

# Delivering quality care more efficiently

Productivity Commission Pillar 4 Consultation

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Our vision is a fair, sustainable society and wellbeing economy that serves current and future generations in Australia and Southeast Asia.

Our mission is to help create transformative systems change through practical solutions to complex policy challenges. We tackle the hard questions, working towards change that is systemic and long-term.

Through our work, we aim to contribute to governments that are coordinated, collaborative, and effective, with an eye to both the near and longer term. We strive to build a social services system that helps people and communities to thrive now and in the future, and drive shifts in policy making practice with a focus on wellbeing and sustainability rather than primarily economic growth.

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## Productivity with Purpose

The Centre for Policy Development (CPD) welcomes the opportunity to provide a submission to the Productivity Commission's (PC's) inquiry on *Delivering quality care more efficiently*. CPD is a leading independent policy institute and has for many years worked on the design of social service and care systems.

CPD agrees that reinvigorating Australia's productivity can play an important part in creating a more prosperous and sustainable future for all Australians and we appreciate the Commission's work across the five pillars.

CPD's recent report, *Productivity with Purpose*, argues that for productivity growth to be truly beneficial, it must be directed towards clear societal goals.<sup>1</sup> We should be asking not just *how* to boost productivity, but "productivity for who and for what?" CPD believes we should grow productivity in a way that enhances community wellbeing, secures environmental sustainability, and provides for shared economic benefits that reduce inequality.

A 'growth mindset' must be more than the pursuit of a single metric; it should encompass a holistic vision for a better future. The interim reports from the Productivity Commission miss an opportunity to apply the *Measuring What Matters* framework – as required by the inquiry's Terms of Reference – to embed this broader purpose.

As we argue in *Productivity with Purpose*, a purpose-driven approach can unlock significant

gains. It leads to reforms that achieve better alignment between social and economic value, such as developing quality-adjusted productivity measures in the care economy; it helps fix failures in capital allocation to drive a cost-effective net-zero transition; it fosters investment in prevention and early intervention; and it encourages us to change the fundamentals of the care sector through new models of commissioning and funding.

### Delivering quality care more effectively

CPD strongly agrees with the PC's assertion that quality in the care economy impacts productivity and broadly agrees with the recommendations in the interim report. To further strengthen efforts towards these objectives, this submission highlights three straightforward recommendations that the PC could make to the Australian Government that would enhance the measurement of productivity in the care economy, accounting for cost, responsiveness to community needs and quality. This submission also details six ways to enhance the PC's recommendation for collaborative commissioning, including enhancing the dynamic between funders and service providers through formal relational contracting and building mechanisms for continuous learning. Finally, this submission outlines a hybrid approach to implementing a national framework for preventative investment - ensuring the independent advice of the Prevention Framework Advisory Board is paired with the required public service capability.

As part of...	The Productivity Commission should recommend that the Australian Government...
Measuring Productivity in the Care Economy	Commission the ABS to produce quality-adjusted outputs in certain sectors of the care economy
	Use more needs-based funding models (better aligning funding with social value and community need)
	Build government capability in understanding determinants of costs and quality
Collaborative Commissioning	Create learning mechanisms that ensure lessons learned from the proposed collaborative commissioning reforms are documented and shared across the care economy
	Direct joint commissioning bodies to use Formal Relational Contracting to manage relationships with service providers and promote more relational contracting approaches across the care economy
	Direct joint commissioning bodies to include service providers and communities (especially people with lived experience) in the collaborative commissioning process through easy to implement mechanisms like a reverse tender model and existing community-led structures
	Direct joint commissioning bodies to design shared outcomes in a way that helps break down the overall goal into concrete and achievable parts
	Direct joint commissioning bodies to use evidence and iteration to design performance indicators that are within the control of service providers <i>and</i> demonstrably contribute to shared outcomes
	Direct joint commissioning bodies to design performance and reporting processes that emphasise continuous learning rather than punishment, while maintaining minimum standards of safety, quality, financial reporting and other essential requirements
A National Framework to Support Government Investment in Prevention	Pair the Prevention Framework Advisory Board with an Avoidable Costs Unit in the Commonwealth Treasury to translate its advice into practical action across departments

## Measuring productivity in the care economy

CPD welcomes the report's recognition of the challenges in measuring productivity in the care economy. Including reference to lack of quality-adjusted outputs, the labour-intensive nature of social service delivery and the phenomenon of Baumol's cost disease. CPD acknowledges that quality adjusting outputs, as has already been done in areas of [health](#) and [education](#), is beyond the scope of this report, however there are relatively straightforward steps the Productivity Commission could recommend to move the government towards addressing these measurement issues. For example, the Commission could recommend that the Australian Government:

**Recommendation 1:** Commission the ABS to produce quality-adjusted outputs in certain sectors of the care economy.

Previous work by the Productivity Commission and the ABS demonstrate that with the right resources this can be done. With targeted investment and a clear mandate, the ABS could extend their work by incorporating quality-adjusted output into its regular GVA and productivity estimates, following the lead of the UK's by the [Office of National Statistics](#), which already does this for education and healthcare.<sup>2</sup>

**Recommendation 2:** Use more needs-based funding models (better aligning funding with social value and community need).

Current productivity and value measures do not reflect where care is delivered or how critical it is to a community. For example, delivering high-quality early childhood education in a childcare desert or remote area often has a greater value

than one in a community already with several centres, yet a demand-based subsidy treats these the same. One way to address this is through a supply-side, needs-based funding model that adjusts the cost of delivery with equity loadings (for example SES area, rural/remote, disability) – an approach advocated by CPD for Early Childhood Education and Care (ECEC) in [Growing Together](#). This has the added benefit of aligning funding, output measurement (GVA), and social value.

**Recommendation 3:** Build government capability in understanding determinants of costs and quality.

Work is already underway in ECEC through the [Service Delivery Price Project](#), however it is essential that the government strengthens its own capabilities to interpret, use and act on this information. The [ACCC Childcare Inquiry 2023](#) showed that costs in this sector are not correlated with quality, and indeed it is not even clear what drives costs. Given the Commonwealth's significant fiscal exposure to care sector costs, it is critical that it builds in-house expertise in understanding the various factors that drive service costs and quality.

The PC's recommendation to standardise quality and safety reporting frameworks across multiple sectors acknowledges that a common set of indicators would also make it easier for governments to measure productivity in the care economy and support more meaningful public reporting of services across the care economy. A streamlined quality framework would indeed help strengthen productivity measurement, however existing quality frameworks can already be drawn on to quality-adjust measures of output.

## Embed collaborative commissioning to increase the integration of care services

CPD strongly agrees with the Productivity Commission's draft recommendation that governments should embed collaborative commissioning in the care sector through joint governance arrangements and long-term, flexible, dedicated funding. Dedicated partnership funding, such as for the joint governance structure, is especially important given the sector is chronically under-resourced when it comes to collaboration.<sup>3</sup> We propose the draft recommendation could be enhanced in six ways, prioritising Formal Relational Contracting (FRC), which involves mutually agreed goals and processes alongside legally binding elements.<sup>4</sup>

Currently, the draft recommendation focuses on collaboration between local hospital networks (LHNs), primary health networks (PHNs) and Aboriginal Community Controlled Health Organisations (ACCHOs). This is a sensible first step to maximise impact and the ease of implementation. However, there is plenty that governments and other actors can do now to drive a long-term transformation of commissioning and contracting beyond health into other social services and care systems. This includes expanding the concept of collaborative commissioning to involve partnership with service providers and users through the use of FRC and other methods. We suggest three additions to the draft recommendation in this regard:

**Recommendation 4:** Governments should create learning mechanisms that ensure lessons learned from the LHN and PHN reforms are documented and shared across the health system and other parts of the care economy.

**Recommendation 5:** Joint commissioning bodies should use Formal Relational Contracting to manage relationships with service providers and promote more relational contracting approaches across the care economy.

**Recommendation 6:** Joint commissioning bodies should include service providers and communities (especially people with lived experience) in the collaborative commissioning process through easy to implement mechanisms like a reverse tender model and existing community-led structures. These mechanisms can then be strengthened over time.

The draft recommendation should also recommend that **commissioning and funding bodies utilise continuous learning as a method of achieving outcomes, rather than meeting outcomes through any means necessary**. To do this, **commissioning entities should:**

**Recommendation 7:** Design shared outcomes in a way that helps break down the overall goal into concrete and achievable parts.

**Recommendation 8:** Use evidence and iteration to design performance indicators that are within the control of service providers *and* demonstrably contribute to shared outcomes.

**Recommendation 9:** Design performance and reporting processes that emphasise continuous learning rather than punishment, while maintaining minimum standards of safety, quality, financial reporting and other essential requirements.

### Expanding and embedding collaborative commissioning and relational contracting

As the interim report notes, collaboration between LHNs and PHNs can promote wellbeing outcomes and productivity by better integrating care, removing duplication and reducing

administrative burden. We understand why the Productivity Commission has focused its recommendation on collaboration between LHNs and PHNs as an easier to implement and high impact target area, especially given the high number of contracts being simultaneously managed. Our view is that health is not the only social services and care system where collaborative commissioning is needed and implementable. However, if the Productivity Commission wishes to focus on health, **the recommendation should push for these improved commissioning approaches to be gradually systematised across the care economy and expanded to include collaboration with service providers and communities.** This would further enhance wellbeing and productivity by ensuring that care services are integrated in ways that meet local needs and match the actual complexities of care delivery. To not do so risks allowing these reforms to be minor tweaks instead of the truly transformative improvements our country needs. We propose three ways to do this.

Our first recommendation is that **the Commonwealth, state, and territory governments should build in learning and collaboration mechanisms so that lessons learned are documented and shared between the various LHNs and PHNs involved and other parts of the care economy.** Shared learning between the LHNs and PHNs implementing collaborative commissioning could be enabled by regular communities of practice where representatives can discuss common challenges and advice for overcoming them. To ensure these learnings can be applied to the implementation of collaborative commissioning in other care and social service systems, an appropriate learning partner should conduct a developmental evaluation that assists LHNs and PHNs with the immediate implementation of collaborative commissioning and documents best practice. Once the initiative has matured, the learning partner should conduct an impact evaluation to build the evidence base for collaborative commissioning and support its expansion to other care and social service systems. Candidates for this learning partner could include the Australian Centre for Evaluation, the Productivity Commission or any internal

research units within the relevant Health departments.

Our second recommendation is that **the joint commissioning bodies formed by the LHNs and PHNs use Formal Relational Contracting (FRC) to manage relationships with service providers. Further, all government departments that outsource care delivery should begin embedding FRC across their care systems.**

FRC involves two or more parties working together to agree on shared goals, guiding principles, and a process for ongoing communication and information sharing.<sup>5</sup> Legally binding elements are usually still present and can support the relational elements of the agreement in various ways.<sup>6</sup>

The interim report notes that collaborative commissioning is an ongoing cycle that starts before and continues after the procurement of services. FRC is essential to ensuring genuine collaboration with service providers throughout the entirety of this cycle, particularly ongoing information sharing and reciprocal feedback that can be used to shape service design. Without this ongoing partnership, the productivity and wellbeing benefits of collaborative commissioning will be limited. More relational contracting approaches are also well suited to care services given there is a complex array of factors that determine wellbeing outcomes in the sector.<sup>7</sup>

Several current or previous service systems use more relational contracting approaches, including South Australia's Child and Family Support System (CFSS),<sup>8</sup> South Australia's Community Connections Program<sup>9</sup> and Victoria's Jobs Victoria Employment Network.<sup>10</sup> This demonstrates that FRC is possible within current government procurement rules and accountability mechanisms. In fact, it can improve accountability by increasing the transparent flow of information. This being said, we have observed that an organisational culture and leadership team that values learning and quality over risk minimisation helps enable relational contracting approaches.

Our third recommendation is that **LHNs and PHNs that commission together should partner with service providers and**



**communities throughout the commissioning cycle.** We understand that truly sharing commissioning powers with those outside of government will take time. However, there are several ways to include providers and communities in the commissioning process that are possible within the current system. The Interim Report proposes that the joint governance structures managing the collaborative commissioning include providers and community representatives. We think this point should be given greater weight in the final recommendation and propose additional options.

FRC is one way to better partner with providers. Another is to **use the reverse tender model** employed by the Victorian Government for its Jobs Victoria Employment Network.<sup>11</sup> This was a competitive tender process that asked providers to propose service models and employment outcomes suited to the local needs of their region and the associated costs. This afforded greater input from providers while still meeting the probity and competition requirements typical of government procurement.

Commissioning agencies can start gaining genuine input from communities by **sharing certain commissioning responsibilities with existing community-led structures.** For example, the Tākai funding model in New Zealand involved building a relationship with existing community organisations and working together to create a funding application that is viable from both a government and community perspective.<sup>12</sup> Empowering existing community organisations has several benefits, including being easier to implement than forming a new body, building on existing community capability and avoiding duplicative consultation.

By promoting collaboration between PHNs, LHNs, ACCHOs, service providers and communities through these easier to implement approaches, **all actors can start to build the cultures and capabilities for deeper partnership.** There are several conditions actors should begin strengthening now to enhance the long-term commissioning partnership. Ready Communities' five readiness factors and their related indicators are useful here, especially for place-based commissioning.<sup>13</sup> The readiness factors are: (1) clarity and understanding, (2) connection and connectivity, (3) capability and capacity, (4)

collaboration for purpose and (5) advocacy and promotion. Pathways in Place's Capacity of Organisations for System Practices Scale is another practical tool to help actors evaluate their ability to work in collaborative, community-centred ways, and systemically impactful ways.<sup>14</sup> It includes 31 questions over four practice areas: (1) adaptation, (2) alignment, (3) collaboration and (4) evidence-driven action and learning.

## Commissioning for learning to achieve outcomes

The interim report recommends a shared outcomes framework and tying funding to achieving those outcomes, starting with potentially preventable hospitalisations. There are several benefits to this compared to activity-based funding, many of which the interim report notes. Despite its benefits, outcomes-based funding comes with risks and challenges. Outcomes are often shaped by many interrelated and dynamic factors, many of which are outside the control of the provider. The interim report acknowledges this, stating that funding adjustments should be carefully designed, taking into account the timeframes over which outcomes are measured or the size of funding adjustments relative to the funding levels of the recipient. This will help but is unlikely to be enough on their own in CPD's view.

The other key issue with outcomes-based funding is that it is vulnerable to providers gaming the system to maximise the funding they receive at the expense of service quality or service user wellbeing. For example, the House of Representatives Select Committee into Workforce Australia inquiry found that the system's outcomes-based funding approach incentivised providers to focus "on moving those jobseekers who were closer to the labour market into work as quickly as possible ('creaming'), while neglecting those who needed additional support ('parking')".<sup>15</sup>

To address these two problems, **the Productivity Commission should recommend placing learning at the centre of commissioning as a pathway to achieving outcomes.**

Commissioning for learning can still include



measuring and working towards outcomes. However, it emphasises ongoing learning and service improvement rather than simply meeting outcomes through any means necessary. Lowe, French and Hawkins outline various components of this, including funding a capacity for continuous learning, using data for reflection rather than reporting, and creating a culture where people talk through mistakes and uncertainties.<sup>16</sup> We have three specific recommendations for how to start moving towards commissioning for learning while retaining a commitment to achieving outcomes.

First, **commissioning entities should design shared outcomes in a way that helps break down a complicated process into concrete and achievable parts, enabling LHNs and PHNs to commission a suite of services that together addresses each of those parts.** This helps break down an overall goal into concrete and achievable outcomes that the commissioning entity can procure services to fulfil. This can be seen in Jobs Tasmania's Outcomes Framework for Youth Employment Programs,<sup>17</sup> which breaks down the ultimate goal of having "all young Tasmanians engaged in education, training or quality work, and achieve economic independence" into specific pieces like "young people have improved career direction including ability to career plan" or "increased availability of entry level jobs that can be filled by young people".

The second recommendation is to **use evidence and ongoing iteration to design performance indicators that are within the control of providers and demonstrably contribute to intended outcomes.** This is what South Australia's Department of Human Services (DHS) does in the Child and Family Support System. As one example, DHS used epidemiological data analysis to find that engagement rates of clients (proportion of referred clients that engage with services) was statistically associated with the engagement strategy used by providers but not client risk factors. As a result, DHS were confident that they could use a provider's engagement rate as a performance indicator in their contracts.<sup>18</sup> Similar research could be conducted on potentially preventable hospitalisations or other health outcomes to

ensure they are substantially within the control of the provider.

Our third recommendation for taking a commissioning for learning approach is to **design reporting and accountability processes that emphasises learning rather than punishment.**

This should include minimum standards for safety, quality, privacy, financial reporting, and other factors, but redirect time spent on burdensome reporting requirements towards activities that improve service quality. One example comes from Victoria's Community Revitalisation initiative, which funded various programs to increase economic participation for people experiencing complex barriers to employment.<sup>19</sup> Rather than require providers to report against pre-defined targets, they had to develop an impact and learning plan by the end of the first 12-months that set the outcomes for the initiative, with regular progress reporting and annual 12-month action plans for the rest of the four year funding cycle. Commissioning for learning is best supported through Formal Relational Contracting because it provides the trust, reciprocity and flexibility for commissioning agencies and service providers to jointly improve practice over time.

## A national framework to support government investment in prevention

The Centre for Policy Development (CPD) welcomes and supports the Commission's draft recommendation to establish a National Prevention Investment Framework. This proposal aligns with CPD's extensive research, most notably in our *Avoidable Costs* report,<sup>20</sup> which underscores the significant human, environmental, and fiscal costs of reactive policymaking. Investing in prevention and early intervention is not only a moral imperative but also a fiscally responsible strategy that delivers better outcomes and better value for public money. A focus on prevention is a core tenet of the wellbeing government approach CPD advocates for, as it requires the long-term, holistic thinking needed to address the root causes of complex challenges. It also works towards achieving the aspirations of *Measuring*

*What Matters* to “put people and progress, fairness and opportunity at the very core of our thinking about our economy and our society, now and into the future”.<sup>21</sup>

While we strongly support the preventative investment approach represented in the PC’s interim report, we recommend the PC also include an analysis of the systemic social, economic, political, institutional and environmental structures that shape outcomes. As the PC have pointed out, “productivity growth alone won’t automatically solve crucial problems like inequality and environmental degradation.”<sup>22</sup> Preventative investment is one tool to address these challenges, but governments should consider all the levers it has available and look further upstream to tackle issues at their source.<sup>23</sup>

In our initial submission to this inquiry, we recommended the establishment of an **Avoidable Costs Unit (ACU)** within Treasury to model failure demand and build internal capacity for preventative budgeting. The Commission has proposed a different institutional model: an independent **Prevention Framework Advisory Board (PFAB)** to provide expert advice on prevention funding. While the models differ in structure, they share the same goal. Both have advantages and potential drawbacks that should be considered to ensure the final framework is as effective as possible in increasing support for preventative programs.

### The merits of an independent advisory board

The primary strength of the proposed PFAB is its structural independence. Being at arm’s length from politicians and the public service allows for the provision of frank and fearless advice, free from the pressures of budget negotiations and short-term political cycles. We would draw a parallel to the role Infrastructure Australia plays in providing impartial analysis of potential infrastructure projects. This is a valuable feature for ensuring the longevity and integrity of a prevention agenda, which often requires sustained commitment beyond any single government’s term.

An independent body is well-positioned to:

- **Provide objective, evidence-based assessments** of which prevention programs offer the best value for money across government, building a trusted evidence base over time.
- **Enhance transparency and public accountability**, as its recommendations would be public. This can build community trust and create a public mandate for sustained investment in prevention.
- **Act as a champion for prevention**, consistently advocating for upstream investment and challenging the status quo of crisis-driven spending from a position of authority and impartiality.

However, the PFAB’s distance from the core machinery of government could also be its main challenge. There is a risk that its advice, however robust, is not effectively embedded into the complex, path-dependent processes of government, particularly the budget. Without direct levers to influence departmental behaviour or fiscal rules, a PFAB may struggle to shift the institutional inertia that so often stalls ambitious reforms.

### The case for an embedded Treasury unit

CPD’s proposal for an Avoidable Costs Unit (ACU) located within Treasury is designed to address this challenge of institutional inertia directly. Embedding this function within a central agency places it at the heart of government decision-making.

The key advantages of this embedded model are:

- **Building internal capability:** An ACU could work directly with line agencies to develop their capacity to produce policy proposals with long-term outcomes and identify avoidable costs. This aligns with CPD’s findings in *Embedding Progress*, that successful reform requires focusing on the people and cultures that make up decision-making systems.
- **Reforming fiscal processes:** Situated within Treasury, an ACU would be uniquely positioned to drive reform of the **Budget**

### Process Operational Rules (BPOs),

which in turn can drive systemic change in policy proposal development and budgeting, rather than simply advocating for important but isolated preventive programs. As argued in our paper *Banking the Benefits*<sup>24</sup>, a key barrier to investing in prevention is the rule that prevents the counting of Second Round Fiscal Effects (SRFE). Without the inclusion of SRFE, line agencies can only count the direct first-order effects within their own portfolios, which limits the introduction of preventative programs that generate savings in other portfolios. As a result, the downstream savings that preventative programs generate in other portfolios. An ACU could champion and operationalise changes to these rules, fundamentally altering the incentives for departments to pursue preventative and collaborative policies.

- **Driving cultural change:** By integrating preventative thinking into the everyday business of budget and policy development, an ACU is more likely to foster a systemic cultural shift towards long-term, holistic, and preventative ways of working and thinking across the public service.

The primary risk of an embedded model is that its independence could be compromised. Housed within the Commonwealth Treasury and likely staffed primarily by existing Treasury public servants, it may struggle to shift the fiscal norms and could potentially have its advice shaped by the political priorities of the government of the day instead of being strictly evidence-based.

### A potential hybrid model

Both models offer compelling strengths. To harness the benefits of each, we recommend a hybrid approach.

**Recommendation 10:** Pair the Prevention Framework Advisory Board with an Avoidable Costs Unit in the Commonwealth Treasury to translate its advice into practical action across departments

This might involve establishing the independent PFAB as the public-facing, expert body responsible for setting priorities, evaluating evidence, and making transparent recommendations on *what* to fund. This would secure the benefits of independence, rigour, and public accountability.

This could be complemented by a smaller, dedicated Avoidable Costs Unit within the Commonwealth Treasury. The ACU's role would not be to second-guess the PFAB's advice, but to focus on the *how*: working with departments to translate the PFAB's priorities into budget proposals, building the public service's analytical capability, and driving the necessary reforms to fiscal processes and budget rules. The ACU would also be responsible for embedding preventative thinking into government systems, so that prevention and early intervention are not isolated individual programs tacked onto business as usual but are an integral part of policy and budgeting processes.

One option would be to place the ACU within the Australian Centre for Evaluation (ACE), which would then build the capacity to both develop preventative programs and evaluate their success, similar to how the Early Intervention Investment Framework team operates within the Victorian Department of Treasury and Finance.

This dual structure would combine the PFAB's independent authority with the ACU's insider knowledge and ability to effect change within the system. Regardless of the final structure, our research indicates that success will depend on clear political leadership, senior public service champions, a legislative mandate, a strong focus on cultural change, and adequate resourcing.

## Endnotes

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- <sup>10</sup> Department of Jobs, Skills, Industry and Regions. Submission no 278 to Select Committee on Workforce Australia Employment Services. *Inquiry into Workforce Australia Employment Services* (2023). [https://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Former\\_Committees/Workforce\\_Australia\\_Employment\\_Services/WorkforceAustralia/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/House/Former_Committees/Workforce_Australia_Employment_Services/WorkforceAustralia/Submissions).
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