

Diversity and Contestability in the Public Service Economy Summary

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Stephen Cartwright
Chief Executive Officer

Overview

A discussion about contestability and diversity in the NSW public service economy is one in a series of 'thought leadership' papers prepared by the NSWBC on issues relevant to the Government's public policy agenda. This one is about starting a conversation on the value of government services and policy decisions about ways to deliver those services in tough economic conditions. At what point, and in what ways, does government call on the private sector to deliver those services on its behalf?

The challenge

Governments across the globe are facing tougher economic times, and NSW is no exception. Traditionally, the policy solution has been one of reduced spending, reduced services, and/or increased fees, taxes and charges.

The NSW Business Chamber thinks it's time to change the approach and challenge the seemingly unavoidable trade-off between getting less or paying more. As business increasingly innovates to meet the challenges of the 21st century, so too should governments. It's not just because the pie is getting smaller, there are legitimate questions to be asked about the best way to deliver the services our community requires.

Over the past two decades, governments have opened some of their services to competition and contracting, with research indicating that competition has made a positive difference in the financial performance and productivity of a number of portfolios, including health, defence, prisons, the collection of household waste, transport and infrastructure.

We think it's time to start the conversation about extending competition and contracting models in services where it already exists, and applying it to other areas of the public sector, to improve service delivery for all NSW citizens.

The paper, which is summarized on the following pages does not provide a prescriptive set of recommendations, but is, rather, a discussion starter. We believe debate can expand the thinking of policy makers to the range of activities where contestability can deliver benefits, and reduce the call on tax revenues to deliver a more productive NSW economy.

Ultimately, government will decide which services and portfolios are more amenable to competition than others, and the priority of opportunities on offer. Their decision will undoubtedly be based on the complex mix of social, economic and political considerations. The debate is critical. We encourage the Government to be brave and determined. It is time to move the NSW economy forward.

A handwritten signature in black ink, appearing to read 'Stephen Cartwright'. The signature is fluid and cursive, with a prominent loop at the end.

Stephen Cartwright
Chief Executive Officer

Productivity in public services

Isn't it time to ask the obvious question: should governments not find the best way to deliver the services they are expected to provide? In large parts of the public service economy, managers have been denied permission to experiment with new service models. There is no search for the 'efficient boundaries' of service delivery and little experimentation with scale and scope. 'Economies of scale' and debates about 'efficiency' and 'productivity' have too often become trade-offs in wage bargaining.

Far too little attention has been given to the productivity of the public service sector, which accounts for about 20% of the national economy and employs about a

quarter of the nation's workforce. What little evidence is available suggests that there is the potential for productivity improvements in the order of 20-25% where services have not previously been exposed to competition.

Few public services in Australia are delivered exclusively through a government monopoly. In most sectors, there is a mixed economy of public, private and not-for-profit providers, supplying services through a variety of different contractual arrangements. The question for state and federal governments today is not *whether* they should engage with external providers for the delivery of public services, but *how*.

The Public Service Economy

This report proposes that the NSW Government must undergo a shift in thinking and should embrace the concept of a 'public service economy'. They should plan for greater innovation and contestability in the design and management of public services and should facilitate a trade in public services across state and national borders.

This is not an argument for the privatisation of public services, it does not declare 'private good, public bad', nor is it concerned with simple outsourcing. The success of education exports for example, makes it clear that Australia's public service sector has capabilities that other countries would like to access, particularly among the emerging economies of Asia.

The success of contestability lies in the quality of the contract. There is an abundance of evidence of the private sector selling all sorts of goods and services, which we unquestioningly take for granted. In recent decades, this has extended to previously state-run services like water, rail and infrastructure development. The government recently announced the provision of a number of human services to be delivered through a 'social bond'. What should remain the domain of the public sector? There would be some services (such as national security and

front-line defence and policing, justice, and regulatory roles) that the majority of citizens would wish to be free from competition, or private sector control. Should the rest be open to competition, or to the threat of competition? These are complex questions, but the time has arrived for their asking.

Few of the public services discussed in the report are amenable to outright sale and light-handed regulation. In a complex modern society, government has to commission the vast majority of public services, ensuring that fundamental issues of access and equity are addressed and making certain that they are integrated for the convenience of service users.

Governments that open new areas to competition will create new markets, and safeguards will need to be in place. There are a variety of mechanisms available to government. The Auditor General might retain an oversight function, for example. The Productivity Commission may help define and evaluate the benchmarks that will need to be established to compare alternative service delivery to prove value for money in the longer term.

Contestability

The paper's first theme proposes the introduction of greater competition and contestability into the supply side of the public service economy, exploring three models:

(i) Choice-based models involve service users selecting from a range of alternative providers, financed through government vouchers. Examples include choice-based lettings in public housing, personalised budgets in disability care and Medicare. Australia has employed choice-based models in health and education for several years, and there has been a growing interest in this approach amongst government, particularly in disability services.

(ii) Commissioning models, where public officials purchase services on behalf of the community through competitive

tendering and contracting. While this option includes simple outsourcing models, it also encompasses public-private partnerships, public-private joint ventures and integration contracts, among others. Application is broad.

(iii) Contestability, where service providers are benchmarked and institutions face actual competition, or a credible threat of competition. Contestability has been employed to good effect over the last decade or more, notably in reform of the NSW prison system. However, this model has not been systematically explored and implemented in the Australian context, and a comprehensive benchmarking and intervention framework has yet to be developed.

Diversity

The second theme of the paper explores the need for greater diversity in service models. Australia already has a mixed economy in most public services. Around 40% of hospital patients are treated in a private hospital. One-third of school children attend a private school. Private and not-for-profit providers account for 90% of residential aged care. Close to 20% of prisoners are housed in a facility managed by a private contractor, and in Victoria, the proportion is more than one-third.

In seeking to implement a wider range of contracting models, governments will discover a wide range of models for introducing competition and contestability in public services.

However, until recently, little attention has been paid to the number of alternative providers engaged in service delivery and the contribution this makes to better public services. Diversity serves a number of functions, but in the main helps to effectively increase the choice available to citizens at an individual and collective level. It also contributes positively to innovation and makes the economy more adaptable when facing an uncertain future.

Diversity has included public-private joint ventures (which bring together the technical expertise of the public sector

with the commercial and managerial expertise of the private sector); integration contracts that employ private firms to work with small community-based organisations to deliver social services; public service mutuals, where public sector employees are assisted to establish themselves as social enterprises while still delivering public services ; and social benefit bonds, which invest in early intervention and providers are paid depending upon their success in delivering agreed social outcomes.

We acknowledge there may be some nervousness on behalf of public sector employees about restructuring public sector agencies around a more competitive service oriented model, and what it may mean for their re-skilling or re-deployment. Reasonable providers will not want to shed skilled workers or undermine staff morale or their commitment to client service. Should government undertake a comprehensive program of competition and contestability, the development of a binding framework to protect employees entitlements is desirable. The government has a number of options, which may include entering an enterprise agreement either immediately prior to, or immediately following the competition, or entering into common law contracts with employees, (something now common place in the private sector).

Recommendations for change

Over recent decades, governments have employed a variety of different models for introducing competition and contestability into public services. The following is a list of different options.

1. The adoption of an explicit policy for a 'mixed economy' should be developed and principal departments and other bodies should develop the capabilities to realise it. However, the decisions about what services should be opened to competition will be made by government in the context of complex social, economic and political realities.
2. The productivity of the state's public services should be measured and benchmarked against interstate and international equivalents, comparing their cost and performance with similar services delivered in a competitive or contestable environment.
3. Export strategies for competitive public services should be developed by the Department of Trade and Investment, Regional Infrastructure and Services.

4. The government should adopt a strategic 'commissioning' approach (what to buy and how) to future procurement of services from public, private or not-for-profit providers.

5. A transition period will be necessary in order for government and suppliers to understand each other's expectations and to develop the skills and capabilities required to succeed in competitive tendering and the contractual arrangements required to grow new markets in complex social and public service delivery.

6. Public services cannot succeed in human or financial terms unless providers employ quality staff imbued with a strong public service ethos. Programs involving a significant degree of uncertainty and change will require rules about the transfer of employees.

7. Competition and contracting should be transparent and accountable. Consideration should be given to granting the Auditor General appropriate oversight powers.

Looking to the future

What does an efficient and effective public sector economy look like? A thorough and thoughtful discussion is urgently required to answer this question as no one sector has all the answers. The paper offers descriptions of models that may be applied by governments seeking to find the best policy solution for services delivered under tighter and tougher economic conditions. There are increased opportunities for competition and contest to bring about improvements in the effective and efficient delivery of those services. The paper also asserts that business needs to be actively involved as innovation will only occur with the cross-fertilisation of ideas and the creation of an environment conducive to challenge and change.



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