



Towards more efficient and responsive
employment services: submission to
APESAA

ACOSS Paper 184

Australian Council of Social Service

Locked Bag 4777, Strawberry Hills, NSW, 2012. T (02) 9310 6200 F (02) 9310 4822

info@acoss.org.au www.acoss.org.au

This submission was prepared by ACOSS Senior Policy Officer Peter Davidson in consultation with Employment policy advisers.

First published in 2012 by the
Australian Council of Social Service

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

ISSN: 1326 7124
ISBN: 978-0-85871-042-9

© Australian Council of Social Service

This publication is copyright. Apart from fair dealing for the purpose of private study, research, criticism, or review, as permitted under the Copyright Act, no part may be reproduced by any process without written permission. Enquiries should be addressed to the Publications Officer, Australian Council of Social Service. Copies are available from the address above.

Contents

Summary	4
The challenge for employment services	4
Weaknesses of the present system	5
Options for reform	6
1. The challenge: to reduce entrenched unemployment.....	10
2. The outcomes-based employment services purchasing model: what has changed and what has stayed the same	14
3. Possible directions for reform.....	19

Summary

ACOSS welcomes the opportunity to make a submission to this important inquiry on how Job Services Australia (JSA) and Disability Employment Services (DES) purchasing arrangements can be streamlined to reduce red tape and improve the responsiveness of these systems to jobseeker and employer circumstances and needs.

As these issues are complex and interaction among experts is more likely than a series of individual submissions to identify commonly perceived problems and solutions, we recommend that the Panel convene roundtables in the first quarter of 2012 to explore these issues in greater depth together with a range of stakeholders, and would be pleased to participate in further discussions with the Panel.

This submission focusses primarily on JSA, though many of the comments apply equally to the DES system. We do not, however, support the integration of the two systems, at least at this stage, as there is a risk that the benefits of specialisation in disability employment services would be lost.

The challenge for employment services

Employment services today are working with a growing proportion of income support recipients that remain unemployed long-term, or are at risk of prolonged unemployment:

- One out of every two Newstart Allowance recipients had received the payment for over 12 months;
- One out of three was aged over 44;
- One out of six had a partial work capacity.
- More than two out of five had less than Year 12 qualifications.¹

These jobseekers are likely to need one or more of the following:

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

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

¹ ACOSS (2011), *Beyond stereotypes*. Data on qualifications are for 2006 and are drawn from Cai L et al (2007), *Human capital and patterns of employment and welfare receipt*, Melbourne Institute Report 08/2007.

Weaknesses of the present system

In theory, programs such as the Job Network and JSA that are contracted out to non-Government providers and funded to outcomes are more innovative, responsive to consumers, and cost effective than programs in which providers are funded to offer fixed service inputs. In practice, while providers have been responsive to signals from the purchaser to achieve quick employment outcomes at a low cost, the drivers of responsiveness to the 'end' consumers – jobseekers and employers – are indirect and relatively weak.

In the Job Network, service innovation and responsiveness to consumers were blunted by requirements and incentives that encouraged providers to offer a standardised sequence of services aimed at placing jobseekers in the first available job at the lowest possible cost. Further, there was an increasing tendency for the purchaser to determine how services were offered and administrative burdens for providers were high.

The level of resources available to providers to assist the most disadvantaged jobseekers were typically well below what would be required to offer intensive, individually tailored services. The system was reasonably effective at keeping jobseekers active in the labour market but not at helping overcome barriers to employment.

These problems were acknowledged when the Job network was replaced by JSA, and the following improvements were made:

- greater targeting of assistance towards disadvantaged jobseekers in their first year of unemployment (including Stream 4 jobseekers who were previously assisted through the Personal Support program);
- more flexibility for providers to determine the timing and nature of periods of more intensive training, work experience or other activity. This was intended to support innovation and to keep jobseekers 'active' in a more productive way;
- measures to simplify administration, for example of the Employment Pathway Fund;
- a more open and collaborative relationship between the Department and providers².

However the system remains complex, over-engineered and under-resourced. Most disadvantaged jobseekers do not receive the individual help they need. There is still too much focus on short term employment outcomes and too little on long term intensive work with jobseekers and employers to ensure that jobs are sustained. As with Job Network, incentives embedded in the fee structure and performance management system of JSA still appear to drive providers towards a standardised model of service. The system does not fully engage and respond to the needs of its end consumers – jobseekers and employers.

² O'Connor B (2008), *The future of employment services in Australia*, Department of Education, Employment and Workplace Relations, Canberra

Options for reform

The Government has six levers available to it to improve the responsiveness of the employment service system to its end consumers and to change its culture from one of administering and complying with requirements to one of flexible, individual assistance for jobseekers and employers.

Under each of the following six headings, we present a set of options to overcome the problems identified above. Some are identified as ‘major structural reforms’ of the employment services system, the implications of which would have to be very carefully evaluated in consultation with providers, advocates and other experts. Others are labelled ‘short to medium term reforms’ which could readily be implemented, subject to consultation, in the 2015 contract round.

We emphasise that these are not formal recommendations – they are ideas for reform presented in the spirit of the current inquiry rather than firm policy proposals from ACOSS. Further, they are not presented as a ‘package’ of reforms. Each option has implications for other elements of the employment services system, so the packaging of reform would also have to be carefully considered.

1. Licensing and accreditation arrangements

Possible structural reforms:

- A licensing system could replace part of the regulation of service standards embedded in service contracts. Common elements of licensing regimes include a set of minimum service standards, a regulator (preferably independent of the organisation purchasing the service), and a fair, transparent and accessible formal complaints system.
- This could include a minimum qualification requirement for those providing direct services to jobseekers and employers.

2. Competition for business share

Possible short to medium-term reforms:

- Encourage jobseeker choice of provider by giving jobseekers more time to make the initial choice, allowing them to change provider (within limits) without having to justify this to DEEWR, and improving information about local providers through websites and seminars.
- Offer providers a more secure guarantee of business share (possibly through a system of ‘preferred contractors, chosen on the basis of consistently above-average performance) while at the same time increasing business share tolerances to enhance choice for jobseekers.

Possible structural reforms:

- Attach funding to individual consumers (jobseekers, and possibly employers) and increase their ability to choose the service that best suits their needs by removing guaranteed business shares. This is the system that operates for child care services (for example) and was recommended for employment services by the Productivity Commission in 2002. Minimum service standards would be enforced through licensing arrangements and incentives to improve service performance would be strengthened by replacing the present system of payment for 'gross' outcomes with payment for 'net' outcomes (see 'payments for outcomes' below).

3. Payments for outcomes

Possible short to medium-term reforms:

- Extend the duration of employment outcomes that attract outcome payments, for example from three months and six months to six months and 12 months, to encourage greater emphasis on longer term, stable employment outcomes for jobseekers.
- Remove the distinction between provider assisted and brokered outcomes and simplify the outcome payments structure.

Possible structural reforms:

- Strengthen the role of outcome payments as incentives for providers by linking outcome payments to the star ratings system (paying to 'net' rather than 'gross' outcomes). Outcome payments could be substantially increased but then limited to outcomes above a minimum level – somewhat below the average outcome expected for a given category of jobseeker in each Employment Service Area. Ultimately, this could replace the current performance management system (see 'competition for business share', above), if this is considered desirable.

4. Collaboration between employment and other services to assist people with multiple needs

Possible short to medium-term reforms:

- To encourage partnerships between employment service and training providers to improve the qualifications and job prospects of low skilled jobseekers, introduce supplementary funding for employment service providers that collaborate with RTOs to improve the qualifications of low skilled jobseekers (including for those who are themselves RTOs) and for RTOs that work with employment service providers to deliver training and related supports that are more relevant to the needs of

disadvantaged jobseekers (given the greater difficulty in improving the qualifications of this group).

Possible structural reforms:

- To encourage partnerships between employment service providers and local health and social support services to build pathways to jobs for people with multiple barriers to employment in disadvantaged localities, offer supplementary funding for employment services to work with relevant local health and social support services, and encourage State and Territory Governments to supplement the funding of those services for the same purpose.
- The Local Connections to Work program or a similar joint interview and assessment process at the local level could provide the gateway to these more comprehensive services for the minority of jobseekers with entrenched, multiple barriers to employment.

5. Service fees and the Employment Pathway Fund (EPF)

Possible short to medium-term reforms:

- Maintain some form of Employment Pathway Fund but further ease the administrative requirements surrounding it.
- Reduce the role of service fees in the payment structure for employment service providers and introduce greater flexibility into the sequencing of interviews with jobseekers.
- Allow providers to make greater use their own information technology platforms by reducing the level of detailed information that has to be input into the Department's system.

Possible structural reform:

- To facilitate jobseeker engagement with employment services, give disadvantaged jobseekers the option, under certain conditions, to choose how a portion of the EPF is spent by the provider. This is similar in principle to the Dutch system of Individual Reintegration Agreements.

6. Adequate, well-targeted investment in disadvantaged jobseekers.

Possible short to medium-term reforms:

- Absorb Stream 1 of JSA into the existing Stream 2
- Replace the Work Experience phase with a continuation of Stream 3 levels of assistance (service fees and Employment Pathway Fund credits) for each additional year of unemployment.

Possible structural reform:

- Administratively separate the provision of less intensive employment services for short term unemployed people assessed as 'job ready' from the more intensive services for those in higher streams and long term unemployed people. This could be done by providing services for a merged 'Stream 1 and 2' group of jobseekers through Centrelink, leaving JSA providers to specialise in assistance for disadvantaged jobseekers (Streams 3 and 4, and long term unemployed people).

1. The challenge: to reduce entrenched unemployment

The main objectives of these employment services are to increase the employment prospects of unemployed people and reduce reliance on public income support.

Most unemployed Australians on Newstart or Youth Allowances secure employment within three months of claiming benefits. This group needs limited help with job search. A substantial investment in employment assistance for this group would incur significant deadweight costs for Government.

The main challenge for employment services today is how best to assist the minority that remain unemployed long-term, or are at risk of doing so. Due to their longer payment durations, this group forms a majority of jobseekers on income support at any given point in time. Despite Australia's relatively low unemployment rate they face increasingly steep barriers to employment (see Figure 1). This is due to a selection effect - as unemployment has fallen employers have offered jobs more quickly to 'job ready' unemployed people leaving a relatively disadvantaged group on unemployment payments.

Last year, for example:

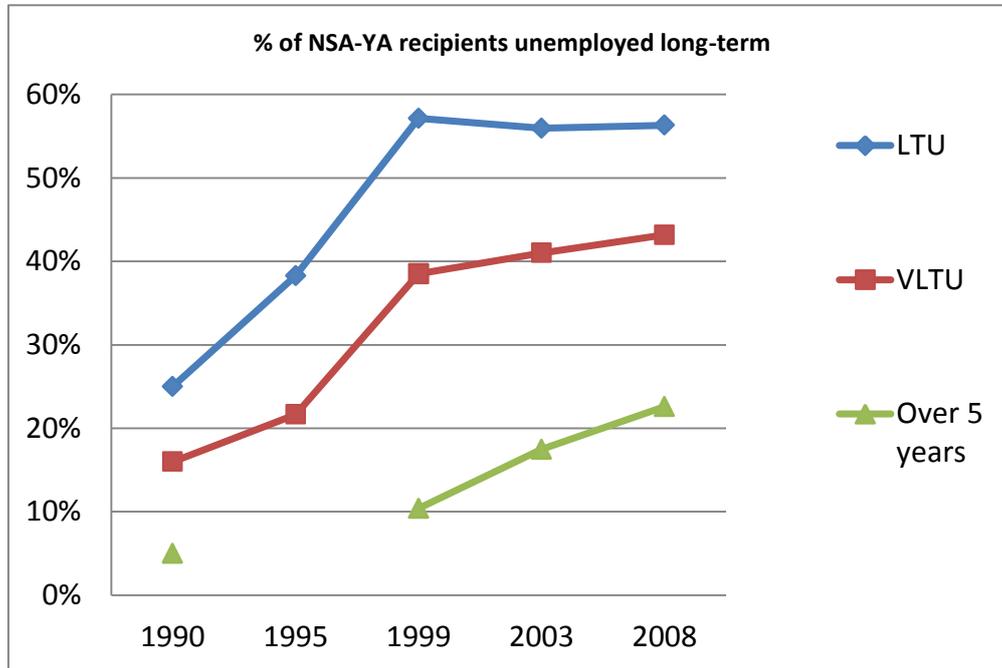
- Six out of every ten Newstart Allowance recipients had received the payment for over 12 months;
- One out of three was aged over 44;
- One out of six had a partial work capacity.
- More than two out of five had less than Year 12 qualifications.³

Many disadvantaged jobseekers live in areas with high and entrenched levels of unemployment. A significant minority (of unknown size) faces combinations of employment, health and personal barriers to employment that require sustained, intensive and integrated delivery of employment, health and social support services.⁴

³ ACOSS (2011), *Beyond stereotypes*. Data on qualifications are for 2006 and are drawn from Cai L et al (2007), *Human capital and patterns of employment and welfare receipt*, Melbourne Institute Report 08/2007.

⁴ It cannot be assumed that this group equates with Stream 4 jobseekers.

Figure 1: The changing profile of Newstart and Youth Allowance (Other) recipients



Source: FaHCSIA (various years), *Income Support Customers, a statistical overview*.

The employment services system therefore needs to deliver substantial, individually tailored assistance to a large number of disadvantaged jobseekers – well beyond the target group for ‘Stream 4’ services. It also needs to provide basic job matching and job search assistance services for those unemployed people without identified barriers to employment, and to distinguish between these two groups to target levels of assistance according to need.

Figure 2 shows how jobseekers using JSA services through the year to March 2011 were distributed into different Streams, and compares their employment outcomes.⁵ It shows that 35-40% of JSA clients were either in streams 3 or 4 or in work experience (that is, long term unemployed), and that their average employment outcomes were less than 40% compared with more than 50% for Stream 1 and 2 jobseekers.⁶ The proportion of jobseekers in Work Experience can be expected to rise substantially by the end of this contract as more people complete their first year of JSA services.

⁵ This is a different statistic to the point-in-time estimates of NSA-YA recipients shown above.

⁶ The proportion of Work Experience jobseekers who are not also in Streams 3 or 4 (and hence double-counted in this estimate) cannot be calculated from the data available; however we understand the majority are in Stream 3.

Figure 2: Employment outcomes of unemployed people using JSA services, through the year to March 2011

Service received	No of jobseekers	% employed 3 months after assistance
JSA Stream 1	502,000 (34%)	58%
JSA Stream 2	462,000 (31%)	54%
JSA Stream 3	338,000 (23%)	35%
JSA Stream 4	172,000 (12%)	25%
JSA Work experience*	168,000 (11%)	37%
All JSA	1,473,000 (100%)	49%
DES (Disability Employment Services)	109,000	35%

DEEWR (2011) Labour Market Assistance Outcomes, year ending June 2011 and Senate Education Employment and Workplace Relations Committee EW0711_12

Note that most employment outcomes are part-time so that many with employment outcomes are still on income support.

* Those undertaking a work experience activity are also counted within their Stream, above.

Note that many of those employed after assistance would have secured a job without the program, so this table does not measure the outcomes achieved by the program.

Although employment assistance does not typically make a big difference to employment outcomes for job-ready unemployed people, well-designed and targeted employment services for disadvantaged jobseekers can achieve a 10 percentage-point improvement in employment outcomes over the medium term (6 to 12 months), and can do so on a large scale.⁷ Although at first blush this is a small impact, if it can be sustained for a number of years as unemployment falls and most do not return to income support, then employment assistance will greatly reduce unemployment and reliance on income support. Well designed, well targeted employment programs for disadvantaged jobseekers have substantial fiscal and social benefits. These extend well beyond reducing unemployment since long term unemployment has adverse social impacts, especially when it is concentrated within families and local communities.

⁷ DEWR (2006a). 'Customised assistance, job search training, and work for the dole, a net impact study', Department of Employment and Workplace Relations; DEEWR (2010a), Labour market assistance, a net impact study; OECD (2005), Employment Outlook, Organisation for Economic Cooperation and Development, Paris.

While 'activation' (consistent engagement of jobseekers with the labour market) is a key prerequisite of effective employment assistance, long-term and disadvantaged jobseekers generally need more than activation and basic job search assistance to help them overcome their hurdles to employment.

They are likely to need one or more of the following:

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

Close collaboration with employers to assist these jobseekers to settle into a job, upgrade their skills, and, where necessary, to help the employer with supervision and job re-design, is also crucial in many cases.

Disadvantaged jobseekers need intensive, individually tailored assistance. The challenge for providers is to invest in the most effective assistance for each jobseeker without over-investing. The challenge for Governments is to design an employment services system that gives providers the resources and incentives to do so.

2. The outcomes-based employment services purchasing model: what has changed and what has stayed the same

In theory, contracting for employment services can improve the efficiency of services by removing them from the rules-based environment of Government service delivery, encouraging competition, increasing responsiveness to the needs of service users, containing costs, and creating more space for innovation. Further, by funding to outcomes rather than inputs, Governments theoretically give providers more scope to innovate and tailor services according to need.

Few employment service providers, consumers, advocates and expert commentators would argue that the present employment services system achieves these things. Compared with overseas systems, the Australian system has fostered competition and contained the cost of delivering a standardised service, but innovation and consumer responsiveness are limited.

A significant constraint on the system's responsiveness to jobseekers and employers is that it operates as a Government purchasing regime, not an employment services 'market' as it was once described. The key relationship is that between the Department and providers. Providers have been very responsive to signals from the purchaser to achieve quick employment outcomes at a low cost. However, the drivers of responsiveness to the 'end' consumers – jobseekers and employers – are indirect and relatively weak. Too often, their role is reduced to that of 'followers of rules' rather than active participants who influence or shape of the services provided. If the system is to be effective in assisting more disadvantaged jobseekers, its responsiveness to the 'end' consumers will have to improve.

There is no simple formula for the design of a cost effective employment services system for disadvantaged jobseekers – one that encourages intensive engagement with jobseekers and employers and efficient investment in each jobseeker. Since the establishment of the Job Network, Australia and other countries have experimented with different solutions as problems have emerged.

In particular, it soon became clear that the original 'black box' purchasing model for the Job Network, which paid providers a capitation fee for each new client and outcome fees once they secured a job, could lead to 'parking' of harder to place jobseekers. This reduced the program's effectiveness and was also contrary to Government 'activation' policies. The Active Participation Model (APM) introduced in 2003 sought to resolve this problem through the introduction of fee for service arrangements and a Job Seeker Account (now the Employment Pathway Fund), which providers could only use for a range of 'additional' services for jobseekers.

This shift towards greater Government direction of provider activity, together with an over-emphasis on the benefit compliance role of employment assistance, was the genesis of many of the 'red tape' problems that confronted the new Government when it designed JSA. However, a return to the 'black box' approach (which is now being pursued in the United Kingdom) would likely lead to a resurgence of 'parking' and make it more difficult for Government to ensure that providers are held accountable to deliver a quality service for all.

In the Job Network and JSA systems, the most powerful driver of provider investment in jobseekers is the performance management system (especially the 'star ratings') rather than outcome payments. In 2009-10, outcome payments comprised only 13% of Government expenditure on JSA, compared to 62% for service fees and 25% for the EPF.⁸ The star ratings also have much greater impact on provider decision-making because they determine the survival of the outlet – whether it must tender to keep its business share and whether it loses it - rather than marginal changes in its level of funding.

One advantage of the star ratings over outcome payments as a driver of service improvement is that the former are based on the 'value-added' by the service (its net employment impact) rather than 'raw' employment and training outcomes.

A major problem with reliance on the performance management system to improve services is that the threat of a loss of business is a blunt instrument and the tender process is highly disruptive both for the system and for jobseekers and employers. A further potential problem is that, to the extent that the performance management system extends beyond 'star ratings' (an outcome measure) and also measures service inputs, the purchaser will determine the way in which the service is provided. This increases the red tape burden and may crimp innovation, reflecting the tension between outcomes-based purchasing and the purchase of specified services to ensure minimum standards and quality.

A further weakness of the Job Network was the inadequate resourcing of assistance for disadvantaged jobseekers. An individually-tailored service must be well resourced. A provider's 'freedom' to adapt services to individual needs depends on this as much as it relies on a lack of excessive regulation and 'red tape'. Official evaluations confirmed anecdotal impressions at the time that average levels of investment in vocational training, wage subsidies and other help to overcome barriers to employment were very low. On average only 25% of disadvantaged jobseekers receiving Customised Assistance (the highest level of assistance) received training and the average cost of training was just \$350. Similarly, only 10% received subsidised employment and the average cost was \$2,590.⁹ To the extent that providers relied on the Job Seeker Account to fund these services, the

⁸ Senate Education, Employment and Workplace Relations Committee, EW0713_12. Note that this was a period of higher unemployment.

⁹ DEWR (2006f), Jobseeker account evaluation, pp12, 20.

average investment in such services could not be much greater than \$1,000 for each jobseeker – though providers had the flexibility to redistribute Job Seeker Account credits between jobseekers.

Significant changes introduced with JSA to deal with these problems were:

- greater targeting of assistance towards disadvantaged jobseekers in their first year of unemployment (including Stream 4 jobseekers who were previously assisted through the Personal Support Program);
- more flexibility for providers to determine the timing and nature of periods of more intensive training, work experience or other activity. This was intended to support innovation and to keep jobseekers 'active' in a more productive way;
- measures to simplify administration, for example of the Employment Pathway Fund;
- a more open and collaborative relationship between the Department and providers.

However, these changes also had downsides:

- Since the overall level of resources in the employment services system was reduced (JSA cost less than the programs it replaced), higher levels of support for jobseekers in their first year of unemployment came at the expense of lower levels of support for long term unemployed people and Stream 1 jobseekers;
- Employment Pathway Fund credits for long-term unemployed people in the Work Experience phase are generally much less than the Job Seeker Account credits available to assist jobseekers in Job Network 'Customised Assistance'. Work experience and training are thus poorly resourced in the Work Experience phase. While an additional \$1,000 EPF credit will become available this year for providers to assist each very long term unemployed jobseeker, this one-off EPF credit must fund up to 11 months of 'activity' per year – an average of less than \$100 for each month of intensive activity;
- The introduction of four streams of assistance and the distinction between provider assisted and brokered outcomes greatly increased the complexity of the system and its focus on identifying each jobseeker's 'barriers' as distinct from their employment potential.

It is clear that a high quality service cannot be assured through the present system of service and outcome fees, and Star Ratings alone. Anecdotally, JSA consultants have high caseloads and low qualifications, and devote considerable time to administrative activities. Notwithstanding efforts to reduce 'red tape' in the employment services system, it is unlikely that these factors have substantially changed since the introduction of JSA, as the basic structure of the employment services system remains unchanged.

Detailed data are not available for JSA but a survey of Job Network staff in 2008 by Considine and colleagues found that the average consultant caseload was 110 jobseekers and on average consultants saw 12 jobseekers per day. Among Job Network employees (not only consultants), 17% had worked in the sector for less than a year and 31% for more than five years. Among front-line staff, just under 30% had Year 12 qualifications or less, just over 30% had a vocational certificate, and around 15% had a degree or diploma. They typically allocated 45% of their time to jobseekers, 12% to employers and 25% to 'contract

compliance' activities. Around 70% indicated (1 to 3 on a scale of 1 to 7) that their job was routine in nature.¹⁰

In an open market, consumers have a degree of influence over the quality of services provided. They can choose to go elsewhere. To a large extent, however, jobseekers are 'captive consumers' since they are required to participate in the system and it gives them very little opportunity to exercise effective choice of provider or to genuinely 'negotiate' the contacts of their Employment Pathway Plan. The system is designed to enforce behavioral requirements rather than to engage jobseekers as consumers.

This is illustrated by the lack of time given to jobseekers to make a considered choice of provider when they first apply at Centrelink for income support. The social security legislation requires that they register with a provider within two days. This was previously 14 days but it was shortened in order to 'rapidly connect' jobseekers with providers in the hope that some would abandon their benefit claims and others would find a job quickly. From the standpoint of efficient delivery of employment assistance to people who may need help over a long period of time, this is false economy. From the outset it sends the message to jobseekers that their relationship with providers is one of passive compliance rather than active engagement. This contributes to the number of 'no shows' at appointments with providers, which in turn generates more administrative and compliance activity and diverts providers from their role in helping people secure employment.

From the introduction of the Job Network to the establishment of JSA, the rate of attendance at provider interviews among disadvantaged jobseekers has rarely exceeded 70%. While this is due in part to unavoidable reasons such as illness or jobseekers obtaining employment, these attendance rates have prompted a good deal of policy effort to strengthen compliance arrangements, including the recent introduction of immediate payment suspensions for non attendance. Less effort has been devoted to reforms that make the employment services system more responsive to jobseekers - to convince them that interviews are worthwhile attending because the provider will offer practical assistance that improves their job prospects. The message often conveyed to jobseekers is 'you must attend' rather than 'you should attend because this will help you find a job'.

The distinction between provider assisted and brokered outcomes was intended to encourage providers to engage more with employers rather than rely on jobseekers to find employment themselves. Anecdotally, it has not had the intended effect. Intensive work with employers to encourage and assist them to employ disadvantaged jobseekers and to keep them on is the exception rather than the rule. Yet it is clear that if we are to make substantial progress in reducing unemployment among groups such as very long term

¹⁰ Considine et al 2008, *Activating states, transforming the delivery of welfare to work services in Australia the UK and Netherlands*, Australian report back to Industry partners, December 2008.

unemployed people, people with disabilities, mature age people with low skills, and Indigenous people, as much effort will have to be devoted to working with employers as to preparing jobseekers for employment.

Apart from the general incentives in the system to achieve employment outcomes (star ratings and outcome payments) there is no coherent system of incentives or resources to support collaboration between providers and other key services including training organisations and health and social support agencies. Providers were required to address these requirements in their tenders but it is difficult, and probably counter-productive, for the Department to 'enforce' such cooperation. It would be better to build incentives for such collaboration into the fee structure for providers and the funding arrangements for other training and support services, especially in deeply disadvantaged areas.

The above criticisms of the present employment services model are not directed at providers or their employees, who often 'go the extra mile' for jobseekers and employers despite the constraints of the model. They are directed at the factors that constrain them from doing their job properly, among which 'red tape' is a symptom of deeper problems.

3. Possible directions for reform

The Government has a number of levers available to it to improve the responsiveness of the employment service system to its end consumers and to change its culture from one of administering and complying with requirements to one of flexible, individual assistance for jobseekers and employers, including:

- licensing and accreditation arrangements;
- competition for business share;
- payments for outcomes;
- incentives for collaboration between employment and other services to assist people with multiple needs;
- service fees and the Employment Pathway Fund (EPF);
- adequate, well-targeted investment in disadvantaged jobseekers.

We respond to questions raised in the Discussion Paper below by discussing each of these 'levers' in turn. We present a series of options for reform rather than definite recommendations for change at this stage. Clearly, reform in any one of these areas would require adjustments elsewhere as they are an integrated system.

As a first step towards identifying changes that would make the system more responsive to jobseekers and employers, we suggest that the Government consult with focus groups of different segments of the jobseeker and employer populations to gauge their perceptions of the main strengths and weaknesses of the present employment services model and their priorities for reform. Focus groups would give people an opportunity to explore these issues in more depth than is possible in opinion surveys alone.

1. Licensing and accreditation arrangements

One of the most straightforward levers to improve service quality and responsiveness is a licensing system which imposes minimum service requirements for providers seeking to enter the market, or remain within it. These requirements are currently imposed through contracts with the purchaser rather than by legislative regulation. Legislative regulation would arguably introduce greater certainty and transparency into the system, provided it replaces the regulation of aspects of service delivery that already operates through contracts and does not simply add another layer of reporting and compliance requirements for providers.

Common elements of licensing regimes include a set of minimum service standards, a regulator (preferably independent of the organisation purchasing the service), and a fair, transparent and accessible formal complaints system.

An independent specialised regulator for employment services could improve transparency and help empower consumers, since the roles of purchaser and (quality) regulator would be

separated. If an independent regulator were established, it should handle complaints from consumers and regularly publish reports on the quality and effectiveness of the system as a whole, and should have reasonable access to the administrative data and research capacity required for this task.

Beyond basic service standards such as those contained in the service guarantees, it would be counterproductive to undertake detailed regulation of the range of services provided to jobseekers and employers by individual providers – whether by the purchaser or an independent regulator. Minimum qualifications for staff, greater transparency in relation to the services provided, rewards for desirable outcomes, and empowerment of end consumers are likely to be more effective levers for service improvement than detailed audits of service delivery by the each provider.

Since the provision of employment services for disadvantaged jobseekers is complex work requiring substantial skills, a critical element of any licensing regime for employment services would be a minimum qualification requirement for those providing direct services to jobseekers and employers. These requirements apply to most professional services, from child care to health care and legal services. They are designed to ensure that the people providing the service are capable of providing a service to a professional standard.

Although, on the face of it, a requirement that consultants hold minimum formal qualifications is a blunt and intrusive instrument to improve service quality, it allows Governments to step back from regulating the detailed provision of the service since consumers can be more confident that a certain quality of service will be offered. In any event, an individually tailored service for disadvantaged jobseekers ('case management') requires front line staff who are capable of exercising substantial judgement and discretion - that is, professional employees. A professionalised workforce is also a force for service improvement in its own right.

Transparency is crucial to any effort to improve service quality and outcomes, including through empowerment of consumers. Whether or not a licensing system is introduced, providers should be required to give consumers and the public sufficient information to make their own assessment of the range of services they provide and how they are provided (the provider's service delivery strategy) – rather than relying exclusively on star ratings information and treating service provision as a 'black box'. For competition among providers to work to boost service standards, service users need to know what forms of assistance they can reasonably expect to receive from different providers.

It would also be worth exploring ways to encourage, or require, providers to share information on effective strategies to assist disadvantaged jobseekers to secure employment. While this would increase the risk that investment in new techniques would benefit competitors, it would help ensure that best practice is disseminated more widely and rapidly. At the least, funding for service innovation should be subject to the provider's willingness to share information and data on successful (and unsuccessful) methods, and the

Department should assist providers to evaluate new methods through experiments (for example using random assignment methods to measure the impact of a new approach).

Independent researchers should also be encouraged and supported to evaluate new techniques, for example by improving access to administrative databases and contracting them to undertake evaluations of experimental programs. For at least the past decade, the vast majority of evaluations of employment assistance in Australia have been conducted by the purchasing Department or researchers contracted by that body. While Departmental evaluations are generally of a high standard (and Australian Governments have assessed the effectiveness of new and existing employment programs more thoroughly and consistently than most OECD countries), service design and effectiveness could be improved if independent researchers and evaluators were more consistently involved in this field of research (as is the case in the United Kingdom, for example).

More detailed information should be provided on a regular basis on the profiles of employment service clients, the services they receive, and the outcomes attained. The regular Labour Market Assistance Outcomes publication is a good starting point, but the public and independent experts must await the publication of program evaluations (which may be publicly released some years after the reports were completed) to obtain more detailed data collected in 'real time' – for example on paid outcomes, expenditures of Employment Pathway Fund credits, and the average cost of assistance for different groups of jobseekers.

A further option to strengthen service standards is a voluntary system of 'higher level' accreditation above and beyond minimum standards (for example, along the lines of that applying to General Practice surgeries) to encourage providers to offer and market a higher standard of service. To some extent, the star ratings play this role though they do not directly measure service quality.

2. Competition for business share

The system of performance management (which has remained essentially unchanged since the Job Network) plays a critical role in the present employment services purchasing system. It is widely recognised that competition for business share is a stronger driver of performance than outcome payments. Performance management and tenders act as a substitute for competition among providers to attract jobseekers and employers, which is limited in the present system. Instead, providers compete to attract business share from the purchaser (the Government), mainly by improving their star ratings and/or tendering to provide services.

There is evidence to suggest that the maturation of a performance management system based on 'star ratings' and tenders significantly improved the efficiency of Job Network services (the average 'net employment impact' of employment assistance) in the late 1990s

and early 2000s, though it is less clear whether it has promoted ‘continuous improvement’ since then.¹¹ Anecdotally, service innovation has been limited since the beginning of the third employment services contract (the APM model) in 2003.

On the other hand, the present performance management system has high transaction (administrative) costs for providers and the Department and ‘full’ tenders are very disruptive of services and service performance. For example, there were a clear ‘dips’ in the performance of the system during and immediately after the 2000 and 2003 tenders when large numbers of jobseekers had to transition from one provider to another and many new or expanding providers had to establish services from scratch¹².

The star ratings system which sits at the centre of the present performance management system appears on the whole to measure the relative performance of providers reasonably objectively and accurately. Its most significant weaknesses are those of outcomes based purchasing generally: the measurement of the ‘employability’ of a group of jobseekers will always be imprecise, and the system encourages providers to concentrate their efforts on those disadvantaged jobseekers (that is, individuals drawn from the groups attracting the highest outcome payments and star ratings weights) whom consultants believe are closest to employment (for example, those already strongly motivated to seek employment). Since provider resources are very limited (including for disadvantaged jobseekers), consultant caseloads are high, and the average net impact of services is not large (for example, up to a 10% improvement in the probability of employment in the short term), providers can best improve their star ratings by focusing on this sub-set of disadvantaged jobseekers and providing a limited service to others. While this may be an efficient strategy for individual providers, it is not consistent with Government policies to ‘activate’ and assist all disadvantaged jobseekers.

Given these weaknesses, there is a point beyond which the intensification of competition for business share through star ratings will yield diminish returns (in service quality and effectiveness). Incentives for providers to ‘game’ the system (for example, through the misuse of wage subsidies) also increase with the intensity of competition. To guard against

¹¹ DEWRSB (2001), *Labour market assistance outcomes*, Year ending June 2001, Department of Employment, Workplace Relations and Small Business, Canberra; Productivity Commission (2002), *Report of the independent review of the Job Network*, Canberra; DEWR (2006a), *Customised assistance, job search training, and work for the dole, a net impact study*, Department of Employment and Workplace Relations, Canberra

¹² Australian National Audit Office (2005b), *Implementation of Job Network Employment Services Contract 3*, Canberra. While a large proportion of jobseekers in the employment services system also had to change providers after the 2009 tender, that transition process was better managed and it is difficult to compare the performance of the last iteration of the Job Network and the first JSA contract as the two programs are structured differently.

this and protect the public reputation of the program the Department must then intensify its monitoring of provider practices and adjust provider incentives (the rules of the game) repeatedly. This needlessly increases transaction costs and the extent of monitoring and regulation of provider activity.

An alternative way to structure competition among Government subsidised services, which was recommended for employment services by the Productivity Commission, is to attach funding to individual consumers (jobseekers, and possibly employers) and increase competition among providers to attract consumers by removing the system of guaranteed business shares.¹³ Minimum service standards would be enforced through licensing arrangements. This is the system that operates for child care services, for example. Such a system is likely to improve provider responsiveness to jobseekers, though it may not accurately reward their contribution to employment outcomes achieved. For this reason, any move in this direction should be accompanied by a strengthening of the system of outcome payments (see discussion of this below).

An employment services system along these lines was implemented in Holland in the mid 2000s for unemployment insurance recipients: Individual Reintegration Agreements or IROs. IROs were offered to jobseekers as an option alongside standard reintegration services that offered standardised packages of training, wage subsidies and employment counseling to cohorts of jobseekers (provided by contracted non-government providers who were paid to outcomes). Jobseekers chose an IRO provider on the basis of the services they agreed to provide, up to a ceiling of 5,000 Euros. Their registration with the provider, and the service agreement itself, still had to be approved by the purchaser (the social insurance agency), so the purchaser still had an opportunity to assess whether the agreement was likely to work for each jobseeker. Initial evaluations suggested that IROs were at least 10% more effective in assisting jobseekers into employment, possibly due to a combination of motivation effects and greater provider responsiveness to the needs of jobseekers. IROs proved very popular among jobseekers and their introduction led initially to a large increase in new (mostly small) providers, though the market later consolidated.¹⁴

The present JSA system 'tolerates' jobseeker choice up to a degree and beyond this it imposes 'guaranteed' business shares. Since jobseekers are given a largely passive role in the system this is straightforward to administer because only a minority actively choose their provider. The objectives of this system of regulated competition include to build a degree of stability into funding for providers, to reward high performing providers with more business share, and to exclude weaker performers – though of course there is a tension between the first of these goals and the other two.

¹³ Productivity Commission (2002), *Report of the independent review of the Job Network*, Canberra

¹⁴ Sol E, et al (2008) *Activation as a socioeconomic and legal concept – laboratorium the Netherlands*, in Eichhorst W, et al (2008), *Bringing the jobless into work*, Springer, Berlin.

While it increases the stability of the employment services system to a degree the system of guaranteed business shares is a key stumbling block to a more active role in the system for jobseekers (and possibly employers) as consumers. At the same time, the system of allocation of business shares through the performance management system and tenders can have a destabilising effect on services. Less frequent tenders, or a 'longer' guarantee of business share (for example through five year contracts), are not necessarily the best answer to this problem, as this would make it more difficult for Governments to make necessary adjustments to the system from time to time and to support continuous improvement in services, such as through the introduction of new providers.

If the more radical reform advocated by the Productivity Commission is not pursued, it would be worth exploring reforms that offer a more secure guarantee of business share for providers (perhaps at a lower level), while opening up more opportunities for jobseekers to choose their provider and to change providers if not satisfied with the service. The rolling over of business share for all but the lowest performing minority in the recent mid-term reallocation of business share was a good example of a practical compromise between raising performance through competition and stability in the employment services system. Another option which would have similar effects is a system of 'preferred providers', chosen on the basis of consistently above-average performance.

To strengthen jobseeker choice and competition among providers to attract jobseekers, at the least jobseekers should be given more time to make the initial choice, and permitted to change provider (within limits) without having to justify this to DEEWR. The flow of information to jobseekers about the services each local provider offers could be improved using official websites and seminars at Centrelink for new recipients of unemployment payments.

3. Payment for outcomes

Payment for outcomes can be a powerful lever to encourage efficient provider investment in jobseekers but its role has been reduced over the years in contrast to that of service fees, and has been overshadowed by performance management system.

The present employment services system uses the same data on employment outcomes achieved by providers in two different ways to prompt providers to improve their performance: it pays for employment outcomes and allocates business shares according to employment outcomes. These two performance improvement strategies overlap to a considerable degree, which suggests that it may be possible to combine them into a single process, and thereby reduce transactional costs and the service disruption arising from large scale tenders.

One option to strengthen the role of outcome payments and reduce reliance on the current performance management system (if this is considered desirable) would be to link outcome payments to the star ratings system. Outcome payments could be substantially increased but then limited to outcomes above a minimum level. This could be based upon (though somewhat lower than) either the projected level of outcomes that would be achieved without assistance, or average outcomes for jobseekers with similar characteristics in the same Employment Services Area. In addition to using its regression model to award star ratings, the Department could use it to award outcome payments. This may reduce the need to rely on the reallocation of business share as a performance improvement mechanism.

If the Productivity Commission's model of 'open competition' among licensed providers to attract jobseekers were implemented, it would be important (as discussed above) to strengthen the role of outcome payments in this or some other way as an inducement to improve performance.

A major advantage of paying to 'net' rather than 'gross' outcomes is that the 'deadweight cost' of outcome payments (the extent to which providers are rewarded for outcomes that would occur in the absence of employment assistance) would be reduced, which in turn would create room to increase outcome fees substantially.¹⁵

The main downsides of paying providers for 'net' employment outcomes rather than 'gross' outcomes include the difficulty of measuring 'net impacts' (or a reliable proxy) and the greater volatility of outcome payments that would result. If providers were paid only for the value they add to employment outcomes, and outcome fees were increased accordingly, then outcome payments would be much more sensitive to small variations in provider performance. Therefore, it is not clear whether replacing regular tenders for business share with a system of payment for net outcomes would stabilise the system. As with any system of performance management which relies on competition among providers, it is likely that it would replace one form of instability with another.

For these reasons, if such a system were introduced it would be sensible to experiment with systems of outcome payments that lie somewhere on the spectrum between full payment for 'gross' employment outcomes (the present system) and payments that are restricted to the estimated improvement in individual employment outcomes achieved by providers. For example, the minimum expected employment outcome above which providers are paid could, at least initially, be set at a level well below average outcomes achieved for a given category of jobseeker.

¹⁵ For a discussion of options to improve the efficiency of outcome payments, see Tergeist P & Grubb D (2006), *Activation strategies and the performance of employment services in Germany, the Netherlands and the United Kingdom*, OECD Social Employment and Migration Working Paper 42, OECD, Paris.

Consideration should be given to extending the duration of employment outcomes that attract outcome payments, for example from three months and six months to six months and 12 months, to encourage greater emphasis on longer term, stable employment outcomes for jobseekers. The United Kingdom has recently extended the qualification period for employment outcome payments in order to encourage investment in strategies that improve outcomes over the longer term, such as training. For the same reason, consideration could also be given to limiting at least the first payment to a continuous period of employment with a single employer. While most short term employment outcomes (including casual jobs) are associated with longer term employment outcomes, these changes would encourage a longer term orientation towards employment assistance, and are also likely to encourage closer relationships with employers.

While they are potentially a powerful driver of service improvement, it is not possible to design a system of outcome payments that produces exactly the desired response from providers. 'Parking' and inappropriate use of wage subsidies (though when properly used, wage subsidies are an effective form of employment assistance) are two examples of 'unintended consequences' of the incentives embedded in outcome payments and the star ratings system.

There has been a tendency in recent years to increase the complexity of outcome payments in order to fine tune provider incentives. The distinction between provider assisted and brokered outcomes is a recent example of a change that increased complexity and administrative cost without apparently achieving the desired outcome – to improve provider engagement with employers. This distinction could be removed and the outcome payments structure could be greatly simplified.

4. Collaboration between employment and other services to assist people with multiple needs

A key challenge for the Government's skills development and social inclusion agendas is to design incentives and supports for collaboration between employment service providers and related support services for disadvantaged jobseekers including training providers, health services and social support services.

The effective integration of employment assistance and education and training for jobseekers is a long standing goal of Australian Governments. It is fair to say that no strategy adopted to date has been particularly effective in pursuing employment and skills enhancement goals simultaneously. The historical division of Government administration into employment and training departments (or sections within departments), and the division of responsibilities between Commonwealth and State are part of the problem here. But it runs deeper than the so-called 'silo effect' in policy development and service

provision. These and other Government ‘silos’ have often developed in response to a need for specialisation in policy development and service delivery.

In the case of employment and training programs, there is a tension between policies that maximise people’s job prospects in the short term (which typically reward service providers for short-term job outcomes) and those which improve their skills and qualifications (which typically reward service providers for qualifications attained) and thereby indirectly enhance their longer term career prospects. This is reflected in the long standing policy debate between ‘work first’ and ‘human capital development’ strategies to assist jobseekers into stable employment. To some extent, this tension is eased if a longer term view is taken of employment outcomes, since skill development programs typically have their greatest impact two or more years after participants leave the program¹⁶. Therefore, one of the benefits of extending the duration of employment that attracts outcome fees for JSA providers is that it would increase incentives to invest efficiently in training and to collaborate with training providers to improve the skills of jobseekers.

A related problem is that mainstream education and training programs often fail to improve the qualifications of disadvantaged jobseekers, especially early school leavers. Often, this is because they leave the course before completion. Those with the lowest qualifications typically require intensive support beyond teaching (including financial support with training costs) and training that is work-centred (or combined with paid employment), rather than traditional classroom based training.¹⁷

It is unlikely that these tensions between employment and training programs can be resolved by combining them into a single program. This would confuse employment and training goals and may well reduce the chances of achieving either one in a cost effective way. Further, collaboration between service providers such as JSA and RTO providers cannot be ‘dictated’ through funding contracts. The answer may be to attack the problem at both ends by increasing incentives and resources for employment services such as JSA to invest in training while at the same time revising mainstream vocational education and training programs to better meet the needs of jobseekers.

Supplementary funding could improve the incentive and scope for these providers to work together to develop education and training programs that meet the particular needs of disadvantaged jobseekers. For example, employment service providers that collaborate with RTOs to improve the qualifications of low skilled jobseekers (and those who are themselves

¹⁶ Card D, Kluge J & Weber A (2009), ‘Active labour market policy evaluations, a meta analysis’, *IZA Discussion Papers* No 4002, Institute for the Study of Labor, Bonn.

¹⁷ ACOSS 2007, *The role of education and training in welfare to work*; Barnett, K & Spoehr J (2008), *Complex not simple, the vocational education and training pathway from welfare to work*, National Centre for Vocational Education Research, Adelaide.

RTOs) could be offered additional funding that is subject to the attainment of higher qualifications. RTOs that work with employment service providers to deliver training and related supports that are more relevant to the needs of disadvantaged jobseekers could also receive supplementary funding through mainstream training programs, given the greater difficulty in achieving outcomes for this group. Part of this funding could be conditional upon the attainment of related employment outcomes. The respective providers could be given the option of jointly applying for and ‘pooling’ these supplementary funds to support collaboration. It would be worth experimenting with a range of pilot schemes along these lines to establish what works best.

A similar approach could be taken to the integration of employment and other support services for deeply disadvantaged jobseekers such as health, housing and social support services. It is clear that mainstream services have not worked well for many jobseekers with multiple barriers to employment. Case conferencing and team based approaches to service delivery in which employment, health, housing and other local services collaborate closely are rare on the ground, and these arrangements usually operate in an ad hoc way outside program guidelines and funding arrangements.

As suggested above in regard to employment and training services, a system of supplementary funding that is either paid to each ‘specialist’ service provider or pooled among them could then be introduced to encourage and support local collaboration. One option here is for a single local agency (usually the one with the most intensive involvement with the client) to undertake the role of ‘lead agency’ and apply for and disperse supplementary funding.

The first step is to clearly identify the minority of jobseekers in disadvantaged regions who would benefit from this more intensive and collaborative approach, since it would be relatively costly. Selection of clients for this more intensive suite of services should be undertaken as far as possible at the local level, rather than simply targeting population groups such as young parents or program participants such as Stream 4 jobseekers on a national basis. For example, if eligibility for Stream 4 of JSA was used as the demarcation line between mainstream provision through JSA and a new ‘wrap-around’ program, it is not clear that the program would be well targeted. It is likely that many Stream 3 jobseekers have multiple barriers to employment and would benefit more from wrap around services than many Stream 4 jobseekers.

The assessment of need for more intensive and collaborative servicing could either be undertaken by the Department of Human Services or by each of the agencies involved in each local collaboration, and this could be followed by a case conference among the relevant agencies. Alternately, the Local Connections to Work (LCW) program could be expanded to provide a gateway to this more intensive form of ‘wrap around servicing’ (though LCW itself is not a substitute for this form of assistance).

While it may be worth experimenting with ‘wrap around’ service models in which a single provider offers the full range of additional employment, health, housing and other intensive supports needed by people with multiple disadvantages, or brokers the provision of those services among local providers, the risk with these more centralised or ‘hub and spoke’ models is a loss of the benefits of specialisation and clear lines of accountability to help individuals achieve clear outcomes. If separate programs and services (outside the scope of mainstream employment, health, housing and other programs) were established for this purpose, it would be a challenge to integrate these with the various mainstream programs. Yet this would be essential because the same individuals would typically be clients of a number of programs at the same time, while others would move between the new program and mainstream programs at different points in time.

5. Service fees and the Employment Pathway Fund

In 2009-10 service fees accounted for 62% of JSA funding. Reducing reliance on service fees is one way to swing the pendulum away from the current transaction-based model of service provision towards more flexible, individually tailored services.

If reliance on service fees were reduced, a different way would have to be found to keep prevent ‘parking’ by providers and including to ensure that providers maintain regular contact with every jobseeker. This is important to ensure that a good service is provided and that jobseekers are active in the labour market. If a more flexible way could be found to achieve this, so that each interview has a clear purpose from the standpoint of both the provider and the jobseeker, it might also reduce the considerable provider resources devoted to enforcing jobseeker compliance with interview requirements that often have no bearing on employment outcomes. For example, following the introduction of the Active Participation Model, when a stricter requirement was introduced for regular interviews during the first half of the Customised Assistance phase of the Job Network, considerable provider resources were diverted to ensure compliance (attendance at interviews) yet providers reported that more frequent interviews made little difference to employment outcomes. Ironically, the APM evaluation found that the requirement did not increase the frequency of interviews in any event.¹⁸

One of the major sources of red tape and administrative burden for providers is the information technology platform they are required to use to record transactions with jobseekers. This should be used as a tool for recording essential information, yet it often drives the interaction between consultants and jobseekers. Providers could be allowed to make greater use their own information technology platforms by reducing the level of detailed information that has to be input into the Department’s system.

¹⁸ DEEWR 2008, APM Evaluation.

The Employment Pathway Fund encourages provider investment in disadvantaged jobseekers and it provides a database to assess which interventions work best for different jobseekers. The main risks with this approach are the potential for high administrative burdens for providers and a tendency for Governments to be too directive in determining how the funds may be spent. These factors have contributed to under-spending of the Fund. However, in the absence of a mechanism such as the EPF, Governments would be likely to rely more on more intrusive mechanisms such as service fees or program-based funding (for example, a directive to deliver training courses) to overcome problems with outcomes-based purchasing such as creaming and parking.

A major problem with the present EPF is that it is inadequately resourced for disadvantaged jobseekers (see discussion of resourcing below).

One way to improve jobseeker motivation and engagement with the system would be to give disadvantaged jobseekers the option, under certain conditions, to choose how a portion of the EPF is spent by the provider. This is similar in principle to the Dutch system of Individual Reintegration Agreements discussed above.

6. Adequacy and targeting of resources

JSA and its predecessor are actually at least two programs rolled into one: a basic job matching and job search assistance service for 'job ready' jobseekers, and a more intensive service for long term unemployed people and those most at risk of prolonged unemployment.

Jobseekers are streamed into these different levels of service using profiling instruments (JCSI and JCA). On the whole they do a reasonably good job of predicting the likely employment outcomes for different jobseekers. A significant weakness of the profiling system, discussed earlier in this submission, is the speed with which 'new' jobseekers are assessed and referred to employment assistance. Also, many assessments are made over the phone. This results in non-disclosure of sensitive or complex information, since the assessor rarely has the opportunity to establish a professional relationship with the jobseeker before undertaking the assessment.

The main problems with the present system of 'streaming' of jobseekers within JSA are that it is much too complex, and that too few resources are targeted to long term unemployed people. When JSA was introduced, its budget allocation was lower than the sum of that of the programs it replaced. At the same time, the average level of resources allocated to Stream 3 and 4 jobseekers in their first year of unemployment were increased. This was to a large extent achieved by cutting the average level of assistance for jobseekers now in Stream 1 and for long term unemployed people generally (in the so-called 'Work Experience phase').

There is a strong case for abolishing Stream 1 since it does not allow even a minimum adequate level of service for job ready jobseekers, and employment outcomes for Streams 1 and 2 are not greatly different (though this is due in part to the upgrading of redundant workers to stream 2).

There is a strong case to retain the distinction between Streams 2 and 3 since the latter group is clearly more disadvantaged in the labour market. For example, the difference between their average employment outcomes is greater than that between Streams 3 and 4 (see Figure 2). In the absence of a Stream 3 or equivalent, many of those facing a high risk of long term unemployment would receive a minimal level of service.

The greatest flaw in the present distribution of employment assistance resources among different jobseekers is the very low level of investment devoted to long term unemployed people in the 'Work Experience phase'. It is as though, have tried to overcome the barriers to work of Stream 3 and 4 jobseekers in their first year of unemployment, the system then gives up on them. Providers are typically funded to offer long term unemployed people an interview every two months and \$500 worth of work experience or training.

As figures 3 and 4 show, typical service fees and EPF credits (taken together) for a Stream 3 jobseeker fall from \$2,200 to \$1,200 in their second year of unemployment (the first year of Work Experience), rise slightly in the second year to \$1,400, then drop to \$400 (below Stream 1 levels) for each subsequent year. The increase in resources in the third year is due to this year's Budget decision to increase EPF credits for very long term unemployed jobseekers, to facilitate the introduction of a new period of 11 months of compulsory work related activity during the second year of unemployment. However, this is the last EPF credit paid in respect of a long term unemployed jobseeker for the remainder of their unemployment spell.¹⁹

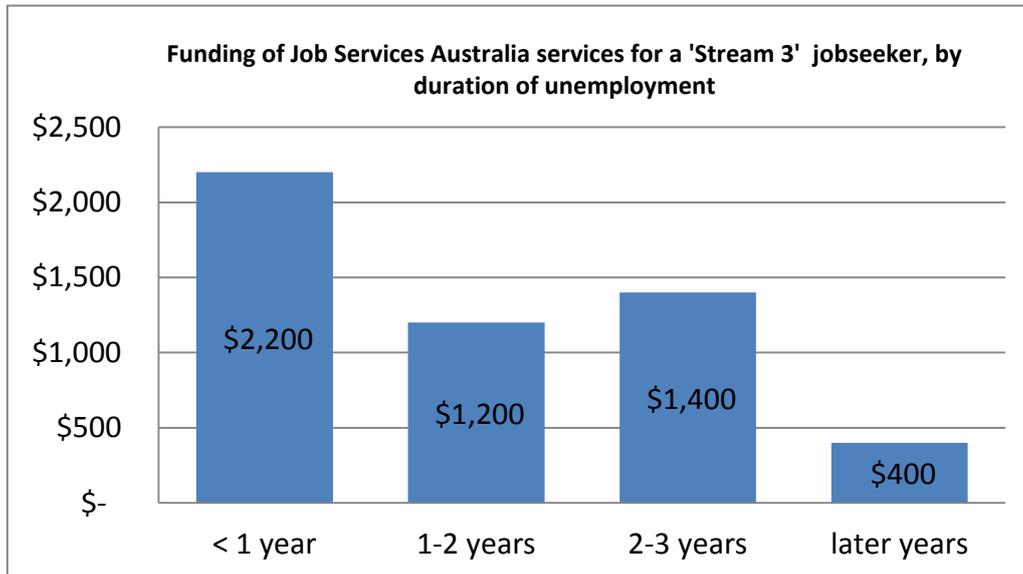
¹⁹ Importantly, providers have the flexibility to 'reallocate' EPF credits to raise the level of investment in other jobseekers, but this is a zero sum game – it comes at the expense of the jobseekers who attracted the credits in the first place.

Figure 3: Job Services Australia fee structure 2012-13 (simplified)

	Stream 1 (least disadvantaged)	Stream 2	Stream 3	Stream 4 (most disadvantaged)
Initial phase of JSA assistance (first 12 months of unemployment)				
Typical service fees	\$781	\$885	\$1,120	\$1,919
Employment Pathway Fund credits	\$11	\$550	\$1,100	\$1,100
Typical outcome fees	\$440	\$440-\$2,456	\$440-\$3,940	\$440-\$3,940
'Work experience phase' after 12 months of unemployment				
Typical service fees	\$722 for first year of work experience, \$398 p.a. thereafter	\$722 for first year of work experience, \$398 p.a. thereafter	\$722 for first year of work experience, \$398 p.a. thereafter	\$722 for first year of work experience, \$398 p.a. thereafter
Employment Pathway Fund credits	\$500 in first year of work experience \$1,000 in second year	\$500 in first year of work experience \$1,000 in second year	\$500 in first year of work experience \$1,000 in second year	\$500 in first year of work experience \$1,000 in second year
Typical outcome fees	\$550-\$2,258	\$550-\$3,350	\$550-\$5,550	\$550-\$5,550

Source: DEEWR 2008, Request for tender for employment services 2009-12, updated after 2011-12 Budget.

Figure 4: Resources for JSA providers to invest in a typical 'Stream 3' jobseeker



Note: Service fees and Employment Pathway Fund credits for a typical 'Stream 3' jobseeker in 2012-13.

Previous employment services systems in Australia, and most overseas models, offer more intensive help for long term unemployed people, not less. Given that the average 'net employment impact' of employment assistance *increases* after a year's unemployment it is inefficient to reduce the allocation of resources to jobseekers once they become unemployed long term²⁰. It is also inequitable since long term unemployed people face a high risk of more prolonged unemployment and social exclusion.

The system could be simplified and its effectiveness improved by replacing the Work Experience Phase with fee structure similar to that for Stream 3 jobseekers in their first year of unemployment. Since individuals are allocated to that Stream on the basis of a high risk of long term unemployment, and most current 'Work Experience phase' jobseekers are allocated to that Stream, this would make the transition to services for long term unemployed people relatively seamless, without introducing incentives for providers to delay assistance. Compared to the present system described in figure 4 above, each long term unemployed jobseeker would attract a total of around \$2,200 per year in funding through service fees and EPF credits. This does not imply the encouragement of providers to repeat 'failed' interventions each year: the providers would still choose how to spend the EPF credits each year, and could still re-allocate them from one jobseeker to another. On the contrary, it gives them the resources they need to individualise assistance for each long term unemployed jobseeker and work more intensively with them.

²⁰ DEEWR (2010a), Labour market assistance, a net impact study.

This reform would require more resources, but given the high risk of prolonged reliance on income support and social exclusion among long term unemployed people, it would be money well spent, provided the program is effective in significantly improving job prospects of long term unemployed jobseekers.

It would also improve the quality and variety of compulsory periods of intensive activity (work experience and training) for long term unemployed people. Further, if the 'new' 11 month period of intensive activity for very long term unemployed was reduced to six months, this would also assist providers to invest in worthwhile, intensive activities that improve their employment prospects rather than purchasing the cheapest available programs to 'fill out' 11 months of activity.

A more fundamental change that is worth considering is to administratively separate the provision of less intensive employment services for short term unemployed people assessed as 'job ready' from the more intensive services for those in higher streams and long term unemployed people. This could be done by providing assistance for a merged 'Stream 1 and 2' group of jobseeker through Centrelink, leaving JSA providers to specialize in assistance for disadvantaged jobseekers²¹. A similar division of labour applies in many countries that have been relatively successful in reducing unemployment, including the Netherlands and United Kingdom.

The main advantages of this approach are:

- A more seamless, and possibly more cost-efficient, income support and employment assistance service for job-ready jobseekers if this were provided through Centrelink;
- It would enable JSA providers to specialise in assisting more disadvantaged jobseekers, which could facilitate a culture shift from a large scale transaction-based service towards a more individualised assistance for disadvantaged jobseekers.

Providers would still be required to offer the full suite of employment services to disadvantaged jobseekers, and would concentrate on marketing those jobseekers to prospective employers, which might also improve their engagement with employers. For example, the most effective disability employment services (which of course specialise in assisting jobseekers who would normally be hard to place) devote considerable efforts to finding employers willing to take on people with disabilities and working with them intensively to redesign the job and train and support the jobseeker.

²¹ This already operates for Stream 1 jobseekers, to the extent that Centrelink is their main point of contact for the first 3 months. However, Centrelink is not properly resourced to provide basic job matching assistance.