate Community Affairs Committee, 'Answers to Questions on Notice – Social Services Portfolio', Attachment A, 9 April 2015.

[155] Senate Community Affairs Committee, 'Answers to Questions on Notice – Social Services Portfolio', Attachment A, 9 April 2015.

[156] New South Wales Department of Ageing, Disability and Home Care, 'Questions raised for the Public Service Association - Newcastle Forum', December 2013.

[157] New South Wales National Disability Insurance Scheme, Transfer of New South Wales disability services, online information page.

[158] New South Wales National Disability Insurance Scheme, Service Providers, online information page [available at http://ndis.nsw.gov.au/serviceproviders/ accessed 12 October 2015].

[159] Public Service Association 'NDIS workforce implications in the NSW context', Ageing Disability and Homecare Industrial Report, March 2014.

[160] National Disability Insurance Scheme, online information page, 'Who will also transition first onto the NDIS'

[161] Tanner, Lindsay, CPD Roundtable on Government Service Delivery, March 2015.

Australia, Queensland and South Australia.[162] State governments increasingly look to outsourcing and commissioning as viable options, particularly for prison services. The latest jurisdiction where this push is occurring is Western Australia. The WA prison system comprises 15 prisons housing approximately 5,500 prisoners.[163] The Department operates 13 prisons and two prisons are privately operated by Serco. It appears that the mix of public and privately delivered services in WA is set to change. In October 2015, the Economic Regulation Authority (ERA) finished an inquiry into the 'Efficiency and Performance of Western Australian Prisons'. The ERA concluded that 'the overall performance of the prison system can be enhanced through greater competition for the opportunity to manage prisons and deliver prison services', and that competition will provide 'wider choice, better quality service offerings, higher levels of innovation, and potentially lower costs'.[164] Their final report explored several options for extending competition, including subjecting in-house service delivery to 'greater competitive tension', direct procurement of services, and commissioning.[165] It endorsed the development of commissioning capability as the preferred option to achieve better contestability.[166] In the report's proposal, commissioning involves separating the service delivery arm within the department from the proposed 'commissioning division', which would administer an outcomes-driven tendering process open to public and non-government organisations.

It is an uncomfortable juxtaposition that citizens detained at the order of the state have their imprisonment administered by private organisations hired by the government. This discomfort worsens as the public-private service ratio continues to shift, and a predisposition to outsourcing becomes dominant. There is a real risk that, like employment services, competition in the corrective services sector will make it harder, not easier, to deliver integrated services and foster collaboration, and that similar grand alibis will emerge due to the diffusion of responsibility. Thus, repeating mistakes in the outsourcing of employment services sector seems a possibility.

There is also a further risk of erosion of public sector capability in delivery and policy formulation. The ERA recommends a significant improvement in the Department's capacity to meet its 'increased contract management responsibilities associated with the introduction of a commissioning approach.'[167] The ERA views tender management as one of the core skills for the service delivery arm, and contract management as one of the core skills for the commissioning division. If the report's recommendations are implemented, the emphasis on this skillset as the high priority will begin to alter the departmental culture and connectedness to the service frontline. Further, the ERA supports extending commissioning over time to youth justice and community corrections. The department is thus at additional risk of losing connection to a mixture of co-ordinated and integrated community programs that sit outside traditional correctional services but that deliver tailored and localized solutions.

The state of Australia's detention services for refugees serves as a grim reminder of what could occur if outsourcing is aggressively scaled up across Australia. Again, the decision to permit or refuse entry into Australia's sovereign territory is a clear duty of the state. Yet the practice of privatising detention is extensively applied at the Commonwealth level for refugees. It is also a clear example that whilst

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[162] Productivity Commission, Report on Government Services 2015, 8.4.
[163] Department of Corrective Services, Adult Prisoners in Custody Quick Reference Statistics, Perth, Government of Western Australia, 2015, p 3.
[164] Economic Regulation Authority, Inquiry into the Efficiency and Performance of Western Australian Prisons: Final Report, October 2015, p 9.
[165] Economic Regulation Authority, Inquiry into the Efficiency and Performance of Western Australian Prisons: Final Report, October 2015, p 21.
[166] Economic Regulation Authority, Inquiry into the Efficiency and Performance of Western Australian Prisons: Final Report, October 2015, 232-33.
[167] Economic Regulation Authority, Inquiry into the Efficiency and Performance of Western Australian Prisons: Final Report, October 2015, p 273.

outsourcing aims to deliver high-quality and affordable services to the government, providers can still deliver a low-grade, poor service that jeopardises the health and wellbeing of detainees and staff.

Australia's detention facilities are privately managed via a contractual arrangement currently worth $950 million to $1.4 billion, in addition to the approximately $3 billion that the provider has already gained through previous service agreements.[168] Despite the commercial significance of these contracts, there have been persistent concerns that the provider does not staff specific facilities with suitably qualified, trained and experienced staff, that the managerial relationship with the detainees can be tense and at times violent, and that there is a lack of adequate health care and mental health services.[169] This inadequacy was demonstrated in November 2015 on Christmas Island when one refugee – who was later found dead - escaped unnoticed by two inexperienced staff members who did not understand the alarm system. The incident ultimately resulted in a breakdown of order at the facility requiring intervention by the Australian Federal Police.[170] An investigation is now underway to determine the full causes of this serious incident.[171] A similar incident occurred in 2011 when the provider was understaffing the same facility.[172]

Commissioning: new hope, or hazardous jargon?

As discussed in Chapter 1, the 'commissioning' approach to social services has been heavily emphasised in influential policy publications and in executive levels of service delivery sectors. However, aspects of its application have been highly controversial, dividing stakeholders and undermining the strategic and program evaluation benefits of commissioning as an administrative discipline.

Crucially, there is an ongoing lack of clarity around what commissioning really means in practice. Professor Helen Dickinson, of the Melbourne School of Government, observes that commissioning often suffers a broad and misleadingly 'catch all' usage.[173] This is consistent with the experience of other countries. Writing of the UK application of the theory of service commissioning, James Rees observes that what is simple in theory is complicated in practice: 'even if commissioning is "the name of the game" in any given locality or service area, it may be subverted by local political preference and tradition' to the point that it is 'business as usual' under a new guise.[174]

Arguably, commissioning in the Australian public service lexicon has come to mean 'an attempt to reduce the role of the state in the provision of services and instead promote the idea that public authorities should be an enabler'.[175] This has fuelled suspicion in many quarters that, in the political reality, commissioning is simply 'an extension of the outsourcing agenda'.[176] Advocates of commissioning explicitly reject this view. However, the fact that the language of commissioning has often been closely linked with a perceived

[168] Kollewe, Julia, 'Serco to continue running Australian immigration detention centres' The Guardian, 10 December 2014.

[169] Taylor, Paige, 'Barely trained casual workers in detention centres', The Australian, October 10 2011; Taylor, Paige, 'Detention misery cuts both ways on Christmas Island', The Australian, July 13 2011; Australian Human Rights Commission, Immigration detention on Christmas Island: Observations from visit to immigration detention facilities on Christmas Island, 2012, pp 19-21.

[170] Taylor, Paige, 'Christmas Island detention centre's guards were rookies', The Australian, November 12 2015.

[171] Minister for Immigration, 'Christmas Island Detention Centre disturbance, transfer of detainees, outlaw motorcycle gangs, citizenship legislation, leadership', Department of Immigration media centre.

[172] Taylor, Paige, 'Christmas Island detention centre's guards were rookies', The Australian, November 12 2015.

[173] Dickinson, Helen, 'Public service commissioning: what can be learned from the UK experience?' Australian Journal of Public Administration 73:1, 2014, p 15.

[174] Rees, James, 'Public sector commissioning: old wine in new bottles?' Public Policy and Administration, 29:1, 2014, p 60.

[175] Dickinson, Helen, 'Public service commissioning: what can be learned from the UK experience?' Australian Journal of Public Administration 73:1, 2014, p 14.

[176] Dickinson, Helen, Commissioning public services evidence review: Lessons for Australian Public Services, Melbourne School of Government, March 2015, p 3.

presumption towards non-government delivery highlights that even with the best intentions, there is a risk that this framework will be misapplied in practice.

Box 10: The language of commissioning

The Queensland's Public Sector Commission's Renewal Charter 2013 proposed a key focus on 'contestability, commissioning and core services', and envisaged 'a fundamental culture shift from service provider to service facilitator/regulator'.[177] EY describes the modern public service as transitioning from 'doer to being an enabler and a creator, steward and regulator of public service markets'.[178] KPMG describes government commissioners as shedding 'needless involvement in everyday operational matters' and instead focusing on monitoring and quality assuring the performance of service providers'.[179]

Failure to draw on the potential strengths of a properly-applied 'commissioning' approach would represent a missed opportunity. There is much to be gained from a more strategic, integrated and long-term service design and implementation discipline that draws heavily on program evaluation, ongoing service planning and cross-sector data, and emphasises the public sector capabilities needed to make this a reality. CPD's roundtable showed appetite for a commissioning approach, if it could be assured that it did not import certain ideological claims, and did not presuppose a delivery agent.

However there is currently no transparently posited or universally applied framework for commissioning services to which advocates can point. It is CPD's view that a commissioning framework should be developed amongst key agencies in state and Commonwealth Governments, to ensure the benefits of commissioning are realised, but not at the expense of workforce capability and existing service delivery expertise.

The costs of modelling away responsibility and capability

'My own experience is that we still lack mechanisms that show public sector staff how their work contributes to the overall goals of their agency and how, in working with other agencies — they can deliver a better joined-up response…If government agencies cannot solve this problem the delivery task will inevitably be outsourced to organisations that can.'[180]

Terry Moran, former Secretary of the Department of Prime Minister and Cabinet, October 2015

The erosion of public sector capability carries a cost to the public interest and policy outcomes that has never been adequately counted. One of Australia's most respected public sector leaders, Terry Moran, recently warned that the Australian public sector is 'weak in up-to-date public sector management and the professional assessment of how to reform strategically the delivery of services'.[181] He cautioned that in the absence of these capabilities, the next step will typically be to involve non-government actors who can solve the challenging task of joined-up delivery.

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[177] Queensland Public Sector Commissioner, Public Service Renewal Charter, July 2013, p 2.
[178] Ernst Young, A Catalyst for Change, Online brochure, 2014, p 5.
[179] KPMG, Rethinking public service delivery: A guide to new frameworks, January 2015, p 2.
[180] Terry Moran, 'Five big challenges for Australian Government', The Mandarin, 14 October 2015.
[181] Terry Moran, 'Five big challenges for Australian Government', The Mandarin, 14 October 2015.

But our case study of employment services demonstrates that, in even the earliest and most extended attempt at outsourcing services in Australia's history, non-government actors *cannot* necessarily solve that challenge more effectively than government. So in that case, what is Australian society left with? Should we accept that the future of publicly funded human services is essentially a choice between various entities that are mutually incapable of delivering the integrated, flexible and personalised services required for wicked social problems, especially in cases where disadvantage and need are at their most complex and pronounced?

As a society – and particularly those in the policy community – we need to be more upfront about the imperfections of our current practices, assess the bigger picture wins and losses and respond effectively on the evidence unearthed in that process. As noted by Save the Children CEO Paul Ronalds at CPD's roundtable, 'there is a lot of conversation in Australia that fixates on how a service is delivered and to whom, but does not adequately explore the transparency of the overall system so that the real costs and benefits are disclosed by all parties'.[182]

Outsourcing capability will cost more than dollars

Minimising the immediate costs to government of public service provision, as well as achieving greater efficiency and effectiveness over time, is clearly an attractive proposition for governments. However, in any proper analysis of costs (whether focusing simply on cost-effectiveness or on costs and benefits) it is essential that all of the relevant costs are considered.

Direct fiscal costs associated with outsourced delivery models can be large, even as part of a policy approach that prioritises cost-minimisation over other goals. There are major direct costs to government from designing, procuring, reviewing and revising outsourced delivery models, as well as building the public sector capability required to do so effectively.

These are only a subset of the broader costs to the community that must be considered. There are a range of costs that are incurred by society over time, some that can be easily measured in monetary terms, and some that cannot. For example, they include the cost to economic growth and collective wellbeing from the underperformance of social services to promote employment and participation, as well as more direct costs to individuals, families and communities. They also include negative impacts from shifting costs away from government towards the not-for-profit and private sectors – including possible impacts on the finances and fundamental character of community sector organisations, and flow-on impacts from shifting to a non-government service delivery workforce with less protections on pay and conditions.

A related set of costs characterised by Alford and O'Flynn are 'strategic costs' to government itself, including the potential loss of core competencies and public trust in the public sector.[183] While the make-up of 'core' government competencies is contested, measures that erode or abrogate the public sector's natural strengths and responsibilities for service provision create long-term costs, risks and vulnerabilities. These are particularly important in the case of entrenched disadvantage, where the government's ultimate accountability is heightened, and where capacity for designing and deploying integrated, cross-service policy is most sorely needed.

Considering the broader set of costs is an essential starting point for any service delivery evaluation. This is an extremely complex task. Merely defining and measuring discrete service outputs and outcomes is

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[182] Paul Ronalds, CPD Roundtable on Government Service Delivery, March 2015.
[183] Alford, John, & O'Flynn, Janine, Rethinking Public Service Delivery: Managing With External Providers, 2012.

notoriously difficult. Benchmarking against counterfactuals about costs and outcomes under different policy regimes is even harder. In some cases it is not possible at all. And this is without even beginning to consider the much wider range of costs (and also benefits) to recipients, communities and government.

Given this complexity, focusing on minimising the direct costs of services that target narrowly-defined outcomes is likely to be counterproductive in the longer term. This approach, particularly if it proceeds uncritically on the assumption that non-government delivery is the best means to achieve this, is likely to impose broader costs that outweigh any narrow 'efficiency' gains.

This is not to argue that efficiencies should not be pursued, or that there is no place for a level of commissioned or outsourced service delivery models. Indeed, a range of different approaches and delivery models are likely to play an important role. However, the decision to take that course should only be made based on full consideration of all of the evidence, costs and complexities that are involved – not a subset that serves to entrench outsourced delivery as a foregone conclusion.

Conclusions and recommendations

'[G]overnments cannot distance themselves from the quality of human services delivered to Australians.'[184]

'A professional public service is a valuable asset. We come to appreciate it, perhaps, only when we observe the effects of its demise.'[185]

The Australian public will continue to view Commonwealth, state and local governments as ultimately accountable for the effectiveness of social services that address disadvantage. This is an ongoing policy challenge. Despite supportive economic conditions, our experimentation with a range of different models (public, private, and mixed) has so far failed to break down the complex drivers of disadvantage. This has occurred in an era where opportunities for market-driven reform of traditional service delivery models have been at their strongest.

The erosion of public sector capability occurs at a time when the community increasingly expects the public sector to address a range of wicked policy problems. Today we are facing structural economic challenges that will heighten vulnerability, which in turn increases the need for more effective service delivery. Despite this, governments have engaged in a broad program of public sector cost-cutting which has included major cuts to the social safety net, uncertainty about medium-term funding for basic education, health and other public services, and blunt public sector cuts.

The Commonwealth Government's response to the Harper Review represents another critical juncture in the evolution of human services. The Review highlights major opportunities for further reforms centred around the principles of choice, competition and contestability, to support more client-centred, innovative and efficient human services. However, it also highlights the dangers of focusing solely on low-cost tendering out of human services. It envisages an expansive and demanding role for the public sector as a steward, commissioner, regulator and provider in a diverse, complex and contested services ecosystem – and one in which government retains overall accountability for making sure these services work.

The response to the Review endorses these key principles, and calls for a further review by the Productivity Commission of how they can be applied in practice to the human services sector. It is essential that this process not only pursues opportunities to improve choice, integration and productivity, but also recognises the major public sector capability requirements for achieving these in practice, particularly in cases of complex need and disadvantage.

The response stated that further reforms would 'build on' those already happening in employment services, vocational training and the NDIS, and cited these examples as 'models of consumer choice which can lead to better outcomes for individuals and the community'.[186] Our findings, and evidence of rorting, entrenched service failures and transitional complexities in these other key service areas, emphasise how crucial it is that we learn from earlier reforms of human services, rather than sticking dogmatically to a one-size-fits-all reform mindset. We hope the emphasis on productivity, efficiency and 'waste' in the Government's response is not a further sign of politics and ideology crowding out proper decision making on service delivery policy.

In light of this broader context, we call for a realistic and honest appraisal of the big picture costs and benefits of different delivery models at play today, and a commitment to a more reasonable, informed approach to designing and delivering social services that also recognises the fundamental role and long-term value of government.

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[184] Australian Government, Competition Policy Review, Final Report March 2015, ('The Harper Review'), p 35.
[185] Ian McAuley, 'Dumbing Down in Canberra – A Guide to the Public Service Reform Industry (Part 1)', Dissent, 2000, p 9.
[186] Government response to the Competition Policy Review, November 2015, p 4.

We offer the following recommendations to governments:

1. Prioritise public sector capability enhancements

Living up to the community expectation of effective service delivery, while maintaining a strong, assured and dynamic standard of public sector capability, is essential. A public sector that relies solely on purchasing services from other social service providers is likely to fall short – in part because it fails to leverage the special characteristics of government, and the valuable role the public sector can play. Government is ultimately responsible for the spending of public money and for the collective policy response to disadvantage and welfare gaps in the community. It can offer an unparalleled and stable source of applied expertise on service delivery and design. Its potential for cross-service reach across departments and jurisdictions offers unique opportunities to design services that are widely integrated, coordinated and innovative, provided it can break down traditional barriers that prevent this from occurring.

These qualities need to be significantly enhanced, not just maintained. The benefits of contestability and of a 'commissioning' approach to public service design and delivery are illusory unless there is a corresponding investment in the capability of the public sector. Far from minimising the role of government as a market steward or contract manager, this means building the capabilities for the public sector to engage in all stages of the process as necessary in different portfolios – from policy formulation and service design through to delivery, analysis and evaluation. This involves a more open approach to utilising technological innovation and disruption.

A boost to capability is especially crucial in the case of human services targeting disadvantage, where barriers to effective services are the most serious and complex, and where public sector capability gaps can have the most damaging long-term consequences.

Commensurate with a renewed emphasis on the public sector role is the need to improve risk appetite and enterprise in the development of policy and programs. Prime Minister Turnbull has previously acknowledged the need for governments to create cultures of risk-taking and entrepreneurialism within the public sector: 'We've got to try new things and, if you try new things, a lot of them won't work, but so what? If you smash people because they try something and it doesn't work then they'll never try anything new again'.[187] Jane Halton, Secretary of the Department of Finance, argues that '[i]f you overlay disruption on a culture that says you have to manage risk to zero on absolutely everything, you will end up with more red tape than you can poke a stick at'.[188] Renee Leon, Secretary of the Department of Employment, has also advocated a shift in risk appetite when making policy, saying that departments should 'lay the groundwork' with Ministers to accept that things will go wrong from time to time, but that it is a constructive part of public administration.[189]

Recommendation 1:

Capability building should include:

    (a) resourcing government departments to act as effective, persistent policy entrepreneurs, including by trialling different service models, with the skills and staff to develop the evidence and analytics base on an ongoing basis; and

    (b) investment in expertise in costing and benchmarking analytics to enable the standardised in-house application of a *Commissioning and Collaboration Framework*, to ensure the ongoing effectiveness of publicly-delivered human services across sites of service responsibility.

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[187] 'Malcolm Turnbull on the public sector, taking risks & listening to advice' The Mandarin, 15 Sept 2015,
[188] 'Halton: get over the fear of failure or drown in red tape', The Mandarin, 22 October 2015.
[189] 'Halton: get over the fear of failure or drown in red tape', The Mandarin, 22 October 2015.

2. Ensure outsourcing passes a Net Public Impact Test

It is necessary to guard against near-sighted reforms that lack a credible understanding of the full impact on the community, and that may also undermine the long-term capability of the public sector over time.

There is no clear 'public interest test' for deciding how a service should be delivered, and policy processes for making these decisions are often chronically underdeveloped. An Australian Government Procurement Statement released in 2009 by then Finance Minister Lindsay Tanner stated that 'the Government will only contract out when it is in the public interest, having regard to such considerations as the quality and accessibility of services and the implications for affected public sector employees'.[190] Yet, in 2014, the National Commission of Audit declared that 'there is currently no formal, structured approach at the Commonwealth level for the consideration of what services should be contestable and, if warranted, outsourced.'

Our discussions with senior policymakers in Commonwealth and state departments confirmed a clear operating protocol for these decisions is lacking. One observed that, in the case of decisions to outsource services, there should at least be a clear requirement to 'get it costed independently, and to make it public. Government should be doing that but we don't – often we don't even do a cost benefit analysis. We never think of doing it ourselves.'[191]

An externally driven process to validate how a service should be delivered is itself insufficient. At a minimum, departments must be skilled and staffed to develop the evidence base and make the best decisions for their own program management, delivery and policy development. However, given particular risks associated with outsourcing, it is vital that the lack of clear process is addressed. Given the consequences of poorly performing services and the risk to long-term public sector capability, a more structured and rigorous approach to decision making on service delivery at all levels of government is essential.

Recommendation 2:

Ensure any outsourcing of human services passes a legislated *Net Public Impact Test* (NPIT), which examines as appropriate the financial, economic, social and administrative impact, including reputational risks, loss of capability and public accountability. This process should also examine the second and third order impacts on related services to ensure risks to integrated, holistic service delivery are identified.

The NPIT should be undertaken by an independent assessment agency and made publicly available upon completion.

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[190] National Commission of Audit, Report on Phase 1, 2014, 10.3.
[191] Discussion with senior public servant, May 2015.

3. Improve the evidence base on outsourcing and public sector capability

Designing and delivering service on the basis of rigorous evidence is clearly in the best interest of the Australian community over the long term. However, the evidence base on outsourcing, service effectiveness and public sector capability is underdeveloped; in some cases, it is missing entirely. Without more substantive information and data from the service providers, debates about the prospects and impacts of different service models risk becoming stuck in ideological or political frames that make choices about how to provide effective human services even more problematic and controversial. Crucially, we also need regular stocktakes of how new service models impact the public sector's ability to do its job. Without this we will be blind to the impact of new service models over time.

Where services are failing we must openly identify these problems, and find solutions. This requires thorough, public assessments and good evidence. Without these capabilities, we risk repeating past mistakes instead of improving service delivery, regardless of the model used.

Recommendation 3:

The terms of reference for the Productivity Commission review of human services should include the impacts of earlier human service delivery reforms on public sector capability, particularly in the design and delivery of policies and services to address entrenched disadvantage. The review should also consider the capability required for the public sector to discharge effectively an increasingly complex role in human services policy, funding, regulation and delivery over time.

Employment services should be included as one of the key sub-sectors for more detailed analysis by the Productivity Commission. This should include specific focus on the effectiveness of the employment services system in addressing long-term unemployment.

On top of this, regular and independent reviews of public sector capability should examine not only past performance, but also the areas requiring targeted investment and increased skills and expertise for future work demands. These reviews should be independent, biannual and publicly available, as recommended by the 2010 *Blueprint for Reform.*

If outsourcing is approved for a particular service, the Australian National Audit Office and its state counterparts must be empowered to review and request amendments to confidentiality clauses in contract agreements prior to execution. This will enable timely advice to the relevant department on how to ensure better access to data and information from providers, greater transparency and higher public scrutiny of outsourcing arrangements.

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