



Australian Council of Social Service

Partnerships for participation

**Submission to Minister for Employment
Participation on reform of employment
services**

ACOSS Paper 200

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The Australian Council of Social Service is the peak body of the community services and welfare sector and the national voice for people affected by poverty and inequality. ACOSS' vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

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I Executive Summary

Entrenched unemployment is growing and of great concern: at January 2013 more than 500,000 people, or 64 per cent of all Newstart and Youth Allowance recipients, had been unemployed for more than a year.¹ At August 2012, the average duration for people receiving Newstart was two years, or 104 weeks.² At the same time, 34 per cent of all those receiving support from JSA providers had been unemployed for more than two years.³

The system is complex, over-engineered and under-resourced. Most people who are disadvantaged in the labour market do not receive the individual help they need. There is still too much focus on short term employment outcomes and too little on long term intensive work with people and employers to ensure that jobs are sustained. Much of the system is designed for the benefit of Government as 'consumer' of the services, not people looking for paid work or employers.

We need to improve the resourcing of assistance for people who are long term unemployed. In the current system, support for Stream 3 and 4 jobseekers declines once they reach the 12 month point, meaning that those who are longest out of work receive less support.

There needs to be a better alignment of vocational training with both the needs of people who face barriers to paid work and the needs of employers, including higher rewards for completion of training and rewards for employment outcomes. Skills preparation also needs to provide more on-the-job training and work experience to create a connection to the workplace and employers.

Improved incentives and resources for providers are vital. These need to enable partnerships between job service providers and employers; and to sustain local training and support services to assist people into ongoing employment.

We need to reduce detailed reporting and acquittal-of-funds requirements for service inputs, while continuing to support providers to interview people regularly and to invest in help to overcome barriers to employment.

¹ DEEWR Labour Market and Related Payments, January 2013.

² Answer to Senate Estimates Questions on Notice EWO645_13

³ Answer to Senate Estimates Questions on Notice EW0551_13.

2 Reform timetable and process

In order to contract services by July 2015, decisions are needed at Budget 2014-15. This means there is time to carefully evaluate existing systems, and consult with stakeholders and independent experts. It is better to get it right than rush decisions. The Department has indicated it will consider responses to its Issues Paper and release a Discussion paper later in 2013. We agree with this approach and urge that this Discussions or Directions paper lists a series of broad options for reform and seeks further input, rather than settling on a single reform proposal. It should also be accompanied by the release of program evaluations, and detailed information and data on clients assisted by employment services, the range of assistance received, and outcomes achieved (see recommendation 18). We would also hope that there is considerable consultation on this in the later part of 2013 ahead of detailed program specifications in conjunction with the 2014-15 Budget.

3 Recommendations

3.1 Improved support and engagement for job seekers

1. Providers should receive at least \$2,200 per year in service and discretionary fees for all people who are long term unemployed. This would replace the Work Experience Phase. The period of compulsory work related activity for people in their third year of unemployment should be reduced from 11 to six months, without reducing the additional funding for this via the Employment Pathway Fund.
2. Replace the Employment Pathway Fund (EPF) with a new Participation Partnership Fund for Streams 3 and 4 and people who long term unemployed. It would link to partnerships with other service providers (training providers, support services) and employers to achieve employment goals for these client groups and would also help to scale up the best of the place-based initiatives. Clients in Streams 1 and 2 would have their EPF folded into a simpler set of service fees to reduce red tape.
3. Introduce an *employment guidance and preparation service* within the employment and disability services systems for people lacking recent employment experience. This would be offered within three months of the unemployment spell and would include: career guidance; skills assessment; work orientation; basic labour market information and advice on job search and (potentially) a modest investment fund for training.

4. Redesign the system of 'induction' of people seeking paid work into the employment services system to facilitate informed choice by:
 - giving people more time to choose a provider (e.g. 2 weeks instead of 2 days);
 - requiring Centrelink and local providers to provide timely information on the options available, possibly in seminars;
 - broaden the options for people to change providers.
5. Develop *national engagement strategies* for groups with high rates of non-participation in employment assistance including young people and Aboriginal and Torres Strait Islander people, and require providers to develop their own engagement strategies for these groups consistent with the national strategies. Effective specialist providers should continue to be funded. Reduce caseloads for employment consultants working with Stream 3 and 4 clients and those who are long term unemployed.
6. Increase Allowance payments for single people by \$50 per week from March 2014, and benchmarked to 66.3 per cent of the combined married couple rate of Allowances (a higher rate in the case of sole parents) as is the case for pension payments. (This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit, and Crisis Payment.)
7. Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by \$50 per week from March 2014 and benchmark of those payments to 66.3 per cent of the married rate.
8. Continue to ensure benefit assessment and participation requirements are administered by Centrelink, and are conducted mostly face-to-face, due to the complexity of the system.

3.2 Partnerships with Employers

9. The employment services system should allow for employers and job service providers to work in partnership, often over longer periods of time. More needs to be done to facilitate demand-led approaches to employment services. Local initiatives recommended below will also enhance employer partnerships and demand-led opportunities.
10. The duration of employment outcomes that attract payments could be extended from 3 and 6 months to 6 and 12 months, or bonus payments made for outcomes sustained beyond 6 months.

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11. Expand the current wage subsidy scheme for people unemployed 'very long term' to 20,000 places a year and introducing a scheme that fully subsidises six months of paid employment (e.g. in the community sector or social enterprises) for deeply disadvantaged job seekers.

3.3 Support to overcome skill mismatch

12. The system should encourage substantial training that can make a real difference over the medium term (over a year) and which incorporates more on-the-job training and work experience to people facing barriers to paid work. It should encourage JSAs and RTOs to collaborate to help people identify the training they need, engage with employers requiring those skills, and to ensure that people complete their training.
13. Both the VET and employment services systems need to be re-designed so that they have the incentives and resources they need to:
 - work intensively with people who are disadvantaged and those with the lowest qualifications (including the career advice, mentoring and other support required)
 - work more closely with employers with the specific aim of recruiting, training and retaining people
 - work with each other to achieve training and employment *outcomes*, rather than simply training *placements*.
14. Data on training commencements and outcomes (successful completions) for Commonwealth funded VET programs should be collected and published. This should include the demographic and labour market profile of trainees, including whether they were employed on commencement of training, and whether they were participants in employment programs such as JSA and disability employment services. Ideally, in regard to this would be supplemented with data on employment outcomes achieved during or after completion of a course, initially using data for people using employment services programs.

3.4 Effective local initiatives and collaboration

15. Bring specialist providers together locally to identify complex problems and the mix of services and strategies required. Draw on the evidence from the Family Centred Employment Program and other place-based initiatives to inform practice. Given the diversity of need and service provision on the ground, it is best to find contracting models that work for a wide range of target groups and needs, rather than devising separate 'programs' for each target group.

16. A system of *Local Workforce Development Networks* could be developed to improve cooperation between employers, employment services, and training organisations at the local level.
17. Scale up and facilitate the best of the placed-based initiatives for people who face major barriers to paid work by supporting local 'panels' of service providers in areas where there are large numbers of people in Streams 3 and 4 and people who are long term unemployed.

3.5 Evaluation and information sharing

18. DEEWR should immediately publish completed surveys; program evaluations and data on flows of different groups of unemployment people through the employment services system so they can inform this review. A mechanism should be developed for providers to share 'best practice' publicly on a regular basis and participation in this mechanism should be a requirement of public funding.

4 Options to reform the structure of employment service purchasing models

Three alternative employment services ‘models’ are outlined below:

(A) *Open access* model:

Open competition among licensed providers to attract people looking for paid work. This removes the central allocation of business shares and requires other policy tools to ensure quality and manage performance. Examples include the Productivity Commission’s proposal 2002⁴ and funding of other community services (e.g. child care, aged care).

At this stage, we conclude that this model should be considered and the design options explored, taking into account a number of risks (see Section 8 below).

(B) *Limited competition* (duopoly) model:

Contracts are awarded to a few large providers who are paid mainly for outcomes, without detailed specification and monitoring of inputs – often referred to as the ‘black box’ approach. This removes or reduces service payments and the EPF and requires provider access to credit to maintain cash flow (hence reliance on a few larger providers). The main example is the UK’s Work Program.

At this stage, we do not support the limited competition model as it is unlikely to achieve the benefits claimed (e.g. less detailed regulation of services), it comes at the expense of provider diversity and reasonable choice, and is therefore less likely to improve performance over the long term.

(C) Adjustments to the present system of *managed competition*.

Centrally purchased, centrally monitored employment services, business shares allocated according to performance, and payments for both inputs and outcomes.

⁴ Productivity Commission 2002, Independent Review of the Job Network, Report No. 21, AusInfo, Canberra.

5 Challenges for the employment services system

5.1 Context

As the population ages, there is both a need to increase workforce participation and an opportunity to improve social and economic inclusion. Australia's ageing population will put greater pressure on our workforce in the future. Currently, there are five working age people for every aged person but that this is expected to fall to 2.7 by 2050⁵.

Structural change has closed off opportunities (e.g. manufacturing) and opened up new ones (e.g. services) and methods of recruitment have also changed with a much greater reliance on the internet for advertising and on-line applications.

Another feature of the labour market is the prevalence of casual and part-time employment. Recent OECD research states Australia has the second highest prevalence of casual work in the OECD, with nearly 28 per cent of the labour force employed on a casual basis. According to research conducted by the Australian Council of Trade Unions, up to 40 per cent of the workforce is in insecure forms of employment, including independent contracting; fixed term contracts; labour hire; and casual employment.

As part of our submission to the Insecure Work Inquiry we analysed industries and found that: "Certain types of employment have a high rate of insecure workers, including construction, retail, and community and health care. Once a worker has commenced insecure employment, it is difficult to move to secure employment."⁶ Since then, modelling of future employment growth shows that these sectors are all predicted to grow over the next five years⁷ and there is no sign that the prevalence of part-time or casual work will diminish in them.

This labour market reality is reflected within the JSA system across all Streams - for those who find a job, more than half only find casual, temporary or seasonal work and this is higher for people who are more disadvantaged. At June 2012, 64 per cent of people in Stream 3 and 57 per cent of Stream 4 who found work with their JSA provider were employed in casual, temporary or seasonal work. Of those who did find employment, there was a significant proportion (45 per cent) who would like more paid work, and were seeking it – especially those who were employed part-time.⁸

⁵ 2010 *Inter-Generational Report*, Department of Treasury, 2010.

⁶ "Submission to the Independent Inquiry into Insecure Work," ACOSS Paper 181, January 2012.

⁷ Commonwealth of Australia, *Skills for All Australians*, March 2012.

⁸ DEEWR *Labour Market Assistance Outcomes June 2012*

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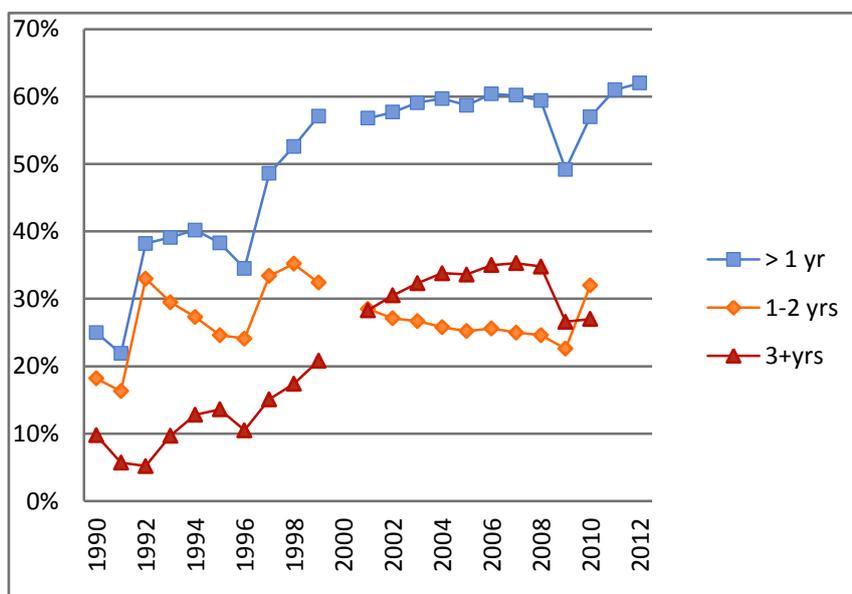
Reliance on income support payments among people of working age has fallen substantially in the last decade, from 18 per cent of all people of working age in 1999 to 14 per cent in 2011⁹.

However, as unemployment falls, and further restrictions are placed on eligibility for pensions, those people surviving on Newstart are increasingly drawn from groups disadvantaged in the labour market, both in terms of employable skills and social and health barriers to paid work. Average duration on Newstart payments is now over two years.

As we said in our *Opportunity for All*, Joint Statement with ACTU and BCA on 4 December 2012:

“While unemployment is at its lowest in decades and some employers face labour shortages, the profile of those people who are out of paid work has become more disadvantaged. Among the 650,000 people on unemployment payments, two fifths have less than Year 12 qualifications, one third are over 45 years old, one in six has a disability and one tenth are Indigenous Australians. Unemployment is increasingly concentrated among individuals who have been out of paid work for a long time, families where no one has paid work, and communities where opportunities are scarce.”

Figure 1. Unemployment payment recipients by duration of current payment spell



Source: DEEWR, Labour market payments series

⁹ *Surviving not Living*, submission to the Senate Employment Committee into the adequacy of ‘allowance’ payments, ACOSS Paper 192, August 2012.

In January 2013, there were nearly 790,000 people receiving Newstart and Youth Allowance (Other), a 60 per cent increase since the Global Financial Crisis began in September 2008. Most people surviving on Newstart or Youth Allowances secure employment within three months of claiming benefits. This group needs limited help with job search. However entrenched unemployment is growing and of great concern: at January 2013 more than 500,000 people or 64 per cent of all Newstart and Youth Allowance recipients had been unemployed for more than a year.¹⁰

The current JSA system aims to meet the needs of these two different groups (the people who are less and more disadvantaged) needing different forms of help. For the less disadvantaged, the main role is contact and engagement. A substantial investment in employment assistance for this group would incur significant deadweight costs for Government. However people who are more disadvantaged will need more help. This includes the growing proportion of people receiving income support who are unemployed long-term, or are at risk of prolonged unemployment. This group are likely to need one or more of the following:

- intensive case management,
- vocational or basic skills training,
- work experience in regular employment,
- integrated service provision from a range of employment, health and social support services.

The challenge for JSA providers is to invest in the most effective assistance for each client without over-investing, and the challenge for Governments is to design an employment services system that gives providers the resources and incentives to do so.

We believe the current system is complex, over-engineered and under-resourced. This means that most people who face barriers to paid work do not receive the individual help they need. There is still too much focus on short term employment outcomes and too little on long term intensive work with people and employers to ensure that jobs are sustained. Much of the system is designed for the benefit of Government as 'consumer' of the services, not job seekers or employers.

Although employment assistance does not typically make a big difference to employment outcomes for people who face few barriers to paid work, well-designed and targeted employment services for people who are more disadvantaged can achieve a 10 percentage-point improvement in employment outcomes over the

¹⁰ DEEWR Labour Market and Related Payments, January 2013.

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medium term (6 to 12 months), and can do so on a large scale.¹¹ If it can be sustained for a number of years as unemployment falls and most do not return to income support, then employment assistance will greatly reduce unemployment, reliance on income support and entrenched disadvantage for individuals and their families.

Reform of the employment services system should be in the context of the labour market and the benefit system for people who are unemployed. ACOSS has consistently argued for the coordinated reform of payment and employment services since our goal is to assist as many people as possible into secure employment with adequate wages, rather than leave them to rely on income support. Further, a well-designed system of activity requirements and employment supports can ease any impact that unemployment payments might otherwise have on employment incentives.

5.2 Reform timetable and process

There is the opportunity and need for substantial change post 2015. Unfortunately there was insufficient time to review the Job Network contracts and system in 2008. While we welcome the decision to seek input at this early stage, we do not believe there is a need to make final decisions about employment models in the forthcoming 2013-14 Budget. This means there is time to carefully evaluate the existing model, and consult with stakeholders and independent experts. Our suggested process is outlined below:

March 2013: submissions close on Minister's Issues Paper.

Mid 2013: Government releases a 'directions paper' indicating its policy goals, the views expressed in submissions, and the direction of reform they wish to pursue. Given the complexity of the issues, it is desirable that this paper lists a series of broad options for reform and seeks further input, rather than settling on a single reform proposal.

This should be accompanied by release of DEEWR surveys; program evaluations; and detailed information and data on clients assisted by employment services, the range of assistance received, and outcomes achieved (see recommendation 18).

Mid to late 2013: Structured consultation via expert and stakeholder roundtables and State-by-State meetings.

Late 2013: Announcement of proposed program structure.

¹¹ DEWR (2006a). 'Customised assistance, job search training, and work for the dole, a net impact study', Department of Employment and Workplace Relations; DEEWR (2010a), Labour market assistance, a net impact study; OECD (2005), Employment Outlook, Organisation for Economic Cooperation and Development, Paris.



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Early 2014: Discussion with experts and stakeholders over detailed program specifications.

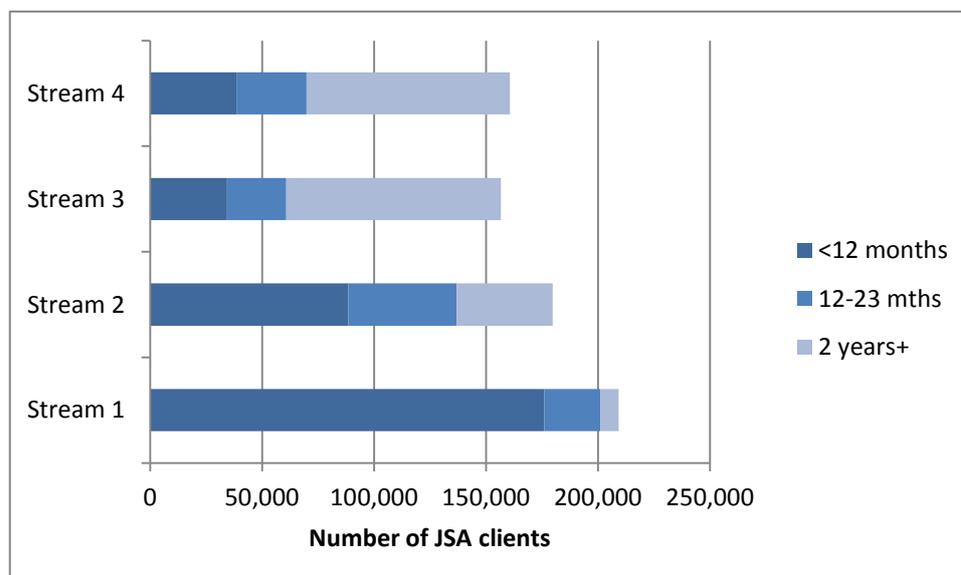
May 2014: Announcement of detailed program specifications in conjunction with the Budget.

6 Improved support and engagement for people seeking paid work

6.1 Long term unemployment

Entrenched unemployment is growing and of great concern. Long term and very long term unemployment are worryingly high, especially for clients in Streams 3 and 4. At 31 August 2012, there were 368,000 people in receipt of income support for more than 12 months, the vast majority of people in Stream 3 or 4 and unemployed for more than two years.¹² The following figure shows a snapshot of the distribution of people in the system by Stream and duration of unemployment.

Figure 2: Number of JSA clients by duration of unemployment and by Stream, at 31/8/12¹³



The current JSA system provides more assistance for people at high risk of long term unemployment (those in Stream 3 and 4) but perversely it does not provide the extra assistance for those people who *become* long term unemployed. It is as though, have tried to overcome the barriers to work of Stream 3 and 4 job seekers in their first year of unemployment, the system then gives up on them.

Once people are unemployed for more than 12 months and moved in to the 'Work Experience Phase', providers are typically funded to offer an interview every two months and only \$500 worth of work experience or training. Measures for very long-term unemployed (more than two years of unemployment) introduced in July 2012 inject more resources. However they are expected to participate in an activity

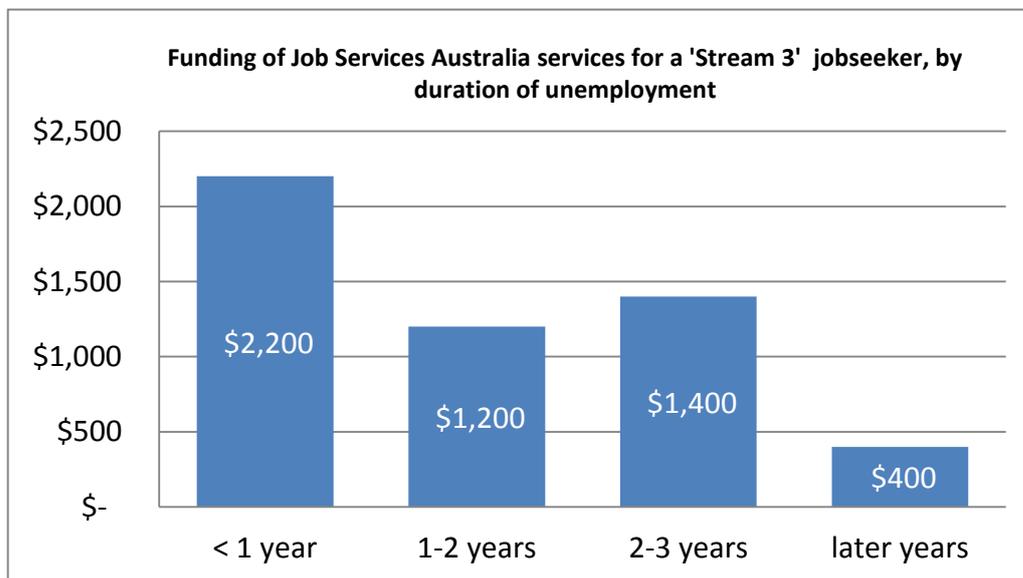
¹² Answer to Question on Notice EW0551_I13 Senate Estimates.

¹³ Answer to Senate Estimates Questions on Notice EW0551_I13.

(the Compulsory Activity Phase) for 11 months out of 12 with providers being given only \$1,100 in EPF (an average of \$100 a month), to support these activities.

At May 2011, DEEWR stated that 59 per cent of the very long term unemployed had not completed Year 12 or equivalent; 17 per cent were Indigenous; 13 per cent were homeless and 12 per cent were ex-offenders.¹⁴ Their job prospects are weak without more intensive help. The figure below graphically illustrates the reduced funding available as unemployment persists.

Figure 3: Resources for JSA providers to invest in a typical ‘Stream 3’ job seeker



Note: Service fees and Employment Pathway Fund credits for a ‘Stream 3’ job seeker in 2012-13 which excludes ESL and interpreting assistance fees¹⁵.

Previous employment services systems in Australia, and most overseas models, offer more intensive help for long term unemployed people, not less. Given that the average ‘net employment impact’ of employment assistance *increases* after a year’s unemployment it is inefficient to reduce the allocation of resources to job seekers once they become unemployed long term¹⁶. This is because the ‘deadweight cost’ of employment assistance is lower for long term unemployed people as their prospects of finding a job without assistance are much less. This was demonstrated in the Australian context in the last ‘net impact study’ of the former Job Network system, which found that the average impact of ‘Customised Assistance’ services was greater

¹⁴ Very Long Term Unemployed Budget 2011-12 Fact Sheet, DEEWR, May 2011.

¹⁵ Figures rounded slightly from Employment Services Deed 2012-15 GDV6.

¹⁶ DEEWR (2010a), Labour market assistance, a net impact study.

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for people unemployed for 24 months than for 12 months or shorter unemployment durations¹⁷.

It is also inequitable to not provide additional assistance since long term unemployed people face a high risk of more prolonged unemployment and social exclusion.

The system could be simplified and its effectiveness improved by replacing the Work Experience Phase with a fee structure similar to that for Stream 3 job seekers in their first year of unemployment. Compared to the present system described in figure 3. above, each long term unemployed job seeker would attract a total of around \$2,200 per year in funding through service fees and EPF credits. Providers would still choose how to spend the EPF credits each year, and could still re-allocate them from one job seeker to another, giving them the resources they need to individualise assistance for each long term unemployed job seeker and work more intensively with them. There should be greater flexibility around activities for people in their third year of unemployment and beyond, rather than a blanket 11 months out of 12 activity requirement.

Recommendation

1. Providers should receive at least \$2,200 per year in service and discretionary fees for all long term unemployed people. This would replace the Work Experience Phase. The period of compulsory work related activity for people in their third year of unemployment should be reduced from 11 to six months, without reducing the additional funding for this via the Employment Pathway Fund.

6.2 Redesign the Employment Pathway Fund

The Employment Pathway Fund could be replaced by a *Participation Partnership Fund* with the following features:

- two levels of (nominal) annual credits, for Streams 3 and 4 respectively, regardless of the duration of unemployment;
- replace EPF for Stream 1 and 2 clients in their first year of service with extended service fees which would also reduce administrative burden for providers
- continued flexibility for providers to reallocate credits to other job seekers within the same Stream (but not to another Stream);
- flexibility for providers to acquit expenditures for groups of job seekers receiving the same service or type of service (rather than each individual) as

¹⁷ DEEWR (2010), Labour market assistance, a net impact study.

long as information is still provided to DEEWR on services received by individual clients;

- clearer definition of the range of training, work experience and support services that can be purchased using these funds, with an emphasis on substantial help with barriers to employment rather than incidental costs, and specialised services rather than additional 'standard' services (e.g. more consultant interviews);
- incentives for providers to use the funds to partner with employers (e.g. wage subsidies or employer-provided training) or other service providers (e.g. RTOs, health services, homelessness services) to provide assistance to disadvantaged job seekers;
- an option for providers to spend the funds to provide these services in-house, with reporting requirements to ensure that their cost is no greater than if they were purchased externally.

Recommendation

2. Replace the Employment Pathway Fund (EPF) with a new Participation Partnership Fund for Streams 3 and 4 and long term unemployed. It would link to partnerships with other service providers (training providers, support services) and employers to achieve employment goals for these client groups and would also help to scale up the best of the place-based initiatives. Clients in Streams 1 and 2 would have their EPF folded into a simpler set of service fees to reduce red tape.

6.3 Career preparation for people lacking recent work experience

There is a great need for a career and skills counselling component in the system for people new to the workforce or returning to paid employment after a considerable absence. This includes parents and carers, refugees and newly arrived migrants, people with disabilities and young people entering employment for the first time. This would be similar in design to the former Work Preparation program within the Job Network, which despite its modest funding was found in an official evaluation to increase the probability of employment by an average of 18 per cent, the highest impact of programs evaluated in that study.¹⁸ The service would be limited to people lacking substantial employment experience for at least the last two years, rather than specified demographic target groups. Young school leavers would be eligible for assistance where they lack Year 12 qualifications or equivalent.

¹⁸ DEEWR 2010, Labour market assistance a net impact study. March 2010 and DEEWR 2010, Welfare to work evaluation for a description of the program.

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Recommendation

3. Introduce an *employment guidance and preparation service* within the employment and disability services systems for job seekers lacking recent employment experience. This would be offered within three months of the unemployment spell and would include: career guidance; skills assessment; work orientation; basic labour market information and advice on job search and (potentially) a modest investment fund for training.

6.4 Choice

Unemployed people should be at the centre of the system but they are largely passive recipients of services. This weakens outcomes. The choice of provider exists in theory but not in practice as job seekers have 48 hours to choose, based on limited information. In reality Centrelink and providers are not required to assist in any systematic way. Choice of employment pathways also exists in theory but not in practice for the same reasons. It will only exist if job seekers have effective choice of provider (and are helped to exercise it) and providers have incentives to compete for job seekers, which is constrained by centralised business share allocations.

Recommendation

4. Redesign the system of 'induction' of job seekers into the employment services system to facilitate informed choice by:
 - giving job seekers more time to choose a provider (e.g. 2 weeks instead of 2 days);
 - requiring Centrelink and local providers to provide timely information on the options available, possibly in seminars; and
 - broadening the options for job seekers to change providers.

6.5 Engagement

Effective engagement depends on caseloads and capacities of the consultants as well as choice between different service options. Too much of the attention of JSA frontline workers is focussed on meeting the administrative requirements of the purchaser, and on short-term outcomes and transactions, rather than on longer term goals and investments. There is too much emphasis on detailed oversight of activities rather than the core capabilities of the provider.

The key resource for providers is their people. In many publicly funded services front line workers are required to hold minimum qualifications for the service to attract funding (e.g. child care, health, education). Employment services are an

anomaly: it is implicitly assumed that anyone can provide the service, including for people with complex needs.

There is a need for tailored strategies to engage young people and Indigenous people – who are much more likely not to attend interviews. The number of young people not in full-time education training or employment is increasing. In 2011, 27.5 per cent of 18–24 year olds in Australia were not fully engaged in employment, education or training and this has increased from 23.7 per cent in 2008.¹⁹ According to a 2012 DEEWR evaluation, Indigenous JSA recipients are 21 per cent less likely to attend their initial appointment; 26 per cent less likely to attend engagement appointments and 11 per cent less likely to attend interviews with providers.²⁰

In the absence of effective engagement strategies, there is an over-emphasis on compliance systems to enforce requirements. There have been many changes to compliance systems over the last decade but limited attention to policies around engagement. Local Connections to Work is the exception, and early outcomes from pilot sites were extremely promising. It is unfortunate that further evaluations have not been published.

The system sensibly avoids demographic targeting (e.g. a separate program or funding level for mature age people or young people) since the needs of these ‘target groups’ are diverse within the group, but we believe there remains a role for specialist providers on the ground. Centrelink should be encouraged to adopt strategies to engage these groups.

Recommendation

5. Develop *national engagement strategies* for groups with high rates of non-participation in employment assistance including young people and Indigenous people, and require providers to develop their own engagement strategies for these groups consistent with the national strategies. Effective specialist providers should continue to be funded. Caseloads for employment consultants working with Stream 3 and 4 clients and those who are long term unemployed need to be reduced.

6.6 Assessment for labour market disadvantage

It makes sense for initial assessments of labour market disadvantage (which determine which Stream a job seeker will be classified as) to be conducted by a Government agency such as Centrelink that is separate from employment service providers. However, Centrelink often has limited contact with job seekers so it is

¹⁹ COAG Reform Council, Education report 14 November 2012.

²⁰ *Servicing Indigenous Job Seekers in JSA*, Evaluation of JSA 2009-2101, DEEWR, January 2012.

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necessary to make room for reassessments where the provider finds that a job seeker is more disadvantaged. It is important that these assessments are conducted face-to-face as much as possible.

The stream services system is based on sound principles: target the most disadvantaged for higher provider payments to prevent parking and creaming and offer independent assessment. However the system is too complex, with too heavy an emphasis on assessments (which can be costly and, as the OECD warns, can encourage people to emphasise deficits rather than strengths). There is sometimes a very fine difference in employability between streams (especially 1 and 2). As mentioned above, the principle of targeting to need is effectively abandoned once people are unemployed for more than 12 months and the 'Work Experience Phase' is reached.

6.7 Benefit adequacy

As we stated in our submission to the Senate Inquiry into the adequacy of allowance payments, "*Surviving Not Living*"²¹:

Since 1994, the single rate of NSA has fallen from:

- 92 per cent to 72 per cent of the poverty line;
- 52 per cent to 45 per cent of the minimum wage (after tax); and
- 26 per cent to 21 per cent of the fulltime median wage.

Its purchasing power has declined by \$8 a week since the cost of essential goods and services such as rent and utilities has risen more quickly than the CPI.

There is scope to increase the single rate of NSA substantially without undermining work incentives. A single adult on NSA more than doubles their after tax income if they obtain a fulltime job paid at the minimum wage.

Recommendation

6. Increase Allowance payments for single people by \$50 per week from March 2014, and benchmarked to 66.3 per cent of the combined married couple rate of Allowances (a higher rate in the case of sole parents) as is the case for

²¹ *Surviving Not Living*, submission to the Senate Employment Committee into the adequacy of 'allowance' payments; ACOSS Paper 192, August 2012.

pension payments. (This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit, and Crisis Payment.)

7. Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by \$50 per week from March 2014 and benchmarking of those payments to 66.3 per cent of the married rate should be phased in.

6.8 Benefit assessment

It is essential that Centrelink is adequately resourced to assess benefit claims and participation requirements and that this is done to a large extent face to face, since unemployment payments are tied to activity requirements and thus require a degree of discretionary judgement.

Elements of the benefit system, including the payment structure (with multiple payments set at different rates with different eligibility conditions) and income streams (with two taper rates, a complex earnings credit, and income testing on accrued entitlements rather than wages actually paid), are more complex than they need to be, and as long as these complexities remain, most job seekers on income support will need regular face to face contact and access to telephone advice. Such a system cannot be efficiently and fairly administered using IT platforms alone. This applies especially to activity requirements and penalties and the review and appeal systems.

Major savings in these areas would come at the expense of greater reliance on income support (less activation) as well as unfairness and financial hardship for unemployed people since barriers to participation are not identified and people are not guided through complex systems.

Transferring these functions to employment services is not a viable option. Even in countries with co-located benefits administration and employment services (e.g. the UK), the benefit paying function and employment services are separated since the former requires competencies in administrative law and standardised procedures while the latter requires greater flexibility and exercise of individual discretion.

Recommendation

8. Continue to ensure benefit assessment and participation requirements are administered by Centrelink, and are conducted mostly face-to-face, due to the complexity of the system.

7 Partnerships with Employers

According to a recent DEEWR survey, two-thirds of Australian businesses were aware of government-funded employment services and of these, only seven per cent used the JSA services in the previous year. The same survey said employers expressed concern about the skill mismatch of long term unemployed and people with disabilities.²²

Much less policy attention has been paid to how to improve service for employers, yet the evidence suggests that making the right match (and ensuring that it sticks) is critical to success for both job seekers and employers. This is part of the value added by employment services, beyond simply enforcing activity requirements to keep people searching for jobs.

7.1 Demand-led approaches

In December 2012, ACOSS together with the Business Council of Australia, and the Australian Council of Trade Unions held a roundtable to explore demand-led approaches to employment, as part of a shared commitment by the three peak bodies to work collaboratively towards providing employment opportunities for all Australians who are disadvantaged in the labour market, and giving employers access to workers who meet their skill needs. The Roundtable concluded that:

“The job support system should allow for employers and job service providers to work in partnership, often over longer periods of time. The roundtable noted the complexity of the current system, and that the payment incentives under the current JSA contract are seen as a barrier to developing this type of partnership.

Incentives should be geared towards finding a sustainable match between employers and job seekers, rather than placing the job seeker in the first job available, which may not be suitable for their skills and aptitudes.

There was general agreement among the participants that more needs to be done to facilitate best practice demand-led approaches to employment services. Demand-led approaches are characterised by deep employer and community engagement, combined with a commitment to improving employment, retention and progression outcomes for disadvantaged job seekers and to meet employer needs.”

²² *Building on success: Issues Paper*, Minister Ellis, 11/12/12.

Further details can be found in the “Demand-led Roundtable Report” published on 21/12/12.²³

Recommendation

9. The employment services system should allow for employers and job service providers to work in partnership, often over longer periods of time. More needs to be done to facilitate demand-led approaches to employment services. Local initiatives recommended below will also enhance employer partnerships and demand-led opportunities.

7.2 Role of outcome payments

Payment to employment outcomes (and Star ratings) helps reinforce the need for engagement with employers, but paying for 3-6 month outcomes does not encourage more intensive or longer term relationships; and in any event outcomes payments are only 30 per cent of the total funding.

Payments made for employment sustained to 12 months would encourage more intensive work with employers and job seekers to ensure that employment is sustained (as in the DES system, for example), and greater attention to the quality of the match in the first place. If this were implemented, attention would have to be paid to the implications for provider cash flow and provider diversity.

Recommendation

10. The duration of employment outcomes that attract payments could be extended from 3 and 6 months to 6 and 12 months, or bonus payments made for outcomes sustained beyond 6 months.

7.3 Resource sharing

In some cases, employment outcomes for disadvantaged job seekers can be improved by sharing employment services resources with employers. One possibility is to share training funds: the employer is funded to provide/purchase on the job training in return for a guarantee that successful trainees get a job. These options have not yet been fully explored because the present system streams on the supply side and works forwards from there. They would need to ensure that creaming is avoided.

7.4 Wage subsidies for people unemployed for more than two years

Well-targeted wage subsidies are a relatively effective way to improve the job prospects of disadvantaged job seekers. The 2007 Active Participation model

²³ <http://www.bca.com.au/Content/102081.aspx>

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evaluation found that six months after the wage subsidy ceased, around 58 per cent of clients were off benefit. In the 2011-12 Budget \$27 million per year was allocated to fund around 10,000 wage subsidies for people unemployed 'very long term' each year. We understand take-up of the subsidies has been good among providers. Given there are almost 380,000 people unemployed long term in the JSA system Streams 1-4 at August 2012, there is scope to expand the program without compromising its quality and effectiveness.

Recommendation

11. Expand the current wage subsidy scheme for people unemployed 'very long term' to 20,000 places a year and introducing a scheme that fully subsidises six months of paid employment (e.g. in the community sector or social enterprises) for deeply disadvantaged job seekers.

8 Support to overcome skill mismatch

Eighty three per cent of Australians with a post Year 12 school qualification (a Certificate III or equivalent) were employed in 2011, compared with 57 per cent who did not have this qualification. All labour market forecasting points to a growing need for a post school qualification to obtain the jobs of the future.²⁴ Yet many-long term unemployed people and disadvantaged job seekers do not have a high school qualification – the equivalent of a Certificate II. For example, 59 per cent of Stream 3 JSA clients, 66 per cent of JSA Stream 4 clients and 75 per cent of Indigenous people have not completed Year 12.²⁵

8.1 Vocational training programs

There is currently a poor fit between vocational training and employment services programs for unemployed people. This is a challenge for policy in all OECD countries. Programs targeting short term employment outcomes are unlikely to invest in substantial training, and evaluations show that the impact of training on employment outcomes often takes years to materialise. Programs targeting skills shortages are less likely to assist low skilled unemployed people, who need training in a form that's tailored to their needs (e.g. mentoring, career advice, a clear connection to employment), and the training that's accessible to job seekers (e.g. Certificate levels 1 and 2) may not lead to sustained employment.

Much of the problem lies on the VET policy side: Registered Training Organisations (RTOs) do not receive additional funds to train disadvantaged job seekers yet they usually require extra help. Funding is often based on commencements not completions so there is little incentive to work with people to help them complete. There are no rewards currently in the VET system for employment outcomes or for collaborating with employment services. Only one in five people who undertake Certificate 2 training actually complete it and even if they do, employers often do not value a Certificate 2 as equal to a high school certificate.²⁶ The overall completion rate for qualifications in publicly funded VET is less than one third, including for Certificate 3, the most common for entry level positions in occupations such as Aged Care or Child Care.²⁷

²⁴ Commonwealth of Australia, *Skills for All Australians*, March 2012.

http://www.dpmc.gov.au/publications/skills_for_all_australians/index.cfm

²⁵ JSA and DES data from DEEWR Labour Market Assistance Outcomes, December 2011 (for participants in 12 months to September 2011.) Indigenous data from 2011 Census. Jobless family data from Growing Up in Australia 2010 based on 2004, 2006 and 2008 interviews. Young parents data from DEEWR and Minister Evans Second Reading Speech, November 2011.

²⁶ "The likelihood of completing a VET qualification," NCVET, 26/5/11 and separate Certificate 2 high school research NCVET research

²⁷ "The likelihood of completing a VET qualification," NCVET, 26/5/11

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Problems on the JSA side include emphasis on short term employment outcomes (3-6 months) although there is a bonus for outcomes achieved after training. High caseloads and low EPF credits mentioned previously also reduce effectiveness.

There has been a substantial increase in participation in training among employment services clients but it is not clear that the training has been of good quality, well-targeted to people who would benefit from it or that it has focused on skills that will get them jobs. This has included an investment of nearly \$1 Billion in funding for job seekers through the Productivity Places Program (PPP) which ran from 2008 to July 2012. The OECD concluded it was hard to assess the role played by PPP or most other training provision within active labour market policy in Australia as “DEEWR does not publish any overview of training supported by unemployment benefit (or other benefit) payments in terms of whether the participant is or was registered with JSA or was referred by a JSA provider, and the training content, hours of attendance, duration and rates of completion and qualification and employment outcomes, etc. Vocational training statistics also do not identify participants by receipt of income support and type of income support or referral method.”²⁸

Reasons for the increase in training appear to be partly (client) demand-driven (early school leavers, sole parents) and partly driven by the need for providers to find inexpensive activation options (e.g. in the Work Experience Phase, where the EPF provides about \$100 per month of funding for each activity). Data shows that the average spend per job seeker on training was between \$237 and \$351 in 2011-12 (similar to the Job Network) which suggests that training courses were very limited in duration and intensity.²⁹ DEEWR may have more detailed data on the use of the EPF for training and outcomes achieved, but it has not been published to date.³⁰

While many JSAs are also RTOs (which is desirable) and many are good at finding people inexpensive forms of training, there is no systematic encouragement for support for collaboration to prepare people for employment.

While there has been an increased focus on employer involvement in the content of skills qualifications, there has not been enough attention to how it is delivered for disadvantaged job seekers, many of whom have not succeeded in traditional classroom-based education or training. There is a need to improve the training system to provide more on-the-job training and work experience to disadvantaged job seekers, who do not always learn well in a classroom environment.

²⁸ OECD 2012 Report – *Activating Jobseekers: how Australia does it*, 11/12/12.

²⁹ Answer to Question on Notice EW0551_13 Senate Estimates.

³⁰ As of 4/3/12, DEEWR has published the evaluations of the other components of EPF but not the training component.

COAG in April 2012 agreed a new national training entitlement to Certificate 3 for every Australian of working age. In addition under the revised National Agreement for Skills and Workforce Development, States and territories will be required to agree targets with the Commonwealth Government for the groups of disadvantaged students that need the most support to improve their outcomes and to improve qualification completions and assure the quality of training delivery and outcomes. The commitment to introduce a training entitlement for all Australians without a Certificate 3 qualification is a substantial investment but it is only likely to improve employment outcomes for job seekers if quality of training, good completion rates and links to employment are assured and it is unlikely these reforms will be in place before the training entitlement commences from sometime in the 2013-14 financial year. Experience with the Victorian training entitlement points to some of the risks: a 114 per cent increase in the number of private RTOs delivering government funded training from 2008 – 2011, unsustainable growth in government subsidies, and large spending cuts in 2012.³¹

In addition it appears the National Workforce Development Fund is highly unlikely to be a source of funds for skills training for job seekers as it requires employers to commit to hire them as new workers, as a condition of funding.

Commonwealth funding for VET (including the National Workforce Development Fund) should be adjusted as follows to better meet the needs of disadvantaged job seekers and trainees:

A higher level of funding per place could be paid to RTOs for disadvantaged job seekers/trainees. This follows a similar principle to funding for JSA (where providers receive higher funding per service for disadvantaged job seekers) and the Gonski proposals for schools funding.

Initially, this could be limited to people identified as disadvantaged in the employment services system (including Streams 3 or 4 and long-term unemployed people in the JSA system, and job seekers in the disability employment services system).

In return for additional funds, providers would be expected to provide mentoring services where required, and to share information and maintain contact with employment service providers to help ensure that the course is relevant to their employment goals, that they complete it, and that there is a stronger connection between training and employment outcomes. As a condition of this additional funding, they (or State Governments) would report to the Commonwealth on outcomes attained.

³¹ Victorian TAFE Directors briefing October 2012.

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Bonus payments for RTOs could also be considered for (a) successful course completion and (b) employment outcomes within a certain period after completion of training where the RTO partners with an employment service (e.g. JSA) to improve the job prospects of a disadvantaged job seeker. Care would be needed to avoid 'creaming' (servicing people who are easier to train/place in employment) and reduce deadweight cost (employment outcomes unrelated to training)

Another option is to consider tying an element of the Employment Pathway Fund to partnerships between JSA providers and RTOs to invest in training to improve employment outcomes for disadvantaged job seekers (as defined above), noting that many JSA providers are also RTOs and provide training in-house. The JSA providers would be expected to jointly develop an employment and training plan in collaboration with the RTO and the job seeker, to share information, and to work together to ensure that the training is suited to individual needs, that the job seeker completes it, and that it is linked as far as possible with employment opportunities.

Recommendation

12. The system should encourage substantial training that can make a real difference over the medium term (over a year) and which incorporates more on-the-job training and work experience to disadvantaged job seekers, who do not always learn well in a classroom environment. It should encourage JSAs and RTOs to collaborate to help people identify the training they need, engage with employers requiring those skills, and to ensure that job seekers complete their training.
13. Both the VET and employment services systems need to be re-designed so that they have the incentives and resources they need to:
 - work intensively with disadvantaged job seekers and those with the lowest qualifications (including the career advice, mentoring and other support required)
 - work more closely with employers with the specific aim of recruiting, training and retaining these job seekers
 - work with each other to achieve training and employment *outcomes*, rather than simply training *placements*.
14. Data on training commencements and outcomes (successful completions) for Commonwealth funded VET programs should be collected and published. This should include the demographic and labour market profile of trainees, including whether they were employed on commencement of training, and whether they were participants in employment programs such as JSA and disability employment services. Ideally, in regard to job seekers this would be



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supplemented with data on employment outcomes achieved during or after completion of a course, initially using data for job seekers in employment services programs.

9 Effective local initiatives and collaboration

9.1 Social support services for people with multiple problems

Disadvantaged job seekers often have a range of health and social problems that impede employment as discussed earlier in this submission. In most cases these barriers to employment (e.g. low skills, mature age, disability) should be resolved by linking people with other health and support services while at the same time providing effective employment services. Collaboration among different services is important, and should be improved (e.g. see vocational training, above) but there is still a set of separate problems that can largely be resolved by specialist service providers loosely working together. The JSA system should encourage this.

In a minority of cases, the problems are complex in the sense that one part of the problem can't be resolved (e.g. employability) without resolving the others at the same time, in an integrated way, often over a prolonged period of time. Examples include people with mental health conditions who are homeless. Or there may be factors operating at a family or local community level (e.g. domestic violence, chronic unemployment across a given community) that block people's pathways to employment.

Apart from the general incentives in the system to achieve employment outcomes (Star ratings and outcome payments) there is no coherent system of incentives or resources to support collaboration between providers and other key services including training organisations and health and social support agencies; hence the Government's jobless family and place-based pilots. Broadly speaking, this requires close collaboration among employment and other service providers (and/or the provision of support services within an employment service or vice versa) over an extended period, with the aim of sustained employment foremost in everyone's minds. Often, a lead agency is needed to coordinate joint efforts, and this need not be an employment service (e.g. it could be a mental health service).

The evidence suggests (e.g. employment service trails for people with psychosis) that it is a mistake to wait until other problems (e.g. health) are resolved or stabilised before referring people to jobs. If the right match can be found, support in employment is often more effective and can improve other outcomes as well. Another example of this is the better employment outcomes from Stream 4 than PSP.

The challenges are to target the right group of clients for this kind of support, to design employment services and other systems in ways that encourage and support these collaborations, to carefully monitor and reward outcomes and best practice, and beyond that to stay out of the way so that local services are not impeded by detailed target groups, program guidelines, heavy administrative requirements or complex governance structures.

Recommendations

15. Bring specialist providers together locally to identify complex problems and the mix of services and strategies required. Draw on the evidence from the Family Centred Employment Program and other place-based initiatives to inform practice. Given the diversity of need and service provision on the ground, it is best to find contracting models that work for a wide range of target groups and needs, rather than devising separate 'programs' for each target group.

9.2 Local workforce development networks

Better engagement with employers is not only about the structure of the JSA system. There is a need for effective local networks to forecast future labour supply requirements, identify skill bottlenecks/deficits, and bring employers, employment service providers and RTOs together to plan to meet these needs, at least in regions with high unemployment/ labour market disadvantage and those with the most severe skill shortages.

These could build on the work of the Local Employment Coordinators by bringing these local stakeholders together on a regular basis to identify local labour market trends and opportunities, labour shortages, and the profile and employment assistance and training needs of disadvantaged job seekers. This could enhance effective and sustained job matching by raising the profile of employment services in the business community, providing feedback to them on the services offered, and enabling partnerships between employers, RTOs and employment services to resolve labour shortages.

Recommendation

16. A system of *Local Workforce Development Networks* could be developed to improve cooperation between employers, employment services, and training organisations at the local level.

9.3 Local employment partnerships

In order to bring existing place based pilot programs and services up to scale and improve their cost-effectiveness, a system of *Local employment partnerships* could be established in regions with high unemployment levels, with the following features:

- The Local Connections to Work model of joint assessment and referral of deeply disadvantaged job seekers would be adapted to provide the gateway into this Stream of integrated service provision.
- Panels comprising Centrelink and local employment and support service providers (such as health, training, and homelessness services) could be selected by tender to jointly interview and assess job seekers within the target group and provide an integrated set of services with the goal of improving employment outcomes
- The target group would be limited to a minority of Stream 3 and 4 and long term unemployed job seekers (who would all be in Stream 3 if previous reform options are adopted), whom the panel assesses as likely to benefit from this form of 'joined up' service (i.e. not centrally determined or demographic target groups and the panels would choose, not Centrelink though to ensure transparency Centrelink would be part of the panel).
- At least initially, the panels would be confined to localities with high proportions of job seekers in the above (broad) target groups (as the place-based initiatives are now) but the model could be slowly expanded.
- This system of local assessment would replace existing national target groups (such as young parents and all people with very long unemployment durations). This implies that the target group would to some extent be determined by the range of providers willing to collaborate in each locality.
- Providers belonging to a panel would collaborate to assist each job seeker to secure employment within a certain timeframe (e.g. two years). How this is done would be largely left to the panels to decide but assessments, activities, services and outcomes should be recorded and regularly reported to DEEWR
- Job seekers would continue in their existing employment programs (the partnerships are an enhancement not a substitute for the present employment services system.)
- The work of the panels would be funded by a combination of capped panel-based funding (e.g. for interviews, assessments, and reporting) and uncapped Partnership Funds (as described above).
- As an incentive to participate in a Panel, all participating services could share in employment outcome 'bonus' payments similar to those paid to JSA providers on attainment of employment outcomes following participation in training.

- Rigorous evaluation would be built into the service model. For example if these services for deeply disadvantaged job seekers are rationed (capped) it may be possible to use random assignment methods to evaluate the program. Another option is to compare outcomes in different regions with similar profiles of deeply disadvantaged clients.

Recommendation

17. Scale up and facilitate the best of the placed-based initiatives for deeply disadvantaged job seekers by supporting local 'panels' of service providers in areas where there are large numbers of people in Streams 3 and 4 and long term unemployed people.

10 Evaluation and information sharing

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The Employment Department has a good record of robust evaluation of employment programs (see the recent OECD report *Activating Job seekers: how Australia does it*) but there are significant gaps in the current evaluation strategy for JSA and too much information and data is held in house and not shared more widely. A number of evaluations are yet to be published, including the Indigenous Employment Program and Innovation Fund. We would expect each of these programs to have important lessons which should inform the future of employment services. In the UK, for example, there is a stronger tradition of open collaboration with external stakeholders and researchers to evaluate programs and extend best practice.

DEEWR should also conduct net employment impact studies of the effectiveness of different elements of the JSA system including the relative effectiveness of the streams and Work Experience and of different 'intensive activities'. Data on 'gross' employment outcomes is of limited use if we don't know what would have been achieved without the program and data on overall numbers of outcomes (as distinct from probabilities of outcomes) is of even less utility. Information on net impacts is also needed to properly compare the costs and benefits of the employment services system (e.g. to take account savings in future benefit payments and benefits to job seekers and the economy of increased employment).

Data on flows of different groups of unemployment people through the employment services system (beyond that currently available, e.g. Labour Market Assistance Outcomes) should be publicly available to inform stakeholder and expert input to the next stage of the review of employment services (to the end of 2013, see above), including:

- Flows of clients in different Streams and with different characteristics within the employment services system (e.g. from Stream 3 to Work Experience Phase) and to other destinations (employment, alternative income support payments).
- Employment outcomes for people with different characteristics in different streams following participation in activities (e.g. training, wage subsidies).
- Paid outcomes by Stream, including trends.

Recommendation

18. DEEWR should immediately publish completed surveys; program evaluations and data on flows of different groups of unemployment people through the employment services system so they can inform this review. Net impact evaluations of JSA 2009-5 need to be undertaken and published. A mechanism should be developed for providers to share 'best



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practice' publicly on a regular basis and participation in this mechanism should be a requirement of public funding.

II Options to reform the structure of employment service purchasing models

Three alternative employment services ‘models’ are put forward for preliminary consideration. As per our earlier recommendation it is too early to make final decisions about structure.

The three models are:

(A) *Open access* model:

Open competition among licensed providers to attract job seekers. This removes the central allocation of business shares and requires other policy tools to ensure quality and manage performance.

- examples include the Productivity Commission’s proposal circa 2000³² and funding of other community services (e.g. child care, aged care)

(B) *Limited competition* (duopoly) model:

Contracts are awarded to a few large providers who are paid mainly for outcomes, without detailed specification and monitoring of inputs – often referred to as the ‘black box’ approach. This removes or reduces service payments and the EPF and requires provider access to credit to maintain cash flow (hence reliance on a few larger providers).

- the main example is the UK’s Work Program.

(C) Adjustments to the present system of *managed competition*, with centrally purchased, centrally monitored employment services, business shares allocated according to performance, and payments for both inputs and outcomes.

II.1 (A) Open access model

Key changes:

- Removal of business share allocation by the purchaser (DEEWR) so that this is determined by job seeker (and possibly also employer) choice
- Less detailed regulation of services via contracts (since the threat of removal of business share cannot be used to enforce this)
- The model could, however be supplemented by funding for inputs under contract (service payments and an investment fund) at a cost of greater complexity

³² PC 2002, Independent review of the Job Network, Report

- Examples are the Productivity Commission’s Job Network review proposal, and funding of child care and aged care services (though in the former case the consumer receives the subsidy directly).

Prerequisites:

- A robust licensing system to ensure minimum quality standards, preferably supervised by an independent statutory regulator
- Adjustments to outcome payments, preferably to reward net impacts rather than ‘gross’ outcomes, to ensure that performance is improved in the absence of a performance management system tied to centralised allocation of business (and Star ratings)
- More support for job seekers to choose providers, including careful regulation of marketing of services by providers by the licensing body
- Would still probably require purchase of ‘basic activation services’ under contract and could include a quarantined ‘investment fund’ such as the current EPF to prevent ‘parking’

Pros:

- Potential for greater choice and engagement by job seekers, thereby improving employment outcomes
- Potential for less detailed regulation of service inputs
- Reductions in transaction costs (tenders, contract compliance)
- Less service disruption (closures and downsizing) through tenders

Cons:

- More difficult for Government to ensure quality of service, a challenge that would be heightened should there be a large number of new entrants into the system
- Challenges in measuring net impacts (though Star ratings already do so, in relative terms) and consequent risks of ‘gaming’ if funding is mainly tied to net employment impacts rather than inputs
- More difficult for Government to ensure that job seekers are active in the labour market and not ‘parked’, without separate streams of payments for basic activation services (e.g. interviews) and investment (e.g. EPF)
- Potential for duplication of oversight of providers (via regulator and purchaser, and possibly via contracts for specific services)
- More service disruption as a result of competition for job seekers

At this stage, we conclude that this model should be considered and design options explored, taking into account the risks identified above.

11.2 (B) Limited competition model:

Key changes:

- Contracts awarded to a small number of larger providers
- Re-allocation of program resources from payments for inputs (service payments and EPF) towards outcome payments, which might be tied to projected future benefit savings
- Limited regulation of services provided via contracts (black box approach)
- The model could, however be supplemented by funding for inputs under contract (service payments and an investment fund) at a cost of greater complexity
- It could also include adjustments to business shares based on performance (e.g. using Star ratings), among a smaller number of providers
- No, or limited scope for job seeker choice
- An example is the British 'Work Program'³³

Prerequisites:

- A robust licensing system to ensure minimum quality standards, preferably supervised by an independent statutory regulator
- Much higher outcome payments, possibly based on net impacts rather than 'gross' outcomes, to replace all or most input based funding
- May require supplementary funding to ensure that 'basic activation services' are provided
- May require a quarantined investment fund (such as EPF) to prevent 'parking and excessive profit taking

Pros:

- Potential for less detailed regulation of service inputs
- Reduced contracting/regulatory costs for Government (though not necessarily for providers if subcontractors are widely used)
- Potential to align service funding more clearly with fiscal savings from reduced reliance on income support over a longer period (e.g. up to two years), as providers could be largely paid for sustained outcomes.

Cons:

- Risk of 'parking' and 'creaming' and limited investment in assistance for disadvantaged. job seekers (as with Job Network I and II)
- Related risk of low activation of job seekers

³³ DWP 2013, The Work Program. Note that the above description refers to a model of employment services purchasing, and not to the precise features of the Work Program.

- In the absence of substantial ‘input’ payments, risk of service closures (if outcome payments are too low) and excessive profit-taking (if they are too high)
- Likely loss of service diversity and job seeker and employer choice, due to (semi) monopoly service provision (e.g. in the British Work Program two or three ‘prime’ providers are contracted to provide services for large populations of job seekers)
- Governments are unlikely to be able to shift risk to semi-monopoly providers (who are ‘too big to fail’) and are likely to have greater difficulty achieving continuous performance improvement in the long term (e.g. if one provider fails to meet performance hurdles and closes, there may be no competitor for the remaining provider without a highly disruptive tender process)
- While it is desirable to take account of benefit ‘offsets’ in funding employment services, tying funding strictly to future benefit savings is a narrow approach that fails to acknowledge the wider economic and social benefits of employment (see recent OECD report on this)
- Unlikely to greatly reduce ‘red tape’ as Governments will eventually monitor and regulate service inputs in detail to resolve the above problems (e.g. transition from Job Network I and II to Job Network III in 2003)

At this stage, we do not support the limited competition model as it is unlikely to achieve the benefits claimed (e.g. less detailed regulation of services), comes at the expense of provider diversity and job seeker choice, and is therefore less likely to improve performance over the long term.

11.3 (C) Adjustments to the present model of centrally managed competition:

Options for reform:

The basic contract structure would remain, including centrally awarded contracts to a diversity of providers and a mix of service, investment, and outcome payments, with the following possible changes:

- Changes to targeting of intensive assistance including simplification of the streams and a higher level of assistance for people long-term unemployed
- Clearer differentiation of the service offer and program structure between less and more disadvantaged job seekers, including the option of providing basic employment services for the former through Centrelink
- Less use of service payments and greater use of investment and outcome payments for disadvantaged job seekers
- Reward longer-term outcomes

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- Less reliance on tenders and central allocation of business shares to improve performance, possibly in conjunction with funding to net outcomes
- Quarantine investment funds (the current EPF) to disadvantaged job seekers and use them to encourage and resource partnerships with other service providers and employers
- Simplify administration of service payments and investment funds
- Support job seeker choice of provider and develop engagement strategies for groups at high risk of disengagement (especially young people and Indigenous people)
- A licensing/quality assurance system emphasising provider capabilities (including minimum qualifications for front line staff and their supervisors who are in professional roles e.g. consultants), rather than detailed monitoring of service inputs
- Develop flexible local mechanisms for collaborative assessment and servicing of deeply disadvantaged job seekers in regions with high levels of unemployment, using a Panel based model (e.g. a more flexible version of Local Connections to Work model, use of EPF to support partnerships)
- Establish local workforce development networks of employers, unions employment services and training services in at least those regions with high levels of unemployment or severe skills shortages

Table 1: Key features of three models of employment services purchasing

	Open access	Limited competition	Managed competition
Contracts awarded to:	All licensed providers of employment services	A small number of large providers, based on regular tenders and performance management	A larger number of providers, based on regular tenders and performance management
Business shares allocated according to:	Job seeker (and employer?) choice	Centrally allocated based on performance/ outcomes (e.g. Star ratings)	Centrally allocated based on performance/ outcomes (e.g. Star ratings)
Quality assurance:	Would need a licensing system administered independently of the purchaser	Minimum standards could be administered by the purchaser or independently	Minimum standards could be administered by the purchaser or independently
Outcome payments:	A higher % of all payments; would need to be based on net impacts	A higher % of all payments; less likely to be based on net impacts	Less likely to be based on net impacts
Input payments:	A lower % of all payments; but could continue to use service payments and an investment fund (e.g. EPF)	A lower % of all payments; but could continue to use service payments and an investment fund (e.g. EPF)	Continue to use service payments and an investment fund (e.g. EPF)

11.4 Options for discussion on structural reforms

Consistent with our view that firm decisions should not be made until late 2013 on the program structure, the following are preliminary considerations. Most could be pursued whether the existing model is adjusted or alternative models are adopted, though as discussed above the choice of model to some extent determines the detailed structure of the purchasing system (e.g. the open access model requires an independent regulator).

11.5 Targeting and service differentiation:

It is not clear if there is any benefit in JSA providers servicing all four Streams. The evidence suggests that placing less disadvantaged job seekers with employers does not help when attempting to place more disadvantaged job seekers (the so called 'slipstream theory' does not work). Providers who specialise in helping disadvantaged job seekers can achieve the same and better outcomes (e.g. many DES providers) including by working in partnership with employers. It is a matter of finding the right employers for the right job seekers.

The greatest difference in employment outcomes is between 1 and 2 on the one hand and 3 and 4 on the other. It would be a mistake (as APESAA recommends) to combine 2 and 3 as this would leave much scope for creaming. It is also a mistake to assume that all labour market disadvantage resides in Stream 4. Many Stream 3 clients have similar problems and there currently similar numbers of job seekers in Stream 3 and Stream 4, although greater numbers in Stream 3 who have been unemployed for more than two years.³⁴

Consideration should be given to introducing an optional alternative service offer for disadvantaged job seekers in which investment fund credits follow the job seeker and their use is negotiated between job seeker and provider (similar to the Dutch Individual Reintegration Agreements).³⁵

- a) Replace the 'Work Experience Phase' for people unemployed for more than one year with a service offer equivalent to Stream 3 in the first year of unemployment, except that 6 months of intensive activity each year would be required, and properly resourced.

³⁴ Unemployed for more than 2 years: 95,749 in Stream 3 and 90,677 Stream 4 at 31/8/12. Source: Answer to Question on Notice EW0551_13 Senate Estimates.

³⁵ See reference in APESAA submission.

- b) Combine Stream 1 and 2 in the first year of unemployment with a service offer of 'basic employment assistance' and activation, possibly equivalent to the current Stream 2, including a period of intensive activity.
- c) Consider providing basic employment services for the new combined Stream 1 and 2 target group during the first year of unemployment through Centrelink. After the first year, these job seekers would be referred to contracted employment service providers. If this is done, it would be essential to provide additional resources to Centrelink to engage employment consultants (separate to staff assessing social security payments), canvass for job vacancies, and provide the necessary IT facilities for job seekers.
- d) Maintain the distinction between Streams 3 and 4.

11.6 Service fees:

These are designed to fund basic activation of all job seekers, to ensure they are interviewed, assessed, and kept engaged with the labour market. They also hold providers to account to provide services (whereas their predecessor the connection fees in JN1 and II did not, they were often simply pocketed by the providers)

The present system is cost effective, but there is too much weighting (42 per cent of all funds) given to service payments which are administratively burdensome and leave little room for innovation, though this is less of a concern re Stream 1 and 2. More interviews does not necessarily equate to better outcomes, though it is important to ensure that all job seekers who can engage with the labour market do so. Providers currently have to acquit for each interview or EPF spend.

Consideration should be given to Streamlining service payments and to whether the same system of basic activation works for non-disadvantaged and disadvantaged job seekers (e.g. could Centrelink perform this function for the former as they largely do already for Stream 1).

- e) As at present, the purpose of service fees would be to resource basic employment assistance and activation services. While contacts with clients and assessment of their needs would continue to be centrally monitored, the system of acquittal for services financed with service fees should be simplified.
- f) In respect of Stream 1 and 2 clients in the first year of unemployment, service fees could include a component to fund compulsory periods of intensive activity (in lieu of the EPF).

11.7 Outcome payments:

Payment for outcomes can be a powerful lever to encourage efficient provider investment in job seekers but its role has been reduced in contrast to that of service fees, and has been overshadowed by the performance management system. An analysis of aggregate expenditure for the two years 2010-12 shows outcome fees made up less than one third of total spending with 42 per cent spent on service fees, 30 per cent on outcome fees and 28 per cent on EPF³⁶.

For this reason, outcome payments appear to play a limited role in provider incentives – Star ratings are much more important, but there are problems with the performance management system to which they are tied (see below).

- g) Outcome payments for disadvantaged job seekers should be substantially increased, possibly in conjunction with a shift towards payment for ‘net outcomes’.

For example, the payments might be limited to outcomes above a threshold, equal to the ‘minimum’ employment outcome level that has been achieved for a particular group of job seekers in a particular location in the absence of employment assistance. This could replace the Star ratings system.

11.8 Licensing/service quality standards:

There is wide support for a robust system of quality assessment and minimum standards of service. This is all the more necessary if monitoring and performance management by a central purchaser is reduced.

- h) Replace the current system of service quality assessments with a licensing system, preferably administered by an independent statutory body which also handles complaints about services. The system would place greater emphasis on the capabilities of the provider rather than detailed monitoring of services provided. This would include minimum qualifications (with recognition of prior learning) for employees providing front-line professional services (e.g. consultants) and their supervisors.

This would be essential if the ‘open access model’ is adopted.

³⁶ Senate Estimates Answers to Questions on Notice EW1027-12 and EW0551_13

11.9 Contracting arrangements:

Tenders and performance management system

This has probably had a greater impact on provider performance than any other element of the system, but at considerable cost. A key innovation and major advantage of the present system is the Star ratings system, which attempts to measure the relative value-added by service, as distinct from gross employment outcomes. The main problem is that the system requires central allocation of business shares, reducing responsiveness of services to job seekers and employers. It requires regular tenders or business re-allocations which have high transactional costs for everyone involved and disrupt services. (other forms of business allocation such as by job seeker demand in an open 'market' also involve service disruption but this is not concentrated in a single period of time).

It is very difficult to design a measurement system that captures the outcomes Governments are interested in without creating perverse incentives ('gaming') Note that this also applies (perhaps less intensively) to outcome payments. It is also difficult to design a robust system of business allocation that allows new entrants to the system, since their performance is unknown (the problem with the 2008 tender: 'marking essays')

For these and other reasons, the system of centralised business allocation among competing local providers has been abolished in remote areas, where it was always difficult to sustain multiple providers and 'slow labour markets' made performance management based on employment outcomes difficult.

Consideration should be given to removing centralised business share allocation for these reasons. This would require new mechanisms to ensure a minimum quality of service (licensing) and performance improvement (a combination of open competition for job seekers and employers, and outcome payments based on value added (net impacts) perhaps similar to the Star ratings.

If centralised business allocation is maintained, these problems need to be resolved. In addition, decisions much be made about the geographic basis for allocations (if larger or national tenders were used, this would greatly reduce diversity among providers, removing a key advantage of the competitive model), and their frequency (frequent reallocations – e.g. six monthly in ESC4 – are very disruptive as they make it difficult for services to guarantee employment for staff for more than a short period ; on the other hand increasing the duration of contracts beyond three years could greatly reduce Government's flexibility to make policy changes such as the transition from JN to JSA in 2009).

Partnerships for Participation

- i) The proportion of business share that is fixed within each contract period could be reduced (if the 'open access model' were adopted, fixed business shares would be removed).
- j) If the present contract model is retained then Star ratings should also be retained to ensure continuous improvement.
- k) If tender rounds are retained then greater emphasis should be placed on proven performance (whether in the employment services system or related services) rather than submissions, and consideration could be given to staggering the timing of tenders to reduce the impact of (large) transfers of job seekers between providers at the same point in time.