



## **Submission to Minister for Employment Participation on the future of Job Services Australia**

*ACOSS Paper 169*

January 2011

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First published in January 2011 by the  
Australian Council of Social Service

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ISSN: 1326 7124  
**ISBN: 0 85871 635 6**

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ACOSS welcomes the opportunity to provide a submission on the design of the second round of Job Services Australia from 2012-15.

Effective employment services are a foundation stone of social inclusion policies. Without them, many people in Australia would languish on income support for prolonged periods because they are unable to secure a paid job despite their best efforts.

Good policy decision making in this important area would benefit from a longer period of formal consultation including a well-structured consultation process with stakeholders and experts, and from more detailed information on the outcomes of JSA system than is available at this stage. On these grounds there is a case for delaying the next tender or invitation to treat process for 12 months (and rolling over existing contracts) to ensure that the best possible employment services are available to jobseekers over the next contract period. Alternatively, it is important that the work begins now on possible changes to be introduced in future contracts, in order to support ongoing improvement of employment services for people seeking paid work.

## **The more disadvantaged profile of today's jobseekers**

As unemployment falls, the people remaining on unemployment payments are drawn from an increasingly disadvantaged cohort of jobseekers.

There are around 650,000 Newstart Allowance (NSA) and Youth Allowance (non-students) recipients of whom 380,000 are long term unemployed and most of the latter group have been out of work for over two years.<sup>1</sup>

In addition, around 150,000 Parenting Payment recipients (mainly sole parents) have activity requirements and most have received income support for at least 2 years.

Among participants in Customised Assistance (mainly long term unemployed people in the former Job Network):

- around 60% lacked Year 12 qualifications or equivalent, compared to one third of people of working age generally
- 20% reported that their main barrier to work was a disability,
- 15% reported that they were 'too old'.<sup>2</sup>

The most recent research on the mental health of income support recipients found that around one quarter of people receiving Newstart Allowance and Parenting Payment had mental health conditions, mainly anxiety and depression.<sup>3</sup>

As the population ages, the proportion of mature age jobseekers and jobseekers with disabilities is likely to increase. Both groups fare poorly in the labour market.

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<sup>1</sup> DEEWR 2010, Labour market payments, September 2010.

<sup>2</sup> DEEWR 2007, The APM evaluation report.

<sup>3</sup> Butterworth 2008, Mental Health Problems, Disability and Income Support receipt, Australian Journal of Labour Economics, Vol 7 No. 2, June 2004, pp 151 – 174.

While people who are unemployed should generally be entitled to basic employment services such as job matching and help with resumes and job search, employment services make the most difference for those who are out of work long term or face other disadvantages in the labour market. Without assistance, their job prospects are limited and they are more likely to remain on income support for extended periods. As well as impoverishing people, prolonged unemployment can have devastating social impacts, especially when it is concentrated within disadvantaged communities.

Employment services can improve many people's job prospects simply by keeping them engaged with the labour market. However, disadvantaged jobseekers need more than help with job search. Services that have a demonstrated impact on their future job prospects include more intensive employment counseling, a period of subsidised employment in a regular job, vocational training to improve skills (especially when linked directly to a job), and intensive engagement by the provider with employers to 'market' jobseekers and to help employers work with them to improve their productivity.

It is well established that employment assistance works best when individual needs and workforce barriers are properly identified, employment consultants build up a good relationship with their jobseekers, and assistance is tailored to individual needs.

## **Some strengths and weaknesses of Job Services Australia**

The Government's basic purpose in replacing the Job Network with Job Services Australia (JSA) was to re-orient the system away from a standardised continuum of assistance designed to maintain labour market engagement towards more individualised assistance for those with substantial barriers to work including through investment in capacity building such as vocational training, and better connections with employers and local community services.

It is too early to accurately assess whether these goals have been achieved, and to date very little data on the performance of the system has been released. Based on the design of the program and experience on the ground so far, the strengths of the new system (some of which are shared with its predecessor) include the following:

- JSA is focussed on employment outcomes rather than placing people in programs, and for the most part the performance management system encourages providers to add value rather than wait for outcomes to accrue.
- Higher levels of assistance are to a large extent targeted towards the relatively disadvantaged.
- The new system is more flexible than the Job Network, freeing up providers to invest in services according to individual need and opportunity rather than direction from above – within the resources available to them.
- Related to this, the new system is less compliance driven, both for providers and jobseekers.

- JSA and other policy changes, including the Productivity Places program, offers more opportunities for jobseekers to participate in education and training, and strikes a better balance between encouraging providers to refer people for training that might improve future job prospects and giving priority to active job search.
- As with the Job Network, JSA keeps large numbers of jobseekers engaged with the jobs market at a low cost by international standards.

The main weaknesses include:

- Although in theory JSA moves beyond a fixed and detailed continuum of assistance, there is still a continuum of assistance. This is of course necessary to ensure that scarce resources are fairly and effectively deployed. However, the new service continuum turns the previous logic of more intensive support for those who are jobless long term on its head. More resources are offered to providers to assist those at risk of long term unemployment than those who are already long-term unemployed. Given the considerable social benefits and fiscal savings from assisting long term jobless people into stable employment, this is counterproductive.
- While it would not be cost effective to invest more resources overall in 'job ready' short term unemployed people, there are also weaknesses at the 'front end' of the system. The initial process of assessment, referral and engagement with providers is rushed and perfunctory (as it was in the Job Network era). Jobseekers are rapidly referred to a JSA provider whom they might not see again for 3 months. This leads to inaccurate assessments (due to non-disclosure), limits jobseeker choice, and can give people a poor initial impression of the system. This is more of a problem for stream one and two jobseekers than those in the higher streams, but it also means that barriers to work that might qualify people for a higher stream are not identified.
- Despite the improved flexibility for providers, the system for the most part still directs jobseekers to follow detailed rules and requirements rather than encouraging choice and initiative. The latter is not incompatible with compulsory employment assistance, indeed it would improve jobseeker engagement and employment outcomes given the importance of motivation in effective job search and training.
- It is not clear that the new incentives for providers to engage more intensively with employers are working. The distinction between provider brokered and provider assisted outcome payments adds a layer of administrative complexity without apparently encouraging more engagement.

- There is a 'cultural hangover' from the previous system of tightly regulated provider and jobseeker activity. One possible contributing factor is that providers who also operated in the old system recruited people with a skill set more suited to a rules-based environment.

## 1. Jobseeker choice and engagement

### The role of job seeker choice

One of the challenges of employment participation policy is to promote choice and initiative among jobseekers while maintaining engagement with the labour market. 'Activation' of itself can improve the chances that unemployed people find a job, but it is more likely to be effective if jobseekers are the agents of their own job search efforts rather than passive recipients of employment services. Motivation is a key factor in the success of job search, and collaborative engagement is a better motivator than financial rewards or the threat of sanctions.<sup>4</sup>

The Job Network system offered little scope for jobseekers to choose their provider and the form of assistance they received. Although it required jobseekers to engage in regular periods of intensive employment related activity (through Customised Assistance and Mutual Obligation) for many jobseekers the activity was mandated by their provider and drawn from a very limited menu of assistance which may not have been relevant to their needs. This promoted a response from many jobseekers of 'going through the motions' of following requirements, while others were non-compliant (especially with attendance at Job Network interviews). In the absence of an active partnership between jobseeker and consultant to find employment, it is not surprising that providers relied increasingly on benefit sanctions. In contrast to this, the Local Connections to Work projects, which adopt a 'strengths based approach' to interviews with disadvantaged jobseekers, have achieved high attendance and satisfaction rates. A major reason for this is that interviewers take the time to hear the concerns, aspirations and needs of jobseekers.

It is possible to design systems of mandatory employment assistance that promote jobseeker choice and agency. One example is the system of Individual Reintegration Agreements in the Netherlands, where jobseekers choose a provider based on an agreed set of services and requirements, and they are assisted to do so by independent advisers in the local Centre for Work and Income (the Centrelink equivalent). Although these services cost slightly more on average than 'standard' contracted employment assistance in that country, they have been found to have better employment outcomes. This is likely to be due to a combination of enhanced jobseeker motivation and better tailoring of assistance to needs.<sup>5</sup>

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<sup>4</sup> Dolton & O'Neill 1996, Unemployment duration and the restart effect, *Economic Journal* 106, 1996; Homel J & Ryan C (2010), Incentives, rewards, motivation and the receipt of income support, FAHCSIA Occasional Paper No. 32.

<sup>5</sup> ACOSS 2008, Employment participation policies, An international snapshot of policies and practices in the UK, Netherlands, New Zealand and USA, ACOSS Paper 155.

## **Initial assessment referral and engagement**

Job Services Australia offers more opportunities for jobseekers to choose and change providers than did the Job Network. However jobseeker choice and engagement are limited by the present system of initial assessment and referral (which retains most features of the Job Network arrangements), and by inadequate provider resources.

Centrelink is the gateway to income support and employment assistance for new claimants. It plays the key role in assessing the level of labour market disadvantage through the JSCI, processing claims for income support, and helping people to choose a JSA provider. However, this process is perfunctory. Too many functions are combined in the first interview, when most new claimants are confused about the system of income support and employment services and worried about their financial circumstances. Too many JSCI assessments are conducted by phone. While it is important to explain activity requirements and sanctions clearly to new applicants, these are very complex and often little of this information is retained. Further, there is an overemphasis on explaining compliance systems as distinct from the positive aspects of the assistance available from JSA providers. Little information and help are given to enable them to choose a provider. In the past, Centrelink ran information seminars, to which Job Network providers were invited, to explain the employment assistance available and help jobseekers choose a provider. When these were held before the Centrelink interview at which that choice had to be made, they increased the proportion of jobseekers who actively chose a provider. However, the seminars were abandoned some years ago.

Apart from cost minimisation, one of the main reasons the process was designed in this way in the first instance was to ensure that jobseekers were referred to an employment services provider as rapidly as possible. Although this does slightly increase early exits from income support, it does so at the risk of disengaging the majority of jobseekers who remain within the system for a few months or longer. Early impressions are very important in establishing a good working relationship between jobseekers and consultants.

This problem is exacerbated by the fact that Stream one jobseekers are not generally interviewed by their new JSA provider again (after the first interview) for three months. Instead, their activity requirements are negotiated and monitored by Centrelink. This may be appropriate for jobseekers with few or no barriers to employment. In most OECD countries, the income support and labour market engagement functions for these jobseekers are combined in a single agency to achieve economies of scale and reinforce the message that income support is linked with requirements to seek employment. However, the present stream one arrangements are confusing for jobseekers and often leave them with a negative impression of the quality of JSA services.

This problem could be resolved either by increasing engagement with JSA providers at this stage, or by extending the employment assistance services provided by Centrelink (for example by reinstating job search kiosks in local offices) and deferring referral to JSA until later in the unemployment spell. We do not, however, advocate a substantial increase in the overall resources provided to stream one and two

jobseekers in their first year of unemployment, as there is a more pressing need to improve assistance for long term unemployed people.

Modest improvements in Centrelink and JSA assistance at the early stages of engagement with jobseekers could be financed through savings in administrative costs (discussed later) and savings achieved within Centrelink as a result of its new contact model.

Information seminars on employment assistance for new claimants should be restored, and initial referral to JSAs should be deferred slightly to make room for them. Centrelink should interview new claimants more than once to assess their income support claims and explain how the employment services system works, and JSCI assessments should be conducted face to face where possible.

### **Other barriers to choice and engagement**

JSA providers cannot offer a reasonable range of employment assistance options unless consultant caseloads are sufficiently low to establish a relationship with each jobseeker (for example, well under 100), and the consultant can draw upon the resources required to offer an appropriate menu of options. Given the likely high deadweight cost of employment assistance for many short term unemployed people in streams one and two, it would not be cost effective for Government to fund frequent contacts with consultants or a wide choice of services for this group. However, this is vital for most disadvantaged and long term unemployed jobseekers. An adequate level of engagement with a skilled consultant will also make a difference for less disadvantaged jobseekers.

Another key barrier to jobseeker choice is the current system of allocation of business shares among providers within each Employment Service Area (ESA). Arrangements along these lines are arguably needed to give the sector a degree of funding stability and to underpin the system of performance management. Yet there is a tension between this model of Government purchasing and the fact that jobseekers are the final consumers of the service. In other funding models for community services, for example child care, the final consumers determine 'business shares' even though the service is predominantly Government funded and providers must meet rigorous standards for entry to the industry (including minimum carer: child ratios and qualification levels). In its review of the Job Network, the Productivity Commission argued that entry to the employment services 'market' should be open to all providers who meet a set of licensing requirements and that the final consumers rather than a single Government purchaser should determine 'business share'.

The current system gives providers a degree of 'tolerance' within business shares to attract more jobseekers, but many providers have already reached these levels. Jobseekers would be encouraged to exercise their choice of provider, and providers to actively recruit jobseekers, if tolerances were increased.

One cost effective way to both encourage jobseekers who are out of work for long periods of time to maintain effective engagement with the labour market and prepare them for employment is through a regular (for example annual) period of 'intensive activity' which may include for example assisted job search, training, part time

employment or participation in other work experience or work preparation programs. This was the basic idea behind Customised Assistance within the Job Network, but in practice activation (especially regular attendance at interviews) was largely pursued as an end in itself and there was limited investment in capacity building. Providers found themselves devoting too much time to compliance with requirements to attend meetings and too little to working with jobseekers on a viable return to work plan.

The challenge, therefore, is to ensure that periods of more intensive activity meaningfully contributed to improved employment prospects for disadvantaged jobseekers. This requires lower caseloads for consultants and resources to invest in training and other interventions. It also requires flexibility in the timing and scope of the interviews and activities. The Job Network 'service continuum' was too rigid for this purpose and the JSA equivalent is more flexible. For example, providers now largely determine the timing of the activity and can be more responsive to jobseeker needs and preferences and have more scope to organise group activities that meet the needs of all participants. Further, the mechanical approach adopted in the APM model of the Job Network towards the scheduling and content of interviews with jobseekers and associated reporting requirements, raised administrative costs and detracted from engagement with jobseekers.

There is no substantial 'intensive activity period' in the first year of participation in JSA, but there is an annual six-month 'work experience' requirement after this, during the Work Experience phase. This appears to have been modeled on the previous Mutual Obligation system. As with Mutual Obligation there is still a default activity – Work for the Dole. The problem with a default activity is that those who are least equipped to choose alternative options, usually the most disadvantaged jobseekers, are transferred to that program whether or not it improves their employment prospects. This is an inefficient way to target assistance to disadvantaged jobseekers. Although a period of unpaid work experience outside of regular employment may assist some disadvantaged jobseekers to find a job, is unlikely to make a significant difference for the majority aside from 'compliance effects'.<sup>6</sup> Since 'compliance effects' could also be achieved through referral to programs that are tailored to individual needs, we question the cost effectiveness of using Work for the Dole (or any other single program) as a default activity. It is also inconsistent with the improved flexibilities that are a key strength of the JSA model.

There is a further problem with the 'fulltime' variant of Work for the Dole introduced as part of the Welfare to Work policy in 2006: the wage equivalent of unemployment payments is well below minimum wage levels. This is a form of labour conscription that undermines workplace relations standards. Fulltime Work for the Dole was explicitly designed as a penalty for jobseekers who Job Network providers considered 'non-compliant'. Its impact on employment was likely to come mainly from

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<sup>6</sup> 'Net impact' studies indicate that, on average, Work for the Dole reduces the probability of employment during participation in the program (due to 'attachment effects') and subsequently increases them, but to a lesser extent than other mainstream employment programs for similarly disadvantaged jobseekers (especially Customised Assistance). See DEWR 2006, Customised Assistance Job Search Training and Work for the Dole, a net impact study; DEEW 2008, Labour market assistance, a net impact study. For international evidence of the effectiveness of unpaid work experience programs, see Dorset 2004, The New Deal for Young People, relative effectiveness of the options in reducing male unemployment, Policy Studies Institute Research Discussion Paper No7; Johri et al 2004, Evaluation of Community Work, New Zealand Ministry for Social Development; Brock et al 1993, Unpaid work experience and welfare recipients, MDRC.

'compliance effects' arising from the targeting of the program specifically to this group. However, the program is no longer explicitly targeted in this way, which removes its rationale.

Too many provider and departmental resources are still tied up in basic administrative and reporting tasks<sup>7</sup>. By streamlining these processes and simplifying fee structures, costs could be reduced both for providers and the Department and the savings could be used to finance the modest improvements in initial assessment and referral processes and jobseeker engagement outlined above. More substantial savings could be achieved by moving away from transaction based systems of funding and performance management (for example, with regard to claims for EPF funds and payments for interviews).

### **Recommendations**

1. Centrelink would organise group introductory sessions for newly unemployed jobseekers before the interview at which they negotiate an EPP and choose a provider, to inform them about the JSA system, their possible activity requirements, and the JSA services available locally, with providers encouraged to attend.
2. Centrelink would conduct at least two introductory interviews in most cases, rather than negotiating the EPP, JSA referral and benefit claim processes in a single interview.
3. JSCI interviews would be conducted face to face as far as possible.
4. Consideration would be given to deferring JSA referral for Stream 1 and 2 jobseekers until 3 months' unemployment, and introducing kiosks with information on job vacancies and basic job matching and resume assistance at Centrelink offices.
5. Information would be regularly shared between Centrelink and JSA providers on jobseekers' barriers to work and compliance history, subject to appropriate privacy protections, to assist both to provide an individually tailored service and reduce the need for jobseekers to explain their circumstances twice.
6. Business share tolerances would be increased to facilitate jobseeker choice, and priority given to facilitating jobseeker choice in any business reallocations.
7. Providers would be required to clearly display on their websites, the Jobsearch website, and in Centrelink offices the range of services they typically offer jobseekers within each stream.

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<sup>7</sup> Nous Consulting 2010, The evolution of the Job Services Australia system, presentation at Jobs Australia conference, Melbourne, November 2010.

8. An office would be established within DEEWR (and promoted to jobseekers) to provide advice to jobseekers on their employment service options (including local provider's star ratings and the range of services on offer) and handle complaints from them regarding employment services. This would replace the present 'complaints line', signalling a greater emphasis on proactive advice and assistance.
9. JSA interviews would be at least bi-monthly for Streams 1 and 2 and monthly for Streams 3 and 4 throughout the unemployment spell, with a degree of flexibility to bring forward or postpone interviews through each year.
10. The 60 hours of intensive activity after 3 months' unemployment would be retained for Stream 1 jobseekers.
11. A period of 3-6 months of intensive activity during the second half of the first year of unemployment would be introduced for all activity-tested jobseekers in Streams 2-4:

Jobseekers would be given the opportunity to nominate an activity and negotiate this with the provider (a possible model is the 'Employment Preparation' service formerly offered within the Job Network);

Providers would retain flexibility regarding the timing of the activity and use of Employment Pathway Fund credits to finance it;

There would be no default activity.

12. In place of the 'work experience phase', this intensive activity period would be undertaken in each subsequent year of unemployment, across all streams:

Its precise timing within each year would be determined by providers in consultation with each jobseeker.

13. Any work experience beyond short work trials would be organised so that the equivalent hourly rate of payment is at least equal to minimum hourly wage rates:

This means that the 'Fulltime Work for the Dole' option would be redundant.

14. Improvements in the systems of assessment, referral and provider engagement with jobseekers would be financed through savings in administrative costs. The administration of JSA would be streamlined, reducing costs for providers and Government, by automating provider service fee payments, simplifying fee structures, and reducing the detailed online documentation requirements for providers.

## 2. Fee structure

The challenge in redesigning the JSA fee structure is to ration limited resources so that employment impacts are maximised at the lowest possible cost for those who most need employment assistance.

Well designed and targeted employment programs have a significant though modest impact on a jobseeker's employment prospects, though in some cases (especially with programs designed to improve future work capacity) these effects are not realised for a number of years.

The most disadvantaged jobseekers – mainly stream 3 and 4 jobseekers - have the greatest need for assistance as they face a high risk of prolonged unemployment with all of its attendant health and social effects. Governments also have a financial interest in assisting this group since they are more likely, in absence of employment assistance, to rely on income support for a long time.

While much policy attention has focused on the 'multiple disadvantage' experienced by Stream four participants, it is worth noting that many Stream three participants also have disabilities and social barriers to employment, as well as economic barriers such as low skills and prolonged joblessness. No single assessment tool can clearly demark those with relatively simple and relatively complex barriers to employment. Further, a single barrier to work (such as mature age) can have as much impact on employment prospects as multiple barriers (such as a disability combined with low skills).

For these reasons we consider that the conversion of Stream 4 assistance into a separate program would, on balance, be counterproductive though it is possible that many participants in Stream 4 would benefit from specialist disability employment services that focus on in-work support. Instead, the JSA system should encourage and enable providers to adjust the nature and level of assistance provided, and related activity requirements, to the diverse needs of individuals within each Stream.

Proposals to establish separate programs based on demographic characteristics such as age raise the same concerns, as well as equity concerns.

Nevertheless, as a general principle we support a capacity for providers to specialise in assisting particular target groups, such as Indigenous people and young people, within the standard JSA fee structure. This, together with the diversity of small and large, and not for profit and for-profit providers, reduces the risk that JSA assistance will converge towards a 'one size fits all' approach as the program matures. This was a major weakness of the Job Network.

### **Cost effectiveness of employment assistance**

There is limited up to date information available on the cost effectiveness of Australian employment programs. The main official measure – the 'cost per employment outcome' – only measures the number of participants who obtain a job afterwards, not the value added by the program. This is akin to comparing the effectiveness of schools on the basis of the number of their students that enter university. This measure is inevitably biased towards programs that help 'easy to place' jobseekers at low cost. In order to measure the value added by a program, or

its 'net employment impact', evaluators must first estimate how many participants would have obtained a job without assistance. A small number of official evaluations have done this, though we await the publication of the official evaluation of JSA to obtain net impact data for that program.

Net impact evaluations of the Job Network suggest that relatively inexpensive programs such as short job search training courses can significantly improve the job prospects of less disadvantaged jobseekers. However, their fiscal and social benefit is limited by the fact that the vast majority of those jobseekers would have obtained employment and left income support in the near future in any event. For this reason, the most important interventions are those targeted towards disadvantaged and long-term unemployed jobseekers. The evidence suggests that relatively intensive interventions such as Customised Assistance significantly improved the short term job prospects of even very long term unemployed people. For example, the first round of Customised Assistance (mainly targeted to people unemployed for 12-24 months) was estimated to raise the average probability of having left income support 12 months after commencement in the program by 5.8% (3.8% in the case of short term unemployed people and 7.4% in the case of people unemployed for 12-23 months). The second round of Customised assistance (which was mainly targeted to those unemployed for 24-36 months) was estimated to have an average impact of 6.4% (5.9% for people unemployed for 12-23 months and 10% for people unemployed for 24-35 months).<sup>8</sup>

Although these impacts are modest, the cumulative effect of assisting more long term unemployed people into jobs on reliance on income support can be substantial if sustained over a number of years. For example, the Freud Report in the United Kingdom estimated that lower outcomes than those cited above - a sustained 5% increase in exits from income support by disadvantaged jobseekers – would halve the number of people on their unemployment benefits if maintained over three years.<sup>9</sup>

Based on this insight, the British Department for Work and Pensions, which administers both income support and employment programs, is negotiating with the UK Treasury to switch resources from its income support account to its employment assistance account – referred to as the 'AME-DEL switch' - in order to finance the new 'Work Program' (their equivalent of JSA). The innovation here is that they propose to take account of savings in income support attributed to the program to finance employment assistance retrospectively. One problem with this approach is that providers require debt financing to cover the gap in timing between investment in employment assistance and payments from Government, which is likely to discourage new entrants to the market as well as smaller providers generally. Nevertheless, the proposed British model suggests that it is possible to link fee structures for employment services, especially employment outcome fees, with savings in benefit payments. Whether or not this is feasible in Australia, it should at

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<sup>8</sup> DEEWR 2010, Labour market assistance, a net impact study. Estimates were also provided for other unemployment durations but the sample sizes may have been too small to draw clear conclusions (for example for the second round of CA for people unemployed for 36 months or more). See also DEWR (2006) Job Search Training, Customised Assistance, Work for the Dole and Mutual Obligation, a net impact study, which measured the effect of programs on the probability of employment rather than exit from income support. Generally speaking, the Job Network programs had a larger impact on employment while the mutual obligation programs (including work for the dole) had a greater impact on exit from benefits, which may reflect the emphasis of the latter on 'compliance effects'.

<sup>9</sup> Freud 2007, Reducing dependency, increasing opportunity, Department for Work and Pensions.

least be possible for DEEWR to take account of *immediate* benefit savings and tax revenue increases while jobseekers participate in programs such as paid work experience, as was done in the case of the Working Nation programs in the mid 1990s.

It should be possible to design a fee structure for the next round of JSA that maximises future benefit savings as well as the positive social outcomes from reducing prolonged unemployment, especially given that a substantial part of the funding is already based on employment outcomes. The above discussion strongly suggests that resources should mainly be targeted towards disadvantaged and long term unemployed jobseekers. It would be a mistake to 'write off' those unemployed for long periods of time as the evidence suggests that many still do obtain employment after assistance and that employment programs can improve their chances.<sup>10</sup>

### **Assistance for long term unemployed people**

ACOSS argued when the JSA model was first proposed that the limited resources targeted towards long term unemployed people was the 'achilles heel' of the new system. It is likely that over 300,000 people will participate in the Work Experience phase this financial year and the next and that this group will form a growing proportion of the JSA caseload. More broadly, if unemployment continues to fall, a greater proportion of unemployed people will be out of work long-term.

Unlike the Job Network, which targeted the most intensive interventions (Customised Assistance) towards long term unemployed people, JSA targets its most intensive interventions towards those unemployed for less than 12 months who are at risk of long term unemployment. While this form of targeting has probably boosted outcomes in the early years of the program (especially given that some long term unemployed people transitioned into the first year of their 'stream' from the Job Network), it is likely to reduce them (along with provider cashflows) by the last year of the tender.

Unless the program's net employment impacts for disadvantaged jobseekers are greatest on average in the first year of unemployment, this form of targeting makes little sense. Even if this were so, reducing the resources targeted to long term unemployed people is counterproductive since they face a high risk of social exclusion and longer term reliance on income support. This undermines the Government's social inclusion strategy.

Evidence from the APM evaluation and elsewhere (see the results cited previously for net impact studies of Customised Assistance) indicates that the Job Network made the greatest difference, on average, to the employment prospects of those unemployed for longer periods. On the other hand, it was not consistently more effective for those with higher JSCI scores:

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<sup>10</sup> See the above evidence on net impacts of Customised Assistance. In regard to overall employment outcomes after employment assistance, the Labour Market Assistance Outcomes report for June quarter 2009 indicated that 43% of very long term unemployed (24-35 months) participants in Customised Assistance were employed three months after finishing that program.

*'It would be reasonable to expect that as the JSCI score rose so would impact and if this was the case it would constitute evidence of the benefits of early intervention with ISca. Figure 9.11 shows, however, that, to the extent that they can be accurately estimated, net impacts do not increase substantially by JSCI score. Furthermore, and quite importantly, the results also do not provide a basis for the current JSCI cut-off point in terms of an optimal intervention point. Net impacts were, however, found to be highest for those with higher durations on benefit, suggesting that the longer-term unemployed clients benefit more from the assistance while short-term unemployed clients are likely to be better able to look for work themselves. Moreover, the key period for leaving unemployment is the first six months. This was found to be true across all JSCI scores and suggests that the operation of highly disadvantaged ISca placements from the start of unemployment results in high deadweight costs.'*<sup>11</sup>

Of course, since the APM the JSCI has been redesigned to place greater emphasis on unemployment duration, and the overall employment assistance model is now different. However, the finding that longer duration, rather than the other factors measured in the JSCI, was associated with higher net impacts (that is, the value added by the program, which is the outcome that matters when measuring cost effectiveness) is an important one, as is the finding that high levels of support in the first six months of unemployment involved high deadweight costs.

As was the case with the first two Job Network contracts, the JSA fee structure offers no guarantee of higher service fees for long term unemployed jobseekers. On the contrary, both service fees and notional Employment Pathway Fund credits fall substantially once the most disadvantaged jobseekers (those in Stream 3 and 4) enter the Work Experience phase. For example, service fees for a Stream 3 jobseeker decline from \$1,200 per annum to \$722 in the first year of Work Experience and \$400 in each subsequent year. The minimum frequency of interviews also drops from monthly to every two months. Employment Pathway Fund credits fall from \$1,100 in the first year of unemployment to \$500 for the remaining period that a jobseeker continues in Work Experience. For Stream 4 jobseekers, the decline in funding is even more pronounced.

To some extent, these reductions in service payments will be alleviated by reclassifications. Given the weighting of unemployment duration in the JSCI, very long term unemployed people are unlikely to remain in streams one or two. However, it appears that so far, most stream one to three jobseekers have moved into the Work Experience phase following re-assessment. Further, the reclassification process can result in counter-intuitive outcomes. Jobseekers already in streams three or four may have nowhere else to go (access to stream four is via the JCA rather than JSCI assessment), whereas those who formerly classified as less disadvantaged (former stream one and two jobseekers) stand to benefit the most from reclassification.

A further problem with the present fee structure and classification framework is that providers have a strong incentive to seek reclassifications, which diverts resources and effort away from the provision of employment assistance.

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<sup>11</sup> DEEWR 2007, APM Evaluation, p135.

The system of provider payments for long term unemployed jobseekers should be restructured on a more logical foundation. This could be achieved by replacing the 'work experience phase' with a continuation of assistance through the various Streams. If it is cost effective to target jobseekers for a higher level of assistance based on their future job prospects (using the JSCI and JCAs) in their first year of unemployment, then the same logic should apply to subsequent years of unemployment. Instead, key components of the Work Experience fee structure are identical across all streams. If it is desirable to increase the resources devoted to long term unemployed people (as the evidence suggests) then a cost effective way to do this would be to target the greatest fee increases towards Work Experience participants in streams three and four. Given the weighting of duration in the JSCI this would also increase fees for those jobseekers whose unemployment is the most prolonged.

Another argument for devoting a relatively high level of resources to long term and very long term unemployed people is that their unemployment duration of itself demonstrates a high level of labour market disadvantage. One possible concern about sustaining a high level of JSA investment in people who have been unemployed for a long time is that many have already received a number of iterations of intensive employment assistance and still not secured a job. However, as discussed above evaluations of the former Customised Assistance program provide no evidence of 'diminishing returns' in the second round of assistance. Further, the JSA system should give providers more flexibility than Job Network to change the intervention and 'try something new' on each occasion. To meet the needs of a minority of deeply disadvantaged jobseekers, it is necessary for providers to work in a different way in collaboration with other services (as discussed in the next section of this submission) but this should not be viewed as an alternative to an adequate 'mainstream' employment assistance program. On the contrary, inadequate 'mainstream' assistance is likely to undermine policy efforts to improve the job prospects of deeply disadvantaged jobseekers through 'joined up servicing'.

A problematic feature of the fee structure for Work Experience is that there is only one EPF credit for the remaining period of unemployment. Although providers can transfer credits from other jobseekers, the fee structure generally encourages them to concentrate their investment on short term unemployed people. The exception to this is the increase in outcome payments with unemployment duration (most importantly at the 12 month point), but providers are unlikely to derive most of their fees from outcome payments. In any event they must risk substantial investment in long term unemployed jobseekers to achieve net employment impacts that are typically up to 10%. While we argued previously that this is socially and fiscally beneficial, outcome payments are currently too small to make this financially beneficial for providers. As a rough rule of thumb, the financial return to providers on their investment would average, at best, around 5-10% of the relevant outcome payment.

### **Encouraging engagement with employers and other community services**

A new feature of the fee structure the distinction between provider assisted and provider brokered payments. This is designed to encourage providers to work more intensively with employers. It is not clear that this change is having the desired effect. At the same time, it has added a layer of complexity to the system.

Another way to encourage more engagement with employers, and improve the sustainability of employment outcomes, is to shift the focus of outcome fees towards longer term outcomes. The JSA fee structure does this to some extent, with the move towards higher payments for 26 week outcomes. It would be possible to take this further by introducing an additional fee for 52 week outcomes (and possibly removing those for 13 week outcomes), but the benefits and costs would need to be carefully weighed up. This would be likely to increase engagement with employers, and efforts to place jobseekers in ongoing rather than casual employment. It is also likely to increase financial rewards for investment in capacity building such as training that yields results over longer periods. On the other hand, it may be harder for providers to draw clear connections between today's investment in employment assistance and an outcome 12 months into the future, and any temporary cash flow problems for providers, especially smaller providers, would have to be resolved.

There are other ways to improve provider engagement with employers than adjusting outcome payments. For example, the Government could experiment with 'employer centred' programs of assistance for disadvantaged jobseekers and encourage JSA providers to either operate these directly or to collaborate with services funded in this way. One possible model for such a program would guarantee disadvantaged jobseekers a job with a large employer or major Government project (such as the national broadband rollout) if they successfully complete a program of work experience and training designed in collaboration with that employer. Job Futures has devised and operated a program along these lines for Indigenous people seeking employment with mining companies in a remote region.

Another model is the successful 'group apprenticeship model', in which the training provider acts as employer until completion of training. This model would work better for small and medium sized employers (the most likely future employers of disadvantaged jobseekers) as it reduces their risk associated with providing work experience and training for jobseekers. Yet another approach used by Disability Employment Service providers is to work with employers to redesign jobs and workplaces to accommodate and support people with severe disabilities, and then mentor both the jobseeker and their supervisor to ensure that the job is sustained. The DES funding model facilitates these arrangements because providers receive more substantial funding overall and a large proportion of their funding is tied to employment retention, though this may not be appropriate for JSA.

A key innovation of the JSA fee structure is the 'bonus payments' for employment outcomes sustained by jobseekers who participated in qualifying training. This strikes a sensible balance between giving priority to short term employment outcomes and improving jobseeker's future job prospects through training. A related, and equally important, initiative is the relaxation of the 'speed to place' requirements in the performance management system (KPI11) while a jobseeker participates in training.

While there have been problems with access to appropriate vocational training for jobseekers (discussed later in this submission), the bonus payments appear to be a useful innovation. The Government should consider extending the same principle to other forms of work preparation for disadvantaged jobseekers, to encourage JSA providers to refer people to those programs in an efficient and well-targeted way and to partner with those services to improve their mutual clients' job prospects.

In recent years, Governments have trialled a number of programs to assist jobseekers with health and social barriers to improve their employment prospects. Examples include Individual Placement and Support programs for people with mental illness, and the more recent Family Centred Employment Projects. There is considerable interest among policy makers in the idea of ‘wrap round servicing’ for deeply disadvantaged people and the ‘Local Connections to Work’ program aims to encourage closer collaboration among local service providers to that end.

One potential drawback with programs with multiple objectives (such as improving mental health, securing housing and improving job prospects) is a loss of focus and accountability. Programs with too many goals are less likely to achieve any single one. There are also efficiency benefits from specialisation (for example, within health, housing and employment services). Nevertheless, it is likely that deeply disadvantaged jobseekers will have better employment prospects if employment services work closely with health and social support services. Conversely, employment often improves health and social outcomes.

One way to encourage both specialisation and collaboration is to fund ‘non employment’ services (such as mental health or family support services) to work with employment services to achieve employment outcomes for deeply disadvantaged jobseekers. This idea is discussed in more depth later in the submission. For such arrangements to work, the employment service providers must have adequate resources and incentives to identify the individual needs of these jobseekers, work with them intensively, and collaborate with the other service providers. These partnerships will not get off the ground if the employment service provider is a ‘weak link’ in the service chain. This underscores the need for adequate investment in the most disadvantaged jobseekers generally within the JSA system as discussed above. For example, collaborations of this kind are unlikely to work if the employment service provider is only funded to make contact with the jobseeker every two months.

A variant of the ‘bonus outcome fee’ system discussed above could also give JSA providers an incentive to refer jobseekers to and actively participate in local service partnerships of this kind.

As discussed in the next section of this submission, paid work experience programs can significantly improve the job prospects of long term unemployed people. Investment in wage subsidies is encouraged to some extent by the present fee structure, through the EPF and outcome payments. However, as long as subsidised jobs attract outcome payments there is a risk that wage subsidies will be used to generate ‘artificial’ outcomes, raising deadweight costs. It is likely to be more efficient to finance wage subsidies through a separate program, provided administrative costs can be kept to a minimum and the program is scaled up to a level where it is beneficial for providers to use it. The previous Wage Assist program lacked these features, and was little used by providers. Subject the introduction of a separate wage subsidy program (as proposed below), outcome payments should be confined to unsubsidised jobs

## Overall JSA expenditure

The greater investment in long term unemployed people recommended here would require increased funding for JSA, unless fees are reduced in respect of the first year of assistance. This could be done, for example, by more strictly rationing access to streams two and three during the first six or 12 months of unemployment, or by adjusting the fee levels for that year. However, apart from the excessive administrative costs noted previously, there is no ‘fat’ in the fee structure for short term unemployed people.

When the JSA model was introduced, cost savings of over \$300 million over four years were projected over anticipated expenditure on the programs it replaced. It is possible that these savings were to a large extent due to the lean funding of the Work Experience phase. We have argued that this is counterproductive, both from a social inclusion and a fiscal point of view, and that more attention should be paid to the potential cost savings in benefit payments arising from more intensive assistance for long term unemployed people.

The latest Mid Year Economic and Fiscal Outlook statement projects a budget ‘windfall’ of \$1.7 billion over four years in JSA expenditure arising from ‘better estimation of the timing of payments and an improvement in expected labour market conditions’. This is good news, but it masks the fact that as unemployment falls the unit cost of effective employment assistance for the ‘harder to place’ jobseekers who remain on providers’ books increases. There is a strong case for an increase in the budget allocation for JSA to improve assistance for long term unemployed people.

## Recommendations

15. The ‘Work Experience Phase’ would be removed and in its place stream services would be broken down into annual phases of assistance, with a reassessment of whether a jobseeker is in the appropriate stream at the commencement of each year of assistance.
16. Prima facie, service payments and EPF deposits would be identical for each year (provided the jobseeker remains in the same stream), except that stream 1 would not continue past the first year and service fees and Employment Pathway Fund credits for the second and subsequent years of stream 2 would be higher than in the first year.
17. Outcome fees would continue to rise with unemployment duration (as well as varying between streams) with no distinction between provider generated and jobseeker generated outcomes.

Consideration would be given to changing the five year threshold for higher outcome payments to three years, to take better account of the decline in job prospects as unemployment continues.

18. The fee structure described above would subsequently be adjusted based on information on the net employment impacts of assistance for jobseekers with

different JSCI scores and unemployment durations, set against the fiscal and social costs of unemployment in respect of each group of jobseekers (see 'evaluation' below).

19. Additional fees for 'fulltime Work for the Dole' would be removed.
20. Consideration would be given to shifting the focus of outcome payments and star ratings from 3-6 month outcomes to 6-12 month outcomes, to encourage provider engagement with employers and investment in or referral to assistance that improves the sustainability of employment.
21. The bonus outcome payments for employment outcomes following a qualifying training course would extend to other approved programs for jobseekers in streams 3 and 4 including paid work experience programs and work preparation programs in which providers partner with local health or community service organisations to overcome barriers to employment for deeply disadvantaged jobseekers (discussed below)

The 'speed to place' requirement (KPI1) would also be temporarily suspended in these cases.

22. Subject to the introduction of the paid work experience program described below, outcome payments for employment outcomes would be restricted to unsubsidised jobs so as not to distort provider incentives.

### **3. Work experience and work preparation for disadvantaged jobseekers**

Many disadvantaged jobseekers need training, paid work experience and help to overcome health and social barriers to work. While in theory an outcomes-based funding regime for employment services should encourage providers to invest efficiently in these interventions, their modest 'net impacts' mean that outcome fees would have to be very high to make substantial investment worthwhile. A further problem is that assistance such as training to improve future work capacity has long term rather than short term impacts on employment. For these reasons, and to enhance accountability for public expenditures, it is best to quarantine a portion of employment assistance expenditure for investment in these interventions. The Employment Pathway Fund and its predecessor the Job Seeker Account were designed for this purpose.

However, the current system of provider incentives is still likely to discourage them from investing substantially in help that does not yield short term job outcomes, despite the welcome adjustments to outcome fee structure and performance management system to encourage referrals to training which we noted previously. Further, the primary objectives of training, health, housing, and social support services extend well beyond assistance to improve people's job prospects, so at least in principle these services are best funded through other programs.

A key challenge in assisting disadvantaged jobseekers is to connect these programs with JSA and other employment services and encourage and support local providers of these services to work in partnership to improve their employment prospects. Some form of 'joined up' servicing is likely to benefit a majority of (at least) stream three and four jobseekers, as most are likely to face multiple disadvantages such as a lack of recent work experience combined with limited skills and/or locational disadvantage. For example, it is desirable that vocational training and employment assistance services work together (including in the planning and design of training) to maximise the benefits of training. Those who would benefit from this approach are best identified by employment service providers, rather than the use of demographic markers such as age or family status, as the circumstances and needs of individuals within each of these categories are diverse.

A smaller minority of jobseekers (including many stream four jobseekers) face multiple health and social barriers to employment that require more intensive forms of support and collaboration among providers. The social inclusion literature refers to this group as 'deeply socially excluded'. Little is known about the scope of these problems among jobseekers registered with JSA and this group has not yet been clearly identified. Unfortunately, there has a good deal of stereotyping of long term unemployed people, Indigenous people and sole parents, which may exaggerate the scope of these problems. It is difficult to identify the size and characteristics of this group from the information available through assessment instruments such as the JSCI or JCA, though providers who work intensively with disadvantaged jobseekers have a reasonable knowledge of these problems. They cannot be identified simply by adding together a list of disadvantages, for example, though this information may be indicative of the scope of the problem. In many cases problems such as a mental health condition, addictions, homelessness or family violence are not disclosed. It is also worth noting that a much larger number of disadvantaged and long term unemployed jobseekers are at risk of joining this group - since prolonged unemployment has well known effects on physical and mental health - so that effective mainstream employment services play an important preventive role.

Even if this 'deeply disadvantaged' group could be clearly identified, it is not necessarily desirable to remove them from mainstream employment services (JSA and DES). The main weakness of the former PSP program, for example, was its weak labour market connection. As the success of Individual Placement and Support services for people with mental health conditions shows, it is often best to combine employment with health and social support services, rather than using health and social support services to prepare them for employment at some future time. Further, many people with unidentified health and social barriers to employment will continue to rely on mainstream employment services. Therefore those services should have the capacity to assist this group, with the support of appropriate health and community services once their particular barriers to work are known.

One possible model of funding to support local collaboration among service providers to assist disadvantaged jobseekers is the 'black box' approach, where providers from a range of disciplines are funded on the basis of employment outcomes and left to determine the mix of assistance given to people. A major difficulty with this approach, aside from the well known problems of 'creaming' and 'parking' is that it could undermine the benefits of specialisation and blur the responsibilities of different

service providers and levels of Government for the provision of employment, health and community services.

Alternately, a 'lego approach' could be adopted. In this approach, services assisting disadvantaged jobseekers would continue to be funded according to their field of specialisation (employment, housing, mental health, and so on), and be encouraged through supplementary funding arrangements and incentives to work together with the aim of assisting their mutual clients to gain employment. As discussed previously, the extension of 'bonus' outcome payments for JSA providers (where a jobseeker secures employment outcomes after qualifying vocational training) to other interventions such as treatment for health problems or engagement with family support services, is one such option.

A further option is supplementary funding for health, education and training, and social support services to collaborate with employment service providers to improve the employment prospects of disadvantaged jobseekers. The jobseeker stream of the Productivity Places program is an example of this approach, though as discussed below it needs significant adjustment to achieve its objectives. It would be desirable to ensure that all levels of Government contribute to this effort, since otherwise the Commonwealth may end up cross-subsidising services that are a State or Territory responsibility.

Since it is difficult to identify those who need these forms of wrap-around or collaborative servicing, and also difficult to design a funding system that encourages and supports collaboration in an efficient way, it would be best for the Government to undertake research on the profile and needs of those jobseekers with multiple barriers' and to trial a number of funding models over the next JSA and DES contract period (2012-15) with a view to establishing new programs and funding arrangements for services for these groups in the following contract round. These trials should be rigorously evaluated, using random assignment where appropriate.

### **Paid work experience**

A period of paid work experience in regular employment can significantly improve the job prospects of long term unemployed people. It can do so by reassuring employers that the jobseeker is capable of undertaking the work, and in the case of more disadvantaged jobseekers, by boosting their confidence, essential on-the-job skills and job search networks. One problem with previous programs of this kind – before the introduction of outcomes based funding of employment services - is that they emphasised the filling of program quotas rather than employment outcomes. A further difficulty is that insufficient attention was paid to the transition from subsidised to unsubsidised employment. The most effective paid work experience programs are carefully targeted towards long term or very long term unemployed people; and designed to transition them into mainstream employment and keep them engaged in job search rather than simply providing temporary work. International examples include 'transitional jobs' schemes in the UK and US; the former Supported Work Demonstration Program in the US; and the Danish work training scheme that combines paid work experience and training.

Paid work experience is a key missing element in labour market assistance for unemployed people today. We recommend that the Government establish a program

to which JSA providers can refer suitable long term or very long term (12 months or 24 months plus) job seekers. Since the needs of these job seekers vary, we propose that the program be split into two components; a partial wage subsidy scheme for those who are ready for open employment; and a fully subsidised scheme of longer duration to develop work skills for those who are not ready at this stage. The partially subsidised scheme would target long term unemployed people who are able to perform the work but due to the duration of their unemployment or other reasons are unlikely to be given a chance to demonstrate this by the employer. The fully subsidised scheme would be targeted towards long term unemployed people who are not yet able to work productively and need substantial experience in a regular work setting to boost their skills, confidence and work habits.

This would also be a cost effective and well-targeted way to support the development of a network of social enterprises whose goal is to improve the job prospects of deeply disadvantaged unemployed people, though the program should not be limited to social enterprises. It would also be desirable to encourage service providers to link paid work experience with related training where appropriate, as was done through the former Jobskills program.

In financing a paid work experience scheme, the Government should take into account at least the direct cost offsets arising from social security savings and tax revenue increases while the jobseeker participates in the program. This would reduce the cost of the partial wage subsidy scheme to a very modest level, roughly equivalent to that of the former Work for the Dole program.

### **Vocational training**

ACOSS supports the Government's policy emphasis on improving the skills of jobseekers as well as assisting them into employment. The Productivity Places program and Youth Compact make important contributions to this goal.

However, the vocational training system has not responded to the needs of disadvantaged jobseekers as the policy intended. The transfer of administrative responsibility for Productivity Places to State Governments exacerbated these problems. The key problems include a lack of training in a format that is suited to the needs of disadvantaged jobseekers (for example, linked to work experience rather than classroom based), a lack of places at lower qualification levels (for example below Certificate four), and a tendency for RTOs to charge jobseekers or JSA providers for training despite being funded under the program to train jobseekers.

The funding mechanism for the jobseeker stream of Productivity Places should be adjusted to resolve these problems and to encourage greater collaboration between RTOs and local JSA providers.

### **Recommendations**

23. A paid work experience program that provides temporary paid employment in regular jobs should be established as an option for long term unemployed people in Streams 3 or 4 whom providers consider would benefit from this form of assistance.

The program would either be administered by JSA providers or by a network of work experience brokers, and would either be funded through a quarantined portion of the Employment Pathway Fund or as a stand-alone program. (either way, additional funds would be required).

Providers would be encouraged to combine relevant vocational training with work experience placements where this is likely to improve individual job prospects.

Providers would take responsibility for mentoring jobseekers and their employers throughout the placement.

The program would be costed by taking into account savings in benefit payments and increases in income tax revenue that are expected to arise during participation in the program.

The program would have two components:

(1) A 'Job Opportunities' component for jobseekers considered ready for open employment who are unlikely to obtain a job without participating in the program.

This would offer employers in the private, public and community sectors a 50% wage subsidy to employ them for 3-6 months at the minimum wage (or National Training Wage where appropriate) in a regular job for 3 days a week, subject to strict rules to prevent displacement of employees, the manipulation of subsidised jobs to generate payable employment outcomes, and exploitation of jobseekers.

(2) A 'Job Transitions' component for jobseekers not yet ready for open employment would incorporate the above features, except that employers would receive a 100% wage subsidy and the placement would last from 6-12 months depending on the degree of difficulty in preparing the jobseeker for open employment. Job search requirements would only apply once the provider considers that the job seeker is ready for open employment.

These placements would generally only be available within not for profit organisations and in settings adapted to the needs of the most disadvantaged job seekers (for example social enterprises or community organisations that partner with relevant support services such as mental health and family support services).

24. The Productivity Places Program stream for jobseekers would be adjusted in the following ways to improve its effectiveness for jobseekers with limited skills:

(1) Most of the funding in the jobseeker stream would be quarantined for jobseekers registered with Government funded employment service providers (e.g. JSA and DES), who are either referred by the provider or enrol for training directly with the RTO;

(2) RTOs would be encouraged to work with the referring employment service provider to assist jobseekers to successfully complete their training (unless the employment service provider itself delivers the training);

(3) RTOs would be required to offer training funded pursuant to the program free of charge to both jobseekers and providers;

(4) RTOs, together with JSA service providers, would receive bonus payments when a jobseeker commences employment that qualifies the employment service provider for a full or pathway outcome fee within 12 months of completion of the program.

25. Experimental work preparation programs (such as health, family and social support programs) would be funded for deeply disadvantaged jobseekers in areas with high unemployment. These would be funded along similar lines to recommendation 24 above, with payments tied to:

- the provision of time-limited assistance for stream 3 or 4 jobseekers participating in Government funded employment services (such as JSA or DES) who are assessed as likely to improve their employment prospects if they receive such help;

- encouragement of collaboration between the service provider and referring employment service provider to achieve employment outcomes (unless the provider offers this service itself);

- assistance that is accessible to jobseekers and free of charge to both jobseekers and the provider;

- evaluation of the effectiveness of the program in improving employment and social outcomes, for example using random assignment.

Providers of these work preparation services, together with JSA providers, would receive bonus payments when a jobseeker commences employment that qualifies the employment service provider for a full or pathway outcome fee within 12 months of completion of the program.

## 4. Purchasing arrangements for the next JSA contract

We do not have detailed proposals to put at this stage on the form of the next Tender and/or Invitation to Treat, but in broad terms consider that the arrangements should be similar to the transition to the fourth round of Job Network contracts (commencing in 2006), without the six monthly business reallocations.

### Recommendations

26. JSA providers whose sites achieved a performance ranking in the last two years of the first tender round of three stars or above would be offered the same business share within the ESA in the 2012-15 round. Subject to performance reviews, there would be a tender for the remaining business share.
27. Jobseekers who, as a result of this tender cannot remain with their present provider, would as far as practicable be assisted to choose their new provider. Those who do not exercise a choice would be allocated to a conveniently located successful tenderer within the ESA.

Given the limited time available to undertake the major redesign of the JSA system that is likely to be required in advance of the next contract, and the need for Governments to maintain the flexibility to restructure employment assistance as employment participation policies evolve, we do not favour extending the duration of the next contract beyond three years unless the contract itself provides scope for a major restructure within the contract period.

## 5. Monitoring and evaluation

A more flexible system of employment assistance such as JSA where providers and jobseekers have more discretion to decide the sequence of activities that would best help people to gain employment requires timely information on the effectiveness of different interventions, and the exchange of this knowledge among the Department, providers, stakeholders and external experts.

While the Department's program evaluations are generally of high quality, and detailed data on the profiles and labour market transitions of jobseekers on income support is held, this information is not shared in a timely way. For example, program evaluations are not published as they are received and access to data is limited though the Department is working with stakeholders and researchers to resolve the latter problem.

As discussed previously, a new measure of the cost effectiveness of employment assistance should be developed that takes account of average net impacts and savings in income support (and social benefits) for the main categories of jobseekers.

### Recommendations

28. Information should be regularly published on the Department's website on the numbers and profile of participants in different streams of JSA, the forms of employment assistance they receive, and their employment and other

relevant outcomes (for example, in the revised quarterly Labour Market Assistance Outcomes series)

29. Progress reports and the final report of the evaluation of JSA should be published promptly.
  30. A new measure of the cost effectiveness of employment services would be developed that takes account of their unit cost, their 'value added', and the fiscal and social costs of prolonged unemployment, by:
    - grouping all jobseekers receiving JSA services according to both their stream and duration of unemployment;
    - estimating the average cost of JSA services over a fixed period for each group;
    - estimating the average impact of JSA services on future reliance on income support over a fixed period for each group (for example, using 'net impact' methods);
    - estimating the average remaining duration of reliance on income support (in the absence of assistance) and its cost within the same period for each group;
    - comparing costs and benefits so measured.
- This measure would be published regularly and used to inform future Federal Budget allocations to JSA and purchasing arrangements.
31. Part of the Innovation Fund should be quarantined to evaluate the effectiveness of Innovation Fund projects and it should be a condition of funding that applicants facilitate evaluation. The results of these evaluations should be published in a timely fashion.