

SUBMISSION TO THE SENATE LEGAL AND CONSTITUTIONAL AFFAIRS REFERENCES COMMITTEE INQUIRY

*The impact of changes to service delivery models on the administration and
running of Government programs*

Per Capita Australia
23 August 2019

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About Per Capita

Per Capita is an independent public policy think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice. Our research is rigorous, evidence-based and long-term in its outlook.

We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

This submission was prepared by Executive Director, Emma Dawson, and Senior Fellow, Social Justice and Inequality, John Falzon.

Introduction and Statement

Per Capita welcomes the opportunity to provide a submission to this inquiry. In this submission we will analyse the impact of changes to service delivery models on the administration and running of Government programs, with particular reference to broader outsourcing of functions in the Human Services portfolio including Robodebt.

Our position on this issue, based especially on the feedback we have received from people who rely on Human Services for support as well as from front line workers both within the Department and from the broader community sector, is well summed up in the following joint statement we signed in May 2019 on the crisis in Centrelink and Medicare:

Millions of people in Australia rely on the Department of Human Services (DHS) every day. Pensioners, older Australians, people with disability, families, carers, people seeking paid work, refugees and students; all rely on the essential services DHS staff provide. Australia needs a strong, publicly funded social security system. These essential services should be accessible to all Australians. The best way to achieve this is by ensuring that all employees of DHS are properly resourced to do the best they can for people needing assistance. No one should be pushed into poverty when sick, fleeing domestic violence or facing a natural disaster. However, years of budget cuts and an aggressive program of privatisation now sees the Government let down the members of our community who most need our help. In 2017-2018 over 46 million calls to DHS went unanswered. A further 5.3 million calls were abandoned as frustrated customers gave up on getting through to speak to the right person. Australians are waiting longer to have their claims assessed and processed, there has been a blow out in processing times for the aged pension, with the standard processing time already 49 days and nearly 10,000 claims taking even longer than that. Our social security system is no longer able to adequately support our community because over years staff numbers have been slashed, budgets cut and instead of restoring staff numbers the Coalition Government has inch by inch been privatising core elements of the Department's work. The Government has privatised DHS call centre jobs, handing over our essential services to private companies who must make a profit. There are now 2,750 outsourced DHS call centre jobs and thousands of labour hire employees now being used in Centrelink and Medicare. This privatisation has led to more mistakes with services being disrupted and further delays to the community. Private corporations should have no place in handling our sensitive health records or our social security payments. People who rely on DHS deserve high quality public services, delivered by highly-trained, accountable staff who are employed directly by the Government. As representatives of community groups, users of DHS services and workers, we call on all political parties and candidates to:

- *Stop the privatisation of Centrelink and Medicare*

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- *Increase DHS permanent staff numbers so that members of our community can get the help they need when they need it – with claims processed quickly and support over-the-phone or in-person services*
- *Ensure that all Australians regardless of where you live have fair access to DHS services*

The Role of Government

Per Capita has consistently argued that a core responsibility of government is to reduce inequality in society, ensuring that no one is excluded from the essentials of life and from full social, political, cultural and economic participation. The provision of human services is a key function of government to achieve this end. As we have stated elsewhere¹, citizens engaging with front-line government services are often in vulnerable positions, relying on income support or health services at difficult times in their lives. The integrity and understanding of the staff vested with providing essential services to such citizens is critical.

Governments are constantly seeking to reduce the costs of service delivery, but outsourcing such services is often a false economy. Whether outsourced to nonprofit or private/for-profit providers, the operation of such services at one remove from the government makes oversight and quality control more challenging.

Compromising the provision of these services through outsourcing, external contracting and privatisation, as well as changing their very purpose through a focus on debt recovery at the expense of service delivery, does not affect only on the people who are in direct receipt of these services. The impact is so widespread that it threatens the democratic nature of our institutions, displacing the principles of equity, inclusive access, public benefit and accountability with principles and practices that are more aligned with the market than with the needs of the people.

One analysis of this trend, for example, points to the development of blurred responsibilities and the subsequent emergence of “grand alibis”, where no one organisation is held accountable for operational or policy failures².

There is a clear correlation between high levels of outsourcing and the failures of the *Robodebt* program, which has proven to be profoundly ill-conceived, putting constrained resources into hounding and harassing people³ instead of helping them, and too often charging people with miscalculated, or even non-existent, debts, which predictably cause significant stress and harm.

AusTender figures show \$230m given to Adecco Australia to employ 1,000 staff for Centrelink compliance activities, a \$226m contract to recruitment giant Chandler Macleod, and over \$400m in the past year spent on privatising call centres, with a \$135 million contract with Stellar Asia Pacific, \$132m with Concentrix

¹ Per Capita (2018) *Submission to the Parliamentary Inquiry into Australian Government Contract Reporting – Inquiry based on Auditor-General’s report No. 19 (2017-18)*. https://percapita.org.au/our_work/per-capita-submission-to-the-parliamentary-inquiry-into-government-outsourcing/

² Farrow, K., Sturrock, R., Hurley, S., (2015). *Grand alibis: how declining public sector capability affects services for the disadvantaged*. Centre for Policy Development: Sydney.

³ See, for example, McPherson, Emily (2019) “Robodebt: What happens inside Centrelink’s toxic debt-recovery offices” *Nine News*, 9 August, 2019. <https://www.9news.com.au/national/robodebt-what-happens-inside-centrelink-offices-australia-news/d073fdfa-01a0-4d33-bcfe-a2df387417e9>. Also, Farrell, Paul and McDonald, Alex (2019) “Centrelink robodebt raised against dead disability pensioner”, *ABC News*, 29 July 2019.

Services, \$120m with Datacom Connect and \$36m with Serco Citizen Services; the total cost of contracted external labour, through 350 individual contracts, coming to \$1.03 billion in three years.⁴

It appears that outsourcing has been deliberately employed as an ideological preference instead of maintaining public sector staffing at appropriate levels, with the federal government introducing a cap on the size of the public service to around or below 2006-07 staffing levels.

Workforce

The ramifications of this adopted trajectory are enormous, not only for the clients of the Department of Human Services but also for the workforce, with evidence of heightened job insecurity, a decline in wages and conditions and a failure to properly prepare and train contract workers to enable them to assist people with highly complex needs who are sometimes in situations of chronic poverty or acute crisis.

As Melissa Donnelly⁵, Community and Public Sector Union Deputy Secretary, has observed:

These workers are often on inferior wages and conditions to the people next to them doing the same work. It is a lose-lose situation. The labour hire companies charge the department a premium to supply employees, so it costs taxpayers more overall and the individual labour hire workers are worse off than if they were properly employed by the department.

By outsourcing work traditionally done by permanent employees of the APS, governments effectively wash their hands of responsibility for workers' pay and conditions, despite the fact that the services are still publicly funded.

By choosing to award contracts largely on the basis of cost, they ensure that workers delivering these services are under constant pressure to do more for less.

Neoliberal economic theory argues that these are desirable outcomes from which the public benefits. Yet this benefit is often illusory: the cost saving arises from a cut in the volume or quality of services being offered to the public, rather than a more efficient delivery.

Lower labour costs alone are not a sign of greater value for money for the taxpaying public; rather, they signify not only fewer workers employed, but also a reduction in the wage growth previously experienced by public sector employees, which has broader implications across our economy. There is strong evidence that government privatisation and outsourcing over the last 20 years has indirectly but profoundly affected wage levels in Australia.

⁴ Martin, Sarah (2019) "Coalition's \$1bn welfare outsourcing accused of hurting vulnerable Australians"
<https://www.theguardian.com/australia-news/2019/jul/10/coalitions-1bn-welfare-outsourcing-accused-of-hurting-vulnerable-australians>

⁵ Ibid.

Over the five years to September 2017, annual wage growth in the private and public sectors were barely distinguishable, with public sector wage growth only 0.2% p.a. higher.

Where the public sector once underpinned employment and wage growth in the economy, particularly during economic slowdowns, its impact today is less powerful.

This is a direct result of government privatisation and outsourcing policies, and an important contributor to Australia's wage weakness.

Exacerbating this problem is the current government's determination to undermine collective bargaining in the APS. The imposition of a 2% cap on union-negotiated agreements, combined with the introduction of individual agreements in the APS, apparently has two aims:

1. to keep nominal wage growth in the public sector barely at pace with inflation – which, coupled with large increases in the cost of living, means a real wage cut for APS staff; and
2. to reduce the level of union membership in the public sector, by incentivising APS staff to withdraw from collective bargaining in pursuit of higher wages through individual agreements.

The implications of these deliberate actions to suppress wage growth in the public sector will have implications throughout the economy, reducing discretionary spending by workers and impeding economic growth.

Capacity

While recent government policies and spending decisions have seen an acceleration of this trend we acknowledge that increased outsourcing and cuts to APS staff numbers have been a feature of successive governments' policies towards the public sector and government service delivery. Apropos of this trend, former Treasury Secretary Ken Henry⁶ made the observation in 2015 that “many departments have lost the capacity to develop policy; but not just that, they have lost their memory”.

For the effective delivery of essential human services, the retention of that memory is critical, in order to ensure that social purpose is not sacrificed on the altar of marketisation. Yet recent high rates of outsourcing appear neither to have improved service delivery nor proven to be a more efficient use of resources.

⁶ Greber, J., (2015). “Ken Henry says redundancies and outsourcing have left APS unable to provide effective advice.” *The Canberra Times*, November 19, 2015

It is a given that structures and services must evolve in response to changing structures and emerging challenges in society and the economy⁷. It is, however, Per Capita's view that the irrational embrace of outsourcing combined with a systematic reduction in internal capacity lessens the capacity of government departments to engage in the process of purposeful change. The question must be posed as to whether the government, in prosecuting the current agenda of outsourcing and privatisation, is engaging in a hollowing out⁸ of government service delivery in favour of market encroachment on the public sphere and the gradual transformation of the for-purpose model of providing government services into a for-profit model, albeit one that is publicly funded; costing more yet providing less.

Transparency

As a research organisation engaged in public policy analysis, we have found that it is impossible to find the data and information required to thoroughly analyse the spending of public monies on outsourced services, particularly in relation to the engagement of temporary staff, for the preparation of this submission.

According to data available on [Austender](#), almost \$750 million was spent in the 2016-2017 year on temporary personnel, presumably to fill gaps in the ranks of permanent staff. This represents an almost three-fold increase over the last four years.

Despite this increase in the use of temporary staff and contractors throughout the APS, nowhere within the Austender data, nor on the website of the [Australian Public Service Commission](#) is it possible to determine how many temporary staff are employed as individual contractors or through labour hire arrangements.

The most recent data available from the [APS Statistical Bulletin](#) shows that, in June 2017, 9.8 per cent of APS staff were engaged on a "non-ongoing" basis, but there is no information about the conditions of their employment.

Public expenditure, including the engagement of staff to deliver public services, should be fully transparent.

Spending within the APS is subject to rigorous oversight and full transparency through the Parliament's budget Estimates process. It is difficult to see how the Estimates process will be able to accurately determine the number of contractors engaged to fill the skills and capacity gaps brought about within the APS by the government's arbitrary staffing cap if no agency is recording this information.

⁷ Herscovitch, Andrew and Stanton, David (2008) "History of Social Security in Australia" *Family Matters* 2008 No. 80:51-60
<https://aifs.gov.au/sites/default/files/hs.pdf>

⁸ Milward, H., (2014). "The increasingly hollow state: challenges and dilemmas for public administration". *Asia Pacific Journal of Public Administration* 36(1):70-79.

Also of concern is the manner of some government contracts with private companies engaged to provide policy analysis and advice and service delivery.

Government contracts with private companies for policy advice and service delivery too often include “commercial-in-confidence” provisions that prevent the public from knowing what their money is being spent on, and whether the contracts represent value for money or adequately protect against conflicts of interest.

This practice is unsupportable and the Committee would be wise to consider strong measures to either eliminate the use of commercial-in-confidence provisions in government contracts by requiring tenders to prohibit their inclusion, or, at the very least, to significantly curtail the use of such provisions by requiring unassailable, independent advice that such measures are necessary.

If this were done, it would be a decision for the tenderer whether or not to apply for government contracts. Presumably, should they be unable to demonstrate the need for commercial-in-confidence provisions, or deem those provisions to be more valuable than the potential income from the work being tendered for, they would decide not to participate.

Conclusion

The ideological embrace of outsourcing and privatisation arguably is not a rational allocation of public resources but a deliberate displacement of democratic institutions by market-based activity. As political theorist Wendy Brown⁹ explains:

Neoliberalism... is best understood not simply as economic policy, but as a governing rationality that disseminates market values and metrics to every sphere of life... Neoliberalism thus does not merely privatise....; it formulates everything, everywhere, in terms of capital investment and appreciation, including and especially humans themselves.

Public sector service provision should be a means of ensuring equitable access to essential services. Our interaction with these services should be with government, understood as belonging to the people, rather than with private interests. Human services should represent an assurance that, through the social pooling and redistribution of resources via the tax and transfer system, we can look after each other both in times of crisis, and when there is need for sustained support, due to age, caring responsibilities, disability, illness, unemployment, or other needs.

⁹ Brown, Wendy (2015) *Undoing the Demos: Neoliberalism's Stealth Revolution* MIT Press, Zone Books. p176.

It concerns us that the Government is apparently determined to abrogate this core duty to commercial concerns instead of prioritizing it as a public good; and this at a time when, due to broader cuts to social expenditure, according to Professor Peter Whiteford's¹⁰ analysis, 'for many unemployed people, Australia not only doesn't have one of the best safety nets in the world, it has one of the worst.'

Per Capita commends the Senate for establishing this inquiry, and urges the Committee to weigh the impact on citizens of the outsourcing and under-resourcing of service delivery against the supposed cost-savings to government of outsourcing and automating essential human services.

We ask the Committee to recognise that the long term impact of deskilling and under-staffing the APS, and the subsequent loss of expertise and corporate memory within government departments, is impossible to quantify, but is likely to lead to significant deficits in the capacity and knowledge required to design and deliver essential services in future.

Further, we urge the Committee to be mindful of the inherent conflict between the profit motive that underpins service delivery in the private sector to which these government services are being outsourced, and the core purpose of human services to provide security and dignity to citizens in receipt of government support. We posit that the imperative to make private profit from providing services that are essential to meet the needs of people to live a good and dignified life can only reduce the quality of service provision, and impair the responsiveness to individual need that is critical to the effective delivery of such services.

Recommendations

1. That the Government cease the outsourcing of essential services to private companies.
2. That the Government collect regular data about the numbers of roles in each government agency or department that have been outsourced to labour hire or other forms of external employment; and that this information is published at least one month before Senate Estimates hearings twice annually.
3. That this information include the salaries and conditions provided to staff on outsourced contracts so that it can be easily compared to that of departmental staff.
4. That the Government remove the arbitrary cap on staffing levels in the APS.
5. That the Government remove the wage freeze on APS staff.
6. That the Government cease using labour hire to staff the front-line provision of human services and ensure sufficient staff are employed directly in the APS to deliver those services.
7. That the Government cease the Robodebt program and return to manual assessment of Centrelink over- or under-payments.

¹⁰ Whiteford, Peter (2019) "Is Newstart really the pacesetter Scott Morrison says it is?", *Inside Story*, 10 July 2019. <https://insidestory.org.au/is-newstart-the-pacesetter-scott-morrison-says-it-is/>

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8. That the onus to prove that a debt to Centrelink exists and its quantum be on the Department, reversing the current requirement for income support recipients to prove the debt has been wrongly calculated or falsely incurred.
9. That, before automating any further services or moving to online-only service provision in any human services agency, the Government ensure that its systems are robust and reliable, and that adequate levels of government oversight are in place.
10. Further, that before automating any further services or moving to online-only service provision in any human services agency, the Government ensure that all citizens have reasonable access to the internet, and sufficient digital literacy, or assistance, to navigate government systems.