



29 June 2009

Chair  
References Committee on Education  
Employment and Workplace Relations  
Parliament House  
Canberra 6200

Dear Senator,

### **DEEWR tender process for employment services contracts**

This letter serves as our submission to your Committee's inquiry into the DEEWR tender process for employment services contracts.

ACOSS does not generally comment on the detailed outcomes or processes of specific Government tenders affecting member organisations and other community agencies. We do not claim specialist expertise in regard to this particular tender as there are peak bodies (including Jobs Australia, an ACOSS member) that deal with issues specific to the employment services sector.

Instead, this submission raises a number of issues of general principle relating to the design and conduct of the tender, and comments on some of the wider terms of reference that deal with the strengths and weaknesses of the new employment services system.

Our main policy focus is on the quality and effectiveness of the services available to job seekers. In general terms, ACOSS also represents the interests of the community sector in regard to their funding arrangements and relationships with Government. The loss of employment by many community service workers during an economic downturn is also of concern to us.

It is too late to significantly change the decisions made in awarding tenders, so most of the comments in this submission go to lessons that can be learned for future employment services purchasing arrangements.

### **New employment services system**

ACOSS was among the peak bodies that participated in the consultation process leading to the establishment of the new employment service system - Job Services Australia. A number of important and very welcome changes were introduced, compared to the Job Network arrangements. The new system is designed to give providers more flexibility to respond to individual needs rather than following a rigid sequence of assistance. It increases the level of resources available to providers to assist those at risk of long term unemployment, and makes it simpler for providers to use funds set aside to assist job seekers overcome barriers to work (the Employment Pathways Account). Also, improvements in compliance arrangements should reduce the number of job seekers facing a loss of eight weeks of income support.



We also raised a number of concerns about the new system in our submission responding to last year's Exposure Draft (attached). Some of these are relevant to your Term of Reference (h) regarding the sustainability of the new model in the economic downturn, which poses an enormous challenge to the viability and effectiveness of employment services.

Our main concern is that the resources available to providers to assist long term unemployed people in the Work Experience stream are generally lower than those available to assist people at risk of long term unemployment in Streams two to four. Given the greater barriers to employment faced by most long term unemployed people, the allocation of resources between shorter and long term jobless people is 'upside down'. This is an unusual feature of the new employment services system, compared with those operating in other OECD countries. Compared to Streams two to four, the Work Experience phase is also relatively inflexible in its design.

The most significant social and labour market impacts of the current recession will be felt through growth in long term unemployment. There are already over 300,000 people on Newstart Allowance for over 12 months and this number will rise substantially as unemployment increases. In addition, claims for Disability Support Pensions are likely to escalate and most of the 500,000 or so recipients of Parenting Payment have already received that payment for more than 12 months.

There is a danger that very high levels of long term joblessness will once again become entrenched coming out of the present recession. This will raise the level of structural unemployment, making it harder to reduce overall unemployment as the economy recovers. It also has harmful social consequences since long term jobless people generally experience financial hardship and poor health, and are often clustered together in deeply disadvantaged communities because they can no longer afford to rent elsewhere. Unlike many other OECD countries, a majority of long term jobless Australians are of middle age. Many have children who are also affected by these living conditions. For these reasons, policies to reduce long term joblessness must play a central part in the Government's social inclusion strategy.

Given the economic climate and the design and resourcing of the Work Experience phase, it is likely that the pool of job seekers in Work Experience will expand considerably as more job seekers flow into long term unemployment and fewer people leave it. This has implications for the viability of providers, especially in regions most affected by the recession, as well as for job seekers and their families.

ACOSS proposes that the resources available to providers in the Work Experience phase be enhanced significantly, to at least an equivalent level to those provided for Stream 2 job seekers. The Employment Pathway Fund for these job seekers should be raised to at least \$750 and this should apply to each year of subsequent unemployment (rather than a flat \$500 for the provider to offer assistance to overcome barriers to work for the remainder of the individual's current spell of unemployment, as is the case in the new model). The range of options available to providers to assist long term unemployed job seekers should be expanded by introducing a paid work experience scheme of approximately 6 months' duration to keep job seekers engaged with the mainstream labour market, embed vocational training in a work setting, improve work skills and habits, and widen the networks they can use in their job search. We welcome the introduction of the Jobs Fund but



note that its main purpose is to stimulate economic activity in the short term at a local level rather than to assist long term unemployed Australians improve their future job prospects. To date, positions offered through the Fund have not been targeted specifically to unemployed people. The Innovation Fund will assist providers to experiment with new models of service provision for long term unemployed people, but on a relatively small scale.

A second factor affecting the viability of services in the current economic conditions is the likely reduction in outcome fee revenues, compared with the levels anticipated when the system was designed. This will particularly affect revenues from outcome fees for the hardest to place job seekers such as those in Streams three and four and those in Work Experience. In addition to improving resources for the Work Experience phases, the Government could address this problem by increasing the fees attached to job seekers in Streams one and two, which are also under-resourced.

A third concern we have raised about the design of the new model is whether the new system can accommodate providers who specialise in assisting deeply disadvantaged job seekers such as those currently assisted through the PSP and JPET programs. Related to this is the transition of many of these job seekers from Stream 4 to the relatively poorly resourced Work Experience phase within 18 months. Providers have indicated to us that this is not sufficient time to work intensively with these job seekers to improve their employability.

### **Tender process and outcomes**

In regard to the conduct of the tender process, we wish to briefly raise five issues.

First, when the Government announced that it was reviewing the employment services system, ACOSS and a number of provider organisations sought an extension of the date of commencement of the new model beyond 1 July 2009 so that the existing system and options for reform could be more comprehensively evaluated. This was not supported by the Government, on the grounds that existing contracts could not be rolled over beyond that date. Whether or not this problem could have been avoided, the very short time frames for evaluating the existing system, consulting over the development of a new one, and designing and implementing the tender were counter productive. A great deal of stress was placed on all stakeholders, including the Department, and it is likely that better decisions would have been made in some areas with the benefit of more time. This includes taking account of the global financial crisis (as was done recently in the design of the new employment services tender in the United Kingdom), though of course this could not have been foreseen at the time.

Second, a full tender process is very disruptive to services and job seekers. Previous tenders adversely affected the performance of providers both prior to the tender and afterwards, and many job seekers had difficulty transitioning to new providers.

ACOSS supports the principle that existing providers and new entrants should at regular intervals (for example, three yearly) have an opportunity to bid for new or increased 'business share'. This opens up the system to innovation and contributes to service improvement. However, the present tender arrangements are a very costly



and disruptive way to achieve this. One way to achieve this goal while avoiding the transaction costs and disruption of a full tender is to roll over the contracts of strongly performing providers and tender for the remaining business share. This has been done on previous occasions. This approach is also preferable to the current process of annual reallocation of business from low to higher performing providers, which makes it difficult for providers to undertake long term business planning and give their staff a degree of security of tenure, and also distorts their service planning towards actions that improve short term outcomes.

Other options should be considered, including the establishment of a system of 'preferred providers', based on a strong and sustained performance.

We appreciate that comprehensive arrangements have been put into place to transition job seekers into the new system, including the 50% or so who will be connected with a new provider. Hopefully, the serious transitional problems associated with the 2003 tender can be avoided on this occasion. The arrangements include personal referral of PSP and JPET jobseekers from the existing to the new provider, letters to jobseekers informing them of their new 'default' provider, and the provision of detailed lists of job seekers to the providers so that they can take the initiative to contact them.

It is vital that these arrangements take account of the low literacy levels and high geographic mobility of job seekers, for example by communicating by phone or through Centrelink in addition to sending letters. In order for job seekers to exercise an effective choice over their provider there should be ample opportunities for them to obtain information about local providers through Centrelink or another neutral source, and to contact local providers to discuss the kinds of services they provide before making a decision. This will be difficult to achieve in areas where new providers are opening for the first time from 1 July (the date by which job seekers have to exercise their choice). Greater flexibility should be built into these arrangements since even in the new system, once job seekers make a choice it will not be easy for them to change providers

A related issue is the treatment of job seekers under the social security compliance system where they fail to attend their first interview with a new provider. Although they would normally be given an opportunity to 'reconnect' before being financially penalised, the initial failure to attend an interview with the provider may still count for the purposes of the 'three strikes' rule that triggers a comprehensive compliance assessment and possible loss of payments for eight weeks at a later stage. Given that some job seekers will inevitably be confused about the new arrangements (despite the best efforts to inform them) leniency should be exercised in these cases through the 'reasonable excuse' provisions.

Our third concern relates to the selection criteria and process of the tender. There appears to have been a heavy reliance on quality of submissions (as distinct from demonstrated performance in the existing system or elsewhere) within the tender process. Previous performance as measured in the Job Network performance management system (including 'Star Ratings') was given only a 30% weighting in the selection criteria. This was, of course, known by providers at the outset of the tender but in retrospect too much emphasis appears to have been placed on submissions and too little on evidence of performance.



The new system is not so fundamentally different from its predecessors to justify downplaying the weighting given to existing performance to that extent. This would be of less concern if the assessment process was iterative – that is, if there were opportunities for interaction between the assessors and tenderers during the process to better assess their strengths and weaknesses and explore the veracity of claims made in submissions. The playing field appears to have been tilted in favour of those with a strong submission, as distinct from a strong performance in the field.

Our fourth concern about the tender process is in the way in which the results were given to applicants and the lack of detailed information provided by the Department on the breakdown of winning bids by Employment Services Area. One group of bidders – referred to as ‘preferred providers’ - were informed of the outcome a fortnight before others. This caused a good of deal of confusion and concern as word spread through the provider grapevine. In the event, some of these bidders were unsuccessful. When the final announcement was made, providers were given only a few hours’ prior notice before the information was posted on the website. This meant that in many cases their employees heard the news before providers had the opportunity to properly inform them.

Further, bidders have not been given detailed written feedback on the basis for the scores they obtained. This added to the confusion and concern among those unsuccessful bidders who had performed very well in the existing system.

A detailed breakdown has not yet been provided of the business shares granted to different bidders, which makes it difficult to assess whether diversity among different kinds of providers has been enhanced or reduced.

Our fifth concern is that the profile of providers may have shifted in ways that weaken the provision of high quality services for disadvantaged communities. This could occur if fewer resources are available to not for profit providers with strong connections in local communities, or providers that integrate their employment services with other community services for disadvantaged people such as homelessness or family counselling services (including specialist providers offering services under the JPET or PSP programs). This has implications for the effectiveness of the Government’s social inclusion strategies. In the absence of the above information, it is difficult to judge whether this has occurred.

In conclusion, it is useful to review the strengths and weaknesses of the tender process so that purchasing arrangements can be improved in future. We believe there is room for improvement in the areas referred to above. ACOSS also looks forward to further opportunities to raise our wider concerns about the adequacy of employment assistance and income support for those who will be most severely affected by the recession – long term jobless people and their families.

Yours sincerely

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