

New employment service payment model

Submission to the Department of Education, Skills and Employment

08 December 2020

About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and civil society sector.

ACOSS consists of a network of approximately 4000 organisations and individuals across Australia in metro, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

Summary

A new payment structure, along with a licensing system, is a key element of employment services reform to improve the quality and effectiveness of assistance for those most disadvantaged in the labour market.

This submission builds on and complements our previous submissions on reform of employment services:

To the Expert Panel on [systematic reform of employment services](#);

On [Recovering jobs](#) from the COVID recession;

On [Local employment and skills partnerships](#);

On [licensing](#) of employment services.

To ease financial hardship and strengthen growth in local jobs in the wake of the recession, the proposed reforms to employment services should be accompanied by a permanent increase in Jobseeker and Youth Allowance and related payments to an adequate level, as proposed in our [Next Steps for Income Support](#) briefing paper.

The present jobactive payment structure entrenches under-investment in people disadvantaged in the labour market

The jobactive payment structure is the latest iteration of the Job Network model of performance-based competitive contracting for employment services. This fee structure rewards low-cost interventions (mainly supervised job search assistance) over patient investment in assistance for people disadvantaged in the labour market, including those unemployed long-term.

New programs have been established alongside jobactive to bridge this investment gap, without resolving the underlying problems

Successive governments have reconfigured the payment system in an attempt to overcome the lack of investment in people disadvantaged in the labour market, through different iterations of the Employment Fund, and the establishment of 'complementary programs' offering wage subsidies, training, career guidance and other support that is often missing from the mainstream service offer.

These changes have increased investment in services people need, but they have not addressed the underlying weaknesses in the primary funding model. Under-spending of the Employment Fund is a long-standing problem, and a proliferation of similar programs for different groups makes the system as a whole more complex and can lead to inequitable outcomes. For example, there are five different wage subsidy schemes, and career guidance is offered to some who need it, but not others.

It is noteworthy that the 'complementary programs' generally do not follow the competitive performance-management model adopted in jobactive. For example, the *Transition to Work* career guidance and support program for young people operates as a grants program with a single provider in each Employment Service Area. Performance is managed through a system of benchmark outcomes that providers must achieve to continue to receive funding, and bonus payments for outcomes above the benchmark.

Performance-based contracting has encouraged standardisation not innovation

Rather than encourage 'efficient innovation' as intended, successive iterations of the Job Network payment model have led to standardisation of services, high administrative burdens and diminishing service quality.¹ This is exacerbated by an over-emphasis on unemployment payment compliance, which leaves little room for genuine engagement with participants to map their path to employment and support them on the way.

Competition has weakened cooperation

The payment model's emphasis on competition to achieve employment outcomes has given service participants and employers a degree of choice, but within a narrow range of service options. This has come at the expense of local cooperation among employment services, and between them and employers and other services at the local level.

¹ Considine M et al (2012), [From Entitlement to Experiment: The new governance of welfare to work](#), Australian Report back to Industry Partners. School of Social and Political Sciences, University of Melbourne.

Many effective locally-based and specialist providers have been driven out of the system, while larger for-profit providers have become more prominent

One of the main reasons for the sharp reduction in the number and diversity of providers (from around 100 to 43 when jobactive was introduced) was the shift from contracting services to assist all people unemployed in the larger Employment Regions rather than the smaller Employment Service Areas (ESAs), without the option to specialise in assisting a particular group.

By shifting 70% of payments (overall) to outcomes rather than service establishment and inputs, commissioning through a large national tender, and limiting access to new entrants, the present funding model privileged larger providers with access to capital (especially for-profit providers) over not-for-profit and locally-based organisations.

The Employment Services Expert Panel recognised these problems, and the payment model for the trials improves on the jobactive model

The [Employment Services Expert Panel](#) found that jobactive services were overly-standardised, there was too much emphasis on compliance with administrative requirements (both for providers and participants), and that consultant caseloads and turnover were much too high (averaging 140) to offer a decent service. Participants were dissatisfied with the poor quality and lack of personalisation of employment assistance, and employers were dissatisfied with poor screening of applicants.

In response to these concerns, the payment model for the Next Employment Services trials includes a number of positive changes:

- More funding up-front to facilitate entry of new (especially smaller) providers to the program and establish service infrastructure;
- Ability to limit services to a single ESA and to specialise;
- Changes to the performance management system to reduce pressures to achieve quick outcomes, for example the use of absolute rather than relative benchmarks to determine a provider's future 'share' of services in a region;
- Less specification of the services providers are required to offer at different stages in the unemployment spell;
- The proposed adoption of a licensing system to facilitate entry into the system and (potentially) improve service quality.

However, the payment model for the trials is not structurally different to previous system

It retains features that have encouraged standardisation, under-investment in service participants, and a bias in favour of larger for-profit providers, such as:

- Commissioning on a regional basis (rather than ESAs);
- An Employment Fund that is credited only once in each person's unemployment spell;
- A higher tier of service for people with more complex needs, which does not appear to attract higher funding;
- A similar outcome payment structure to jobactive, with insufficient reward for outcomes achieved by people unemployed long-term and for education and training outcomes.

Further, it relies too much on assessment of outcomes that are hard to measure objectively, especially the progress payments. This adds unnecessary complexity and could have inequitable results.

We propose a new payment structure to resolve these problems

Compared to the jobactive model, this would shift the balance of resourcing:

- Towards payments made earlier in the life of a service;
- Towards recurrent payments for services of a quality that meets licensing standards, including by reducing caseloads and ensuring frontline staff are appropriately qualified;
- Towards support for people unemployed for longer, and otherwise more disadvantaged in the labour market;
- Towards absolute outcome benchmarks that capture value added, rather than relative ones to promote competition among providers.

This should complement the new licensing model, with performance managed via contracts and quality assurance through an [independent licensing body](#)

The payment model must enable providers to offer a service consistent with quality standards set by the licensing system, especially by greatly reducing consultant caseloads.

A streamlined suite of complementary programs is also needed, especially for our proposed [employment and training guarantee for people unemployed long-term](#)

Funding more substantial assistance, such as wage subsidies through separate programs (rather than, for example, the Employment Fund), ensures that this is brought up to the scale needed, and that the benefits of specialisation are realised.²

These programs should include:

- Work experience paid according to national workplace standards (including wage subsidies);
- Career guidance and foundational and vocational skills training;
- Local partnerships between service providers, employers, community organisations and governments in pursuit of local employment plans;
- Partnerships between community and employment services to support employment transitions for people with complex needs, such as mental illness or homelessness.

These schemes would be building blocks for the *employment and training guarantee for people unemployed long-term* advocated by ACOSS. Employment service providers should have a degree of flexibility to use these schemes as needed to meet the needs of each individual and community.

The government should lift its investment in employment services closer to the average level among wealthy OECD nations

As with any public service, people ultimately get what governments are prepared to pay for. Average funding levels for employment assistance per person assisted have progressively declined through each iteration of the competitive model of performance management of employment services. For the most part, this is due to reductions in service intensity and quality rather than improved cost-effectiveness.

² The shift from separately funded wage subsidies to reliance on the Employment Fund resulted in a halving of the number of subsidies awarded in the first part of 2019 compared with the previous year. See ACOSS (2020), [Submission to the Senate Inquiry into the Jobmaker wage subsidy scheme](#).

This has contributed to high levels of long-term unemployment, an outcome that is much more costly for those affected, for communities and for governments.³

Along with policies to recover from recession and boost employment, we advocate efficient, well-targeted investment in employment assistance to overcome this problem, especially in programs (such as wage subsidies and training) underpinning the proposed guarantee. Australia spends well under the average level of wealthy OECD nations on employment assistance. An increase to *at least half the average OECD level*, at a cost of around \$700 million a year, is likely to be needed.

Recommendations

Recommendation 1

1. The main goals of the new payment model should be to:
 - (1) Properly resource the essential service infrastructure for employment assistance for people who are disadvantaged in the labour market, especially an adequate number of suitably qualified frontline staff to support people who are unemployed and employers;
 - (2) Encourage and support efficient and timely investment that improves the employment prospects of each individual (for example, in wage subsidies, training and professional services);
 - (3) Encourage and support providers to work in partnership with employers, community organisations and other services at the local level, in a combined and persistent effort to reduce unemployment;
 - (4) Support a diversity of providers, including locally-based and specialist not-for-profit organisations with limited access to capital.

Recommendation 2

2. Compared to the jobactive model, the new fee structure should shift the balance of resourcing:
 - (1) Towards payments made earlier in the life of a service;
 - (2) Towards recurrent payments for quality services that meet licensing standards;
 - (3) Towards support for people unemployed for longer, and otherwise more disadvantaged in the labour market;
 - (4) Away from payments for outcomes, and, in the absence of 'Star Ratings', to target those payments to net impacts (value added);
 - (5) Towards common service and outcome benchmarks rather the competition among providers.

Recommendation 3

3. The new fee structure should have the following components:

³ TASCOS analysis of costs of long-term unemployment.

- (1) *Commencement fees* to assist providers to develop the necessary service infrastructure, especially new entrants to the program and smaller providers with limited access to capital;
- (2) Recurrent *administrative fees* at a level sufficient to substantially reduce frontline caseloads and meet our proposed [quality assurance requirements](#) for employment service licenses;
- (3) An *Employment Fund*, credited *annually* in respect of each participant in the program, to support flexible investment in assistance to overcome barriers to employment;
- (4) *Outcome fees* for measureable employment and other outcomes achieved above benchmark levels, so that providers focus their efforts on results.

Recommendation 4

4. *Commencement fees* could be a uniform amount for each new program participant, and/or a lump sum advance of those payments based on a provider's share of the anticipated local caseload.

Recommendation 5

5. *Administrative fees* should be:
 - (1) Paid on a regular basis, based on caseloads with a regional loading;
 - (2) Sufficient to enable providers to comply with licensing requirements regarding the qualifications and caseloads of frontline employees, as proposed in our [submission on licensing of employment services](#).

Recommendation 6

6. The *Employment Fund* should be credited *annually* in respect of each program participant and divided into two streams:
 - (1) A stream to assist program participants with *incidental costs* such as transport, licenses, work-related clothing or tools, which would vary in accordance with typical costs in each region (for example transport), and the profile of participants (for example, interpreters);
 - (2) A stream to invest in *substantial assistance to overcome barriers to employment* (such as training and professional services).

Recommendation 7

7. *Outcome fees* would be paid on the following basis for quantifiable employment and skills outcomes:
 - (1) Employment outcomes sustained (in the same job) for four to 26 weeks *above minimum benchmark levels* would attract payments, with higher payments for jobs that pay enough to ensure that income support is no longer needed.

The minimum benchmarks – achievement of which would be required to sustain a contract – would be set at modest levels based on the average employment prospects of different groups of participants in different regions, rather than the relative performance of providers.

- (2) Participation in, and qualifications gained from, appropriate education and training courses would attract outcome fees, generally at lower rates than employment outcomes.

Recommendation 8

8. The level of Employment Fund credits and outcome fees attached to each participant would depend on:
- (1) Their duration of unemployment (for example, under 1 year, 1-2 years, and 2 years and over);
 - (2) Their tier of service (first or second tier, as determined by an agency independent of providers).

Recommendation 9

9. *Progress fees* would not be part of the main employment services model, but could apply to separate programs for people or regions with complex needs.

Recommendation 10

10. Future employment services, their participants and employers would also draw upon programs that offer support with:
- (1) Work experience paid according to national workplace standards (including wage subsidies);
 - (2) Career guidance and foundational and vocational skills training;
 - (3) Local partnerships between service providers, employers, community organisations and governments pursuant to local employment plans.
 - (4) Partnerships between community and employment services to support employment transitions for people with complex needs, such as mental illness or homelessness.

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