

3. NATIONAL COMPETITION POLICY AND SOCIAL DISLOCATION

The experience of high levels of entrenched disadvantage in some sections of the Australian community, as was the case during the time of Pope Leo XIII, can be directly linked with the lack of secure work offering an adequate income and opportunities for advancement. These conditions are not unlike the experiences of many during the 1930s Great Depression and for disadvantaged groups including people who are unemployed living in low-demand regions throughout Australia who have now lost their bargaining power through periods of recurring world recession since the mid-1970s.

There is a general feeling in the Australian community that the NCP has resulted in and/or contributed to various social dislocation in some local communities. The following comments are offered on this matter.

3.1 The Broad Impact of Globalisation and Recession

Over the past 20 years, Australia as a nation, along with the rest of the Western world, has been propelled into a period of unprecedented social, political and economic change. Social commentators have referred to this period as 'an age of redefinition', 'the end of certainty' or 'a contemporary Australia' in which very few aspects of life have remained unaffected and unaltered.

The impact of change has been experienced with the onset of globalisation, whereby central governments are increasingly less able to smooth out the recessionary impact of troughs in the economic cycle through protectionist policies and pump-priming. This has manifested itself in the end of Australia's so-called Golden Era in the discovery and rediscovery of poverty among States, regions, localities and particular groups in the community.

The experience of poverty has been exacerbated following subsequent economic downturns and reflected most clearly in unacceptably high levels of unemployment which impact most directly upon certain disadvantaged regions and groups. The structural nature of unemployment is reflected in economic arrangements whereby high unemployment acts as an incentive for wage restraint and maintains low levels of inflation in the short- to medium-term.

These structural changes to the economic and social context of Australian life are concomitant to broad demographic developments including the significant aging of the population, the rural-urban drift of capital and labour, more fluidity in family composition, changing life cycle patterns of formal labour market participation, further education and training and unpaid caring work for both women and men.

The question as to how, or indeed whether, the NCP can address or respond to these changes needs to be raised in any strategy governments adopt to educate the Australian community about the benefits of the NCP. These explanations need to account for both individual and collective benefits.

It is evident that the introduction of the NCP in the public domain has usually been associated with

Australia's strategic response to changes in global economy and international regional trade relations as well as the desire to keep in check a burgeoning national CAD. Often the community's experience of the NCP has been limited to the experience of economic policies based on fiscal restraint, competition and the reduction of tariff protection at both the Commonwealth and state levels.

The community has witnessed the products of the NCP in negative terms including, but not limited to:

- public assets placed on the market and disposed of;
- deregulation of the financial sector which has resulted in increased bank fees;
- the decentralisation of industrial relations which continue to undergo extensive program of deregulation which leads to increased job insecurity;
- business and industry restructuring under policies of micro-economic reform while structural adjustment programs of industry and regional development have been reduced;
- increased downsizing and privatisation of the public sector and welfare services have been subject to strategies of fiscal restraint through targeting of assistance and resources and the contracting-out of services to the private and community sectors at lowest possible price.

While free and competitive markets might deliver efficiency gains and contribute to national economic growth, Australians have witnessed circumstances in which these gains do not always deliver good social outcomes. While the economic reforms of the last decade have been inevitable to some extent as a response to the conditions of world trade, governments have been unable to sell the merits and the benefits of the NCP to some sections of the general community. This is especially so with respect to those communities that experience further economic downturn as a result of the implementation of the policies, e.g. the closure of banks in rural communities.

There can be no doubt that the increase in inequality and social marginalisation, which have impacted on specific groups such as youth, the unemployed and regional economies, that is (correctly or incorrectly) ascribed to the NCP have not been adequately understood as being a consequence of an overall strategic approach to deal with global factors beyond the control of single governments. Social policies, especially targeted initiatives through tax transfer payments and community services of governments, have ameliorated inequitable effects of the market but they have not been sufficient in their countervailing effect, specifically for those without access to market income.

Various strategies of microeconomic reform employed by Australian Governments simultaneously with fiscal restraint have often called on the community to endure the initial inequities of market reform in the hope of achieving longer-term benefits. These strategies can be regarded as socially responsible where there is a firm commitment by governments of the day to adequately address resulting increases in community need. However, governments risk abrogating their responsibility

to the common good of the community where such strategies:

- are pursued without the simultaneous commitment of adequate social policies;
- result in a significant reduction of government intervention as public employer, regulator and provider; and
- place an over-reliance on the dubious distributive mechanism of trickle-down economics.

3.2 The Impact of Global Recession on Disadvantaged Regional Economies

The requirement to pursue economic reform at the same time as adequately addressing the resulting social needs of the community through the vertical distribution of income and wealth is no less crucial to the operation of the economy in regions experiencing high unemployment. However, there are distinctive features of these regions which make the pursuit of equitable economic development a more difficult task.

While bearing in mind that those regions experiencing depressed labour market demand range in size and structure from disadvantaged fringe suburban clusters of the major cities to whole State and Territory economies, their distinctive features of vulnerability and disadvantage include a combination of:

- markets which are small, open and disproportionately vulnerable compared to the performance of other regions and relative to the national average;
- small population sizes lacking a capacity to generate a critical level of internal production and consumption power resulting in a higher than average reliance on public expenditure, the maintenance of good trade relations, accessing skilled labour and capital from outside the region to sustain its market power;
- declines in traditional resource-based industries of manufacturing and primary production and a lack of expansion of industry into other sectors (e.g. resource sustainable, value-adding and non-resource based activities) that would indicate a long-term strategy of sustainable economic development and competitiveness;
- a relatively high level of production in resource-based goods at a price fixed by interstate and international buyers leaving such economies vulnerable to commodity price fluctuations;
- vulnerability of such markets to external shock pushing these communities into economic recession earlier, and their recovery later, than other regions and the Australia as a whole;
- depleted human, social and physical infrastructure exacerbating poor economic performance by failing to attract adequate private capital investment and leading to some immigration of businesses and community members to other regions in search of labour, employment, health

and community services, education and training, and household goods and services; and,

- ❑ stubbornly high levels of unemployment, long-term unemployment and related entrenched social disadvantage and dislocation.

A combination of these factors seems to be chronic in the lives of communities experiencing low labour market demand. They reveal the characteristic 'downside' to the rosy picture often portrayed of improved national economic performance and a balanced current account. The ongoing and permanent nature of these conditions indicates that it is unlikely that the economic performance or the social well-being of these disadvantage regions will be improved without greater public sector involvement in developmental programs and more adequate and sustained general revenue financing. The continued approach of rigidly applying the principles of competition in these instances is questionable.

The need for heightened Government intervention in support of these regions, backed with increases in the allocation of funding and resources, would seem to challenge the intense political imperative to restrain public spending.

3.3 Unemployment: The Impact of National Competition Policy on the Circumstances of Disadvantaged Regions

Regions experiencing high levels of unemployment and entrenched disadvantage have been forced to consider (through state Government, local government and non-government organisations) alternatives to reliance on federal public funds as the quantum and stability of general revenue through Commonwealth Grants has been reduced. State/Territory Governments, Local Governments and regional finances are highly dependant on Commonwealth Government fiscal policy.

An increasing proportion of State and Territory revenue is distributed from the Commonwealth. This level of dependence in a decade marked by national fiscal restraint, when combined with the states' responsibility to service localities and regions of low relative growth and a narrowed tax base has exposed state finances to a number of budgetary crises resulting in surges of higher unemployment and cuts to public sector funding.

Governance of communities at the local and regional level also faces this dilemma. However, the vertical fiscal imbalance existing between the Commonwealth and the States/Territories most clearly highlights a crisis between the demands resulting from regional stagnation and social disadvantage versus fiscal restraint.

The fiscal imbalance resulting from constrained Commonwealth funding over the past decade, the need to contain the burgeoning debt of State/Territory Governments and the commitment to the macroeconomic and microeconomic reform required by the NCP have resulted in strategies of:

- ❑ significantly reducing public expenditure and capital outlay;

- ❑ increasing revenue on a tax base that is already burdened and narrowed through loopholes to the rich, unemployment and the aging demographic; and/or
- ❑ privatising assets and public services via sale, corporatisation, or contracting out.

All Australian Governments, are already pursuing a combination of these three strategies as a core feature of their economic management. While some state Governments have been unrelenting in their imposition of these strategies on the community over the past decade, state and local governments' containment of debt by these means has been exacerbated by the inflexible strategy of fiscal consolidation imposed in more recent times.

For many local and regional communities, the worthy intention of the Australian Governments to reduce debt has come at the price of significant public and private sector job loss, the sale of zero-cost or revenue raising public assets and, a significant decline in the quality and coverage of public services. In other words, the impact of debt reduction strategies has been inequitable.

3.4 The Impact of Fiscal Restraint Policies

The opportunity for paid work for all is vital in Australia for it represents the first line of defence against poverty. High unemployment is a cancer in the economy because of the cost of protecting people put out of work through no fault of their own. It also deprives governments of much needed tax revenue and causes a whole range of social problems which are causally linked to the denial of employment and a living wage.

The employment capacity of an economy, that is the number of jobs paying a market wage which adequately meets the costs of living, is a vital sign of the health of an economy in meeting the needs of a community. Since it can still be maintained in this country that the majority of the working aged population are sustained and kept from poverty through market income, it is clear that a high realised employment capacity of an economy will maintain some level of equity in the distribution of wealth nationally and among regions.

However, high levels of unemployment in regional labour markets reveal economies that are not operating at the service of their communities. Further, in these instances, imposed programs of fiscal restraint are undermining the role of Governments as indirect employer in addressing the social disadvantage caused by unemployment in many regions of Australia. In the kinds of communities we have described, the goal of full employment seems beyond reach and strategies aimed at preventing inequities in the operation of the free market are being relinquished.

The need for publicly funded assistance for economic development and jobs growth have been frustrated by funding cuts and the lack of substantial and across-portfolio initiatives through successive Federal Budgets since 1996. This has been experienced on an individual as well as a community basis.

The commitments to State Governments to public and welfare services have also been severely limited by Commonwealth fiscal policy. Established community expectations of general revenue

financed tax-transfer payments through the social security system and active labour market and structural adjustment programs to support individuals and communities through periods of high unemployment are now more conditional and less secure than previously. A significant reduction in the quality and availability of welfare services and social wage provisions can be expected to continue unless there is a sizeable restoration of Commonwealth funding to pre-1996 levels or an upsurge in private sector investment into regions experiencing high unemployment.

It is clear that without a strong underpinning of public sector departmental and financial support, private sector investment activity within disadvantaged regions will continue to be sluggish or worsen.

At a time when there is an increasing focus on the need for private sector activity to lever the performance of the economy, Governments have massively cut its total capital outlays. This fiscal strategy seems to negate the long-term goal of growth considering that private sector investment in itself will be insufficient to generate economic development and attract other developers into some regions, even with the support of increasing tax concessions and interest rates that are favourable to business. It comes at a time when there is a need for access to significant capital funds to assist developers initiate projects and in order to advance competitive reform and the amelioration of negative social impacts of reform processes through program-based interventions.

3.5 Commercialisation and Privatisation of Government Assets and Services

Limits to the level of political will which is necessary to increase the progressivity of tax-takes at the state and federal level in addition to the commitment to fiscal restraint have resulted in significant pressure on Australian Governments to privatise public services and assets. Privatisation refers to the process of selling a government owned asset, service or entity to the private sector.

The NCC states that the *NCP does not require privatisation*³⁴ and that *some governments have gone further than is required under the NCP agreements and privatised some of their business*³⁵.

Programs of privatisation have been initiated either directly or through the incremental processes of contractualism. Australian Governments, particularly at the federal and state levels, have attempted to manage debt through one-off 'quick-fix' privatisations. In many instances it is likely that the fiscal imperative of privatisation has relegated belief that private ownership and administration is inherently more efficient to a second-order concern.

The previous and the potential future sale of assets by Governments throughout Australia has given rise to significant moral hazards in the management of the economy and quality of services to already disadvantaged regions. Beyond the lure of immediate private investment and the market axioms of increased efficiency, accountability and transparency, some of the key moral hazards of privatisation which seem to have occurred with some regularity include:

³⁴National Competition Council, (1998) *op.cit.*; p.27.

³⁵National Competition Council, (1998) *op. cit.*; p.18.

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- ❑ the dearth of long-term strategic plans involving significant foresight in the economic viability of the asset or service and the social dividends of the sale or contracting out of the particular public asset or service;
- ❑ the break up and sale of public assets in a manner which results in governments continuing to operate the unprofitable aspects of the particular industry while private sector investors capture the lucrative business operations;
- ❑ the perverse incentive to undervalue and sell a public asset at a bottom-line price in order to ensure a sale;
- ❑ failure to adequately assess the present value of expected future financial and non-financial returns in the pricing of an asset or service prior to sale;
- ❑ the reduction in government regulation and monitoring of equity and standards of service having deleterious effects on private consumers through regressive user charges for those not commanding sufficient purchasing power and through the inadequate or breached community service obligations of private operators;
- ❑ the devolution of accountability in the coverage, quality and delivery of services from an ongoing commitment to the whole community to a cyclical financial review to shareholders;
- ❑ the loss of the public enterprise's employment and capital formation role, having immediate and long-term effects both in terms of retrenchments, unemployment and the narrowing of the host economy's skills base; and,
- ❑ the loss of public ownership and control of public utilities to offshore operators with a significant risk of short-termism in the supply, investment and staffing practices of the private operator.

Given the constant pressure the NCP appears to place on governments to consider the sale of public assets, utilities and services, there is clearly the need for a greater accord to be given to the principles of distributive justice when considering the privatisation and concomitant rolling back of the state.

There is a perceived need to progress beyond both the axiomatic prescription that public institutions are inherently inefficient and, therefore, that communities need to chase the short-term fiscal prerogative to privatise. Whether this message is intended or not, the behaviour of the Australian Governments to privatise everything in sight does little to instil confidence in the citizenry that such decisions are based on securing the long-term financial viability of their social institutions.

For the well-being of the whole community, it is necessary that Governments develop a detailed and transparent social and economic impact assessment process for consideration regarding any privatisation proposals. The social and economic impact assessment should include an intensive review of potential moral hazards of the kind listed above, and have the weight to justify the

substantial alteration, postponement or refusal of proposals.

Beyond the negative consequences of job loss and poorer service quality that has resulted from the rationalisation and privatisation of many public services, special regard should also be given in terms of the present Inquiry to:

- ❑ the likelihood of a lower quality or no service being offered to disadvantaged members of communities by providers concerned with the economic viability of the privatised service; and/or
- ❑ the partial or full withdrawal of a privatised service from a disadvantaged region as part of a corporate cost-saving strategy (e.g. akin to the withdrawal of retail services by the major banks from the kinds of regions outlined above) or as a result of market failure (e.g. a lack of employer demand limiting successful placement activity and outcome payments of contracted welfare providers and rendering their services unviable to a community).

The downsizing and contracting out of public services under the competitive reform of the Commonwealth's labour exchange, employment assistance and training initiatives, known as the Jobs Network, present the potential for the abovementioned ramifications to negatively impact on regions already experiencing high unemployment and low employer demand.

3.6 The Agenda of 'Self-Reliance' in Current Economic and Social Policy Trends

While it has been recognised that Commonwealth and State/Territory Governments' economic reforms over the last decade continue to be inevitable as a strategy to achieve a productive economy which successfully competes in the open international market, it is clear that regions experiencing high unemployment and loss of income have been to a large extent the victims of this process.

It is important to note that many industries in competing trading nations are supported by domestic, bilateral or multinational protection which disadvantage Australian industries. Again, while free and competitive markets might deliver efficiency gains and contribute to economic growth, Australians have already witnessed many circumstances in which they do not deliver good social outcomes.

Unless the social consequences of the economic reform (which primarily concerned the markets unequal distribution of income and wealth) are considered and factored into the reform and operation of market systems, small players on the so-called level playing field will be trampled.

The present Commonwealth Government's low-spending and hands-off approach to micro-economic reform, which is underpinned by the neo-classical theory of trickle-down economics, is one that has prejudiced national economic growth at the expense of development in many local and regional communities and industries which have important social functions. The dismantling of an array of policies which form a social safety net for the most disadvantaged and vulnerable citizens and communities places their well-being at risk especially at a time when the economy is subject to reform.

Competitive reform through fiscal restraint, privatisation and deregulation of the public sector and whole raft of policy across the portfolio areas of Social Security, Employment, Education, Training and Youth Affairs, Health and Community Services, Regional Development and Industry Assistance have far reaching implications for individuals and communities who require their support and are now being asked to be self-reliant.

The social and economic costs of this development in public policy has impacted directly on a growing number of Australia's rural communities who have witnessed the closure of hospitals and other public institutions, the withdrawal of financial and retail services to larger regional centres and cities, and the replacement of a range of locally-based service with less accessible outreach services. For many communities, the current emphasis on self-reliance seems to be synonymous with the withdrawal of Government support.

Clearly, self-reliance in the community and the economies of disadvantaged regions requires the injection of material, economic and social capital. In this sense, good and substantial public policy is a precondition of both the self-reliance of communities and the successful operation of their industries on a level playing field.

A Government that recognises a need to make strategic interventions in regions of disadvantage to enhance opportunities for their development would be preventing the closure of hospitals, schools and other valued community resources as much as it would be preventing the closure and relocation of industry and investing in job creation and training initiatives through better financed employment, structural adjustment and capital assistance programs.

3.7 Key Characteristics of Regionally Depressed Labour Markets

There is no doubt that unemployment remains the greatest single issue facing Australians. However, it is an issue of more immediacy to the daily life of communities that have high rates of unemployment and low demand for labour.

The key signs of depression in regional labour markets include:

- a reduced employment capacity of the economy indicated by a higher than national average rates of unemployment, labour market withdrawal, and non-accelerating inflation rates of unemployment;
- an unemployment rate significantly higher than the national average with exponentially higher increases in unemployment rates relative to upward national trends;
- a long-term unemployment rate which is significantly higher than the national average;
- rates of youth unemployment which are significantly higher than the national average and reflecting the relative disadvantage of young unemployed people in the labour market;
- a fall in full-time jobs, a decline in entry level positions, and trend of casualisation in

remaining jobs;

- ❑ low participation rates signifying the withdrawal of discouraged job seekers and a significant under-reporting of the incidence of unemployment; and,
- ❑ a higher than average proportion of the working age population being in receipt of one of a variety of Commonwealth income support payments as a primary source of income (including non-employment related Social Security benefits and pensions).

The question remains as to what kind of future the operation of these economies can offer a growing number of their populations. For many, especially young people, these markets do not offer many prospects. There is a fear among these communities that current inequities in the operation of the market which deny the right to meaningful work and which place a growing number in prolonged dependence amount to a disproportionate burden of structural adjustment.

This burden has already been intensified following the withdrawal of income support benefits and employment, education and training support for unemployed people announced in the 1996 Federal Budget. The sustained impact of budgetary savings measures in these areas have seen unemployed Australian's carrying a disproportionate savings load of at least 15 percent.

The long-term consequences of this scenario directly contradict the neo-conservative promise of an economic trickle-down and will result in a higher burden on public spending the longer such disadvantage and lack of opportunity fails to be addressed in a preventative manner.

THE IMPACT ON RURAL AUSTRALIA

In 1997 the Commission undertook a case study of the Southern Grampians region in Southwest Victoria. This case study was incorporated into the ACSWC's Discussion Paper No.13, *Valuing Rural Communities: An Invigorated Approach to Rural Development Policy*. The study was undertaken in order to determine the impact the broad changes identified in the Discussion Paper were having in one particular community.

Some of the features of the case study relevant to the Productivity Commission's Inquiry are outlined below:

Southern Grampians Region – South West Victoria

Southern Grampians is a region in Southern Victoria. The local government area which now constitutes the Southern Grampians Shire comprises the former municipalities of Hamilton, Dundas, Mount Rouse, Wannon and portions of Heywood and Kowree. The population of the Shire is 18,070. Hamilton is the main service centre for the district and has a population of 10,000 people.

As with many other rural regions, the Southern Grampians area has experienced a period of rapid change over the last decade. The area is based on the wool industry and since the bottom dropped out of wool prices and the cessation of the reserve price scheme, local farmers and the businesses that they support have been experiencing some difficult times. This has been combined with a rapid withdrawal of government and other services from the towns in this region, leading to a decline in population, a reduction in services and pressure being placed on the social fabric which has for so long been the hallmark of rural communities generally.

A downsizing epidemic has taken place in both public and private institutions in the 1990s under the theory that it will make businesses more efficient and more profitable. Downsizing by banks and other financial institutions have led to the closure of over 400 bank branches between 1991 and 1996 nationwide. Non-metropolitan areas have borne a disproportionate share of this reduction in access to bank branches. Over the same period, the profits of the major banks increased, with the National Australia Bank's profit increasing from \$500 million in 1991 to \$2 billion in 1996. Between 1991 and 1996 over 23,000 jobs were lost in the banking and finance sector in Victoria.

The impact of the removal of services and employment opportunities from the towns in the Southern Grampians Region was of great concern to local residents. The closure of the local Telstra office resulted in the loss over 100 jobs. The withdrawal and centralisation of Victorian Government departments have resulted in similar job losses and a reduced level of service to local rural communities.

A cogent example of the negative impacts of such decisions on this community is the closure of the Victorian Government Veterinary Laboratories. The laboratories were locally based and provided veterinary laboratory services to local agricultural industry. In 1994 the State Government

privatised the laboratory and contracted out service provision to the company that leased the laboratories. In 1996 the contract for service provision was re-tendered, and the successful tenderer for the contract was a company operating from Melbourne. The private company leasing the laboratories was unable to continue operating without the Government contract and so closed down.

The outcome of these decisions for the local Hamilton community has been the loss of the staff of these labs from the local population, as well as a reduction in the quality and accessibility of the service itself. Such services provide vital industry support and making these services less accessible to local farmers is a very short-sighted policy decision.

It is difficult to see how the people of Hamilton benefited at all from the decision to outsource the Laboratory. It is clear that the impact of these decisions on the local community is not a high priority in the decision making process.

The introduction of competition in providing most public services in Victoria has impacted upon the provision of electricity through to the provision of basic community services. The benefits of the privatisation of utilities to rural population is questionable. For example, with electricity after the year 2000, when the Regulator General will cease price regulation of power prices, domestic consumers in rural Victoria who receive their energy from Powercor and Eastern Energy will be paying higher prices than Melbourne households. The city/rural cross-subsidy will be abolished, because the theory of economic rationalism means that consumers should pay prices based on actual cost. Because the cost of providing power in rural areas is higher than urban ones, country people will pay more for their electricity in the same way they presently pay more for petrol.

There has also been a reduction in post school education services. TAFE runs courses tailored to the needs of local industries and others targeted to general community needs and interest. It provides access to further education for people unable to leave the area to attend tertiary institutes and assists those in employment to increase their skills. The recent funding cuts and the increase of minimum class sizes to levels that are impossible to attain in rural areas has led to loss of jobs in TAFE, (more professionals leaving town), and reduction in access to further education for rural people.

A lack of access to health services has often been identified as a major issue facing rural communities. The focus of health care in this community is the Hamilton Base Hospital which provides a range of general and specific health care services. Hospitals are also located in Coleraine and Peshurst which provide emergency assessment, acute care, respite care and medical services.

Most of the smaller towns in the region no longer have a local doctor in permanent residence. The Bush Nursing Service which is located in Balmoral also provides nursing and respite care. This model of service does go some way towards meeting the needs of the local community, particularly with an aged population. However, concern has also been raised about the pressure which can be placed on the staff of such services as the first point of contact for medical emergencies.

Community workers based in Hamilton expressed concern about the issues facing the local community. There is a sense that demand for services has increased at the same time that funding has been cut or funding models changed, all of which make services more difficult to deliver. Representatives for the Hamilton Community Services Group recently addressed the local council with their concerns about the unravelling of the district's social fabric. Unemployment, gaming machines, and lack of education, combined with the long lasting problems facing agriculture were identified as some of the issues facing an increasing number of families in the local community.

Local welfare agencies such as the Society of St Vincent de Paul indicated there had been an increase in requests for basic assistance. Most of these requests come from young families who are facing long term unemployment and poverty. A number of community workers raised concerns about the State Department of Housing policy of relocating city-based families to rural communities because of the availability of cheap housing. This relocation occurs without any accompanying package of assistance and many of these families are left isolated without transport and other supports.

New models of funding community services which uses processes such as competitive tendering and output based funding present difficulties for small towns who do not have the population base to meet funding requirements or the infrastructure of community service agencies who can tender for government contracts. The result of this is that often services are not provided at all, or a limited outreach service is provided from a centre such as Geelong or Warnambool.

The impact of the decline in the quality of service which must result from such arrangements is, as yet, unknown. However, there is little doubt that the increase in the number of outreach service is detracting from the sense of community which usually develops and displays itself in locally based services.

4. THE EXPERIENCE OF CHURCH-BASED SOCIAL SERVICE ORGANISATIONS WITH THE NATIONAL COMPETITION POLICY

The NCP does not require the contracting out of particular services provided by various arms of government³⁶. However, in fulfilling the NCP program, Australian Governments have chosen to move towards using the mechanism of competitive tendering and contracting ('CTC') in the belief that this will improve the quality and the cost of government funded services.

The Australian Catholic Social Welfare Commission identifies three interrelated areas of concern regarding the use of CTC of government funded social services to the non-government sector:

- ❑ the quality of the service not-for-profit social service organisations can provide to their constituents (not their 'consumers') in a competitive environment;
- ❑ the impact on the autonomy, independence and value base of church-based social service organisations and their unique role in society;
- ❑ the impact on the tradition of cooperation between not-for-profit social service organisations.

In other words, concern is expressed about the way church-based social service organisations' ('CSSOs') relationships involving: (a) their constituents, especially those who are disadvantaged or in situations of distress; (b) governments; and, (c) other community sector providers, are being transformed by the increased use of competitive tendering and contracting. In addition comment is provided on the actual process of competitive tendering as it has been applied occurred to Australia's social services sector.

The NCP, evidenced through CTC, is being used *primarily* as a device to generate greater productive efficiency from government resources. While such efficiency is an important goal, it must be considered within the context of how to maximise *effectiveness* of service provision and other important considerations, in particular the role of not-for-profit organisations.

The CTC process is also often justified in terms of removing government from spheres of activity in which it ought not be involved, i.e. direct service provision, and handing back responsibility for this to the community. However, for this justification to be valid, the handing over of responsibility must also be accompanied with the provision of adequate resources to fulfil that responsibility as well as the devolution of sufficient control to allow community organisations greater freedom in deciding how its responsibilities are best met. This raises important issues about service standards, defining and measuring units of output, performance monitoring, and accountability.

The content of this section has been based on comments received from CSSOs in response to an

³⁶National Competition Council, (1998) *op. cit.*; p.136.

earlier invitation by ACSWC to participate in the development of a related submission on CTC from their direct experience of competitive tendering and contracting.

4.1 Impact on Social Service Quality and Diversity

Competitive tendering can be applied to three types of tender process: fixed price, flexible price, or 'best value for government' (ie. the best combination of price and quality).

In each of these situations, it is possible that the tendering government agency will pay the contracted provider according to outputs or outcomes. For example, it may pay for so many hours of counselling (an output) or an unsubsidised job (an outcome). In each case, a certain price will be attached to the particular unit of output or the particular outcome measure.

There are some advantages to this approach, but they are limited. The main advantage is to ensure that CSSOs operate on a cost-effective basis and that funding decisions are transparent and equitable. In funding regimes based on a percentage of input costs, there is no incentive either to reduce costs or to increase the case-load of the organisation. A Neighbourhood Centre points out this problem:

Establishing a fixed price for a particular model of service was positive feature of the tendering process. Prior to these tenders, costs of operating services in the substitute care area have been quite unrelated to number of clients serviced, outcomes for clients, and have been based on the ability of sponsoring agencies to contribute 20% of costs. Hence similar services could be funded, for example, at \$400,000 and \$100,000.

Alternatively, funding may be assigned due to political considerations. In such situations, it is possible – and this still occurs in some states in some services – that a CSSO may be receiving less funding than another CSSO carrying out the same work at the same level of performance, and actually have a greater case-load. Funding that is allocated on the basis of outputs and outcomes and pays a fair price that covers the costs of all activities related to the provision of the service is likely to minimise this kind of anomaly and inefficiency.

However, it is usually the case that the government tendering agency exercises monopsony power in this pseudo-market. That is, government is the only purchaser of services, and therefore can set its own price without fear that it will be out-bid by another purchaser. This means that in many if not most cases, governments can and do get away with paying much less than the actual cost of providing a service, and CSSOs have to fund the difference. One way of doing this is to cut back on staffing costs by recruiting less well-trained staff, which in turn has an impact on quality.

This is particularly the case with smaller CSSOs, which are disadvantaged by the process. Yet smaller non-government organisations might argue that they are often more responsive to individual need and have better knowledge of the local community than larger organisations. Small social service organisations, both Church and non-Church based, are disadvantaged because they do not have the same degree of 'spare' resources to devote to writing and winning tenders or that may allow them to absorb the difference between the cost of provision and the actual price paid by government.

When smaller organisations disappear or become absorbed into larger ones, or when the government decides to fund only one provider rather of a particular service in a particular area, then service diversity is reduced, thus constraining choice for the people who need to use those services. In other words, the competition that is introduced by competitive tendering is not strictly competition *within* a particular field of activity, but competition *for* dominance of that field. Organisations compete to become the monopoly supplier of a particular service.

Furthermore, even though minimum quality standards and specifications may be written into contracts, the competitive tendering process means that organisations do compromise on the quality of the service they can offer in order to win the tender on the basis of price. And if price is the most important determinant of who wins the contract, as it is increasingly, then that leads to pressure for cost reduction, which is most easily achieved through the employment of less qualified staff or running down physical infrastructure.

The above points have been clearly articulated by the Catholic Family Welfare Bureau, Melbourne:

Any contracts must incorporate funding for administrative overheads. Direct service costs only presuppose that an agency has access to funds for the administrative infrastructure needed to carry the service.

'Efficiency' is the result of experience, and therefore expertise, in the field, and develop out of involvement over time in the particular service. In short term contracts, such practice experience is neither developed, nor, if it already exists within an agency, is it retained.

In the contracting environment, it is the smaller agencies which risk losing competent staff and this has a demoralising effect across the sector. One of the strengths of small agencies is their capacity for innovation, given he developed expertise over time. It is difficult to retain both the expertise and the morale of such staff if their future employment is a function of winning contracts.

In the contracting environment, driven by competition, an essential element for the provision of welfare services, viz networking, is threatened. Competition leads to an uncooperative environment, and sees the demise of small, but essential parts, of the overall service delivery network. In other words, the mix of welfare services provided by a range of specialised providers, is destroyed.

Two examples of changes to Victorian-based services once they are tendered are the 'meals on wheels' delivered to aged persons and government support for new mothers. The non-intrusive social monitoring of isolated aged persons is now neglected as a result of the newly tendered meals-on-wheels service, whose profit margins are so fine that employees cannot afford the time to exchange a few words with the recipients of the meals.

Government funded maternal and child health nurses now ration their visits to a minimum level, checking the physical health of babies, but leaving new mothers without the less obvious (but energising) emotional reassurance that support is there for crisis should they need it

These instances of programs that have been contracted out illustrate the potential negative effects that privatised services can have on local community services and general well-being. Improving service quality and diversity be the primary goal of government agencies when funding CSSOs.

Thus, wherever possible, funding should be made available to a variety of providers, not just one, and should pay a price sufficient to cover the full cost of provision, including administration and other overheads.

4.2 Impact on Information Sharing and Best Practice

In a highly competitive environment, there is no incentive to share information with other providers about best practice. This hampers the sector's ability to learn from one another's experience. That knowledge, which used to be shared by social service organisations in the interests of their constituents, has now taken on the characteristic of a 'market advantage' over other competing providers.³⁷

At the end of the day, it is constituent service-users who are disadvantaged. Organisations become unwillingly preoccupied with maximising their own 'market share' rather than contributing collaboratively to the well-being of their constituents and the community. As Good Shepherd Youth and Family Service (St Albans, Victoria) puts it, *CTC has set up a culture of competition amongst agencies which has damaged working relationships and made it difficult to work together – in the welfare field it is vital that agencies work together because of the lack of resources in the region. A similar organisation echoed this view: Much as we try to not make the competitive environment destructive it is set up to make us fight one another for resources. We do not share resources as we used to.*

It is likely, therefore, that a reduction in competitive pressures will result in better collaboration and information sharing by CSSOs, to the ultimate benefit of their constituents. However, a reduction in competitive pressures does not have to mean that the price governments pay for services is going to blow out beyond what is fair and reasonable.

CSSOs can and should be trusted to exercise financial discipline in the interests of their constituents, especially when they are included, along with representatives from those who use their services, in the policy formulation, program design and service planning tasks undertaken by government departments. In such situations, information about each organisation's financial resources as well as their practices can be shared, and so pressure from other CSSOs and from service-users for more efficient use of resources can force high cost providers to justify their practices. These joint planning processes can deliver a more effective and more efficient service network.

It is important to distinguish between the process of competitive tendering and the process of output-based funding. They are not the same, though they often go hand in hand. It is possible to fund outputs without having to introduce competitive tendering, and vice versa. It is often the combination of the two that is so damaging to quality. The competitive aspect gives cheap providers an advantage in the battle to win the contract, but they are then stuck with a very limited financial

³⁷See Australian Catholic Social Welfare Commission, (1996) Discussion Paper No. 11. *Competitive care: Understanding the implications of National Competition Policy and the COAG agenda for the community services sector*. Canberra: ACSWC.

resource that restricts their ability to experiment and innovate in the way they provide their services. This lack of flexibility is compounded when the contract specifies fairly tightly what will be paid for and what will not be paid for.

It makes sense therefore to minimise the incidence of this 'double-whammy'. This is in fact what happens in many areas and service types where there is only one local provider of a particular type. In such situations, competitive tendering is impossible, but it is still possible to fund according to output.

A problem arises in how to establish the price per output in a situation where there is no alternative provider. Since it is inter-agency competition that is most likely to undermine overall quality rather than output-based funding *per se*, it is desirable that therefore important that wherever possible, funding of CSSOs not be carried out on the basis of competitive tendering at all. In its place, a planning and funding regime should be established that allows agreements to be made that are based on:

- a) a clear understanding that financial resources are limited,
- b) the assessment of need in a particular geographic area, and
- c) the sharing of information and resources between all stakeholders.

The design and funding of social services delivered by community-based social service organisations should be based not on a competitive model but on collaboration between the government, non-government service providers and service-user representatives, taking into account the fact of limited financial resources, area need, and open flows of information.

4.3 Needs Assessment, Performance Measurement and Accountability

It is often thought that the problem of quality can be fairly easily solved by the inclusion in the tender specifications of quality indicators and performance measures which successful CSSOs will have to meet. But there are other aspects of quality which go beyond minimum service standards and health and safety considerations.

When people come to community social service organisations seeking assistance with problems, they do not want to be treated simply as a set of easily diagnosed needs that can be met relatively quickly, with specific and measurable outcomes generated at the end of the process. They want to be treated with respect, as people, and people are complex.

For this reason, client needs assessment tools and procedures need to be well developed, with additional resources being allocated to meet the needs of those with the most disadvantage. This happens already in many service areas, particularly disability services and employment services.

However, one of the major problems with health and related community services is the way some programs have so defined their target group that many people cannot have certain needs met because they do not fall within a particular category of need. They either fall through the net completely or have to access a number of different services in order to have their needs met. This is not so much

the fault of competitive tendering and contracting itself as with faulty program design and poor coordination and planning. Where it does relate to competitive tendering and contracting is in the fact that fundable outputs and outcomes mean that it is not financially prudent to provide service to people outside the strictly defined target group.

Secondly, when decisions about who provides a particular service is based on who is the most cost-effective provider, then planning services and funding agencies according to the needs of a particular area and the expertise of particular organisations is less likely.

Accurate needs assessment is also important for establishing whether the service has actually improved the situation of a particular constituents, and is therefore vital for performance measurement and accountability.

Initial needs assessment however, is only relevant to performance measurement if there can be a measurable improvement in their capabilities as a result of using the service. Often this is not the case, nor is it reasonable to insist that organisations will only be funded according to measurable outcomes. For example, it is not reasonable to pay family counsellors according to whether a couple stay married after their attendance at a marriage counselling service (this certainly is not standard practice in the private sector). In such situations, outputs, such as hours of counselling, are a more useful proxy for performance.

The Melbourne Catholic Family Welfare Bureau states the difficulties inherent in defining outputs and outcomes:

The question of outputs and outcomes needs special attention. Too often the objectives of programs are vaguely defined and hence no evaluation can be done; or too specifically defined that they never encompass all the indefinable quality which service providers are aware of. If objectives are defined too broadly, any activity may be said to contribute to them; if defined too narrowly, they may favour one segment of the organisation against another.

A mechanism sometimes suggested to measure performance is client satisfaction surveys. While good in principle, they are not always easy to introduce in practice, as pointed out by Centacare Bunbury:

Government defined outcome statements are a problem. That was really obvious at (name of service, withheld) the other day. What they were counting as the only outcome was the clients' evaluation sheets that were returned. Very few of their clients want to do that because of the situation they are in (victims of domestic violence), they are very suspicious and nervous about writing anything anywhere, they don't write anything, they don't give an evaluation and they don't want to be part of the national data collection stuff. They (clients) are not interested in doing that for the government, why would they want to. They are at a time in their lives when they are very vulnerable, they feel very scared and distrustful of anybody. Yet that is the only measurement that is made so it easily looks like the service doesn't meet people's needs or people aren't happy...there is no way of knowing that.

An alcohol rehabilitation service observes that performance indicators need to be real and meaningful. *The current policy of merely head-counting users of a particular service gives no indication of real improvement to quality of life and real long-term cost savings.*

It therefore makes sense that government funding bodies consult properly with their contractors as to what is the best way to measure performance. This involves overcoming a suspicion of contractors and a fear that the policy process will be captured by them. In a partnership, though, there must be some level of trust that your partner is not intent on taking advantage of that trust.

Furthermore, it is important that any of the mechanisms designed to improve accountability of CSSOs for the funding they receive not be onerous to the extent that it interferes with their ability to carry out the actual work they are contracted to do.

Government agencies must take care to clearly specify what is to be considered an output and an outcome when reaching agreements with non-government service providers. Wherever possible, outcomes should be used, as this allows providers flexibility in how they achieve the end result – the process of defining outputs and outcomes should involve providers and service-user representatives.

4.4 Transferring Risk

It is extremely important that when contracting is taking place, CSSOs are clear about what is their area of responsibility, what exactly they are funded for. This has implications for legal liability and risk.

When governments fund outputs produced by non-government sub-contractors at a lower price per unit than they would have to pay if the service was being delivered by a government agency, contracting out simultaneously transfers the risk of service failure to the non-government sector and increases the chances of failure.

This point previously made by the ACSWC in respect of the increased demand side pressures and reduced supply side resources being faced by CSSOs, leading to a higher likelihood of litigation for torts such as failure to observe an appropriate duty of care to clients:

The trend in public policy to contract out services to the private and community sectors at lowest possible price through competitive tendering arrangements has been voraciously applied in countries such as the United Kingdom and in New Zealand. It is now being pursued with force in Australia. Under this system of government funding, voluntary organisations have found themselves expected to play a more central role in the direct provision of welfare services and to act simply as instruments of public policy rather than as unique social institutions that can make distinct and different contributions to the life of their local communities. Welfare funding for organisations in the local community has not included adequate funds for either paid or volunteer staff training and development or for those traditionally distinct roles of community development, client advocacy or the lobbying of public policy issues at the local community level.³⁸

³⁸ACSWC, (April, 1997) *Work for the Dole and community agency risk: supply, demand and negligence liability trends in the community service environment*. Submission to the Senate Community Affairs Legislation Committee on the Social Security Legislation Amendment (Work for the Dole) Bill 1997. Canberra: ACSWC. p.12.

The concept of the risk of negligence can be applied to the activities of community-based social services.

Increasingly the material, emotional and financial assistance provided to the most disadvantaged members of a community is in the form of crisis support. Increases in demand, increased severity and complexity of need, and the formalisation of support to be more service delivery in nature allows less scope for simply well-intentioned assistance to be offered to those in need. More than ever before there is a need for agencies and their staff (either paid or unpaid) to be informed and to apply notions of duty of care, client rights, and anti-discrimination in their work. For individuals referred to agencies as a provider of charity or contracted service delivery agency, it is more likely that the organisation will be seen to owe a duty of care and basic standards of service to those they serve.

Those who are served are more likely to be regarded as 'clients' if the agency is contracted by government as the provider or where the helping relationship has a degree of proximity which may be interpreted as a 'provider-client' dynamic. However, this does not mean that the risk of litigation is less where harm or loss occurs as a result of those forms of activity which are less formal in their mission, operation, focus, co-ordination, or accountability.

Increases in demand which may become overwhelming for paid and volunteer workers and which increases the focus of activity towards service-delivery, without the provision of funding for adequate training and supervision of workers or the establishment of protocols and procedures setting parameters for activity, are demand side pressures which increase the likelihood of community services moving towards a boundary of unacceptable quality of service. There is also an increasing likelihood of exposure to litigation pursuing reparation for physical or emotional harm or financial loss.³⁹

If governments are using non-government subcontractors to provide services to a third party, the issue of who is ultimately responsible in a legal sense for the provision of that service is of critical importance, particularly when the subcontractors are inadequately funded to fulfil the task properly. This issue is the subject of the Commonwealth Ombudsman's submission to the Senate Finance and Public Administration References Committee Inquiry into the contracting out of government services. In that submission, the Ombudsman stated

...it is important to note that while contracting out provides an alternative mechanism by which government agencies deliver their services, the government and/or government agency is still the principal agency...the responsibility of being the principal agency should be regarded as non-eligible for certain functions. (underlining in original text)⁴⁰

The Ombudsman goes on to cite numerous cases to support her recommendation that in cases where the government is using contractors to deliver services, then it is the government who must, in the first instance, provide redress to service users who have a legitimate claim against a contractor for

³⁹*ibid.* pp.12-13.

⁴⁰Commonwealth Ombudsman, (February, 1997) *Submission to the Senate Finance and Public Administration References Committee Inquiry into the contracting out of government services.* p.2.

poor quality service. The government agency can then seek to be recompensed by the contractor if and only if the contract between them clearly states that the contractor is liable for any such damages and sets out the rights and obligations of both the government agency and the contractor.

Governments must not abdicate their responsibility for the well-being of citizens, but ensure, through activities to provide financial and other coordination support, that the community is able to meet the needs of its most disadvantaged members. Governments, as the principal agency in the contracting out of social service functions, should also be responsible for ensuring that funding levels to the contractor:

- ❑ include the cost of insurance premiums payable by the contractor to indemnify against claims by service users that the service did not, for various reasons, meet their desired standard; and
- ❑ be sufficient to ensure that a quality service can be provided, thus minimising the risk for both the government and the provider.

1.5 'Confidentiality' and Advocacy

It is important to remember that though community and church-based organisations provide services on behalf of governments, they are not employees, agents or partners of government in a legal sense. They are separate organisations, with their own mission, a mission which includes advocacy on behalf of their constituents. Sometimes this may require them to take public stances deemed critical by the very governments with whom they have contractual obligations as service delivery organisations.

This integral role does not seem to be sufficiently appreciated by some governments. Of particular note is the Victorian Department of Human Services attempt to have funding contracts with community sector providers include a clause on "Confidentiality". The transparent intent of this clause was to do nothing less than undermine the advocacy role of CSSOs by making it a condition of their contract that:

25.1 All information acquired by the Funded Agency relating to the Department (including but not limited to its functions, policies, procedures, decisions, officers, employees, agents, clients and all financial matters) shall be kept absolutely confidential. The Funded Agency shall not communicate, publish or release or permit the communication, publication or release of any information or data acquired, collected or developed for the purpose of or in connection with this Agreement except:

25.1.1 To the Secretary; or

25.1.2 For the purpose of or in connection with the performance of the Funded Agency's obligations under this agreement.

This clause goes well beyond the normal and acceptable intention to protect sensitive information about individual clients. It is an unacceptable attempt to interfere with the internal life of autonomous church and community organisations and to stifle public debate about public policy.

Government funders must accept that such a role is integral to the role of their contractors.

Government must not seek to limit the important contribution to public debate on the democratic process made by non-government service-providers when they seek to advocate publicly for policy change. On the contrary, research, advocacy and public education work should be explicitly funded by governments in an effort to ensure 'best practice' and enhance the accountability of government to the public.

4.6 Improving the CTC Process

The preceding comments have focussed on problems that have emerged in the competitive tendering and contracting process to date. Some of these difficulties are clearly inherent to the process itself, and suggest that it would be advisable to move away from competitive tendering as a process for making funding decisions. Nevertheless, it is worth making some comments about how the process can be improved:

- ❑ all tenders should involve two stages: a call for interest, and an invitation to tender from a short-list;
- ❑ adequate time should be allowed to develop tenders: a minimum of a month after the original invitation to tender;
- ❑ in calling for expressions of interest, governments should provide information that will enable potential tenderers to decide whether it is worth them tendering at all, e.g. if the service must be based in a particular geographic area or town, this must be made clear from the start;
- ❑ tendering should only be used for large amounts of money. Just what is considered large may differ from program to program. Tendering for small amounts is a waste of time for all concerned. Other transparent mechanisms should be developed for the awarding of smaller contracts; and
- ❑ when calling for tenders, governments should give an indication of the price range they believe is reasonable for a particular contract.

4. CONCLUSION

The Catholic Bishops have noted *...a fair and just society... makes sure it provides reasonable access to opportunities and those services and environmental conditions which are for the common good*.⁴¹ Australian Governments have a leading responsibility to 'set the rules' – to create, oversee and maintain conditions conducive to a fair and just society and which enable access to resources for everyone.

Latham has also noted *..the success of a society relies on an appropriate balance between cooperation and competition in its values and institutions; competition to foster innovation and creativity; cooperation to build social trust and inclusiveness*⁴²

As our society works out its survival within the global economy, our federal and state governments have a key role in maintaining these social values in balance. Cultural and religious institutions such as the social service organisations of the churches are vital in ensuring that the practice and values of cooperation and mutual assistance are maintained.

Governments can never abdicate their part in the fostering of social development to societal institutions. Nor can governments expect churches or the non-government sector to build up social cohesion when the actions taken by government through competition policy, competitive tendering and contracting are contributing factors to the breakdown of local communities.

⁴¹Australian Catholic Bishops' Conference (1992) *op. cit.*; p.21.

⁴²Latham, M., (1996) *Making Welfare Work*. Paper delivered to the Centre for Independent Studies, Sydney.