Catholic Social Services
Australia

Submission to the Commonwealth Government:

2008-09 PRE-BUDGET SUBMISSION

January 2008

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BRIEF SUMMARY

SOME KEY THEMES

Why social inclusion warrants expenditure at a time of budgetary restraint

The Budget is the financial expression of policy. New expenditure on social inclusion is mandated by both economic and moral imperatives, not least in a time of budgetary restraint. For example, well-targeted money spent now will develop capacity, productivity and social cohesion and bring future savings in expenditure on social security, homelessness services and the criminal justice system.

Why Dropping Off the Edge *is critical in seeking to map and redress local disadvantage*

Identifying and redressing localised disadvantaged is critical for the promotion of social inclusion. This has been acknowledged by references by Deputy Prime Minister Julia Gillard, and in the Labor Government's social inclusion policy, to the importance of the data in the *Dropping Off the Edge* report. That report by Professor Vinson, co-commissioned by Catholic Social Services Australia and Jesuit Social Services, provides a powerful tool for mapping and addressing disadvantage. We look forward to continuing close consultations with the Government about how this important tool can best contribute to the achievement of our shared social inclusion objectives.

The need to prioritise in all policy areas the needs of the most disadvantaged people

This need is premised on the fundamental importance of respect for human dignity. It underlies all 72 of this submission's recommendations. Examples of policy areas where, in our view, the needs of our most disadvantaged people are **not** currently being prioritised include: mutual obligation, quarantining ("income management"), and the social security compliance system.

Social inclusion consultation mechanisms

We welcome the proposed establishment of a Social Inclusion Board and of a Social Inclusion Unit in the Prime Minister's Department, and look forward to participating in new consultation mechanisms. In the spirit of enhancing democratic engagement, we call on the Government to improve Budget night briefing and media arrangements for the community sector. We also stress the need for COAG to prioritise social inclusion goals and for broad community consultation by COAG Working Groups.

Funding of community sector social service providers: What should change

Funding of community sector social service providers should match the **full** cost of service delivery – which requires adequate indexation, incorporation of infrastructure and capital costs, and realistic rural and regional funding formulae. Funding arrangements should change to ensure more secure funding decision-making. Unreasonable amendment clauses permitting unilateral amendment by government should be removed from funding agreements. And Commonwealth, State and Territory Governments should act independently and together to reduce excessive administrative and compliance costs which wastefully divert resources from service delivery to administration.

OUTLINE OF SPECIFIC RECOMMENDATIONS

Our recommendations are divided, somewhat artificially, into "cross-portfolio" and "portfolio-specific" recommendations. They are set out in full at **Part IV** of this submission.

The following page outlines by number the specific topics covered by our 72 recommendations.

Cross-portfolio recommendations

- Fiscal responsibility and social inclusion (Recommendation 1)
- Identifying and redressing localised disadvantage:
  - *Dropping Off the Edge*: A cost-effective tool for mapping disadvantage (2-4)
  - Place-based initiatives (5-7)
- Audits of social services and social policy information infrastructure (8)
- Program funding and community sector service providers:
  - Excessive administration and compliance costs (9-12)
  - Adequacy of funding (13)
  - Need for funding levels to incorporate infrastructure and capital costs (14)
  - Delivering agencies should be able to hold any surpluses (15)
  - Enhancing the security of funding (16-17)
  - Rural and regional service delivery (18)
  - Contractual provisions permitting unilateral amendments (19)
- Broader government engagement with the community sector (20-21)
- Reviews and evaluations of government policy and programs (22-24)
- Inter-Governmental relations (25-26)

- Cost of living for older Australians and superannuation (27-32)
- Disability (33)
- Indigenous Australians (34)
- Mental health:
  - Mental illness and welfare-to-work (35-36)
- Work and family (37)

Portfolio-specific recommendations: FaHCSIA

- Housing and homelessness (38-42)
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Portfolio-specific recommendations: Climate Change (44)

Portfolio-specific recommendations: Education, Employment and Workplace Relations

- Education (45-46)
- Industrial relations (47-51)
- Mutual obligation and income support policy (52)
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- Eight-week non-payment periods (58-59)
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Submission to Senate Community Affairs Committee: Inquiry into Cost of Living Pressures on Older Australians, July 2007

Attachment C Catholic Social Services Australia
Submission to Senate Legal and Constitutional Affairs Committee: Inquiry into the Provisions of the Northern Territory Emergency Response Bill 2007 and Associated Bills, 9 August 2007 (attachments omitted)

Attachment D Catholic Social Services Australia paper of November 2006:
Discussion Paper: A Job Network for Job Seekers

ABOUT CATHOLIC SOCIAL SERVICES AUSTRALIA

Representing 63 member organisations, Catholic Social Services Australia is the Catholic Church's peak national body for social services. It advises the Australian Catholic Bishops Conference on social policy issues as well as supporting the delivery of a wide range of social service programs.

For 50 years, Catholic Social Services Australia has assisted and promoted better social policy for the most disadvantaged people in Australian society. This continues a much longer tradition of such engagement by the Catholic Church in Australia.

Catholic Social Services Australia has the mission of promoting a fairer, more inclusive society that gives preference to helping people most in need. It is committed to an Australian society that reflects and supports the dignity, equality and participation of all people. To this end, Catholic Social Services Australia works with Catholic organisations, governments, other churches and all people of goodwill to develop social welfare policies and other strategic responses that work towards the economic, social and spiritual well-being of the Australian community.

Our 63 members employ over 6,500 people and provide 500 different services to over a million people each year from sites in metropolitan, regional and rural Australia. Services provided by our members encompass aged care, community care, disability services, drug and alcohol services, employment and vocational programs (including Job Network, Disability Open Employment and Personal Support Program), family relationship services, housing, mental health, residential care and youth programs.

I INTRODUCTION

1. Catholic Social Services Australia greatly appreciates the opportunity to make this submission toward the budgetary decision-making process.

2. We also warmly welcome the new Government's clear intention to engage in constructive and ongoing consultations with community sector organisations about social policy issues and programs. We look forward to participating in such consultations.

3. We would be happy to discuss at greater length any of the issues raised in this submission.

4. This submission is divided into "cross-portfolio" and "portfolio-specific" recommendations – a somewhat artificial distinction, as relatively few issues lie entirely within a single portfolio. Unless otherwise noted, references to "the Government" are to the Commonwealth Government.

II CROSS-PORTFOLIO RECOMMENDATIONS

A Fiscal responsibility and social inclusion

Recommendation 1	Notwithstanding the context of Budgetary restraint, new expenditure on social inclusion is mandated by: (a) A moral imperative to do better by the disadvantaged people in our community, and (b) The fact that it would be false economy *not* to invest now in social inclusion.

5. Catholic Social Services Australia is aware of the Government's intention to find over $10 billion in savings in the forthcoming Budget.

6. Some of our recommendations would involve savings, such as removing duplication and avoidable administration affecting community sector service providers; and reviewing the absence of means testing of the First Home Owners Grant. And we consider that our recommendations on Job Network would be budget neutral.

7. However, many of our recommendations call for increasing rather than reducing expenditure.

8. These recommendations are justifiable for several reasons, which can be summarised as two: (a) there is a moral imperative to ensure that disadvantaged people in our community have access to at least the same level of services and supports as the rest of the community, and (b) it would be false economy *not* to invest now in social inclusion.

9. First, social inclusion pays dividends in economic terms. This is so for reasons eloquently explained in the Australian Labor Party's November 2007 social inclusion policy.[1]

[1] Australian Labor Party Election 2007 Policy Document, *An Australian Social Inclusion agenda*, released 22 November 2007.

Many of the pay-offs of social inclusion expenditure will emerge only in the longer term, such as those arising from early childhood initiatives commenced now. But social inclusion, like climate change, is an area where the costs of not acting are higher than the cost of acting.

10. Secondly, social inclusion expenditure would provide better insurance against future economic bad times than would a marginally higher 2008-09 Budget surplus. This is because such expenditure is an investment in the future productivity and capacity of the Australian economy and should reduce future outlays in a range of social policy areas, including income support.

11. Thirdly, a moral imperative calls for social inclusion measures even – or especially – in cases where social inclusion does not "pay" in an obvious economic sense (e.g. where it is aimed at enabling full social participation and human dignity for older people or people with severe disabilities rather than at enhancing paid workforce participation by the working-age population).

12. Fourthly, balancing the budget and attaining any specific target for a Budget surplus is essentially a matter of prioritising. We would argue that, whatever dollar figure is targeted for the budget surplus, it is incumbent on government to ensure that all citizens have access to essential services and infrastructure. Where communities are without these essential services and infrastructure, substantial investment will be required. That may well require finding savings in other areas, preferably from those who can best afford it.

13. Finally, if as a society we cannot fund social inclusion at a time of huge surpluses and economic prosperity with a Government firmly committed to promoting social inclusion, what future will our society's most vulnerable people face when economic conditions are less than favourable?

B Identifying and redressing localised disadvantage

***Dropping Off the Edge*: A cost-effective tool for mapping disadvantage**

Recommendation 2	Policy development should be targeted to the communities suffering the greatest need.
Recommendation 3	Empirical work on the spatial concentration of social disadvantage, especially *Dropping Off the Edge*, should be used to inform policy-making at all levels of government.
Recommendation 4	The Commonwealth Government should establish an Australia-wide social data system to illuminate the spatial distribution of social disadvantage. All governments should improve inter-governmental co-ordination in the collection and policy application of social data.

14. A fundamental insight of contemporary social research is that disadvantage involves the accumulation of multiple aspects of deprivation, from limitations on health to deficient education and vocational skills, to financial stress and exposure to criminality.

15. A major recent study mapping social disadvantage across Australia, *Dropping Off the Edge*,[2] was co-commissioned by Catholic Social Services Australia and Jesuit Social Services. The project systematically compiled data on a wide range of indicators of disadvantage, with the cooperation of governments in all state jurisdictions and the ACT.

16. *Dropping Off the Edge* found that 1.7 per cent of communities across Australia accounted for over seven times their share of top-ranking positions of major factors causing or demonstrating intergenerational poverty. Those factors include: low income; limited computer and internet access; early school leaving; physical and mental disabilities; long-term unemployment; prison admissions; and confirmed child maltreatment.

17. The research dealt only in tangible manifestations of disadvantage. It did so in a scientific way and produced an administrative tool directly applicable to the Government's intended interventions in a range of policy areas.

18. This disturbing over-representation of a small number of communities among indicators of disadvantage was apparent in every state.

19. The *Dropping Off the Edge* mapping tool explicitly identifies a hierarchy of localities in each jurisdiction ranging from the most to the least disadvantaged places. That hierarchy is a real and enduring structure which, on the evidence of repeated studies, contains 3-5% of highly disadvantaged localities manifesting a markedly disproportionate share of each jurisdiction's social problems while failing to benefit from mainstream economic and social measures intended to promote general wellbeing. The areas in question are identified in *Dropping off the Edge*. And the report also identifies those geographical areas which may be in decline.

20. This mapping tool provides a coherent and effective basis for determining priorities for intended policy and place-based interventions.

21. In short, the *Dropping Off the Edge* report and its underlying research process provide a cost-effective means of identifying communities in greatest need – and those at risk of falling into this category. Such identification is crucial if government, business and community sector resources are to be optimally targeted towards our most disadvantaged communities.

22. We welcome indications that the new Commonwealth Government appreciates the significance of the *Dropping Off the Edge* report and intends to use it to inform its social planning.[3]

23. Recommendations 3 and 4 reflect our view that accurate data on the spatial distribution of social disadvantage will be essential for the success of efforts to redress poverty and to promote social inclusion.

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[2] Tony Vinson, *Dropping off the edge: The distribution of disadvantage in Australia*, Jesuit Social Services and Catholic Social Services Australia, 2007. See also www.catholicsocialservices.org.au/ and the *Dropping Off the Edge* project website at www.australiandisadvantage.org.au.

[3] See e.g. Australian Labor Party Election 2007 Policy Document, *An Australian Social Inclusion agenda*, released 22 November 2007 at p.2 and comments by Deputy Prime Minister Julia Gillard reported in Tony Wright, "Gillard's War on Poverty", *The Age*, 12 January 2008 at p.1. As Deputy Prime Minister Gillard stated in April 2007, while Shadow Minister for Social Inclusion: "What Vinson has given us is his map of social exclusion. **It is a guide to those areas** in this country **where we would need to start first** to tackle social inclusion." (Julia Gillard, *A New Portfolio, A New Approach: Speech to Centre for Public Policy*, Melbourne University, 10 April 2007; emphasis added.)

Place-based initiatives

Recommendation 5	Planning between government departments, between all levels of government, and between government and the NGO and business sectors, should be integrated to address the compounding effects of disadvantage experienced in identified areas.
Recommendation 6	Flexible funding pools should be established, with input from all levels of government, to support innovative local projects addressing locational disadvantage.
Recommendation 7	Place-based policies to reduce social disadvantage must be run on long-term timetables of at least 7-8 years, rather than the short (1-3 year) timeframes frequently used.

24. Recommendations 5-7 are also based on the *Dropping Off the Edge* report.

C Audits of social policy services and information infrastructure

Recommendation 8	Whole-of-government audits should be undertaken of: (a) Existing social services and programs operated by all providers (including all levels of government, community sector agencies and business), (b) Social policy information infrastructure – especially community sector service delivery; measures/incidence of disadvantage; and the interaction of different areas of policy.

25. Such audits of services and data sources will maximise the value of the Government's proposed social inclusion governance structure by helping to ensure optimal targeting of resources.

26. It would be especially useful to identify available data sources and data gaps regarding *intersections* across such issue areas as social security, employment, education, taxation, industrial relations, family law, and superannuation. These increasingly complex areas of policy intervention call for better information than is currently available as an essential tool for integrated ("joined-up") policy responses.

Program funding and community sector service providers

Excessive administrative and compliance costs

Recommendation 9	A single basic registration or eligibility process across all levels of government should be introduced to assess the governance and management credentials of not-for-profit agencies.
Recommendation 10	The Commonwealth Government's social inclusion governance bodies and COAG should consider further ways of reducing duplication and waste in community sector engagement with different levels of government.
Recommendation 11	Unless an alternative specialist body is established for the purpose, the COAG Working Group on Business Regulation and Competition should include in its scope the regulatory environment affecting community sector agencies providing social services under government contracts.,
Recommendation 12	Decision-makers should look beyond the parameters of any one specific program when making decisions which may have broader unintended consequences for the service delivery sector – especially for agencies delivering services under multiple programs.

27. We welcome the Commonwealth Government's commitment to removing red tape in government contracts with the community sector.[4] We look forward to participating in relevant consultations to this end. We are particularly concerned about the opportunity cost of the avoidable diversion of resources to administration and compliance activity rather than to service provision.

28. As one step forward, we suggest the introduction of a single basic registration or eligibility process across all levels of government to ascertain whether not-for-profit agencies have in place appropriate governance and management arrangements to support receipt of government funding. Such a system would save the duplication of resources – and the waste of not only money but scarce staff resources in the community sector and in government.

29. In addition, the Commonwealth Government's proposed social inclusion bodies and COAG should consider other ways of reducing waste and duplication in community sector engagement with different levels of government, where a plethora of compliance and accountability arrangements now apply. For example, in a given issue area it may be possible to harmonise approaches across levels of government to core processes such as data collection, program evaluation and tendering procedures.

[4] Matthew Franklin, "Labor to lift gag on critics", *The Australian*, 9 January 2008.

30. We understand that the proposed Social Inclusion Unit in the Department of Prime Minister and Cabinet will have a key role in reviewing compliance and red-tape issues for the social services/ community sector. This is a welcome commitment from the Commonwealth Government.

31. The same inter-governmental attention should be paid to regulatory burdens on the community sector as is occurring in the field of "business regulation and competition". If no other specialist body is established for the purpose, the COAG Working Group on Business Regulation and Competition should have terms of reference encompassing the regulatory environment affecting not-for-profit agencies providing social services under government contracts. Such agencies are least able to afford the burden of avoidable regulatory costs, and services are reduced as a result. The relevant COAG Working Group – and indeed all COAG bodies – should operate in close collaboration with the Social Inclusion Unit in the Department of Prime Minister and Cabinet, the Social Inclusion Board, and the relevant Commonwealth Minister and Parliamentary Secretary (see below at section F).

32. For agencies delivering services under multiple government programs, administrative costs are especially steep. Such agencies are effectively penalised for aiming for integration in service delivery. Too often, program-specific decisions by government officials have had unintended, negative consequences for the delivery of services. One example is the decision in relation to FRSP services which is mentioned below (see below at Recommendation 43 and accompanying text). The underlying problem appears to be that government decision-making about program requirements is myopic rather than integrated, with profound effects. Hence our recommendation for decision-makers to look beyond the parameters of any one specific program.

33. On administrative and compliance costs in the Job Network program, see Recommendation 72 below.

Adequacy of funding

Recommendation 13	The Commonwealth Government should ensure that program funding in all areas matches the **full** cost of service delivery, and that it is maintained at this level through appropriate indexation.

34. Inadequate funding is a major problem in many Commonwealth Government programs where our member organisations provide services. The issue here is not inefficiency on the part of delivering agencies, but unrealistically low funding levels coupled with high and changing expectations of best practice service delivery.

35. One reason is inadequate indexation, leading to the erosion of the funding base by salary increases, increasing compliance requirements and information and communications technology costs.

36. Another reason is the exclusion from funding formulae of infrastructure and capital costs (see below at Recommendation 14 and accompanying text).

37. The effects of inadequate funding are demonstrated by the example of a member organisation with a program supporting children with a disability to participate in mainstream out of school hours programs. Commonwealth funding for purchasing personal care is

approximately $8.00 per hour less than the rate at which the organisation has to purchase it. As the funding regulations allow no flexibility, the organisation has to find other means of meeting the shortfall between the funding and the purchase price.

38. We call upon the Commonwealth Government to ensure that program funding in all areas matches the full cost of service delivery, and that it is maintained at this level through appropriate indexation.

Need for funding levels to incorporate infrastructure and capital costs

Recommendation 14	In determining the full cost of service delivery, the Commonwealth Government should include a component for infrastructure (including compliance) and capital costs.

39. Infrastructure and capital costs are essential for service delivery. Yet Commonwealth funding often fails to recognise their existence.

40. As a result, the full price of service delivery is not realistically costed and delivering agencies lack capacity to respond to capital and infrastructure requirements – with facilities becoming increasingly run down in some cases.

41. As stated by the Director of one of our member organisations:

> The view that this is all covered by other funding allowing for a pure recurrent funding stream to be provided is completely flawed.

42. As part of the new Government's engagement with the community sector, we call for the inclusion of a component for infrastructure and capital costs, including compliance costs, in the determination of program funding.

Delivering agencies should be encouraged to achieve surpluses

Recommendation 15	Government requirements to repay some surpluses arising from funding agreements should be replaced by an agreement that any surpluses may be held by service-delivering agencies to cover contingencies or to provide related services.

43. Government requirements for agencies to repay some surpluses arising from funding agreements are extremely problematic and counter-productive.

44. Such surpluses are sometimes caused by timing issues, or because funded agencies are not allowed to accrue for non-cash expense items (such as depreciation).

45. We therefore propose that surpluses should be held by service-delivering agencies to cover contingencies or to provide related services.

Enhancing the security of funding

Recommendation 16	The Commonwealth Government should implement, in all areas where it funds not-for-profit agencies to undertake service delivery, the recommendations (made in 2006 in relation to mental health by the then Senate Select Committee on Mental Health) that: (a) Governments recognise the problems associated with the short-term, non-recurrent grant approach to funding and move to more secure funding decision-making, based on evaluations of effectiveness; and (b) At a minimum that grants to NGO mental health providers be indexed based on the CPI.
Recommendation 17	The Commonwealth Government should strongly encourage State and Territory Governments to adopt an approach similar to that set out in Recommendation 16.

46. Service delivery capacities are liable to be severely undermined by funding insecurity.

47. The Commonwealth Government must improve funding security where it funds not-for-profit agencies to undertake social service delivery.

48. We would especially welcome the implementation, across all areas of social policy, of the last two dot points of the following recommendation, which was made in 2006 by the then Senate Select Committee on Mental Health:[5]

> That with respect to the non-government, not-for-profit sector:
>
> - the sector be given a greater role in delivering mental health services;
> - *governments recognise the problems associated with the short-term, non-recurrent grant approach to funding and move to more secure funding decision-making, based on evaluations of effectiveness; and*
> - *at a minimum that grants to NGO mental health providers be indexed based on the CPI.*

49. The Commonwealth Government should also encourage State and Territory governments to adopt a similar approach.

[5] Senate Select Committee on Mental Health, *A national approach to mental health – from crisis to community: Final Report*, 28 April 2006 at Recommendation 28 (emphasis added).

Special issues relevant to rural and regional service delivery

Recommendation 18	In relation to rural and regional service delivery: (a) Finding more realistic costing mechanisms deserves priority attention, and (b) Tendering criteria should include whether tendering agencies have current or past experience of rural or regional service delivery.

50. Particular problems arise in relation to rural and regional service delivery.

51. One issue concerns the costing of rural and regional service delivery. This issue deserves priority attention. We note that a working group established by FaHCSIA on this issue has been in hibernation for about a year. For sustainable rural and remote service delivery, realistic costings – incorporating establishment and infrastructure – should be used, rather than simply reacting to drought or natural disaster. Rural servicing is different to metropolitan servicing. The same formulae with at best a small rural loading do not work. Recruitment, retention, travel and professional development all come with high financial, time and people costs, that are not factored in when target numbers are set.

52. A second issue is how to build and sustain rural communities. The current dilemma is whether tendering criteria for service delivery in rural and regional areas should accord any weight to the fact that a tendering organisation is already providing services in rural and regional areas. This factor should carry substantial weight. Rural areas are suffering because contracts are awarded to organisations with no local knowledge and no or token infrastructure that then take enormous amounts of time to establish any service. Just as financial and governance credentials are important, so too is evidence that the agency can function well in demanding rural or regional environments.

53. Finally, a problem reported by one of our member organisations illustrates the difficulties which can face rural service providers. Prior to the 2007 Federal election, that organisation was given to understand by a Commonwealth agency that it had been allocated a major sum from drought relief funds. But after the election the organisation was told that it might not receive that sum. On the basis of its earlier understanding, the organisation had already committed the funds. We will be taking up this matter directly with the relevant Commonwealth agency, but mention it here as an example of how what may appear to be an administrative "glitch" can have enormous ramifications for small to medium-sized agencies operating in rural and regional areas.

Contractual provisions permitting unilateral amendments

Recommendation 19	The Government should expand the scope of its review of red tape and contractual "gag" clauses to include the removal of "unreasonable amendment" clauses enabling the government to institute virtually unilateral contractual amendments.

54. Catholic Social Services Australia warmly welcomes the new Commonwealth Government's intention not only to remove "gagging" clauses from existing government contracts with the not-for-profit sector, but to prevent the use of this type of clause in future such contracts.[6] As noted above, we also look forward to participating in consultations with the government about rationalising the "red tape" attaching to contracts between government and the community sector.

55. However, a third issue should also be canvassed while contracts are being reviewed to remove gagging clauses and red tape.

56. We recommend that the Government also review another type of clause which has been used all too frequently in contracts between the Commonwealth Government and community sector providers of social services: A provision granting the Government sweeping power to institute virtually unilateral contractual amendments – i.e. an "unreasonable amendment" clause.

57. The existence of unreasonable amendment clauses has led to any number of changes to contracts entered into by the member agencies of Catholic Social Services Australia – changes made by government without any real prospect of genuine negotiation. Many such changes have produced negative and unfair effects for those agencies and their clients.

58. Even relative minor contractual changes can have major impacts, even threatening the viability of the continuing provision of the relevant service by agencies:

- Either because agencies are already operating on a tight margin in relation to a given program (further tightened by the contractual obligation to repay unspent monies[7]),

- Or where a series of smaller incremental changes results in major changes.

59. For Church-based agencies, the decision to enter into a contract with a government is reached only after careful weighing of many factors – with the paramount factor being the best interests of the clients whom those agencies exist to serve. Subsequent unilateral contractual amendments can produce an entirely different calculus of ethical, financial and/or logistical considerations to those considered in the original decision to enter into the relevant contract.

60. We look to the new Government to expand the scope of its review of red tape and contractual "gag" clauses to encompass the removal of unreasonable amendment clauses. Determined action on these three fronts would send a powerful message underlining the new Government's commitment to engaging constructively with the community sector to promote social inclusion.

D Broader government engagement with community sector

Recommendation 20	The welcome new social inclusion bodies should seek to "quarry" successful, innovative ideas from community sector practice.

[6] Matthew Franklin, "Labor to lift gag on critics", *The Australian*, 9 January 2008.
[7] See Recommendation 15 above and accompanying text.

Recommendation 21	Budget night briefing and media arrangements for community sector organisations should be significantly improved, on a permanent basis, to ensure access to: (a) The Treasury "lock-up" and departmental briefings, and (b) An appropriate Parliament House venue where all representative groups (community sector organisations, peak business bodies, etc.) could hear the Budget speech and prepare a timely "post-Budget" response.

61. We welcome the new Government's social inclusion policy, including the proposed establishment of a Social Inclusion Board and of a Social Inclusion Unit in the Department of the Prime Minister and Cabinet.

62. We look forward to participating in new consultation mechanisms.

63. The new social inclusion governance structures should consciously facilitate the "quarrying" of successful, innovative ideas from community sector practice – and should be appropriately resourced for this purpose.

64. In the spirit of enhancing democratic engagement, we call on the Government to improve significantly the Budget night briefing and media arrangements for community sector organisations.

65. These improvements should ensure access to the Treasury "lock-up" and departmental briefings, and also to an appropriate venue in Parliament House where all representative groups (community sector agencies, peak business bodies, etc.) could hear the Budget speech and prepare for the post-Budget "doorstops" which take place in the Press Gallery on each Budget night.

E Reviews and evaluation of Government policy and programs

Recommendation 22	Reviews of policy and programs should have resources, timeframes, and procedural guidelines which ensure broad and meaningful community consultation.
Recommendation 23	Reviews' terms of reference should include provision for ongoing evaluation/monitoring of relevant policy and programs.
Recommendation 24	Evaluation of government programs should be as transparent as possible and form an integral part of program management.

66. We welcome the new Government's commitment to evidence-based policy and its announced reviews of many policy and program areas, in areas ranging from consultation

mechanisms to Job Network. We look forward to participating in some of the planned reviews. We also warmly welcome the Government's commitment to "promoting a pro-disclosure culture" in government.[8]

67. Recommendations 22-24 are geared towards maximising the effectiveness of reviews and of broader evaluation processes.

F Inter-Governmental relations

Recommendation 25	"The promotion of social inclusion" should be included as an explicit objective of all COAG Working Groups, with more specific social inclusion objectives developed as appropriate, and with steps towards this goal factored into each Working Group's "indicative forward work program".
Recommendation 26	COAG Working Groups should as a matter of course engage in broad, structured and specifically funded community consultation.

68. As previously expressed in our Open Letter to COAG Participants of December 2007,[9] Catholic Social Services Australia welcomes the commitment of the Commonwealth and State Governments to embark on a new era of co-operative federalism.

69. Catholic Social Services Australia agrees with the Deputy Prime Minister's view that addressing the problems affecting disadvantaged communities "would require a 'whole-of-government' approach, with ministers ensuring that each major government decision had a 'social inclusion' element."[10] This factor is at least equally relevant in the COAG context.[11]

70. We were therefore delighted by the emphasis on social inclusion and Indigenous reform in the indicative forward work program for 2008 of three of COAG's seven new Working Groups:

> In addition determine priorities for the contribution of education, skills, training and early childhood development to broader objectives for social inclusion and Indigenous reform, given the critical importance of these areas in creating opportunity and tackling disadvantage (COAG Working Group on *Productivity Agenda* – Education, Skills, Training and Early Childhood Development).[12]

[8] Australian Labor Party Election 2007 Policy Document, *Government information: Restoring Trust and Integrity*, October 2007 at p.1.
[9] Catholic Social Services Australia, *An Open Letter to COAG Participants*, 19 December 2007 (available at www.catholicsocialservices.org.au).
[10] Tony Wright, "Gillard's War on Poverty", *The Age*, 12 January 2008 at p.1."
[11] See also Recommendations 2-7 above and accompanying text.
[12] Council of Australian Governments' Meeting, Melbourne, 20 December 2007 *Communique*, under "Working Group on the Productivity Agenda –Education, Skills, Training and Early Childhood Development" in Attachment at last dot point.

Linking with broader consideration of social inclusion and indigenous reform, given the importance of health and well being to tackling disadvantage (COAG Working Group on *Health and Ageing*).[13]

Develop specific objectives for Indigenous Australians and for social inclusion. (*Housing* Working Group).[14]

71. We also note that the objectives and indicative forward work program of the COAG Working Group on *Indigenous Reform* are helpfully geared towards redressing the appalling social exclusion affecting so many Indigenous Australians.

72. However, we are concerned by the absence of references to social inclusion in documentation on the other three new COAG Working Groups, which deal with the remaining three areas of COAG's 2008 work agenda. Social inclusion is relevant in each case. For example:

- *Climate Change and Water*: As argued below in Recommendation 44 and accompanying text, it is vital to ensure that low-income households are not burdened with a disproportionate share of the costs of climate change and action to address it.
- *Infrastructure*: Access to and affordability of transport, energy, communications and water should be essential criteria of any work in this area (such as the proposed National Infrastructure Audit). Social inclusion must address both people and place.
- *Business Regulation and Competition*: Low-income households should not pick up the tab for any government revenue foregone as a result of regulatory reform. Unless alternative provision is made for this purpose, the regulatory environment affecting not-for-profit providers of social services should be included in the scope of this Working Group (see Recommendation 11 above).

73. COAG is dealing with a number of highly complex challenges and widely varying stakeholder interests. But issues of poverty and social disadvantage must never be allowed to appear peripheral or unworthy of consideration in any context.

74. We therefore recommend that an explicit objective of each COAG Working Group should be "the promotion of social inclusion". More specific social inclusion objectives should be developed as appropriate in each case, with steps towards this goal included in each Working Group's indicative forward work program. This approach is essential for any "mainstreaming" of inter-governmental attention to the issues. This approach is also essential to help ensure that harmonisation and other reforms pursued by COAG promote – rather than inadvertently harm – the interests of the most disadvantaged people in our community.

75. All COAG bodies should engage in close collaboration with the Social Inclusion Unit in the Department of Prime Minister and Cabinet, the Social Inclusion Board, and the relevant Minister and Parliamentary Secretary.

76. While we applaud the sense of energy and purpose propelling COAG's new work agenda, we trust that the desire to achieve early results will not impede appropriate and

[13] Council of Australian Governments' Meeting, Melbourne, 20 December 2007 *Communique*, under "Working Group on Health and Ageing" in Attachment at second last dot point.
[14] Council of Australian Governments' Meeting, Melbourne, 20 December 2007 *Communique*, under "Housing Working Group" in Attachment last paragraph.

specifically funded community consultation about the significant policy challenges being addressed by COAG. Otherwise, this golden moment for historic national reform will be sadly wasted.

G Cost of living for older Australians and superannuation

Recommendation 27	Move towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (as was recommended by the Senate Community Affairs Reference Committee in 2004).
Recommendation 28	(a) Further government-funded research to identify the special needs of grandparent families, including particular reference to the case of Indigenous grandparent families; and (b) Greater practical recognition of such needs, especially in relation to government financial assistance.
Recommendation 29	Removal of the $450 monthly earnings threshold for Superannuation Guarantee contributions.
Recommendation 30	Assessment of the equity and fairness aspects of taxation concessions applied to superannuation – including the extent to which they are likely to benefit those on higher incomes and lower incomes respectively, and their impact on taxation revenues.
Recommendation 31	Action to minimise the risk of increasing wealth and income inequalities among older Australians by considering how the superannuation system could be changed to remove the existing systemic bias against those who have worked for low wages or spent extended periods of their working-age lives out of the paid workforce, unemployed or underemployed.
Recommendation 32	Adopt the recommendation made by HREOC in *It's About Time: Women, men, and family – Final Paper 2007* (at recommendation 32) that the Productivity Commission enquire into "the feasibility of establishing a superannuation-like framework whereby the unpaid work of carers can be recognised by the Australian Government, but with expanded terms of references incorporating the issues raised in Recommendations 30-31 above.

77. Recommendations 29-31 draw on our July 2007 Submission to the Senate Community Affairs Committee Inquiry into Cost of Living Pressures on Older Australians. Our supporting arguments can be found in that submission, which is attached as **Attachment B** to this pre-Budget Submission.[15]

78. We look forward to giving evidence on this subject to the Senate Community Affairs Committee Inquiry on this subject (on 8 February) and to seeing the report of that Inquiry.

H Disability

Recommendation 33	Urgent provision of additional funds to support people with a disability, notably in the areas of respite; accommodation; related community and independent living support; and early intervention and pre-school services for children with a disability.

79. The previous Government's lump sum payments for carers were an inadequate response to long waiting lists for accommodation and respite and to the absence, especially in rural areas, of accessible or appropriate respite options.

80. More funding to support people with a disability is urgently needed, notably in the areas of respite; accommodation; related community and independent living support. The Australian Association for Families of Children with a Disability (AAFCD) has called for an injection of $1.1 billion for these purposes.

81. Additional funds are also urgently required for early intervention and pre-school services for children with a disability. Such services should focus on supporting mainstream settings to meet those children's needs.

I Indigenous Australians

Recommendation 34	The Government should act quickly to remove legislative provisions which permit the application to entire Indigenous communities of a scheme for the quarantining ("income management") of income support payments.

82. We welcome the Government's commitment to redressing the appalling disadvantage affecting many Indigenous Australians.[16]

83. We remain concerned about aspects of the previous Government's "Northern Territory intervention", particularly the lack of adequate consultation with Indigenous leaders and Indigenous communities, and the introduction of racial discrimination into the Australian social

[15] Catholic Social Services Australia, Submission to Senate Community Affairs Committee Inquiry into Cost of Living Pressures on Older Australians, July 2007, at recommendations 3-6 and 8 (see **Attachment B** of this Pre-Budget Submission – also available at www.catholicsocialservices.org.au or http://www.aph.gov.au/Senate/committee/clac_ctte/older_austs_living_costs/submissions/sub95.pdf.

[16] See e.g. Australian Labor Party, *New Directions: An equal start in life for Indigenous children*, May 2007.

security system by the application to entire Indigenous communities of a scheme for "income management" of income support payments. Our reasons are detailed in our submission to the Senate Inquiry into the relevant legislative provisions, which is attached as **Attachment C** to this Pre-Budget Submission.[17]

84. We are aware of the Government's intention to wait until mid-year before assessing the impact of the "intervention" and associated legislation. However, we urge the Government to make an exception in this one instance by acting quickly to remove this racially discriminatory aspect of the legislation.

J Mental health[18]

Recommendation 35	Ensuring increased sensitivity on the part of government agencies to the circumstances and needs of people with mental illness who are affected by welfare-to-work policy, including in cases of undiagnosed or undisclosed mental illness.
*Recommendation 3*6	Income support participation and compliance requirements should not be enforced against people whose mental illness renders them too ill to be coerced to seek and/or maintain employment.

Mental health and welfare-to-work

85. Research suggests that almost one-third (30%) of income support recipients have a mental illness. Furthermore, mental illness is experienced by a range of income support clients, including the unemployed, single parents and people with a disability (see Table 1).

Table 1: Estimated prevalence of mental disorders among income support recipients and non-recipients: percentage estimated to have a mental disorder[19]

Non income support recipients	19%
All income support recipients	30%
Unemployed	34%
Studying	30%
Partnered women with children	21%
Unpartnered women with children	45%
Not in labour force/disability	30%

[17] See Catholic Social Services Australia, *Submission to Senate Legal and Constitutional Affairs Committee, Inquiry into the Provisions of the Northern Territory Emergency Response Bill 2007 and Associated Bills*, 9 August 2007 (included without its own attachments as **Attachment C** to this Pre-Budget Submission) at pp. 4-8 and at Attachment B. See also below at Recommendations 60-61 and accompanying text.
[18] Paragraphs 85-86 reiterate points made in our *2007-08 Pre-Budget Submission*.
[19] P. Butterworth, *Estimating the prevalence of mental disorders among income support recipients*, Policy Research paper no.21, Department of Family and Community Services, 2003 at p.viii.

86. The high prevalence of mental illness amongst income support recipients and the need to link people with a mental illness with broader social services was recognised by the Council of Australian Government (CoAG) National Action Plan on Mental Health agreed in 2006. One of the four objectives of the Action Plan was to increase:

> the ability of people with a mental illness to participate in the community, employment, education and training, including through an increase in access to stable accommodation[20].

87. In the course of providing a range of services – including employment, homelessness and family services – our member organisations work every day with people experiencing mental illness.

88. Barriers to work for people with mental illness include cognitive difficulties, the unpredictability of episodic conditions, stigma, and the inadequacy of current levels of support and training programs.[21]

89. Unfortunately, there seems to be little leeway in the implementation of welfare-to-work policy for consideration of the special needs of people experiencing a range of mental health issues, especially where the condition is undiagnosed. As the Commonwealth Ombudsman has noted in relation to people with undiagnosed mental illness or episodic illnesses:

> The new Welfare to Work requirements make it a challenge for Centrelink to appropriately service this vulnerable customer group, particularly where the person has no insight into their condition, even when staff recognise that mental illness may be a factor.[22]

90. This issue is relevant across all income support payment types, and irrespective of whether individuals claim partial incapacity to work.

91. Some professional perspectives on the impact of welfare-to-work on people with mental illness were provided in a recent qualitative study of 22 mental health professionals with affected clients.[23]

92. Two of the major themes identified were heightened anxiety among clients with mental illness and inadequate employment support. Echoing the Ombudsman's concern is the following comment from a Social Worker/Case Manager:[24]

> Centrelink does not recognise that some of our clients do not have insight or acknowledge their mental illness or mental health issues – and they do not have the capacity to work. So they are breached.

93. A case worker with nine years' experience stressed the need for unconditional income support:[25]

[20] Council of Australian Government, *National Action Plan on Mental Health 2006-2011*, 2006, available at http://www.coag.gov.au/meetings/140706/docs/nap_mental_health.rtf at p.1.
[21] Barry Pullen and Marilyn Webster, "From unfair welfare to unfair work: one step forward and two steps back?," *New Paradigm*, June 2007.
[22] Commonwealth Ombudsman, *Annual Report 2006-2007* at p.71.
[23] Christie Breakspear and Kerry O'Neill, *Jumping Through Hoops: Not My Choice*, October 2007, New South Wales Nurses' Association.
[24] *Ibid* at p.38.
[25] *Ibid* at p.66.

> Some people need non-conditional income security and the biggest group needing this is clients with mental illness. They also need to deal with bureaucrats who understand about mental illness, particularly the episodic kind.

94. Single parents' particular concerns were highlighted by another interviewee:[26]

> July 1 2007, there's a whole lot of single parents (45% have a diagnosed mental illness) who have just been coping. Now there will be interference from Centrelink and/or [Job Capacity Assessment] (assessors). This will create a whole lot of turmoil when these people have to come in and sign an activity agreement (to do 15 hours a week work… We're getting calls from single parents very anxious and confused about the changes.

95. Single parents with mental health problems are among the most vulnerable groups in society, and they and their children deserve the community's fullest support. This is not forthcoming in the welfare-to-work system, which is insufficiently sensitive to their needs.

96. Increased sensitivity among DEEWR and Centrelink staff to issues surrounding mental illness would help to minimise the risk that welfare-to-work policy may in some cases worsen rather than improve the circumstances of people experiencing mental illness – especially in cases where that illness is undiagnosed or undisclosed.

97. Legislative changes may be required not only to hasten "mindset" shifts in government agencies, but to ensure that overly rigid participation and compliance requirements are not enforced against people who are simply too ill to be coerced to seek and/or maintain employment.

K Work and family

Recommendation 37	Consideration of work and family issues should be integral to government policy-making across a wide range of issues – including welfare reform, income support, retirement incomes and industrial relations.

98. The social and economic contribution made by carers should be neither under-estimated nor taken for granted.

99. Government policy should support and enable the genuine exercise of choice by carers as to how to allocate their time between caring activities on the one hand and, on the other, participating in the workforce using accessible, affordable and high-quality care options.

66. Work and family issues should be integral to government policy-making across a wide range of issues. Examples include:

- *Welfare reform* policy – which should not deny the genuine exercise of choice by forcing the "commodification" of care of young children of parents receiving income support payments.

[26] *Ibid* at p.53.

- *Income support* policy more generally – which should incorporate recognition of the primary importance of caregiving as a contribution to family, society and the economy.

- *Health policy* – which should fill gaps such as the one arising when a seriously ill person needs care between acute and palliative levels, but whose family members cannot take long-term leave and cannot afford either to leave their employment or to purchase appropriate home care.

- *Retirement incomes* policy – which should not ignore the contribution of carers (see also Recommendations 31-32 above and accompanying text).

- *Industrial relations* policy – which should institute, protect and advance “family-friendly” working conditions and ensure their application across the workforce.

III PORTFOLIO-SPECIFIC RECOMMENDATIONS

A Families, Housing, Community Services and Indigenous Affairs portfolio

Housing and homelessness[27]

Recommendation 38	Any taxpayer-funded investment aimed at improving private rental affordability should primarily benefit tenants rather than landlords.
Recommendation 39	The Commonwealth Government should review the allocation and adequacy of taxpayer-funded housing assistance, such as the absence of means testing of the First Home Owner Grant (revision of which would produce budgetary savings) and the adequacy of Commonwealth Rent Assistance.
Recommendation 40	A concerted national effort to increase the supply of adequate public and social housing is essential. For this reason, COAG’s Housing Working Group should give higher priority to its objective of improving social and community housing and ensure appropriate funding for relevant implementation activities.
Recommendation 41	The annual “State of Supply Report” by the proposed National Housing Supply Research Council should include thorough review of, and recommendations about, current conditions and future options for the provision of public and social housing.

[27] Some of the points made in this section were also expressed in our *Open Letter to COAG Participants* of 19 December 2007.

Recommendation 42	Beyond welcome measures to deal with homelessness after it is evident, governments should prioritise and fund programs aimed at addressing the causes of homelessness and preventing its occurrence – especially structural poverty and domestic violence.

100. We welcome efforts to arrive at supply-side solutions to housing affordability problems. But monitoring the distributional effects will be critical. For example, any taxpayer-funded investment aimed at improving private rental affordability should primarily benefit tenants rather than landlords.

101. We need a thorough review of the allocation and adequacy of taxpayer-funded housing assistance (e.g. the absence of means testing of the First Home Owner Grant – revision of which would produce budgetary savings; and the adequacy of Commonwealth Rent Assistance).

102. Above all, we need a concerted national effort to increase the supply of adequate public and social housing. An integral component of the annual "State of Supply Report" by the proposed National Housing Supply Research Council should be the thorough examination of, and recommendations about, current conditions and future options for the provision of public and social housing.

103. Although one stated objective of COAG's new Housing Working Group is "[t]o improve social and community housing", it is not reflected in the list of "implementation plans to be delivered to the March 2008 COAG meeting". Nor is this objective reflected in the post-March 2008 "indicative forward work program", except perhaps obliquely in the following item: "Develop specific objectives for Indigenous Australians and for social inclusion".[28] The objective of improving social and community housing should have a higher priority in the Housing Working Group's "indicative forward work program". While it is of course early days for this new Working Group, the scale of the need and the timeframes required for action make this matter quite urgent.

104. We welcome the prioritising of the problem of homelessness by its presence among COAG's Housing Working Group's objectives and "indicative forward work program" items. We urge the allocation of adequate Commonwealth funding to support implementation activities.

105. We look forward to early action on the commitment to deploy increased funding of homelessness programs so that homeless individuals and families are not turned away from shelters. And the Commonwealth Government's plan to move towards supported housing assured for the first 12 months (rather than refuge accommodation) is also welcome.

106. Beyond measures to deal with homelessness after it is evident, however, governments should prioritise and fund programs aimed at addressing the causes of homelessness and preventing its occurrence – especially structural poverty and domestic violence.

[28] Council of Australian Governments' Meeting, Melbourne, 20 December 2007 *Communique*, under "Housing Working Group" in Attachment.

Family relationships: FRSP funding

Recommendation 43	That providers of FRSP services be recompensed by the Commonwealth Government for services delivered to pensioners and health care card holders who must now be granted a 100% concession.

107. Prior to the change of government, FRSP providers were advised of a new requirement to grant a 100% concession to pensioners and health care card holders.

108. We support the principle that those on the lowest incomes should pay the least for services. However, the policy chosen to implement this principle is flawed.

109. It is unfair that agencies who agreed to provide certain services for certain compensation under a public tender are now required to provide additional services at their own expense. Organisations that have more clients on lower incomes than other providers are disproportionately affected by this policy change.

110. For example, one relatively small member organisation estimates that it will have an annual revenue shortfall of $50,000 as a result of this decision.

111. These unexpected revenue shortfalls may lead to attempts to cross-subsidise from other programs. They certainly increase pressures facing small community sector agencies and their staff, and may even affect the ongoing viability of service delivery. Hence our recommendation that providers be funded for the services they provide.

B Climate Change portfolio

Recommendation 44	Measures to address climate change (including those agreed to as international treaty obligations) should: (a) Involve broad consultation, including the community sector, and integrate the concept of equity (fairness/distributional impact on low-income earners) as a key criterion at both design and implementation stages; (b) Be accompanied by steps to protect low-income Australians from any associated increases in the price of energy, transport and other goods and services; and (c) Ensure provision of energy efficiency assistance programs to ensure that low-income people can participate without undue disadvantage in a more energy-efficient future.

112. Catholic Social Services Australia takes this opportunity to reiterate the recommendations from our April 2007 joint submission, made with the Brotherhood of St Laurence and the National Welfare Rights Network, to the "Prime Ministerial Task Group Emissions Trading":

> Pricing carbon into energy…means unit costs will rise. We can expect business to pass on cost increases to consumers across a wide range of goods and services.[29]
>
> The capacity to respond to the impacts of climate change, and of policies intended to ameliorate it, is not evenly distributed within our society. The most disadvantaged people will generally lack access to sufficient financial resources even to meet the increased costs of energy let alone to invest in energy efficiency and energy-reducing capital to reduce their exposure to increased energy costs. And… [emissions trading system]-sourced increases in prices of basic expenses will have a much higher impact on low-income and disadvantaged households relative to others.[30]
>
> Recommendation 4
>
> That the Task Group recommend in its report that all phases of policy making and policy implementation on measures addressing climate change should:
>
> 4(a) Incorporate equity issues as an integral element, with particular focus on ensuring that low-income and otherwise disadvantaged households do not bear a disproportionate share of the costs of responding to climate change; and
>
> 4(b) Facilitate input by a wide range of stakeholders (including in the community welfare sector).[31]
>
> Recommendation 7
>
> That the Task Group in its report recommend that governments accept responsibility for ensuring the existence, adequate funding and effectiveness of the following types of programs to minimise adverse impacts on low income and otherwise disadvantaged people of any Emissions Trading System [ETS] introduced in Australia:
>
> 7(a) *Financial compensation programs* to compensate relevant households for both direct increases in energy and transport costs and for other price increases resulting from business passing on to consumers ETS-related costs.
>
> 7(b) *Energy efficiency assistance programs* – an area where business involvement would also be welcome – providing information, home energy efficiency improvements (such as upgrading appliances, ventilation, lighting and insulation), home water efficiency improvements, and structural changes to bolster houses against extreme weather events.[32]

113. Recommendation 44 of this Pre-Budget Submission summarises key recommendations from the joint submission just cited. We look forward to future discussions on climate change

[29] Brotherhood of St Laurence, Catholic Social Services Australia and National Welfare Rights Network, *Joint Submission to Prime Ministerial Task Group on Emissions Trading*, April 2007 (available at http://www.pmc.gov.au/climate_change/emissionstrading/submissions.cfm), at p.11.
[30] *Ibid* at pp.11-12.
[31] *Ibid* at p.10.
[32] *Ibid* at p.18.

with the Commonwealth Government and with participants in the COAG Working Group on Climate Change and Water.

C Education, Employment and Workplace Relations portfolio

Education

Early childhood

Recommendation 45	Access to free pre-schooling should be provided for all three-year-old children in highly disadvantaged areas. This measure could be targeted by using the mapping tool provided by the *Dropping Off the Edge* report.

114. Catholic Social Services Australia welcomes the Commonwealth Government's proposal to fund work with the states and territories to develop a network of Early Learning Centres. The Government's commitment to universal access to pre-school is an important and welcome development.

115. No single factor is more important in instigating and sustaining disadvantage than an inadequate education. The Government is to be commended for recognising the importance of the acquisition of precursor skills which help to ensure a good beginning to children's formal education. Guaranteeing the opportunity for all children to benefit from pre-schooling at age four and to be helped in timely fashion with any medical problems that could later impede their educational progress will be major contributions to the desired "educational revolution".

116. We also welcome the proposed expansion of programs such as the Brotherhood of St Laurence's "Home Interaction Program".

117. However, the scale of deprivation experienced by many children from highly disadvantaged backgrounds is of a magnitude that requires both the opportunity to attend pre-school at age three and the extension of sustained encouragement and support to their families to ensure that this happens (such as the Home Interaction Program).[33]

118. An assured opportunity for four-year-olds to benefit from pre-schooling should rightly be a universal policy. But the same opportunity for three-year-olds needs to be sensitively targeted to children from highly disadvantaged areas and integrated with other family and childhood services. Otherwise, the education gap between youngsters from more privileged backgrounds and those from disadvantaged circumstances will continue to resist the best efforts of even our most dedicated teachers.

Computer access

Recommendation 46	For students from disadvantaged areas, support for computer use in the home environment should be provided to complement work undertaken at school.

[33] Tony Vinson, *Dropping off the Edge: The distribution of disadvantage in Australia*, Jesuit Social Services and Catholic Social Services Australia, 2007.

119. The “digital divide” mirrors the broader social divide. The *Dropping off the Edge* report[34] found that limited ***use of*** computers and lack of access to the internet correlated strongly with other measures of disadvantage. Students in Years 9 to 12 from disadvantaged areas who have missed out so far on computer access are likely to benefit from the proposed National Secondary Schools Computer Fund.

120. Combined with more effective teaching of basic skills, ensuring the quality of educational resources in schools in disadvantaged areas and new techniques in education, increasing access to computers and the internet promises to improve the prospects of students from disadvantaged areas. However, support for computer use in the home environment will be required to complement the work undertaken at school.

Industrial relations

Recommendation 47	If the Australian Fair Pay Commission (AFPC) has not done so by 1 February 2008, the Commonwealth Government should commission research into the needs of low-paid workers and their families and make that research available (both to the AFPC and publicly) before the AFPC makes its 2008 wage-setting decision.
Recommendation 48	The Commonwealth Government should commission research into the number and characteristics of Australians experiencing working poverty, with a view to developing specific taxation, welfare and wages policies to address this problem.
Recommendation 49	The Commonwealth Government should ensure (including by authorising the release of relevant data) critical and transparent evaluation of: (a) The impact on low-income families of the “WorkChoices” changes, and (b) The impact of the decline in real wage levels for those workers who are dependant upon the safety net wages that have been set by the AFPC.

[34] *Ibid* at ??. Insert cross-reference ??? to part III.D.

Recommendation 50	In making submissions to the Australian Fair Pay Commission on minimum wages, the Commonwealth Government should emphasise that, after taking into account transfer payments that families are entitled to receive, minimum wages must be set at a level that ensures that the needs of low paid workers and their families are met without the necessity for the second parent in couple families to undertake paid employment.
Recommendation 51	In drafting amendments to industrial relations legislation, the Commonwealth Government should ensure: (a) A proper balance between employer and employee rights, ensuring a “fair go” for all and an industrial relations system which supports the nation’s greatest asset – its families; (b) The reintroduction of fairness as a statutory wage-setting parameter; (c) The setting of minimum wages at a level that promotes, and does not prejudice, social inclusion; and (d) A minimum wage safety net for the low paid specifically designed to meet the needs of workers and their families.

121. The Australian Catholic Council for Employment Relations (ACCER) has recently published a paper which clearly sets out Catholic approaches to industrial relations and an analysis of the requirements of a living wage for Australia’s families. Recommendations 47-51 are based on that analysis.[35]

122. Catholic Social Services Australia works closely with ACCER. Both organisations are concerned to ensure that the needs of the most disadvantaged people in society are properly prioritised when government formulates and implements intersecting policies across such areas as wages, taxation and government transfers.

[35] Australian Catholic Council for Employment Relations, *Workplace Relations: A Catholic Perspective* (2007).

Mutual obligation and income support policy

Recommendation 52	That Commonwealth Government policy on mutual obligation and income support be guided by the five principles listed at **Attachment A** – in short: (a) Respect for human dignity (b) Respect for the rights of the family (c) A right to financial support for those in need (d) A government that meets its obligations (e) Mutual obligation activities should benefit recipients and their families.

123. These principles are enlarged upon in the one-page listing at **Attachment A**.

124. Our arguments in support of these principles are detailed in full in our recent paper on mutual obligation, which is available on our website.[36]

Adequacy and indexation of income support payments

Recommendation 53	Link income support payment rates to the actual cost of living of recipients, with appropriate indexation arrangements.
Recommendation 54	Move to a single allowance model as recommended in the “McClure Report”.[37]
Recommendation 55	Redress inequities between pensions and allowances (re payment rates, means testing and indexation).

125. Income support payments must be sufficient to allow recipients to live with dignity.

126. As we argued in our recent paper on mutual obligation:[38]

> Countries with more adequate rates of income support have lower rates of poverty. United States evidence suggests that adequate resources are particularly important for child outcomes.[39]

[36] Catholic Social Services Australia, *The Obligation is Mutual: Discussion paper on mutual obligation*, October 2007, available at www.catholicsocialservices.org.au.
[37] Reference Group on Welfare Reform, *Participation Support for a More Equitable Soicty – Final Report of the Reference Group on Welfare Reform*, July 2000 (commonly cited as “the McClure Report”).
[38] *Ibid* at p.32.
[39] The relevant footnote was as follows:
“A recent summary of the research published by Princeton University and Brookings Institute reported that:

127. Current Australian income support payment rates are often inadequate, especially for single people and for those who rely on income support for extended periods. This problem is exacerbated over time by the absence of adequate indexation.

128. We therefore recommend linking income support payment rates to the actual cost of living of recipients, with appropriate indexation arrangements.

129. *Note*: See also Recommendation 27 above regarding the age pension.

Welfare-to-work

Recommendation 56	Revise the punitive, "work-first" approach underlying welfare-to-work policy to focus on engagement and skills development and to minimise the incidence of "churning", and to ensure transparent and critical evaluation.
Recommendation 57	In relation to single parents in particular, remove some of the harshness and unfairness resulting from welfare-to-work policy by: (a) Restoring eligibility for pension-level payments and benefits rather than Newstart Allowance for single parents whose youngest child has turned eight; (b) Removing participation requirements in their current form, especially the compulsion to seek work and to accept almost any job offer; (c) Removing any form of mandatory participation requirements for single parents whose youngest child is aged *over five but under 13*; (d) For single parents whose youngest child is aged *over 12 but under 16*, reviewing mandatory participation requirements, replacing "work-first" with a customised approach which accords appropriate priority to caring commitments and to skills upgrading; and

A family's economic resources influence child well-being, because they are necessary to meet children's basic needs for food and shelter. In addition, a family's economic resources influence the quality of environments children experience at home, in child care, at school, and in the community. … Children in families with adequate resources tend to be healthier and to do better in school; they are less likely to be involved in criminal behavior and are more likely to graduate from high school and to earn higher incomes as adults.

Margie K. Shields and Richard E. Behrman, "Children and Welfare Reform: Analysis and Recommendations", *Children and Welfare Reform*, vol. 12, no 1 (Winter/Spring 2002)."

	(e) Funding ongoing, detailed and transparent evaluation of the impacts for single parent families and their children of any income support participation requirements, whether mandatory or voluntary, with a special focus on qualitative research methods exploring the impact of such requirements on children in single parent families.

130. We look forward to future discussions with the Government about reform of the welfare-to-work policy.

Eight-week non-payment periods[40]

Recommendation 58	Income support non-payment periods should be abolished as a form of non-compliance penalty.
Recommendation 59	If eight-week non-payment periods are retained as a penalty: (a) Where an eight-week non-payment period is imposed, that penalty should be lifted as soon as the job-seeker re-engages with his or her participation requirements; and (b) Job seekers with three participation failures in a 12-month period should receive access to escalated levels of services, including re-assessment to identify any barriers to employment, and intensive services to address these barriers.

131. The "Welfare–to-Work" package introduced from 1 July 2006 changed the operation of the social security compliance system.

132. From 1 July 2006, any time a job seeker commits a 'participation failure' they will generally have their payment completely suspended until they meet the applicable participation requirement. Accumulating three 'less serious' participation failures in one year, or a single occurrence of a "more serious" participation failure, will trigger a mandatory eight-week 'non-payment period'.

133. Examples of the "more serious" type of participation failure include:

- Voluntarily becoming unemployed,

[40] Recommendations 58-59 and much of paragraphs 131-142 are drawn largely from our 2007-08 *Pre-Budget Submission*. Problems arising in the implementation of the eight-week non-compliance penalty have recently been well publicised, and to a limited extent addressed, by the Commonwealth Ombudsman (see Commonwealth Ombudsman, *Application of penalties under Welfare to Work*, Report No. 16 of 2007, December 2007). See also Stephanie Peatling, "Centrelink smothered by 'infractions'", *Sydney Morning Herald*, 15 January 2008.

- Being dismissed for misconduct,
- Refusing a 'suitable job offer', or
- Failing to attend full-time 'Work for the Dole'.

134. Eight-week non-payment periods cannot be waived by re-engaging with participation requirements.[41]

135. Research suggests that the use of non-payment penalties can result in significant financial hardship. This is likely to make it extremely difficult for job seekers to re-engage with participation requirements after the payment suspension has ended. The Social Policy Research Centre (SPRC) at the University of NSW undertook research on the effects of breaching under the previous compliance system. Under this system, a second breach resulted in a 26% reduction in income support for 26 weeks, and a third breach resulted in payment being cancelled for 12 weeks. The SPRC found that of those who had been breached two or three times:

- 35.2% had to go without food,
- 30.8% got into debt,
- 33.2% had problems paying household bills,
- 35.7% were unable to pay rent, and
- 36.1% lost their accommodation.[42]

136. Similar findings were also found in a recent study by Melbourne City Mission (MCM). MCM surveyed 186 clients and found that of these, 55%, or 103 clients had been breached or had their payment suspended at some stage. This sub-sample was asked what impact breaching had had on their life:

- Almost half (44%) were unable to pay for necessities such as food, transport and bills,
- Around a quarter (23%) had difficulty paying for housing, and
- About a quarter reported resorting to crime as a direct result of their payment being suspended.[43]

137. In spite of this evidence, and with over 15,000 such breaches having been imposed by the previous government,[44] we are aware of no government-funded study focusing directly on

[41] Daniels and Yeend 2005, 'Employment and Workplace Relations Legislation Amendment (Welfare to Work and Other Measures) Bill 2005', *Bills Digest*, no.70, 2005-06, pp. 38-41.

[42] Eardley, T et al 2005, *The Impact of Breaching on Income Support Customers*, SPRC Report 5/05, p. 79.

[43] According to the Melbourne City Mission Report, 13% of all survey participants reported resorting to crime as a result of having their payment suspended. This represents approximately 23% of survey participants who said that their payment breached or suspended at some stage. See Horn, M and Jordan, L 2006, *Give Me a Break! Welfare to Work – a lost opportunity*, Melbourne City Mission, pp.31, 37-38

[44] "Between 1 July 2006 and 30 June 2007, 15,509 job seekers have received an eight-week non-payment period", according to *Answer to Question on Notice, Question no. HS58, Human Services Portfolio: Centrelink, Budget Estimates 2007-08 - May 2007*, Question No. HS58.

the impact of this policy on those who are breached and forced to live without income for eight weeks.

138. The eight week non-payment period should be abolished. Non-compliance usually indicates the presence of unmet need. Alternative forms of penalties to non-payment should be used to encourage participation. This is reinforced by research findings about the impact of non-payment periods.[45]

139. However, given that the Government supported non-payment as a form of penalty, we recommend two amendments to the compliance system to moderate this policy's harsher elements.

140. Recommendation 59(a) calls for the lifting of an eight-week non-payment period as soon as the job-seeker re-engages with his or her participation requirements. This approach would be consistent with the current policy of allowing job seekers who commit a less serious first or second failure to have their payment reinstated through re-compliance. It would also contribute to the underlying policy objective of increasing participation in the paid workforce.

141. Recommendation 59(b) is for job seekers with three participation failures in a 12-month period to receive access to escalated levels of services, including:

- Assessment to identify any barriers to employment. This could include a Job Capacity Assessment or access to a psychologist, and

- Intensive services to address these barriers. This could include drug and alcohol counselling, specialist mental health services or parenting support services.

142. The basis for this proposal is that job seekers incurring multiple participation failures typically have undisclosed or undetected barriers to finding employment. For example, 60% of one sample of homeless Newstart recipients reported that they did not disclose their homelessness to Centrelink because they did not think there was any benefit or relevance, or because of embarrassment about their situation.[46]

Quarantining of income support payments ("income management")

Recommendation 60	We challenge the Government to present evidence to support the practice of "income management".
Recommendation 61	The national application of "income management" should be reviewed in mid-2008 when the Government reviews the impact of the "Northern Territory intervention" – with special consideration of whether associated administration and compliance resources should instead fund programs offering direct support and assistance.

[45] See paragraphs 135-136 above.
[46] S. Parkinson and M. Horn, *Homelessness and Employment Assistance*, Hanover Welfare Services, South Melbourne, 2002 at pp.27 and 31.

143. No evidence exists that the benefits of “income management” outweigh attendant risks and costs.

144. Indeed, studies of United States programs linking welfare payments to school attendance have found that “sanction-only programs” without case management resources “do not significantly improve attendance”.[47]

145. More detail about our views was provided in our submission to the Senate Inquiry into the 2007 “Northern Territory Emergency Response” legislation package.[48]

Separating compliance from assistance

Recommendation 62	Provision of employment assistance by Job Network providers should be clearly separated from income support eligibility/compliance measures.

146. As argued in our recent paper on mutual obligation:[49]

> Job Network and other employment services should not be used as compliance measures. Centrelink should be responsible for ensuring that income support recipients are eligible for assistance while Job Network members should focus on improving recipients’ prospects for employment.

Personal Support Program (PSP)[50]

Recommendation 63	PSP fees should be set by reference to Job Network fees, plus a 20% loading in recognition of the complex needs of PSP participants.
Recommendation 64	PSP providers should be given access to a brokerage account that is additional to current program fees at an amount set by reference to the Job Seeker Account plus a 20% loading in recognition of the complex needs of PSP participants.

[47] See David Campbell and Joan Wright, “Rethinking Welfare School-Attendance Policies”, Social Service Review (2005):2 at p.4 (summarizing seven evaluations of programs linking welfare payments to school attendance).

[48] See Catholic Social Services Australia, *Submission to Senate Legal and Constitutional Affairs Committee, Inquiry into the Provisions of the Northern Territory Emergency Response Bill 2007 and Associated Bills*, 9 August 2007 (included without its own attachments as **Attachment C** to this Pre-Budget Submission) at pp. 8-9 and at Attachment C. See also above at Recommendation 34 and accompanying text.

[49] Catholic Social Services Australia, *The Obligation is Mutual: Discussion paper on mutual obligation*, October 2007, available at www.catholicsocialservices.org.au.

[50] Recommendations 63-64 and accompanying text are largely drawn from our *2007-08 Pre-Budget Submission*.

147. The PSP is a pre-employment program that provides intensive case management to people with non-vocational barriers (such as homelessness and mental health issues) that prevent them from participating in the workforce.[51]

148. Research suggests that PSP participants have high-level and complex needs. A 2005 study found that participants faced an average of nine barriers. The most common barriers were family breakdown (experienced by 66% of participants), lack of self-confidence (65%), social isolation (56%) and drug problems (40%).[52]

149. Additional resources should be allocated for the PSP. PSP providers in the Catholic Social Services Australia network have expressed concern about the capacity of the program to offer effective assistance if current funding schedules remain fixed for the period of the Round 2 funding agreement. If there is no adjustment to PSP funding schedules before the end of the current contract, there will have been no increase in program fees between 2005 and 2009, even though the case load has displayed increasingly complex needs.

PSP fees

150. An appropriate benchmark to use when allocating additional resources to the program would be to set PSP fees with reference to Job Network fees, but with a 20% loading in recognition of the complex needs of PSP participants. In the current fee structures for the two programs, PSP providers receive a lower fee than Job Network members for undertaking comparable activities. For example, a Job Network provider can receive a maximum payment of $4,950 for placing a highly disadvantaged job seeker in 26 weeks of continuous employment.[53] By contrast, a PSP provider will receive only $1,440 for achieving the same outcome.

Proposal for a PSP brokerage account

151. To assist the achievement of program objectives, PSP providers need access to a brokerage account to purchase specialist assistance to address the barriers experienced by participants.

152. PSP providers currently lack access to such an account, and must allocate funding from program fees in order to purchase specialist assistance:

- Feedback from PSP providers in the Catholic Social Services Australia network indicates that almost all agencies are able to allocate a maximum of only $200 per participant:
  - This level of funding is inadequate to purchase the type and level of assistance that PSP participants need, such as drug and alcohol counseling and mental health services.
  - Moreover, the one-off interpreter payment does not cover ongoing costs for PSP participants who require interpreter services.
- In contrast, Job Network providers have access to the Job Seeker Account , a significantly higher level of funding than that which PSP providers are able to allocate from program funds for brokerage services:

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[51] DEWR 2006a *Programme Guidelines for PSP Providers July 2006*, available on-line at https://ecsn.gov.au/PSP/Programme+Information/Programme+Guidelines/ .
[52] Note: Non-vocational barriers are not mutually exclusive. See Daniel Perkins, *Personal Support Programme evaluation: interim guidelines*, 2005 at p. v.
[53] DEWR *Employment Services Contract 2006-09* at p. 58.

- o Currently, a Highly Disadvantaged job seeker is allocated a Job Seeker Account of approximately $1,350 upon first entering Intensive Support Customised Assistance.[54]
- o The Job Seeker Account can be used to purchase interpreter services for Job Network clients.

153. PSP providers should have access to a brokerage account that is additional to current program fees. A PSP brokerage account should be set by reference to the Job Seeker Account, plus a 20% loading in recognition of the complex needs of PSP participants. Conditions associated with the acquittal of a PSP brokerage account should be consistent with the pre-employment focus of the PSP.

"Work for the Dole"

Recommendation 65	The "Work for the Dole" program should be replaced by a work experience program which is designed to improve the employment prospects of participants – and not as a mechanism to extract work in return for benefits or to deter claims for income support. The name of the new program should reflect its purpose.

154. We welcome the new Government's recognition that "Work for the Dole" has produced poor outcomes, and its commitment to ensuring significant improvements especially in the area of skills acquisition.

Job Network: Recommendations from our paper *A Job Network for Job Seekers*[55]

155. Catholic Social Services Australia is keen to contribute to the Government's review of Job Network.

156. The following seven recommendations summarise some of those made in our 2006 discussion paper *A Job Network for Job Seekers: A report on the appropriateness of current services, provider incentives and government administration of Job Network with respect to assisting disadvantaged job seekers* (attached as **Appendix D**).

157. We estimate these Job Network recommendations are cost neutral. This is because:

- Proposed changes to Job Network incentives will result in job seekers being placed in work sooner and remaining in employment for longer. This will bring savings in expenditure on allowances.
- The changes to outcome fees and star ratings weightings have been designed from the point of view of re-ordering the funding available under the current Job Network budgetary allocation.

[54] *Ibid* at p. 12.
[55] Recommendations 66-72 also appeared in our *2007-08 Pre-Budget Submission*.

- Potential savings have been identified from administration of the program by the Department of Education, Employment and Workplace Relations (DEEWR).
- Improved services for disadvantaged job seekers, and improved quality of services for job seekers, will mean increased costs to Job Network, but these are offset by other savings.

Services for disadvantaged job seekers

Recommendation 66	Annual access to Intensive Support Customised Assistance for very long-term unemployed job seekers.[56]
Recommendation 67	Change Job Seeker Classification Instrument to amend mechanism for identifying "Highly Disadvantaged" job seekers.[57]
Recommendation 68	Introduce a category of "Disadvantaged" job seekers, to be eligible for early access to Intensive Support Customised Assistance (ISCA).[58]

Outcome Fee structure

Recommendation 69	To remove perverse incentives, revise Outcome Fee structure along the lines of our detailed proposal.[59]

Improving quality of services to job seekers

Recommendation 70	Introduce Final Outcome payment to ensure 4-12-months-unemployed job seekers are placed in sustained employment less likely to lead to long-term unemployment.[60]

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[56] Recommendation 66 is set out in full at p.57 of **Attachment D**. Background material is at pp.15-17, 27-29, 42-45 and 54 of **Attachment D**.

[57] Recommendation 67 is set out in full at p. 57 of **Attachment D**. Background material is at pp.15-17, 27-29 and 54 of **Attachment D**.

[58] Recommendation 68 is set out in full at p.57 of **Attachment D**, with background material at pp. 15-17, 27-29 and 54.

[59] Recommendation 69 is set out in full at p.58 of **Attachment D**, with background material at pp.17-19 and 24-56.

[60] Recommendation 70 is set out in full at p.60 of **Attachment D** with background material at pp.24-56.

Star ratings weightings

Recommendation 71	To remove perverse incentives, revise star ratings weightings structure along the lines of our detailed proposal.[61]

Resources for administration

Recommendation 72	Limit DEEWR's administrative budget for Job Network to a fixed maximum proportion of around 10% of total program funds.[62]

158. We note the current review by the Minister for Employment Participation, the Hon Brendan O'Connor MP, into current employment services model. We will be lodging a submission to that review, and look forward to ongoing consultations with the Government on relevant issues.

[61] Recommendation 71 is set out in full at pp.59-60 of **Attachment D**, with background material at pp.19-22.

[62] Recommendation 72 is set out in full at p.60 of **Attachment D**, with background material at pp.36-42.

IV FULL LIST OF RECOMMENDATIONS

I: CROSS-PORTFOLIO RECOMMENDATIONS

A Fiscal responsibility and social inclusion

Recommendation 1 Notwithstanding the context of Budgetary restraint, new expenditure on social inclusion is mandated by:

(a) A moral imperative to do better by the disadvantaged people in our community, and

(b) The fact that it would be false economy *not* to invest now in social inclusion.

B Identifying and redressing localised disadvantage

Recommendation 2 Policy development should be targeted to the communities suffering the greatest need.

Recommendation 3 Empirical work on the spatial concentration of social disadvantage, especially *Dropping Off the Edge*, should be used to inform policy-making at all levels of government.

Recommendation 4 The Commonwealth Government should establish an Australia-wide social data system to illuminate the spatial distribution of social disadvantage. All governments should improve inter-governmental co-ordination in the collection and policy application of social data.

Recommendation 5 Planning between government departments, between all levels of government, and between government and the NGO and business sectors, should be integrated to address the compounding effects of disadvantage experienced in identified areas.

Recommendation 6 Flexible funding pools should be established, with input from all levels of government, to support innovative local projects addressing locational disadvantage.

Recommendation 7 Place-based policies to reduce social disadvantage must be run on long-term timetables of at least 7-8 years, rather than the short (1-3 year) timeframes frequently used.

C Audits of social policy services and information infrastructure

Recommendation 8 Whole-of-government audits should be undertaken of:

(a) Existing social services and programs operated by all providers (including all levels of government, community sector agencies and business

(b) Social policy information infrastructure – especially community sector service delivery; measures/incidence of disadvantage; and the interaction of different areas of policy.

D Program funding and community sector service providers

Recommendation 9 A single basic registration or eligibility process across all levels of government should be introduced to assess the governance and management credentials of not-for-profit agencies.

Recommendation 10 The Commonwealth Government's social inclusion governance bodies and COAG should consider further ways of reducing duplication and waste in community sector engagement with different levels of government.

Recommendation 11 Unless an alternative specialist body is established for the purpose, the COAG Working Group on Business Regulation and Competition should include in its scope the regulatory environment affecting community sector agencies providing social services under government contracts.

Recommendation 12 Decision-makers should look beyond the parameters of any one specific program when making decisions which may have broader unintended consequences for the service delivery sector – especially for agencies delivering services under multiple programs.

Recommendation 13 The Commonwealth Government should ensure that program funding in all areas matches the **full** cost of service delivery, and that it is maintained at this level through appropriate indexation.

Recommendation 14 In determining the full cost of service delivery, the Commonwealth Government should include a component for infrastructure (including compliance) and capital costs.

Recommendation 15 Government requirements to repay some surpluses arising from funding agreements should be replaced by an agreement that any surpluses may be held by service-delivering agencies to cover contingencies or to provide related services.

Recommendation 16 The Commonwealth Government should implement, in all areas where it funds not-for-profit agencies to undertake service delivery, the recommendations (made in 2006 in relation to mental health by the then Senate Select Committee on Mental Health) that:

(a) Governments recognise the problems associated with the short-term, non-recurrent grant approach to funding and move to more secure funding decision-making, based on evaluations of effectiveness; and

(b) At a minimum that grants to NGO mental health providers be indexed based on the CPI.

Recommendation 17 The Commonwealth Government should strongly encourage State and Territory Governments to adopt an approach similar to that set out in Recommendation 16.

Recommendation 18 In relation to rural and regional service delivery:

(a) Finding more realistic costing mechanisms deserves priority attention, and

(b) Tendering criteria should include whether tendering agencies have current or past experience of rural or regional service delivery.

Recommendation 19 The Government should expand the scope of its review of red tape and contractual “gag” clauses to include the removal of “unreasonable amendment“ clauses enabling the government to institute virtually unilateral contractual amendments.

E Broader government engagement with the community sector

Recommendation 20 The welcome new social inclusion bodies should seek to “quarry” successful, innovative ideas from community sector practice.

Recommendation 21 Budget night briefing and media arrangements for community sector organisations should be significantly improved, on a permanent basis, to ensure access to:

(a) The Treasury “lock-up” and departmental briefings, and

(b) An appropriate Parliament House venue where all representative groups (community sector organisations, peak business bodies, etc.) could hear the Budget speech and prepare a timely “post-Budget” response.

F Reviews and evaluation of government policies and programs

Recommendation 22	Reviews of policy and programs should have resources, timeframes, and procedural guidelines which ensure broad and meaningful community consultation.
Recommendation 23	Reviews' terms of reference should include provision for ongoing evaluation/monitoring of relevant policy and programs.
Recommendation 24	Evaluation of government programs should be as transparent as possible and form an integral part of program management.

G Inter-governmental relations

Recommendation 25	"The promotion of social inclusion" should be included as an explicit objective of all COAG Working Groups, with more specific social inclusion objectives developed as appropriate, and with steps towards this goal factored into each Working Group's "indicative forward work program".
Recommendation 26	COAG Working Groups should as a matter of course engage in broad, structured and specifically funded community consultation.

H Cost of living for older Australians and superannuation

Recommendation 27	Move towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (as was recommended by the Senate Community Affairs Reference Committee in 2004).
Recommendation 28	(a) Further government-funded research to identify the special needs of grandparent families, including particular reference to the case of Indigenous grandparent families; and (b) Greater practical recognition of such needs, especially in relation to government financial assistance.
Recommendation 29	Removal of the $450 monthly earnings threshold for Superannuation Guarantee contributions.
Recommendation 30	Assessment of the equity and fairness aspects of taxation concessions applied to superannuation – including the extent to which they are likely to benefit those on higher incomes and lower incomes respectively, and their impact on taxation revenues.

Recommendation 31 Action to minimise the risk of increasing wealth and income inequalities among older Australians by considering how the superannuation system could be changed to remove the existing systemic bias against those who have worked for low wages or spent extended periods of their working-age lives out of the paid workforce, unemployed or underemployed.

Recommendation 32 Adopt the recommendation made by HREOC in *It's About Time: Women, men, and family – Final Paper 2007* (at recommendation 32) that the Productivity Commission enquire into "the feasibility of establishing a superannuation-like framework whereby the unpaid work of carers can be recognised by the Australian Government, but with expanded terms of references incorporating the issues raised in Recommendations 30-31 above.

I Disability

Recommendation 33 Urgent provision of additional funds to support people with a disability, notably in the areas of respite; accommodation; related community and independent living support; and early intervention and pre-school services for children with a disability.

J Indigenous Australians

Recommendation 34 The Government should act quickly to remove legislative provisions which permit the application to entire Indigenous communities of a scheme for the quarantining ("income management") of income support payments.

K Mental health

Recommendation 35 Ensuring increased sensitivity on the part of government agencies to the circumstances and needs of people with mental illness who are affected by welfare-to-work policy, including in cases of undiagnosed or undisclosed mental illness.

Recommendation 36 Income support participation and compliance requirements should not be enforced against people whose mental illness renders them too ill to be coerced to seek and/or maintain employment.

L Work and family

Recommendation 37 Consideration of work and family issues should be I ntegral to government policy-making across a wide range of issues – including welfare reform, income support, retirement incomes and industrial relations.

II: PORTFOLIO-SPECIFIC RECOMMENDATIONS

A FaHCSIA

Housing and homelessness

Recommendation 38 Any taxpayer-funded investment aimed at improving private rental affordability should primarily benefit tenants rather than landlords.

Recommendation 39 The Commonwealth Government should review the allocation and adequacy of taxpayer-funded housing assistance, such as the absence of means testing of the First Home Owner Grant (revision of which would produce budgetary savings) and the adequacy of Commonwealth Rent Assistance.

Recommendation 40 A concerted national effort to increase the supply of adequate public and social housing is essential. For this reason, COAG's Housing Working Group should give higher priority to its objective of improving social and community housing and ensure appropriate funding for relevant implementation activities.

Recommendation 41 The annual "State of Supply Report" by the proposed National Housing Supply Research Council should include thorough review of, and recommendations about, current conditions and future options for the provision of public and social housing.

Recommendation 42 Beyond welcome measures to deal with homelessness after it is evident, governments should prioritise and fund programs aimed at addressing the causes of homelessness and preventing its occurrence – especially structural poverty and domestic violence.

Family relationships: FRSP services

Recommendation 43 That providers of FRSP services be recompensed by the Commonwealth Government for revenue foregone as a result of the requirement for pensioners and health care card holders to be granted a 100% concession.

B Climate Change

Recommendation 44 Measures to address climate change (including those agreed to as international treaty obligations) should:

(a) Involve broad consultation, including the community sector, and integrate the concept of equity (fairness/distributional impact on low-income earners) as a key criterion at both design and implementation stages;

(b) Be accompanied by steps to protect low-income Australians from any associated increases in the price of energy, transport and other goods and services; and

(c) Ensure provision of energy efficiency assistance programs to ensure that low-income people can participate without undue disadvantage in a more energy-efficient future.

C Education, Employment and Workplace Relations

<u>*Education*</u>

Recommendation 45 Access to free pre-schooling should be provided for all three-year-old children in highly disadvantaged areas. This measure could be targeted by using the mapping tool provided by the *Dropping Off the Edge* report.

Recommendation 46 For students from disadvantaged areas, support for computer use in the home environment should be provided to complement work undertaken at school.

<u>*Industrial relations*</u>

Recommendation 47 If the Australian Fair Pay Commission (AFPC) has not done so by 1 February 2008, the Commonwealth Government should commission research into the needs of low-paid workers and their families and make that research available (both to the AFPC and publicly) before the AFPC makes its 2008 wage-setting decision.

Recommendation 48 The Commonwealth Government should commission research into the number and characteristics of Australians experiencing working poverty, with a view to developing specific taxation, welfare and wages policies to address this problem.

Recommendation 49 The Commonwealth Government should ensure (including by authorising the release of relevant data) critical and transparent evaluation of:

(a) The impact on low-income families of the "WorkChoices" changes; and

(b) The impact of the decline in real wage levels for those workers who are dependant upon the safety net wages that have been set by the AFPC.

Recommendation 50 In making submissions to the Australian Fair Pay Commission on minimum wages, the Commonwealth Government should emphasise that, after taking into account transfer payments that families are entitled to receive, minimum wages must be set at a level that ensures that the needs of low paid workers and their families are met without the necessity for the second parent in couple families to undertake paid employment.

Recommendation 51 In drafting amendments to industrial relations legislation, the Commonwealth Government should ensure:

(a) A proper balance between employer and employee rights, ensuring a "fair go" for all and an industrial relations system which supports the nation's greatest asset – its families;

(b) The reintroduction of fairness as a statutory wage-setting parameter;

(c) The setting of minimum wages at a level that promotes, and does not prejudice, social inclusion; and

(d) A minimum wage safety net for the low paid specifically designed to meet the needs of workers and their families.

<u>Mutual obligation and income support policy</u>

Recommendation 52 That Commonwealth Government policy on mutual obligation and income support be guided by the five principles listed at **Attachment A** – in short:

(a) Respect for human dignity;

(b) Respect for the rights of the family;

(c) A right to financial support for those in need;

(d) A government that meets its obligations; and

(e) Mutual obligation activities should benefit recipients and their families.

Adequacy and indexation of income support

Recommendation 53 Link income support payment rates to the actual cost of living of recipients, with appropriate indexation arrangements.

Recommendation 54 Move to a single allowance model as recommended in the "McClure Report".

Recommendation 55 Redress inequities between pensions and allowances (re payment rates, means testing and indexation).

Welfare-to-work

Recommendation 56 Revise the punitive, "work-first" approach underlying welfare-to-work policy to focus on engagement and skills development and to minimise the incidence of "churning", and to ensure transparent and critical evaluation.

Recommendation 57 In relation to single parents in particular, remove some of the harshness and unfairness resulting from welfare-to-work policy by:

(a) Restoring eligibility for pension-level payments and benefits rather than Newstart Allowance for single parents whose youngest child has turned eight;

(b) Removing participation requirements in their current form, especially the compulsion to seek work and to accept almost any job offer;

(c) Removing any form of mandatory participation requirements for single parents whose youngest child is aged over five but under 13;

(d) For single parents whose youngest child is aged over 12 but under 16, reviewing mandatory participation requirements, replacing "work-first" with a customised approach which accords appropriate priority to caring commitments and to skills upgrading, and

(e) Funding ongoing, detailed and transparent evaluation of the impacts for single parent families and their children of any income support participation requirements, whether mandatory or voluntary, with a special focus on qualitative research methods exploring the impact of such requirements on children in single parent families.

Eight-week non-payment periods

Recommendation 58 Income support non-payment periods should be abolished as a form of non-compliance penalty.

Recommendation 59 If eight-week non-payment periods are retained as a penalty:

(a) Where an eight-week non-payment period is imposed, that penalty should be lifted as soon as the job-seeker re-engages with his or her participation requirements; and

(b) Job seekers with three participation failures in a 12-month period should receive access to escalated levels of services, including re-assessment to identify any barriers to employment, and intensive services to address these barriers.

Quarantining of income support payments ("income management")

Recommendation 60 We challenge the Government to present evidence to support the practice of "income management".

Recommendation 61 The national application of "income management" should be reviewed in mid-2008 when the Government reviews the impact of the "Northern Territory intervention" – with special consideration of whether associated administration and compliance resources should instead fund programs offering direct support and assistance.

Separating compliance from assistance

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“Work for the Dole”

Recommendation 65	The “Work for the Dole” program should be replaced by a work experience program which is designed to improve the employment prospects of participants – and not as a mechanism to extract work in return for benefits or to deter claims for income support. The name of the new program should reflect its purpose.

Job Network

Recommendation 66	Annual access to Intensive Support Customised Assistance for very long-term unemployed job seekers.
Recommendation 67	Change Job Seeker Classification Instrument to amend mechanism for identifying “Highly Disadvantaged” job seekers.
Recommendation 68	Introduce a category of “Disadvantaged” job seekers, to be eligible for early access to Intensive Support Customised Assistance (ISCA).
Recommendation 69	To remove perverse incentives, revise Outcome Fee structure along the lines of our detailed proposal.
Recommendation 70	Introduce Final Outcome payment to ensure 4-12-months-unemployed job seekers are placed in sustained employment less likely to lead to long-term unemployment.
Recommendation 71	To remove perverse incentives, revise star ratings weightings structure along the lines of our detailed proposal.
Recommendation 72	Limit DEEWR’s administrative budget for Job Network to a fixed maximum proportion of around 10% of total program funds.

Catholic Social Services
Australia

Attachment A

GUIDING PRINCIPLES FOR INCOME SUPPORT POLICY

Changes to Australia's income support system should be guided by five principles. These flow from four of the key principles of Catholic social teaching— *human dignity*, *solidarity, subsidiarity,* and the *preferential option for the poor*.

1. Respect for human dignity

Mutual obligation policies should be designed, promoted and administered in a way that respects the dignity of individuals, their families and their communities. The policies should not be stigmatising or demeaning. Respect for human dignity is the key principle from which the other four principles flow.

2. Respect for the rights of the family

Family members have a right as well as a responsibility to make decisions about their own welfare and the welfare of children. Where possible, governments should help families take responsibility and support them to make the right decisions. In meeting its obligations to support individuals and families, government must assist – rather than attempt to control – individuals, families and communities.

3. A right to financial support for those in need

The community has an obligation to support individuals when they cannot support themselves or have family obligations which interfere with paid work. Because payments are made on the basis of need, accepting income support should not be seen as generating a 'debt to society' that needs to be repaid through work.

4. A government that meets its obligations

Government has obligations which extend beyond providing financial support. Individuals have obligations that can include contributing to the community through paid work or caring for family members. In turn, government has an obligation to help individuals meet their obligations and develop their potential. Government can do this by pursuing full employment and providing the education, training and other services individuals need in order to develop their potential as contributing members of the community.

5. Mutual obligation activities should benefit recipients & their families

Mutual obligation activities should be implemented in a way that benefits either the income support recipient or those who rely on them for care. Policy makers should not use these activities to deter claims for income support or as a substitute for fraud prevention. Treating all income support recipients as dysfunctional and untrustworthy is inconsistent with a respect for human dignity.

While these principles are grounded in Catholic Social Teaching, we believe that the Church's social teaching can contribute to a dialogue with all people who are concerned with social wellbeing and human dignity.[63]

[63] Extracted with minor changes from Catholic Social Services Australia, *The Obligation is Mutual: Discussion paper on mutual obligation*, October 2007, available at www.catholicsocialservices.org.au, p.24.

Catholic Social Services
Australia

Submission to Senate Community Affairs Committee

INQUIRY INTO COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

July 2007

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SUMMARY

This submission argues that governments have a responsibility to ensure that *all* older Australians have adequate incomes and enjoy the fullest possible participation in the community.

This submission *recommends* Committee recommendations in the following areas:

- Measures to ensure that low-income older Australians are not disadvantaged by price increases flowing from action to address climate change (*Recommendation 1*).
- A free basic course of dental care every two years for those on concession cards (*Recommendation 2*).
- Further research to identify the special needs of grandparent-headed families; and greater practical recognition of those needs, especially in terms of government financial assistance (*Recommendation 3*).
- Regarding superannuation:
  - Removal of the $450 monthly earnings threshold for Superannuation Guarantee contributions (*Recommendation 4*).
  - Assessment of equity and revenue aspects of taxation concessions (*Recommendation 5*).
  - Removal of systemic bias against those who have worked for low wages or spent periods out of the paid workforce, unemployed or under-employed (*Recommendation 6*).
  - If Committee cannot examine those issues, a separate Inquiry to do so (*Recommendation 7*)
- Movement towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (*Recommendation 8*).

TABLE OF CONTENTS

I Introduction

I.A About Catholic Social Services Australia

1. Representing 63 member organisations, Catholic Social Services Australia is the Catholic Church's peak national body for social services. It advises the Australian Catholic Bishops Conference on social policy issues, and supports the delivery of a wide range of social service programs.

2. For 50 years, Catholic Social Services Australia has assisted and promoted better social policy for the most disadvantaged people in Australian society. This continues a much longer tradition of such engagement by the Catholic Church in Australia.

3. Catholic Social Services Australia has the mission of promoting a fairer, more inclusive society that gives preference to helping people most in need. It is committed to an Australian society that reflects and supports the dignity, equality and participation of all people. To this end, Catholic Social Services Australia works with Catholic organisations, governments, other churches and all people of goodwill to develop social welfare policies and other strategic responses that work towards the economic, social and spiritual well-being of the Australian community.

4. Our 63 members employ over 6,500 people and provide 500 different services to over a million people each year from sites in metropolitan, regional and rural Australia. Services provided by our members encompass aged care, community care, disability services, drug and alcohol services, employment and vocational programs (including Job Network, Disability Employment Network and Personal Support Program), family relationship services, housing, mental health, residential care and youth programs.

I.B Scope of this submission

5. The following matters make up the Committee's terms of reference:

(a) the cost of living pressures on older Australians, both pensioners and self-funded retirees, including:

(i) the impact of recent movements in the price of essentials, such as petrol and food,

(ii) the costs of running household utilities, such as gas and electricity, and

(iii) the cost of receiving adequate dental care;

(b) the impact of these cost pressures on the living standards of older Australians and their ability to participate in the community;

(c) the impact of these cost pressures on older Australians and their families, including caring for their grandchildren and social isolation;

(d) the adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs; and

(e) review the impact of government policies and assistance introduced across all portfolio areas over the past 10 years which have had an impact on the cost of living for older Australians.

6. This submission directly addresses the first four of these Terms of Reference, i.e. (a)-(d), and also touches on (e) during the discussion of superannuation arrangements. In view of the breadth of the Committee's terms of reference, however, this submission does not attempt a comprehensive treatment of all issues raised by Terms of Reference (a)-(d).

I.C General comments

7. Catholic Social Services Australia welcomes the Committee's Inquiry, and appreciates the opportunity to comment.

8. This Inquiry provides an important opportunity to examine both sides of a crucial equation: how cost pressures are affecting older Australians; and the adequacy of current arrangements regarding superannuation, the age pension, taxation and concessions.

9. Catholic Social Teaching requires preferential treatment of the poorest people in our society. In the words of the U.S. Bishops:

> The primary purpose of this special commitment to the poor is to enable them to become active participants in the life of society. It is to enable all persons to share in and contribute to the common good. The "option for the poor," therefore, is not an adversarial slogan that pits one group or class against another. Rather it states that the deprivation and powerlessness of the poor wounds the whole community. The extent of their suffering is a measure of how far we are from being a true community of persons. These wounds will be healed only by greater solidarity with the poor and among the poor themselves.[1]

10. In its application to older people living on low incomes, this sentiment might be expected to command widespread support in our society – because the continuation of any deprivation of the rights and dignity of older Australians should affront our notion of community.

11. In the view of Catholic Social Services Australia, governments have a responsibility to ensure that *all* older Australians:

- Have adequate income – and income security – to avoid debilitating financial stress;
- Are able to live fulfilling lives and enjoy the fullest possible participation in the community, including by the maintenance of family and social networks – which requires income above that needed for food, shelter and the barest physical necessities;
- Are accorded all the respect which is due both to their fundamental human dignity and to their past and present contributions to society; and
- Can access adequate and affordable social services to facilitate the above, especially in the areas of health and aged care.

12. Catholic Social Services Australia is concerned about the disparity between the objectives just outlined and the reality experienced by too many older Australians, especially those on the lowest incomes who are most vulnerable to poverty. We trust that the Inquiry process will generate constructive debate and lead to the implementation of policy changes which improve the lives of older Australians, both now and into the future.

[1] U.S. Catholic Bishops, *Economic Justice for All* (1986) (at #88).

II Term of Reference (a): The cost of living pressures on older Australians

Specific issues highlighted in Term of Reference (a):

(i) Impact of recent movements in price of essentials, such as petrol and food

13. Increasing *petrol* prices matter to older Australians not just for their direct impact on transport costs, but for their flow-on effect to other goods and services.

14. In its assessment of the impact of recent movements in *food* prices, the Committee could usefully examine the extent to which the actual profile of expenditure by older Australians, especially those lower incomes, is reflected in the Consumer Price Index (given the role of the CPI as one component of the indexation of the age pension).[2]

15. *Housing* affordability deserves particularly high priority in considering the circumstances of those older Australians who do not own their own home (see paragraphs 28-29 at p.8 below).

(ii) Costs of household utilities, such as gas and electricity

16. In its consideration of the how older Australians are affected by movements in utilities prices, the Committee should note the potential impacts of any emissions trading regime or other measures to combat climate change. Such measures are likely to affect a broader range of goods and services than household utilities.

17. With the growing awareness of issues surrounding climate change, and increasing political will to take action to address carbon emissions, care must be exercised to ensure that older Australians on low incomes are not asked to bear an undue burden of associated costs.

18. Catholic Social Services Australia takes this opportunity to reiterate the following points and recommendations from our recent joint submission, made with the Brotherhood of St Laurence and the National Welfare Rights Network, to the Prime Ministerial Task Group Emissions Trading:

> Pricing carbon into energy…means unit costs will rise. We can expect business to pass on cost increases to consumers across a wide range of goods and services.[3]
>
> The capacity to respond to the impacts of climate change, and of policies intended to ameliorate it, is not evenly distributed within our society. The most disadvantaged people will generally lack access to sufficient financial resources even to meet the increased costs of energy let alone to invest in energy efficiency and energy-reducing capital to reduce their exposure to increased energy costs. And…[emissions trading system]-sourced increases in prices of basic expenses will have a much higher impact on low-income and disadvantaged households relative to others.[4]
>
> > Recommendation 4
> >
> > That the Task Group recommend in its report that all phases of policy making and policy implementation on measures addressing climate change should:

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[2] See also paragraphs 65 and 68 at pp. 17 and 18 below.
[3] Brotherhood of St Laurence, Catholic Social Services Australia and National Welfare Rights Network, *Joint Submission to Prime Ministerial Task Group on Emissions Trading*, April 2007 (available at http://www.pmc.gov.au/climate_change/emissionstrading/submissions.cfm), at p.11.
[4] *Ibid* at pp.11-12.

4(a) Incorporate equity issues as an integral element, with particular focus on ensuring that low-income and otherwise disadvantaged households do not bear a disproportionate share of the costs of responding to climate change; and

4(b) Facilitate input by a wide range of stakeholders (including in the community welfare sector).[5]

Recommendation 7

That the Task Group in its report recommend that governments accept responsibility for ensuring the existence, adequate funding and effectiveness of the following types of programs to minimise adverse impacts on low income and otherwise disadvantaged people of any Emissions Trading System [ETS] introduced in Australia:

7(a) *Financial compensation programs* to compensate relevant households for both direct increases in energy and transport costs and for other price increases resulting from business passing on to consumers ETS-related costs.

7(b) *Energy efficiency assistance programs* – an area where business involvement would also be welcome – providing information, home energy efficiency improvements (such as upgrading appliances, ventilation, lighting and insulation), home water efficiency improvements, and structural changes to bolster houses against extreme weather events.[6]

Recommendation 1

Catholic Social Services Australia recommends that the Senate Community Affairs Committee ("the Committee") recommend that any government measures to address climate change should:

(a) Involve broad consultation, including the community sector, and integrate the concept of equity (fairness/affordability for low-income earners) as a key criterion at design and implementation stages;

(b) Be accompanied by steps to protect low-income older Australians from any associated increases in the price of energy, transport and other goods and services; and

(c) Ensure provision of energy efficiency assistance programs to ensure that low-income older people can participate, without undue disadvantage, in a more energy-efficient future.

(iii) Cost of adequate dental care

19. Catholic Social Services Australia is a member of the National Oral Health Alliance, which has urged governments to address the current unacceptable situation of 650,000 people on public dental care waiting lists with an average waiting time of 27 months.[7]

20. Many older Australians are struggling to obtain affordable oral health care.

21. A recent major survey published by the Australian Institute of Health and Welfare found "that dental visits were less frequent and oral diseases were more common among the elderly".[8]

[5] *Ibid* at p.10.
[6] *Ibid* at p.18.
[7] *Position Statement of National Oral Health Alliance*.
[8] Australian Dental Association, "2004-06 National Dental Survey" *National Dental Update*, April 2007.

22. The same survey found that eligibility for public dental care was "one of the most consistent and profound correlates of poor oral health identified."[9] Table 1 indicates the estimated proportions of older Australians who are eligible for public dental health care (which is means-tested) or who lack dental insurance. Older Australians are far more likely than others to be eligible for public dental health care.

	All ages over 15 (%)	**Aged 55-74 (%)**	**Aged 75 or over (%)**
Eligible for public dental care	26	44	68
No dental insurance	54	51	74

Table 1: Estimated eligibility for public dental care, and of non-carriage of dental insurance, by age[10]

23. The higher incidence of oral disease among older Australians, together with their higher rate of eligibility for public dental care and the long waiting lists in the public system, indicate the need for major improvements in policies addressing the oral health needs of those older Australians who are on low incomes and not covered by dental insurance. This need is further highlighted by the estimates shown in Table 2 below of the proportions of older Australians aged 75 or more who would have difficulty paying even $100 for dental work.

		Aged 75 or more and would have difficulty paying a $100 dental bill (%)
Public dental care eligibility	Eligible	29.5
	Ineligible	6.9
Dental insurance	Insured	6.8
	Uninsured	26.6

Table 2: Estimated proportion of Australians aged 75 or over who would have difficulty paying a $100 dental bill, by public dental care eligibility/ineligibility & presence/absence of dental insurance[11]

<u>Recommendation 2</u>

Catholic Social Services Australia recommends that the Committee recommend urgent action on oral health along the lines proposed by the National Oral Health Network: i.e. that the Commonwealth Government should:

(a) Ensure that all people on concession cards have a free basic course of dental care every two years, and

(b) Fund this initiative through the States and Territories, on condition that States and Territories meet certain conditions (notably raising their own level of expenditure on oral health).

[9] Gary D Slade, A John Spencer and Kaye F Roberts-Thomson (eds.), *Australia's dental generations: The National Survey of Adult Oral Health 2004-06*, Australian Institute of Health and Welfare, cat. No. DEN 165, 2007, at p.237.
[10] *Ibid* at p.52, Table 3.6.
[11] *Ibid* at p.169.

III Term of Reference (b): Impact of cost of living pressures on older Australians' living standards and ability to participate in the community

III.A Living standards

24. Catholic Social Services Australia is concerned that recent increases in the price of essentials will exacerbate the pre-existing inadequacy of the income of many older Australians.

25. Increases in living costs will always disproportionately affect those who live on lower incomes. Even if the cost increases are compensated for, there is likely to be a time lag in receipt of such compensation – and opinions will differ as to its adequacy.

26. At 25 per cent of Male Total Average Weekly Earnings,[12] the maximum rate of the age pension is a low income. One study based on 2000-01 ABS survey data estimated poverty rates of 12.8 per cent for those aged 55-64 and 9.9 per cent for those aged 65 and over.[13]

27. Catholic Social Services Australia is particularly concerned about the impact of upward movements in the price of essentials on those older Australians who do not own their own home. Housing affordability should be prioritised as a major issue affecting older Australians. As observed in the 2004 report by the Senate Community Affairs References Committee into poverty and financial hardship:

> While three quarters (76.8 per cent) of people aged 60 and over own their own homes, those who do not…face a greater risk of poverty… Rental costs may account for a large proportion of total weekly expenditure. The reduced public housing stock also means that older people may have to rent privately while waiting for public housing.[14]

28. About 11 per cent of age pensioners are paid rent assistance.[15] However, during the period 1996-2006 the real value of the age pension alone increased by slightly more than the real value of the age pension in combination with rent assistance, as shown in Table 3.

		June 1996	June 2006
Age pension – single	No Rent Assistance	100	114.8
	With Rent Assistance	100	113.4
Age pension – couple	No Rent Assistance	100	114.9
	With Rent Assistance	100	114.1

Table 3: Index of real value of maximum payments to recipients of pension, 1996–2006[16]

29. At its extreme, the question of ongoing income adequacy for all older Australians affects not just the level of living standards but health and even life expectancy.

30. Research indicates "a strong association between mortality and income inequalities",[17] and that "[p]eople living in countries with greater income inequality have a shorter life expectancy".[18] The

[12] See paragraphs 65-68 and Recommendation 8 at pp.17-19 below.
[13] Rachel Lloyd, Ann Harding and Alicia Payne, "Australians in poverty in the 21st century", NATSEM Paper prepared for 33rd Conference of Economists, 27-30 September 2004, at p.7.
[14] Senate Community Affairs References Committee, *A hand up not a hand out: Renewing the fight against poverty: Report on poverty and financial hardship*, 2004, at p. 342.
[15] Department of Families, Community Services and Indigenous Affairs, *Annual Report 2005-06*, under Performance Reporting – Output Group 3.1: Support for the aged (available at http://www.facsia.gov.au/annualreport/2006/2_3_1.html.
[16] *Ibid* at Table 2.23.

impact of any such outcomes would be felt to some extent before people become "older" (i.e. some would die without attaining old age). And for those who do become older, relevant income inequalities exist across the entire life span, rather than only during later life.

31. But any link between life expectancy and income inequality, combined with increasing longevity, makes it increasingly important to guard against undue income inequality among older Australians. For example, if pronounced inequality existed among "younger" aged people, and the poorer among them lived for extended periods on inadequate incomes, we could see the exacerbation of health and mortality differentials between our richer and poorer aged people. This would be an undesirable outcome indeed. Such a prospect points in favour of measures to reduce income inequalities and to ensure income adequacy for *all* older Australians – both now and into the future.

III.B Ability to participate in the community

32. In 2006, people aged 55 or more contributed about 293 million annual volunteering hours, or about 40 per cent of the total. Almost one in three people aged 55-74 are volunteers, and this rate is over one in five for people aged 75-84.[19] On one 2003 estimate, Australians aged over 65 contribute nearly $39 billion per year in the form of unpaid caring and voluntary work.[20] Earlier surveys indicated that "21 per cent of principal carers of people with disabilities are aged over 65 years".[21]

33. To the extent that their real income and financial security are eroded by uncompensated price increases, or by increasingly unfavourable interactions between the superannuation and social security systems, the capacity of older Australians to continue making such contributions will be impeded.[22] The impact of such an impediment to older Australians' capacity to contribute would be felt not only by "contributing" older Australians themselves, but by those who benefit from their unpaid contributions.

IV Term of Reference (c): Impact of cost of living pressures on older Australians and their families, including caring for grandchildren and social isolation

IV.A Significance of family relationships

> The rights of the person…have a fundamental social dimension which finds an innate and vital expression in the family; … the family constitutes, much more than a mere juridical, social and economic unit, a community of love and solidarity, which is uniquely suited to teach and transmit cultural, ethical, social,

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[17] Tony Vinson, *Dropping off the edge: The distribution of disadvantage in Australia*, Jesuit Social Services and Catholic Social Services Australia (2007) at p.15 (in the course of a literature survey).
[18] *Ibid*.
[19] Australian Bureau of Statistics, *Voluntary Work, Australia, 2006*, Cat. 4441.0, p.74 at Table A2 (based on results from national Voluntary Work Survey conducted March-July 2006 as part of General Social Survey).
[20] David de Vaus, Matthew Gray and David Stanton, *Measuring the value of unpaid household, caring and voluntary work of older Australians*, Research Paper No. 34, Australian Institute of Family Studies, October 2003, at p.19 (using data from the 1997 Australian Time Use Survey conducted by the Australian Bureau of Statistics). See also paragraphs 37-42 at pp.10-11 below.
[21] *Ibid* at p.4.
[22] On the impact of rising fuel prices alone, see National Volunteer Skills Centre and Volunteering Australia, *Research Bulletin: Impacts of petrol prices on volunteering*, November 2005. More broadly, see *Costs of Volunteering Taskforce, The Rising Costs of Volunteering*, Volunteering Australia, January 2007 (available at http://www.volunteeringaustralia.org/html/s02_article/article_view.asp?art_id=2728&nav_cat_id=204&nav_top_id=55).

spiritual and religious values, essential for the development and well-being of its own members and of society.[23]

34. The role in our community of older family members, whether as grandparents or as members of a more extended family, should be valued highly. Recent data suggests that a great majority of young Australian children see their grandparents at least monthly;[24] and, as noted below, many grandparents provide care for grandchildren.

35. As a society, we should value contact between older Australians and their families. If financial constraints make it harder for older Australians to maintain meaningful contact with their younger relations, we will all be the losers. This is especially so where "younger" family members may be struggling with their role as parents, for example where they themselves are having difficulty making ends meet.

IV.B Grandparents caring for grandchildren

36. We distinguish here between:

- Grandparents who, for a range of reasons, take on full-time care of grandchildren aged under 18 – forming families described here as "grandparent families"; and

- Grandparents who care for their grandchildren on a less extensive basis, such as caring for pre-schoolers during working hours, collecting grandchildren after school, and looking after children during school holidays.

Grandparent families

37. The most recent ABS Family Characteristics Survey indicated that in 2003 there were 22,500 grandparent families with children aged 0-17, and that the younger or lone grandparent was aged 55 years or more in 61 per cent of such families.[25] Government pensions, benefits or allowances provided the main income source in 62 per cent of grandparent families.[26] In view of the large relative standard error in the relevant ABS data set, it has been suggested that "the dearth of information means that a large proportion of families who are caring for [grand]children…are invisible to the public welfare system".[27]

38. Particularly in circumstances where the arrangement for grandparents to provide parental care is on a relatively informal footing, such grandparents often have difficulty in learning about, and seeking access to, their financial entitlements and available social services.[28]

39. Catholic Social Services Australia endorses two recent recommendations by the Canberra Mothercraft Society, in calling for (1) the amelioration of the direct financial burden faced by grandparent famillies "through recognition of the special needs in relation to government financial

[23] *Charter of the Rights of the Family*, Holy See, 1983.
[24] The Longitudinal Study of Australian Children found that 75-79 per cent of children aged under six in surveyed families saw their grandparents at least monthly (Australian Institute of Family Studies, *Growing Up in Australia - The Longitudinal Study of Australian Children: 2005-06 Annual Report*, at p. 29).
[25] Australian Bureau of Statistics, *Family Characteristics, Australia, Jun 2003*, Cat. 4442.0, released 22/09/2004.
[26] *Ibid*.
[27] Barbara Horner, Jill Downie, David Hay and Helen Wichmann, "Grandparent-headed families in Australia", *Family Matters*, Issue 77, pp. 76-84 at p.78.
[28] *Ibid* at p.79, and Emma Baldock, "Grandparents raising grandchildren because of alcohol and other drug issues", *Family Matters*, Issue 77, pp. 70-75 at p.75.

assistance to grandparent families"; and (2) further research to identify grandparent families' needs, especially in the case of Indigenous grandparent families.[29]

Other forms of caring for grandchildren

40. Data from the Longitudinal Study of Australian Children indicates that 17 per cent of infants and 18 per cent of children aged 4-5 regularly received care from their grandparent.[30] No remuneration was paid for such care in the vast majority of cases.[31] Grandparents also often care for older children, through such activities as after-school transport and care, and school holiday care. About one in five children under 11 are estimated to receive some form of care from grandparents; and some 40 per cent of children receiving child care obtain at least some of that care from grandparents.[32]

41. To the extent that older Australians face a worsening squeeze between prices and income, the capacity of older Australians to provide care for their grandchildren will be impeded. For example, it may become impossible to collect children after school if financial circumstances make it impossible to maintain a car. This outcome would affect not only older Australian's extent of participation and family contact, but the ability of younger "working families" to combine work and care, and the demand for places in the more formal childcare sector.

Recommendation 3

Catholic Social Services Australia recommends that the Committee recommend:

(a) Further government-funded research to identify the special needs of grandparent families, including particular reference to the case of Indigenous grandparent families; and

(b) Greater practical recognition of such needs, especially in relation to government financial assistance.

IV.C Social isolation

42. Some social interaction entails costs. Examples include the costs of transport, communications, social club membership fees, cultural activities and gift-giving.

43. If older people are forced to regard such costs as unaffordable luxuries, we can expect increased experiences of social isolation among our older citizens. This would be extremely sad in human terms, and inconsistent with each person's right to participate in society as one aspect of their fundamental human dignity. It could also be expected to have adverse (and expensive) consequences for the physical and mental health of older Australians.

[29] See Emma Baldock, "Grandparents raising grandchildren because of alcohol and other drug issues", *Family Matters*, Issue 77, pp. 70-75 at p.75.
[30] Australian Institute of Family Studies, *Growing Up in Australia - The Longitudinal Study of Australian Children: 2005-06 Annual Report*, at p. 30.
[31] Remuneration was paid to 5 per cent of grandparents caring for an infant and 8 per cent of grandparents caring for 4-5-year-olds (*ibid*).
[32] David de Vaus, Matthew Gray and David Stanton, *Measuring the value of unpaid household, caring and voluntary work of older Australians*, Research Paper No. 34, Australian Institute of Family Studies, October 2003, at p.4.

V Term of Reference (d): Adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs

44. The bundling of several intertwined issues into Term of Reference (d) highlights the crucial need for *integrated* government approaches across a range of issue areas – including social security, superannuation, taxation, and (in collaboration with State and Territory Governments) concession arrangements. Another inter-related area, one not addressed here, is employment assistance for older workers.

V.A Superannuation and taxation

> It seems there are two worlds for retirees, especially early retirees:
>
> - One is a world in which there is high income and high ownership of assets including superannuation. Most of us hope to be in this group…But the reality is most of us will be in the second group.
> - In the second group, superannuation is often negligible and will probably be consumed paying off debts...[33]

45. Catholic Social Services Australia is concerned that this concept of two worlds remains as real as when it was posed in 2004, and that those earning low incomes during their working-age lives may be consigned to a financially stressful and uncertain later life.

46. We address five issues here:

(1) The increasing focus on compulsory superannuation and private savings relative to the age pension.

(2) The inequitable impact of recent changes to superannuation and taxation arrangements.

(3) The $450 monthly earnings threshold for Superannuation Guarantee contributions.

(4) The uneven distribution of superannuation assets.

(5) The need to prioritise equity and fairness in Australia's retirement-age income system.

(1) The increasing focus on compulsory superannuation and private savings relative to the age pension

47. Australia's system of providing for retirement incomes is changing. The old focus on the age pension is giving way to an increased focus on compulsory superannuation and private savings.

48. If the needs of the lowest-earning and most vulnerable in our society are not appropriately prioritised in the evolving design and implementation of this ongoing transition, Catholic Social Services Australia is concerned that in coming decades we will see greater inequalities in wealth and income among older Australians. There will always be a need for government to provide the safety net of an adequate age pension (see paragraph 62 and section V.B at pp. 16-19 below).

49. In the short term especially, particular consideration is owed to those whose only superannuation is that accumulated since the 1992 introduction of the Superannuation Guarantee.

[33] AMP.NATSEM, *Income, superannuation and debt pre and post retirement - The lump sum: here today, gone tomorrow*, AMP.NATSEM Income and Wealth Report Issue 7, March 2004.

Many lower-income "baby boomers" who are in this situation appear to be highly apprehensive about their prospects for financial security in later life.[34]

(2) The inequitable impact of recent changes to superannuation and taxation arrangements

50. Recent changes to superannuation arrangements provide large windfall gains for the better off, while providing little or no benefit for those on low incomes.

51. As one commentator has noted about superannuation changes first foreshadowed in the 2006-07 Budget, the "windfall income gained" was restricted to the better off and to those who had contributed substantially more to superannuation than the compulsory levy rate.[35] In addition:

> The windfall revenue gain…is greater the greater the sum of accumulated superannuation. The cases for redistribution to those on the highest incomes, and to those who have contributed most to superannuation, versus the rest of the population seem difficult to reconcile on the grounds of either vertical or horizontal equity.[36]

52. Current tax concessions for superannuation contributions favour those on higher incomes:

- The high annual limit on post-tax contributions, of $150,000 p.a. or $450,000 over any three-year period, is of no benefit to those on lower-to-middle incomes who cannot afford to make voluntary contributions on this scale.
- The abolition of taxes on benefits received by those over 60 from taxed funds:
    - This is estimated as directly relevant to fewer than 20 per cent of "current and reasonably prospective retirees. Only a small minority of retirees have or are likely to have lump sum benefits in excess of the tax free threshold applying to such benefits."[37]
    - For the wealthiest beneficiaries of this change, the amount gained each year will be vastly greater than the full rate of the age pension itself. This raises major equity issues: the foregone tax revenue could have been put towards increases in pension rates for those at the lower end of the income scale.
- The transitional 2006-07 million-dollar concession was of value only to the very wealthy – it is too late to reverse now, but is indicative of how the system is weighted toward those who are on higher incomes and well able to look after themselves.
- One inequitable taxation concession pre-dating the recent changes is the regressive 15 per cent flat tax applying both to superannuation contributions[38] (which is especially regressive in combination with "salary sacrifice" arrangements) and to fund earnings:

[34] See e.g. the qualitative research reported in Myra Hamilton and Clive Hamilton, *Rich Boomer, Poor Boomer: Retirement prospects for the not-so-lucky generation*, Australia Institute Webpaper, August 2006 (2006). It is noteworthy that the Superannuation Guarantee commenced in 2002 at 3 per cent, and did not reach its current level of 9 per cent until 2002 (see Senate Select Committee on Superannuation, Superannuation and *Standards of living in retirement: Report on the adequacy of the tax arrangements for superannuation and related policy*, December 2002, at Appendix 15, "Chronology of superannuation policy announcements, events and inquiries: 1983-2002", at p.290).

[35] John Freebairn, *Some Policy Issues in Providing Retirement Incomes*, Melbourne Institute Working Paper Series, Working Paper No. 6/07 (2007) at p.18.

[36] *Ibid*. See also Mike Taylor, "Women and poor miss out says HESTA", *Super Review*, 1 June 2006 … (available at http://www.superreview.com.au/articles/17/0c040e17.asp).

[37] Ross Clare, *Are retirement savings on track?* Association of Superannuation Funds of Australia, June 2007, at p.5.

- o Again, the resultant tax foregone has an opportunity cost when it comes to financing retirement incomes for *all* Australians.

- The continuing superannuation co-contribution scheme for those on low-to-middle incomes is welcome – but those on low incomes can rarely afford to take advantage of it (unless they have a spouse or other relatives who can contribute on their behalf), and its scale is dwarfed by the benefits provided for those on higher incomes.

53. One purpose of recent superannuation changes was to lead over time to a reduction in outlays on the age pension. However, the tax concessions used for this purpose are of such a scale that their costs to revenue are likely to outweigh greatly the savings they produce.

54. Another major purpose of the recent changes was to simplify an undeniably complex system. But equity should not be sacrificed on such a scale for the sake of simplicity. In any case, simplification of an unwieldy tax structure did not necessitate the undue privileging of those on higher incomes who are able to make higher levels of contribution. For example, instead of the abolition of lifetime Reasonable Benefit Limits (RBLs) and their replacement by annual contribution limits, a comparable degree of simplification could have been achieved in a by retaining RBLs but in simplified form – together with better outcomes not only for equity but for tax revenue.

(3) The $450 monthly earnings threshold for Superannuation Guarantee (SG) contributions

55. As for the maintenance of the $450 monthly earnings threshold for Superannuation Guarantee contributions, we note the 2002 recommendation by the Senate Select Committee on Superannuation that the removal of this threshold removal should be examined.[39] The Government responded, very briefly, that it did not support this recommendation because it was "not convinced that the retirement income benefits of removing the … threshold … outweigh the possible extra costs imposed on business, especially small business."[40]

56. Catholic Social Services Australia is of the view that any additional administrative and logistical problems faced by business could be resolved, and that it is unfair simply to label those problems as too difficult when the outcome is significant disadvantage for some of our lowest-income citizens. This is particularly the case when it is recalled that employees may have little choice in the number of hours worked for a particular employer, and might be willing or even eager to work longer hours[41]. In industries where the incidence of under-SG-threshold-earnings is highest, there may be scope for considering special arrangements to assist employers without disadvantaging employees.

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[38] ACOSS noted in August 2006 that "the 15% contributions tax 'saves' an individual on the top tax rate (earning $150,000) 32 cents in tax per dollar contributed to superannuation by their employer, but an individual on the lowest tax rate (earning $20,000) saves just 2 cents per dollar contributed. The annual tax concessions for Superannuation Guarantee contributions (9% of wages) for the high income earner in this example are worth $4,253 compared to $27 for the low income earner." (*ACOSS Submission to Australian Treasury – proposals to simplify superannuation*, August 2006, at pp. 7-8).

[39] *Senate Select Committee on Superannuation, Superannuation and standards of living in retirement: Report on the adequacy of the tax arrangements for superannuation and related policy*, December 2002, at p.64, Recommendation 6.46.

[40] *Government Response to the Recommendations of the Senate Select Committee on Superannuation Report "Superannuation and Standards of Living in Retirement*",at p.5.

[41] Of all people employed part-time in September 2006, 20 per cent would have preferred to work more hours; and "[g]enerally, those usually working fewer hours wanted a greater number of additional hours." (Australian Bureau of Statistics, *Underemployed Workers, Australia, September 2006*, Cat, 6265.0 at pp. 5 and 6). Among those working 1-10 hours per week who would have preferred to work longer hours, the average number of preferred additional hours was around 17 hours per week (*ibid*, Table 6 at p.18). Those working

57. The removal of the $450 monthly earnings threshold would render the Superannuation Guarantee more worthy of its name.

(4) The uneven distribution of superannuation assets

58. There is evidence of great disparities in the distribution of superannuation assets – on gender, income and occupational lines. "Parlous" is a good description of women's superannuation fund balances,[42] but discrepancies exist across income and occupational lines, as well as across gender lines.[43]

59. According to recent estimates by the Association of Superannuation Funds of Australia (based on ABS 2003-04 survey data; where "low" superannuation balance is under $40,000, "high" is over $100,000, and "middle" is everything in between[44]):

- One in two Australians aged 60-64, and one in four Australians aged 25-64, had no superannuation at all in 2003-04.[45]
- The distribution of superannuation assets among Australians aged 25-64 was as follows:[46]
  - 10 per cent of persons held 63 per cent of assets.
  - 66 per cent of persons held 37 per cent of assets.
  - 24 per cent of persons held 0 per cent of assets.
- Two-thirds of Australians aged over 25-64 had "low" or "middle" superannuation balances.[47]
- Of men retiring in 2003-04, 70 per cent had superannuation balances of under $100,000.[48]
- Almost 90 per cent of women aged 60-64 in 2003-04 had balances of under $100,000 – and 75 per cent of women in this age group had balances of under $40,000.[49]

60. These estimates may to some extent understate superannuation holdings. However, such understatement is less likely to occur in the older 60-64 age bracket, where one might expect greater awareness of superannuation issues. And where the holder of superannuation balances is unaware of their existence or amount, he or she may never get the benefit of them – in view of the continuing large-scale problem of "lost" superannuation accounts.[50] With the maturing of the compulsory

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1-10 hours per week are most likely to be disadvantaged by the $450 minimum earnings threshold for Superannuation Guarantee contributions.

[42] "Parlous" is the description used in Leslie Nielson, *Super co-contribution -- performance to date, Parliamentary Library* Research Note, 4 November 2005 (2005), and see also sources cited there at note 18. On one estimate, women held around 30 per cent of total superannuation account balances in 2003-04, up from 23 per cent in 1994 (Ross Clare, *Are retirement savings on track?* Association of Superannuation Funds of Australia, June 2007, at p.14).

[43] See Ross Clare, *Are retirement savings on track?* Association of Superannuation Funds of Australia, June 2007, at pp. 18-19.

[44] *Ibid* at p.8. Clare's data source is the Unit Record File of the ABS Survey of Income and Housing, 2003-04.

[45] *Ibid* at Table 1.

[46] *Ibid* at pp. 12 and 15, Tables 3 and 4.

[47] *Ibid* P.8

[48] *Ibid* P.5

[49] *Ibid* P.5

[50] Other important issues which we lack space to consider here concern financial literacy and the impact of "choice" in superannuation. Undue emphasis on being self-funded in retirement means that the risk of adverse fund/investment selection is now borne by individuals (as opposed to government or employers) – especially with the increase in self-managed funds, which are increasingly being used by people on lower incomes. This means that the risks of adverse turns in the market or worse are significantly increased, with the prospect of

superannuation system the picture is constantly changing, so perhaps the true figures are not as disturbing as the preceding paragraph suggests. However, the alarming inequalities they depict underline the need to make equity and fairness overriding tenets of our retirement-age income system.

(5) The need to prioritise equity and fairness in Australia's retirement-age income system

61. The financial security of people whose working-age lives have been lived on low incomes must be accorded extremely high priority in the design and implementation of Australia's system of retirement incomes. So must the avoidance of any inordinate focus on paid work activity at the expense of other valuable types of contribution to our society and our economy. This requires:

- Ensuring that the age pension is adequate for a standard of living that enables dignity and social participation;[51]
- Avoiding the suggestion that chronically low-income individuals should themselves be blamed if, in later life, an adequate standard of living cannot be funded solely by the combination of their compulsory superannuation and private savings.
    - This means that no stigma should attach to those older Australians whose main income source is the age pension; and
- Ensuring that the superannuation system does not systemically disadvantage those who:
    - Have spent much of their working life in full-time employment but earning low wages;
    - Have spent extended periods of their working-age lives outside of the paid workforce – e.g. to meet family obligations, to care for children or others in need of care, or because of disability and/or unemployment;
    - Have spent periods under-employed or unemployed; and/or
    - Have tended to work in one job, or even several jobs simultaneously, for low part-time incomes (thereby earning too little to trigger the Superannuation Guarantee with its current earnings threshold of $450 per month – see paragraphs 56-58 above).

Recommendation 4

Catholic Social Services Australia recommends that the Committee urge the removal of the $450 monthly earnings threshold for Superannuation Guarantee contributions.

Recommendation 5

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severely reducing – or even wiping out – an individual's super. One example of the scope for people to be unaware of this possibility appears in the recent superannuation booklet distributed to households by the Commonwealth Government. That booklet referred to the existence of high-risk investments which in some years might return no profit – but did not indicate that a person's superannuation balance could in fact go backwards should such investments incur losses:

> Also, many funds let you choose how your super is invested. Low risk investments keep your money safe but grow more slowly. High risk investments can earn you more money in the long term but you risk *earning nothing* in some years.

Australian Government, *Better Super Australia's worked hard for it: A simple guide to the biggest reform to Australian superannuation ever*, distributed to households in mid-2007, at p.10 (emphasis added).

[51] See paragraphs 65-77 and Recommendation 8 at pp.17-19 below.

Catholic Social Services Australia recommends that the Committee assess equity and fairness aspects of taxation concessions applied to superannuation - including the extent to which they are likely to benefit those on higher incomes and lower incomes respectively, and their impact on taxation revenue.

Recommendation 6

Catholic Social Services Australia recommends that the Committee take action to minimise the risk of increasing wealth and income inequalities among older Australians by considering how the superannuation system could be changed to remove the existing systemic bias against those Australians who have worked for low wages or spent extended periods of their working-age lives out of the paid workforce, unemployed or under-employed.

Recommendation 7

Catholic Social Services Australia recommends that, should the Committee determine that it lacks the time and resources to conduct its own in-depth consideration of current superannuation arrangements, it recommend that the issues raised in Recommendations 4-6 above should be the subject of a separate Inquiry conducted for that purpose.

V.B The age pension

62. Around two million people now receive the age pension, costing about $24 billion per year in what is the Government's highest-spending single program.[52] As at the end of 2004, 80 per cent of people aged 65 or over were receiving either the age pension (part or full payment) or a payment from the Department of Veteran's Affairs (DVA).[53] For people aged 60 and over, this figure was 63 per cent.[54]

63. Despite these figures, and the fact that Australia has life expectancies among the highest of OECD countries,[55] "public spending on age pensions is low compared to most other OECD countries".[56]

(i) Overall adequacy of age pension and indexation process

64. Australians living on income support "pensions", including the age pension, are more protected against rising prices than are those living on income support "allowances" such as Newstart Allowance – at least during periods when wages growth outstrips inflation. Allowances are indexed twice yearly to reflect any upward movements in the consumer price index. So too are pensions – but

[52] Families, Community Services and Indigenous Affairs Legislation Amendment (Further 2007 Budget Measures Bill 2007), Second Reading Speech, 20 June 2007.
[53] AIHW, *Australia's Welfare 2005: The seventh biennial welfare report of the Australian Institute of Health and Welfare*, 2005 at p.151: 1,888,000 on the age pension and 363,700 on a DVA payment.
[54] *Ibid*.
[55] David de Vaus, Matthew Gray and David Stanton, *Measuring the value of unpaid household, caring and voluntary work of older Australians*, Research Paper No. 34, Australian Institute of Family Studies, October 2003, at p.1.
[56] David de Vaus, Matthew Gray, Lixia Qu and David Stanton, *The consequences of divorce for financial living standards in later life*, Australian Institute of Family Studies Research Paper No. 38, 2007 at p.5 (adding that Australia's age pension coverage is comprehensive, and that it appears to be highly redistributive).

pensions are then “topped up”, if required, to match the level of 25 per cent of Male Total Average Weekly Earnings (MTAWE).

65. But these arrangements are insufficient to ensure an adequate income for those relying on the age pension as their main income source.

66. First, the 25 per cent of MTAWE benchmark is simply too low to ensure an adequate standard of living (especially for older Australians who do not own their own home). Recognition of this fact was embodied in the following conclusion of the Senate Community Affairs References Committee in its 2004 report into poverty and financial hardship:

> while the cost of increasing the rates of social security payments would be substantial, the Commonwealth Government should have, as a long-term goal, a commitment to increasing the rate of both pensions and allowances to a *substantially* higher rate than the current 25 percent of MTAWE benchmark at present applied to pension payments.[57]

67. Secondly, further examination is required of the degree to which CPI movements constitute a fair reflection of older Australians’ expenditure patterns. This is particularly important because wages might decline in future periods of economic downturn, effectively making the CPI the only means of indexing the age pension.

(ii) Particular circumstances of those on age pension who receive Commonwealth-funded community care or live in residential aged care

*** * * This part of our submission was prepared by our sister body, Catholic Health Australia[58] * * ***

Affordability for age pensioners of Commonwealth-funded community care

68. For older people who live at home and receive community care, a particular concern is the declining disposable income available to meet the approved care recipient contribution towards the costs of that community care.

69. The basic age pension rate is used when calculating the maximum contributions paid by recipients of Commonwealth-funded community care, such as Community Aged Care Packages (CACP), Extended Aged Care in the Home (EACH) and Extended Aged Care in the Home Dementia (EACHD).

70. The maximum basic rate of pension (excluding the GST Supplement of $18.30) was increased by $12.90 on 20 March 2007 to $506.80 per fortnight. With that change, the maximum contribution payable by single clients of Commonwealth-funded community care increased from $6.17 to $6.33

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[57] Senate Community Affairs References Committee, *A hand up not a hand out: Renewing the fight against poverty – Report on poverty and financial hardship*, 2004 at p.108, paragraph 5.35 (emphasis added).

[58] Catholic Health Australia (CHA) is the largest non-government provider grouping of health, community and aged care services in Australia, nationally representing Catholic health and aged care sponsors, systems, facilities, and related organizations and services.

Services are provided in a number of settings, for example, residential, community care, in the home, the workplace, hospitals, medical clinics, hospices, correctional facilities, as well as for people who are homeless. In addition, services are provided in rural, provincial and metropolitan settings, in private facilities as well as on behalf of the public sector.

The Catholic sector plays a significant role in Australia's overall health and aged care industry representing around 13 percent of the market and employing around 30,000 people.

per day ($88.62 per fortnight).[59] At 17.5 per cent of the base rate of the pension, this is a considerable outlay.

71. For those care recipients whose income exceeds the basic rate of pension, the maximum fee is 17.5 per cent of income to the level of the basic pension, plus up to 50 per cent of income above the basic pension. Thus, for pensioners liable for the maximum Community Care Package contribution, up to 50 per cent of any extra-basic-pension income will go to home care costs rather than to the pensioner.

72. The impact of recent movements in the price of essentials, including household utilities, has placed undue financial pressure on older persons. This is particularly disturbing in the case of frail older persons in receipt of home care. Their capacity to continue to afford home care becomes problematic when, for basic pension recipients, almost 20 per cent of their income is consumed with care fees. Should financial stress cause persons in these circumstances to forego some or all of the home care they need, this would extract a cost in health, human and budgetary terms.

Cost squeezes affecting pensioners in residential aged care

73. The Catholic sector has over 19,000 Australian Government approved residential aged care beds, or 12 per cent of the national residential aged care sector.

74. Pensioner residents in residential aged care pay 85 per cent of their basic pension as a daily basic care fee. Non-pensioners currently pay a higher fee, but from 20 March 2008 all new residents will pay the same 85 per cent of the basic pension.

75. The provision of normal household essentials and utilities is the responsibility of the approved provider and is included in the 85 per cent contribution the resident makes to the provider. However, the cost of clothing, personal pharmacy provisions, resident outings and private dental care is borne by the resident from the remaining 15 per cent ($76 per fortnight, i.e. just $5.43 per day). So too is the cost of correspondence, phone calls or gifts for family and friends.

76. In view of the wide range of expenses for which those living in residential aged care remain liable, the current pension amount is insufficient for them to maintain a standard of living which reflects their human dignity and facilitates their participation in society.

<u>Recommendation 8</u>

8. Catholic Social Services Australia recommends that the Committee recommends that the Commonwealth Government move towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (as was recommended by the Senate Community Affairs Reference Committee in 2004).

[59] This is the maximum permissible under section 23.89(2) of the User Rights Principles made under the Aged Care Act 1997 (Cth).

VI List of Recommendations

77. Catholic Social Services Australia recommends that the Committee:

1 Recommend that any government measures to address climate change should:

(a) Involve broad consultation, including the community sector, and integrate the concept of equity (fairness/affordability for low-income earners) as a key criterion at design and implementation stages;

(b) Be accompanied by steps to protect low-income older Australians from any associated increases in the price of energy, transport and other goods and services; and

(c) Ensure provision of energy efficiency assistance programs to ensure that low-income older people can participate, without undue disadvantage, in a more energy-efficient future.

2 Recommend urgent action on oral health along the lines proposed by the National Oral Health Network: i.e. that the Commonwealth Government should:

(a) Ensure that all people on concession cards have a free basic course of dental care every two years; and

(b) Fund this initiative through the States and Territories, on condition that States and Territories meet certain conditions (notably raising their own level of expenditure on oral health).

3 Recommend:

(a) Further government-funded research to identify the special needs of grandparent families, including particular reference to the case of Indigenous grandparent families; and

(b) Greater practical recognition of such needs, especially in relation to government financial assistance.

4 Urge the removal of the $450 monthly earnings threshold for Superannuation Guarantee contributions.

5 Assess equity and fairness aspects of taxation concessions applied to superannuation – including the extent to which they are likely to benefit those on higher incomes and lower incomes respectively, and their impact on taxation revenue.

6 Take action to minimise the risk of increasing wealth and income inequalities among older Australians by considering how the superannuation system could be changed to remove the existing systemic bias against those who have worked for low wages or spent extended periods of their working-age lives out of the paid workforce, unemployed or underemployed.

7 Recommend, should it determine that it lacks the time and resources to conduct its own in-depth consideration of current superannuation arrangements, that the issues raised in Recommendations 4-6 above be the subject of a separate Inquiry conducted for that purpose.

8 Recommend that the Commonwealth Government move towards increasing the rate of pensions to a substantially higher rate than the current 25 per cent of Male Total Average Weekly Earnings (as was recommended by the Senate Community Affairs Reference Committee in 2004).

Catholic Social Services Australia

Submission to Senate Legal and Constitutional Affairs Committee

INQUIRY INTO THE PROVISIONS OF THE NORTHERN TERRITORY EMERGENCY RESPONSE BILL 2007 AND ASSOCIATED BILLS

9 August 2007

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SUMMARY

There has been insufficient time to consider and comment on the detail of the five Bills which make up this package of legislation.

This submission directly addresses just four of the plethora of significant issues raised by those Bills:

- The evident need for more extensive **consultation**, and for genuine Parliamentary scrutiny, if the outcomes are to be either workable or beneficial.
- Our objection to the introduction of **racial discrimination** into our welfare payment system.
- Intrinsic problems with the "**quarantining**" of welfare payments – problems which require examination and resolution before the legislated introduction of any such scheme.
- Reiteration of our previously-expressed concerns that the proposed **sentencing** provisions will discriminate against Indigenous people and other cultural minorities while not helping to redress child abuse.

Our **sole recommendation** is that the **Committee recommend the further referral of the Bills to committee, for a period of at least two months**. This would allow the beginnings of consultation on the far-reaching implications of these hastily conceived Bills – and on how they might be improved.

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1. INTRODUCTION

1.A About Catholic Social Services Australia

1. Representing 63 member organisations, Catholic Social Services Australia is the Catholic Church's peak national body for social services. It advises the Australian Catholic Bishops Conference on social policy issues as well as supporting the delivery of a wide range of social service programs. For 50 years, Catholic Social Services Australia has assisted and promoted better social policy for the most disadvantaged people in Australian society. This continues a much longer tradition of such engagement by the Catholic Church in Australia.

2. Catholic Social Services Australia has the mission of promoting a fairer, more inclusive society that gives preference to helping people most in need. It is committed to an Australian society that reflects and supports the dignity, equality and participation of all people. To this end, Catholic Social Services Australia works with Catholic organisations, governments, other churches and all people of goodwill to develop social welfare policies and other strategic responses that work towards the economic, social and spiritual well-being of the Australian community. Our 63 members employ over 6,500 people and provide 500 different services to over a million people each year.

1.B Scope of this submission

3. This submission is relatively narrow in scope. There has been insufficient time (just 48 hours) to consider and comment on the detail of the five Bills making up this package of legislation.

4. This submission directly addresses just four issues:

- Consultation.
- Racial discrimination in relation to welfare payment systems.
- The "quarantining" of welfare payments.
- Bail and sentencing provisions.

5. The issues are dealt with at slightly more length in attachments, some of which also touch on other aspects of the Bills which are not addressed in this submission. In particular, we refer the Committee to our media release of 7 August 2007 (**Attachment A**) and to the statement issued by Catholic Bishops on 5 July 2007 (**Attachment B**).

2. CONSULTATION

6. The five Bills in question introduce radical changes and would deeply affect a wide range of matters. For example, they would affect land rights[1] and the inalienability of welfare payments, as well as introducing racial discrimination into our welfare system.

[1] See e.g. Jon Altman, *"National Emergency" and Land Rights Reform: Separating Fact from Fiction – An assessment of the proposed amendments to the Aboriginal Land Rights (Northern Territory) Act 1976*, Briefing paper for Oxfam Australin 7 August 2007.

7. The publication, introduction and passage of Bills of this nature and magnitude in a single Parliamentary sitting fortnight would be a travesty of process. It would signal to the Australian (and international) community an unjustifiable disregard for consultation and debate – even on such fundamental matters as the effective application of different laws for people of different ethnicity.

8. Apart from the principles underlying the need for additional consultation, experience suggests that legislation which is drafted and passed in undue haste will prove unworkable in practice as errors and unintended consequences emerge. This is particularly the case with complex legislation making major changes to pre-existing approaches and systems.

9. There is no indication that "emergency" assistance measures would be unduly delayed by such a review, as initiatives have already commenced and could continue ahead of the introduction of this legislation.

10. We therefore urge the Senate Legal and Constitutional Affairs Committee to do everything in its power to urge the deferral of consideration of these Bills by the Senate until after more extensive scrutiny, of a period allowing at least one month for the provision of submissions by the public. This would allow the beginnings of consultation on the far-reaching implications of these hastily conceived Bills – and on how they might be improved.

Recommendation

> Catholic Social Services Australia recommends that the Committee recommend the further referral of the Bills to committee, for a period of at least two months.

3. RACIAL DISCRIMINATION

11. The Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007 ("the Welfare Payment Reform Bill") introduces different "income management" (or "quarantining" regimes for income support recipients which would remove discretion over portions of government income support payments from different classes of recipient. The Welfare Payment Reform Bill would apparently make a person subject to such a regime if:

(a) They live in a "declared relevant Northern Territory area", or

(b) A State/Territory child protection officer requires the person to be so subject, or

(c) They or their partner's child is not enrolled at school, or

(d) They or their partner's child has unsatisfactory school attendance, or

(e) The "Queensland Commission" requires the person to be so subject.

12. The expectation appears to be that all persons in categories (a) and (e) would be Indigenous. Apart from the fact that simply living in a "declared" Northern Territory community would trigger income management arrangements (rather than any individualised problem regarding children), a person in a "declared" Northern Territory Indigenous community would also be disadvantaged in other ways by the operation of the proposed provisions. Most notable here is the removal of the right to external appeal to the Social Security Appeals Tribunal.

13. As stated by the Catholic Bishops of Australia on 5 July[2]:

> Institutionalised racism cannot be acceptable. As Indigenous leaders have pointed out, the policy of imposing penalties on *all* parents receiving certain income support or Family Tax Benefits if they live in remote Aboriginal communities, while equivalent penalties will apply to other Australians *only* if there is evidence of "irresponsible" parenting, is both racially discriminatory and counter-productive. It would appear to breach the Racial Discrimination Act (Cth) and Australia's international law obligations.[3[4] As stated by the Pontifical Commission on Justice and Peace, *"the law must be equal for all citizens without distinction. It is important for ethnic, linguistic or religious minorities…to enjoy recognition of the same inalienable rights as other citizens.*[4[

14. We draw the Committee's attention to the provisions of Article 5 of the International Convention on the Elimination of Racial Discrimination, to which Australia is party, concerning equality before the law in general and in relation to social security:

> Article 5
>
> In compliance with the fundamental obligations laid down in article 2 of this Convention, States Parties undertake to prohibit and to eliminate racial discrimination in all its forms and to guarantee **the right of everyone, without distinction as to race**, colour, or national or ethnic origin, to **equality before the law, notably in the enjoyment of the following rights**:
>
> (a) The right to **equal treatment before the tribunals** and all other organs administering justice; …
>
> (e) Economic, social and cultural rights, in particular: …
>
> (iv) The right to public health, medical care, **social security and social services**

15. The Explanatory Memorandum to the Welfare Payment Reform Bill states, uncontentiously enough, that:

> Preventing discrimination and ensuring equal treatment does not mean treating all people the same. Different treatment based on reasonable and objective criteria and directed towards achieving a purpose legitimate under international human rights law is not race discrimination. In fact, the right not to be discriminated against is violated when governments, without objective and reasonable justification, fail to treat differently people whose situations are significantly different.
>
> The impact of sexual abuse on Indigenous children, families and communities is a most serious issue requiring decisive and prompt action.

16. The same Explanatory Memorandum goes on to argue that:

> The Northern Territory national emergency response will protect children and implement Australia's obligations under human rights treaties. In doing so, it will take important steps to advance the human rights of the Indigenous peoples in communities suffering the crisis of community dysfunction.

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[2] *A Statement from the Catholic Bishops of Australia on dignity and justice for Indigenous Australians* (footnotes removed); reproduced as **Attachment B** to this submission.

[3[4] See *International Convention on the Elimination of All Forms of Racial Discrimination*, Articles 2 and 5 (http://www.ohchr.org/english/law/cerd.htm).
[4[5] *The Church and Racism* (n.3 above), #23.

> In the case of Indigenous people in the Northern Territory, there are significant social and economic barriers to the enjoyment of their rights to health, development, education, property, social security and culture.
>
> The provisions of this bill that relate to the Northern Territory national emergency response and the Queensland Commission reforms are the basis of action to improve the ability of Indigenous peoples to enjoy these rights and freedoms. This cannot be achieved without implementing measures that do not apply in other parts of Australia. The bill will provide the foundation for rebuilding social and economic structures and give meaningful content to Indigenous rights and freedoms. In a crisis such as in the Northern Territory, the Northern Territory measures in the bill are necessary to ensure that there is real improvement before it is too late for many of the children.

17. The sweeping assertion that the measures in the Welfare Payments Reform Bill will "improve the ability of Indigenous peoples to enjoy these rights and freedoms" is simply not substantiated by any demonstration of *how* this might be the case: how any specific measures in the Bill will have this effect. For example, it is not apparent how the Northern Territory "income management" of welfare payments (or "quarantining") would qualify as a "special measure" – it is far from self-evident how external micro-management of a child's parent's expenditure would help that child in the many cases where no previous problem existed. Nor is it clear how removing the right to appeal to the established Social Security Appeals Tribunal will assist relevant Northern Territory Indigenous people to a greater – rather than diminished – enjoyment of their rights.

18. It is inconsistent for the provisions in question to purport to "exclude" racially discriminatory provisions in these Bills from the operation of anti-discrimination legislation, while simultaneously deeming those provisions to be "special measures" under that same legislation.

19. On "special measures", we note the following points made in recent advice from the ACT Human Rights and Discrimination Commissioner to the ACT Chief Minister regarding the Commonwealth Government's 21 June 2007 announcement of "emergency" measures for Northern Territory Indigenous communities (footnotes deleted):[5]

> The UN HRC noted that the principle of equality sometimes requires affirmative action in order to diminish or eliminate conditions, which cause or help to perpetuate discrimination. Affirmative action denotes positive steps taken by a State to improve the status of disadvantaged groups, eg to 'positively' discriminate in favour of disadvantaged groups. The HRC has confirmed that affirmative action is permissible under the ICCPR [International Covenant on Civil and Political Rights] and it is permitted under articles 1(4) and 2(2) of CERD [the Convention on the Elimination of Racial Discrimination], and 'when circumstances so warrant'. The HRC had in mind preferential treatment being granted for a time to the part of the population concerned to correct those conditions.
>
> There is also scope for temporary special measures under s.8 of the federal *Racial Discrimination Act 1975* (and articles 1(4) and 2(2) CERD), but no provision for temporary exemptions. Special measures must: provide a **benefit** to some or all members of a racial or ethnic group; have the **sole purpose** of securing the advancement of the group; be **necessary** to achieve that purpose; and **stop** once the purpose has been achieved. Article 1(4) of CERD says special measures should not "lead to the maintenance of separate rights for different racial groups and …shall not be continued after the objectives for which they were taken have been achieved". Article 2(2) provides a positive obligation on States to take action to ensure that minority racial groups are guaranteed

[5] Dr Helen Watchirs, ACT Human Rights and Discrimination Commissioner, *Request for advice on discrimination & human rights implications of Commonwealth emergency measures in NT Indigenous communities announced on 21 June 2007*, letter to Mr Jon Stanhope, ACT Chief Minister, dated 26 June 2007, at pp. 4-6 and 10 (available at http://www.hrc.act.gov.au under "Submissions").

the enjoyment of human rights and fundamental freedoms. The CERD Committee's General Recommendation 14 confirms that CERD prohibits indirect discrimination on the basis of race:

> 2….In seeking to determine whether an action has an effect contrary to the Convention, it will look to see whether that action has an unjustifiable disparate impact upon a group distinguished by race, colour, descent, or national or ethnic origin.

The obvious risk of paternalism was considered by the Australian High Court in *Gerhardy v Brown* the leading case on special measures. Justice Brennan said "the wishes of the beneficiaries for the measures are of great importance (perhaps essential) in determining whether a measure is taken for the purpose of securing their advancement". The CERD Committee's General Recommendation 23 on Indigenous Rights under the Convention calls upon State Parties to:

> Ensure that members of Indigenous peoples have equal rights in respect of effective participation on public life, and that no decisions directly relating to their rights and interests are taken without their informed consent.

It is very difficult to regard these proposals as 'special measures' when Indigenous communities have not been consulted, as required by CERD. They do not appear to be effective in overcoming disadvantage, and may in fact entrench or worsen existing discrimination.

<u>Permissible limitations on human rights and proportionality test</u>

According to the UN HRC, not every differentiation of treatment constitutes unlawful discrimination, if the criteria for such differentiation are reasonable and objective and if the aim is to achieve a legitimate purpose under the ICCPR. Therefore proportionate measures designed to achieve a legitimate objective are permissible. This is replicated, in part, in section 28 of the *ACT Human Rights Act 2004*, which allows human rights to be subject to reasonable limits. Whether a limitation is 'reasonable' depends on whether it is proportionate. The proportionality test assesses whether:

- the objective is sufficiently important;
- the limitation on the right is rationally connected to the objective;
- the limitation minimally impairs the right or freedom in question, ; and
- is not out of proportion to the objective.

Proportionality involves consideration of the justification for the treatment in question. The UN HRC has proceeded to determine what constitutes reasonable limitations to the ICCPR's discriminatory provisions on a case-by-case basis. **The proposed Federal Government measures in Indigenous communities should be tested using the proportionality framework** as to whether the limitations on s.8 are reasonable. This should be undertaken **on a case-by-case basis**.

20. The broad assertion in the Explanatory Memorandum that the measures in the Welfare Payment Reform Bill "will provide the foundation for rebuilding social and economic structures and give meaningful content to Indigenous rights and freedoms" and "are necessary to ensure that there is real improvement" is far too broad to carry weight.

21. Instead, Catholic Social Services Australia submits that careful – and public – case-by-case consideration, in the manner outlined in Dr Watchirs's advice, is required before any purported "special measure" can be justified, much less legislated or implemented.

22. We would also stress the need for legislated steps deemed "special measures" to include sunset clauses providing for the termination of such measures as soon as practicable.

23. The hearing for this Inquiry will be held the day after International Day for the World's Indigenous Peoples. We urge the Committee to take full account of:

- The wide range of deep-seated reasons underlying the appalling conditions in many Indigenous communities (as spelled out in a number of reports[6]),

- The potential for racially discriminatory aspects of the Bills to prove counter-productive – for example, by having negative implications for self-determination, the value of which has been well-documented,

- Australia's international human rights obligations, and

- The desirability of maintaining our reputation as a good international citizen without racially discriminatory legislation on our statute books.

4. "QUARANTINING" OF WELFARE PAYMENTS

24. On the proposed introduction of "quarantining" of welfare payments *per se*, we note the following:

- It has not been shown how depriving people of personal responsibility is the best way of increasing their capacity or willingness to exercise it.

- Nor has it been shown how income management will necessarily help overcome substance abuse or addictive gambling behaviours

- Studies of U.S. programs linking welfare payments to school attendance have found that "sanction-only programs" without case management resources "do not significantly improve attendance".[7]

- In the absence of adequate support services, quarantining may have unintended and adverse consequences – not least as a result of the demeaning and stigmatizing way in which the system may well be perceived as applying.

- Child neglect and child abuse should be addressed through child protection systems which were designed for that purpose, and not through the welfare system. Funding for child protection systems should be raised to adequate levels as a matter of urgency.

- Why should welfare recipients be treated differently from others in the community – if our concern is the protection of children, is it not for the children of *all* parents, not just those on income support? While we do not believe that the income management system in the Welfare Payment Reform Bill will be effective, as a matter of logic it is not clear why it is being confined to those receiving government income support payments, and not extended to all families receiving Family Tax Benefit from the government.

- It is not for the government to tell individuals how to spend their income.

[6] See e.g. *Ampe Akelyernemane Meke Mekarle "Little Children are Sacred": Report of the Northern Territory Board of Inquiry into the Protection of Aboriginal Children from Sexual Abuse 2007* at p. 224 – although the catalyst for recent Commonwealth action, the recommendations of this report do not appear to have informed Commonwealth Government policy.
[7] See David Campbell and Joan Wright, "Rethinking Welfare School-Attendance Policies, *Social Service Review* (2005): 2 at p. 4 (summarising seven evaluations of programs linking welfare payments to school attendance).

- The funding to be diverted into the administration of income management across entire communities in the Northern Territory would be better spent on improving both physical and social infrastructure to ensure that those households and families in particular need obtain assistance.

25. In addition to the above, we refer the Committee to the attached transcript of a Radio National *Life Matters* interview about "quarantining" with Frank Quinlan, Executive Director, Catholic Social Services Australia (**Attachment C**).

5. SENTENCING PROVISIONS

26. Clause 91 of the Northern Territory National Emergency Response Bill 2007 prohibits a court from taking into account customary law or cultural practice when sentencing a person for having committed a Northern Territory offence.

27. We do not seek here to address the major issue of the imposition by the Commonwealth of laws on a Territory – instead, our focus is on what the proposed provision would mean for sentencing.

28. The context here is the passage of amendments to the Crimes Act (Cth) in 2006 regarding bail and sentencing. Those amendments were passed without themselves being amended along the substantial lines recommended by the Senate Legal and Constitutional Affairs Committee, which had conducted an inquiry into the amending Bill, the Crime Amendment (Bail and Sentencing) Bill 2006.[8]

29. We reiterate the concerns expressed in our submission to that 2006 Inquiry by the Committee. A copy of that submission is at **Attachment E**, and a related media release is at **Attachment D**.

30. In its report on its 2006 Inquiry into then-proposed (since passed) amendments to the Crimes Act (Cth), the Committee cited extracts from our submission as follows:

> 3.15 In this context (and in strongly opposing the measures contained in the Bill), Catholic Social Services Australia submitted that it is the Commonwealth's responsibility to lead by good example:
>
> > It is incumbent on the Commonwealth Government to ensure that any legislative action it develops in response to the July 2006 COAG Communiqué is measured, just, and not liable to have unintended consequences which might further disadvantage some of the most vulnerable people in the Australian community. This is important not only directly for federal offences, but also indirectly for State/Territory offences to the extent that the Commonwealth model is followed elsewhere. [*citing p.4 of our submission*]
>
> 3.31 Catholic Social Services Australia made a similar argument:
>
> > ... changing sentencing rules is [not] an effective way of addressing the causes of violence in Indigenous communities. That requires action to address poverty, social exclusion and the deficiencies of current support arrangements for families in crisis. [*citing p.12 of our submission*]
>
> 3.61 Many argued that the amendments contained in the Bill will unnecessarily and inappropriately restrict the discretion of courts, resulting in potential injustice for Indigenous

[8] Senate Standing Committee on Legal and Constitutional Affairs, *Report: Crimes Amendent (Bail and Sentencing) Bill 2006*, October 2006.

Australians and Australians of multicultural descent. Most submissions and witnesses centred their comments on proposed amendments to the sentencing process, as contained in Items 4 and 5 of the Bill (new paragraphs 16A(2)(m) and subsection 16A(2A).

3.62 Catholic Social Services Australia provided the committee with a summary of the general concerns in this regard:

> ... the current law strikes an appropriate balance by including "cultural background" among a long list of factors which must, to the extent that they are relevant and known to the court, be considered in sentencing for federal offences. If made law, the Bill would remove the reference to "cultural background". This would create an imbalance and risk injustices stemming from inadequate consideration of cultural factors. [*citing p.7 of our submission*]

3.63 Even more significantly, by specifically prohibiting any consideration of cultural practices or customary law, the Bill 'would further disadvantage some of the most vulnerable people in our community because some relevant cultural factors would not be allowed to be weighed on the scales of justice'. [*citing p.9 of our submission*]

31. We remind the Committee that the Committee's own majority conclusions in its 2006 Inquiry mitigate against supporting Clause 91 of the Northern Territory National Emergency Response Bill (2007).

32. Specifically, the Committee's 2006 conclusions included the following points:

- "the Bill's focus is misdirected" (para 3.90)
- "the Bill will do little, if anything, to achieve its stated aim (para 3.90)
- "while the Bill's stated aim is to address violence and child abuse in Indigenous communities, its implications are much wider" (para 3.99)
- "the Bill, as it impacts upon offenders from a multicultural background, has not been fully considered." (para 3.102)
- "The Bill is …likely to have significant consequences if a similar approach is adopted in the states and territories. As evidence to the inquiry strongly indicated, the Bill will inevitably impact most on Indigenous Australians and those with a multicultural background." (para 3.97)
- "The committee endorses the reasons behind the ALRC [Australian Law Reform Commission]'s recommendations that 'cultural background' be specifically inserted into the Crimes Act" (para 3.101)
- "The committee notes the Department's assertion that the Bill is not discriminatory – that the Bill may be drafted in a way that accords with principles of formal equity but, clearly, in practice it is likely to apply only to certain categories of offenders. It does not therefore provide substantive equality to Indigenous offenders or offenders with a multicultural background." (para 3.97)
- "The committee is also mindful of evidence arguing strongly that the Bill conflicts with every major inquiry into the role of cultural background and customary law in the Australian legal system" (para 3.103)

- "the most concerning feature of the Bill is the symbolic message that it sends to the judiciary (and the community at large) and the judicial uncertainty it may create.
- "The committee has concerns in relation to the haste with which the proposals in the Bill have been drafted and introduced into Parliament, without adequate, if any, consultation with Indigenous and multicultural groups…" (para 3.92)
- the issues raised by the Bill are complex and require careful consideration in view of the fact that the issues raised by the Bill "are complex and require careful consideration" (para 3.92).
- "The committee suggests that the Department give consideration to developing consultation mechanisms prior to introducing future amendments into Parliament." (para 3.92

33. Those 2006 majority conclusions of the Committee, which were arrived at with more time for reflection and with the benefit of a public call for submissions, should inform the Committee's current deliberations on the merits of Clause 91.

6. RECOMMENDATION

Catholic Social Services Australia recommends that the Committee recommend the further referral of the Bills to committee, for a period of at least two months.

Catholic Social Services
Australia

Discussion Paper

A Job Network for Job Seekers

A report on the appropriateness of current services, provider incentives and government administration of Job Network with respect to assisting disadvantaged job seekers

November 2006

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FOREWORD

Catholic Social Services Australia is the peak body for the Catholic Church's social services in Australia and official representative of the Australian Catholic Bishops on social policy and services. Catholic Social Services Australia participates in Job Network as "Centacare Employment". Centacare Employment's services are delivered from 18 sites in 15 Employment Services Areas (ESA) in most States and Territories.

Catholic Social Services Australia has a long history of offering high quality human services to people in need. Some of its member organisations have delivered employment related services for 30 years. This service history is built on a value base that has at its heart the best interests of each client in their right to live a dignified life.

A Job Network for Job Seekers results from a detailed analysis and reflection on some of the current circumstances of Job Network. In essence, the report challenges the appropriateness of some elements of the services, the current provider incentive structure and administrative requirements with regard to assisting job seekers, especially disadvantaged job seekers.

In focusing on these issues, Catholic Social Services Australia's primary concern is to ensure quality outcomes for job seekers, especially those who are disadvantaged including *Welfare to Work* priority groups who are among the most disadvantaged Australians. Consequently, Catholic Social Services Australia is concerned for the health of the Job Network itself, especially the future of those providers who are assisting job seekers most effectively and delivering on the Government's objectives for the program.

A number of perverse incentives are identified that are thwarting achievement of the Government's objectives for Job Network. These perverse incentives reduce the quality of service to job seekers, increase welfare dependency, distort the Government's perception of comparative provider effectiveness and lead to unwarranted Government outlays.

Essentially, Job Network arrangements have not responded to changes in job seeker needs nor the needs of providers in assisting job seekers, especially those with multiple barriers.

The choice is simple. Does the Australian taxpayer want Job Network providers to be focused on "playing the system" as a way of business survival, or on providing real assistance aimed at re-establishing unemployed job seekers in the workforce permanently with an accompanying reduction of public expenditure on allowances?

While providers should ensure their services are ethical and effective, ultimately, the Government must accept responsibility for establishing financial and performance incentives for Job Network that do more than pay lip-service to its stated objectives in support of job seekers. It is my hope that this report will assist the Government and industry in initiating improvements that will help make the Job Network an even better service for job seekers, especially disadvantaged job seekers.

Frank Quinlan
Executive Director
Catholic Social Services Australia

22 November 2006

EXECUTIVE SUMMARY

INTRODUCTION

The Job Network is the largest of the employment related services funded by the Commonwealth Government and plays a central role in the implementation of the Government's *Welfare to Work* reforms. If these reforms are to be successful in helping disadvantaged job seekers into sustained employment, the Job Network will need to perform at its best.

The Government's performance expectations of Job Network providers cover four primary dimensions of employment outcomes for job seekers:

- *quantity* of outcomes;
- *speed* of outcome achievement;
- *sustainability* of outcomes; and
- *equity* of outcome distribution.

There are also expectations with regard to *service quality* and *acting ethically* in assisting job seekers*.*

While embracing these Government expectations, Catholic Social Services Australia, in delivering its own services and advocating for improvements, is guided principally by Catholic social teaching – in the field of employment services, especially teaching related to the dignity of the human person and work – and therefore is motivated primarily by the needs of job seekers.

Using the only data available to individual providers, this report examines the adequacy and appropriateness of Job Network's current services, provider incentives and Government administration in supporting the Government's expectations of the Job Network with regard to assisting job seekers. It does so by comparing the performance of Centacare Employment with that of its notional average competitor in 14 of the Job Network's 137 Employment Services Areas (ESA). While acknowledging the limitations of this methodology, we believe this analysis effectively demonstrates faults in the system.

THE JOB NETWORK ENVIRONMENT

The report identifies three significant influences having a major impact on services to disadvantaged job seekers:

- Several trends in client characteristics point to a fundamental increase in the complexity of the needs of job seekers referred to Centacare Employment during ESC3 (and presumably those of other providers):
    - An especially stark indicator of this is marked increase in the proportion of Centrelink's Job Network referrals with low educational attainment. Referrals from this group to Centacare Employment have increased from 19% to 25% of total referrals over three years – an increase of 29%.

- The Star Ratings and Outcome Fee incentive systems for Job Network that drive provider behaviour demonstrate sharp variations in "effective" incentives. The incentives are biased strongly towards particular outcome types and job seeker groups but in many cases these are incompatible with the comparative likelihood of achieving outcomes for these types/groups. Therefore, the incentives inadequately support job seekers' needs and goals and Government expectations for providers with respect to assisting job seekers.

- The administration of Job Network is overly burdensome and costly:

  - DEWR's micro-management of detailed process arrangements (rather than outcomes) and the demands this places on providers have resulted in a large proportion of staff time devoted to administration instead of to direct client contact. DEWR's own administrative costs total over $250m and account for 15% of me resources.

  - While the proportion of resources devoted to administration is large and growing, the costs of service provision are increasing and not being met by compensating fee adjustments or indexation. Inflationary effects of more than 16% over three years were met with fee increases of less than 2%. In addition, more complex job seeker needs have increased the required intensity of services and their overall cost. The financial viability of the program is estimated to have fallen by at least 25% in three years.

  Services are being squeezed from above and below. For disadvantaged job seekers, whose needs are becoming more complex and whose service requirements are more extensive, there is evidence their needs are not being met adequately by the program.

ALIGNMENT OF EXPECTATIONS AND INCENTIVES

The report analyses the impact of this changing environment on provider behaviour in the competitive Job Network, and the subsequent impact on job seekers.

Significant systemic shortcomings are identified in the alignment of provider incentives (Financial and Star Ratings) with all five dimensions of the Government's expectations for Job Network with respect to assisting job seekers:

- The calculation of *quantity* of outcome expectations for Star Ratings is not taking adequate account of changed caseload characteristics that emerged during ESC3. As a result, inaccuracies have crept into the calculation of comparative provider effectiveness via Star Ratings.

- Poorly defined outcome definitions and the strong competitive drive for outcome *quantity* have led to questionable practices aimed at manipulation of recorded outcomes. These questionable practices distort comparative provider performance measurement at considerable cost to the taxpayer and downgrade benefits to job seekers. In turn, these artificial outcomes are now built into the historic calculation of outcome expectations for Star Ratings. As a result, providers who are committed to the best results for job seekers face revenue and Star Ratings reductions and potential closure.

- Star Ratings Weightings and Outcome Fee incentives work against the Government's expectation for *speed* of outcome achievement. These weightings reward providers that delay services and outcomes for significant numbers of job seekers. This effect is felt especially by job seekers in the 4-12 month category and contributes to long term unemployment.

- Star Ratings and Outcome Fee incentives focus too heavily on 13 Week Outcomes at the expense of 26 Week Outcomes. They do not support outcome *sustainability* adequately. For the 4-12 months group, there is no focus on *sustainability* as no 26 Week Outcomes currently exist for this group. As a result, too many job seekers are placed in poor quality and shorter term jobs that do not realise the aspirations of job seekers and cycle people back to allowance dependency.

- Outcome Fee and Star Ratings incentives for outcome *equity* for long term unemployed and very disadvantaged job seekers are inconsistent and inadequate. Adjustments in this area are urgently needed in view of the increased complexity of job seekers' needs as demonstrated earlier.

- There is evidence of a deterioration of Job Network's *service quality* in recent years. As competition has increased and financial viability has decreased, some providers are sacrificing service quality for outcome volume in order to survive.

The issue of outcome buying (high subsidies for poor quality, non-continuing or non-existent "jobs") receives close scrutiny. The report examines the costs and benefits to taxpayers from this practice, calculating the very high net costs of between $6,200 and $10,300 for 75% wage subsidies for 26 weeks at the National Safety Net minimum wage of $26,600. Subsidies of this kind are not the rule but are not uncommon. While this expense is justified in some cases and desired benefits realised, the desired benefits are less sustainable when outcome buying practices are involved.

Faced with a choice between meeting all Government expectations regarding assisting job seekers and maximising benefits from the provider incentives system, many providers in the cash strapped and highly competitive Job Network are finding that survival depends more on the latter despite the negative impacts for job seekers.

IMPACT OF PERVERSE INCENTIVES

Implications for Expectation-driven Providers

The report demonstrates how *expectation-driven* providers who pursue the Government's primary expectations conscientiously and effectively sometimes end up worse off than *incentive-driven* providers who focus more on the "bottom line". The effect can be measured by both revenue and Star Ratings. The perverse situation is demonstrated most clearly and accurately with respect to revenue:

- Centacare Employment's revenue for outcome *quantity* was higher than that of its average competitor (+3.4%), reflecting appropriately its higher *quantity* of outcomes (+3.5%) at essentially the same unit fee as its average competitor; however,

- Despite delivering better outcomes for job seekers and additional allowance savings through better *quality* outcomes (outcome mix in relation to *speed*, *sustainability* and *equity*), Centacare Employment's unit outcome fee for all outcomes was also the same as that of its average competitor.

Catholic Social Services Australia believes that the majority of providers pursue ethical practice. Without wishing to claim perfection, Centacare Employment certainly pursues high standards in this regard. However, *expectation-driven* providers are disadvantaged because of the perverse incentive system. During ESC3:

- Centacare Employment's caseload increased by 5% and its difficulty also increased considerably (on one important measure, educational attainment, by 29%); however

- Centacare Employment's unit costs rose by an estimated 16.5% through ongoing inflationary pressures (well above the CPI increase of 9.2% and fee increases of 1.8%) and its annual revenue remained stable, at best.

- As a result, financial viability is estimated to have fallen by at least 25%.

Faced with competition from questionable practices and outcome buying by some providers that are being rewarded by the Financial and Star Ratings systems, *expectation-driven* providers are faced with accepting progressively lower Star Ratings, shrinking financial viability and potential exit from the industry:

- It should be of considerable public concern that service models aimed at combining the best results for job seekers and the most effective pursuit of the Government's objectives, are becoming financially unviable.

Implications for Job Network

Ultimately, the only reward for providers is for outcome *quantity.* Potential rewards from financial incentives for outcome *quality* (*speed*, *sustainability* and *equity* of outcomes) perversely cancel each other out. The report demonstrates a similar effect with respect to Star Ratings that cannot be quantified as accurately by providers without additional data available only to DEWR.

The implication for the Job Network as a whole is very serious. Both Financial and Star Ratings incentive systems do not provide maximum support for the Government's stated objectives for assisting job seekers. Providers are not being encouraged to achieve the best outcomes for job seekers, even though these outcomes would result in higher savings for taxpayers. Instead, the current incentives encourage:

- delayed service and placement - to take advantage of higher subsequent provider incentives;

- shorter term placements – that achieve high provider rewards but lead to earlier return of job seekers to unemployment and allowance dependency;

- poorer quality placements – some of which are supported by the taxpayer through wasteful expenditure on excessive wage subsidies and that also lead to earlier return of job seekers to unemployment and allowance dependency; and

- fewer placements of very disadvantaged job seekers - who are most likely to be or to become allowance dependent.

Indeed, since incentives reward inappropriate and ineffective provider behaviour, comparisons among providers (including Star Ratings) are misleading. Business allocation and re-allocation decisions based on these comparisons are therefore flawed.

In addition, since questionable practices are being supported by the incentives systems they are sure to expand. Such practices should be stamped out. Catholic Social Services Australia believes most providers pursue ethical practice. However, in an increasingly competitive and fund-strapped industry, the pressure to stretch ethical boundaries is substantial. The problems are systemic and so the system needs adjustment.

The Need for Change

There is substantial scope within the existing appropriation to better direct services to disadvantaged job seekers. Substantial refocus of DEWR's monitoring towards quality outcomes and away from administrative processes will yield substantial savings in expenditure on DEWR and substantial reduction in the administrative burdens currently placed on Job Network providers. Such reform will see a shift of resources from administration to services.

RECOMMENDATIONS

The report makes a number of specific recommendations aimed at systemic improvements, including:

Primary Recommendations

<u>Affecting Job Seekers</u>

The most disadvantaged job seekers should have first call on program resources for as long as is necessary to realise desired outcomes. Access to services by disadvantaged job seekers should not be dependent upon political or bureaucratic whim but based upon defensible objective criteria. Given the considerable resources of Job Network, there can be no defence for denying access to personalised services for any job seekers with significant barriers to employment and personal issues. Objective-based access to Job Network for disadvantaged job seekers can be achieved by:

- Identifying Highly Disadvantaged job seekers as those within a Job Seeker Classification Instrument score band with a probability of achieving employment outcomes equivalent to that for a defined group of long term or very long term unemployed job seekers. Without access to more sophisticated data, Catholic Social Services Australia does not propose a specific benchmark, but believes this should be no higher than the outcome probability for job seekers unemployed for no more than 36 months;

- Providing early access to Intensive Support Customised Assistance for a second cohort of early disadvantaged registrants ("Disadvantaged") on the basis of the Job Seeker Classification Instrument score band immediately below that for Highly Disadvantaged job seekers that equates to a probability of outcome achievement that is the same as that for job seekers unemployed for no more than 24 months;

- Providing annual access to Intensive Support Customised Assistance for very long term unemployed job seekers who have exhausted their first and second entitlements to Intensive Support Customised Assistance.

Affecting Providers

- Revision of the current Outcome Fee structure to establish incentives that advantage providers achieving high *quality (speedy*, *sustained* and *equitable)* employment outcomes for job seekers (an indicative proposal is made). The new structure would provide Outcome Fees for Highly Disadvantaged and Disadvantaged job seekers that equate to those for 37 months plus and 25-36 months unemployed job seekers respectively.

- Revision of the current Star Ratings Weightings to establish incentives that advantage providers achieving high *quality (speedy*, *sustained* and *equitable)* employment outcomes for job seekers (an indicative proposal is made). The new structure would provide Star Ratings Weightings for Highly Disadvantaged and Disadvantaged job seekers that equate to those for 37 months plus and 25-36 months unemployed job seekers respectively. This revision should also ensure there is no perverse interaction between weightings and the regression formula.

Affecting Government

- Limiting DEWR's resources for administering Job Network to a set proportion of available program funds that should be no higher than 10% of total funds and utilising the $86m or more saved to invest in the Service, Outcome and Job Seeker Account payments necessary to fund the additional service elements outlined above.

- Re-focus DEWR's monitoring of providers, using a risk management approach, on achievement of quality outcomes for job seekers across the full range of job seeker groups at the same time withdrawing from micro-management of administrative processes and simplifying administration of the program overall and the Job Seeker Account in particular. The aim would be to ensure that provider savings in program administration and compliance management would be sufficient to offset the cost increases of the last three years so that these resources can be injected into improved *service and outcome quality* for job seekers.

Supporting Recommendations

Affecting Job Seekers

- Introduction of a 4-12 month Final Outcome to ensure 4-12 month unemployed job seekers are placed in sustained employment that is less likely to lead to long term unemployment.

- Re-emphasis on *service quality* including through the use of Job Seeker Account funds, built around investment in the needs and aspirations of job seekers. Note: This recommendation should be an issue for providers rather than the Government as providers should be left to develop their own processes.

Affecting Providers

- Review of the calculation of performance expectations for Star Ratings to take better account of changed job seeker characteristics, exemptions and non-disclosure of barriers to employment.

- Improved comparative performance reports from DEWR that appropriately and fairly compare real performance on all five areas of expectations (*quantity, speed, sustainability* and *equity* of outcomes and *service quality*).

Affecting Government

- Introduction of an automated "show cause" process for highly subsidised employment outcomes that result in return to allowance within 13 weeks of subsidy or outcome completion.

- Adoption of the new two-year rolling Star Ratings model should be: delayed until existing perverse incentives are corrected and historically allowable but unsatisfactory outcomes are purged from the current calculations; or introduced along with a moratorium on performance-based sanctions and business reallocations until these adjustments are made.

- Further analysis by DEWR of performance trends among variously performing provider groups to ensure comparative performance measures, such as Star Ratings, accurately and fairly measure comparative provider effectiveness on all four outcome expectations (*quantity, speed, sustainability* and *equity* of outcomes).

Funding the Proposals

Catholic Social Services Australia acknowledges that a number of the above recommendations would require significant resources and that sophisticated modelling is required to estimate offsets and therefore net costs. However, Catholic Social Services Australia also believes that the services sought are essential and that the job seekers needing them deserve first call on available resources.

Catholic Social Services Australia believes there is scope for considerable offsets that should ensure the proposals are cost neutral, through:

- transfer of $86m or more from DEWR's administrative costs to program delivery costs;

- reduction in 13 months Intensive Support Customised Assistance commencements (and subsequent second entitlements) as a result of some job seekers (the proposed "Disadvantaged" group) accessing these services earlier than otherwise;

- allowance payment savings and increased taxation revenue resulting from improvements to outcome *quantity* and *quality* (*speed*, *sustainability* and *equity*);

- elimination of outcome payments for questionable placements; and

- transferring any accumulating surplus within the program to fund the proposals. Catholic Social Services Australia understands that, in past years, underspending in the program has resulted in substantial surpluses being returned to consolidated revenue.

If more radical options are necessary, the Government could consider:

- A transfer of funds from the Job Seeker Account – as the account was 26% in surplus at the end of ESC3 (June 2006) and therefore carries an overall surplus of over $200m nationally, perhaps some proportion of the surplus (say, 50%) can be tapped and some reduction made to ongoing accumulations.

- A transfer of funds from programs that are aimed at less disadvantaged job seekers or are less effective in achieving real outcomes for job seekers – for instance: Work for the Dole or Job Search Training.

GOVERNMENT RESPONSE

The Government's and/or DEWR's responses to a number of the above concerns have not been positive:

- Citing continually improving Job Network outcomes as a sign of the adequacy of Job Network services and provider incentives – irrespective of evidence that these are inflated somewhat;

- Suggesting program changes could raise tender probity concerns – perhaps without considering Government responsibilities to contracted providers; and

- Indicating a preference for Star Ratings continuity – even if the policy objectives and job seekers they are meant to serve are negatively affected.

Certain recent Government decisions have inadvertently exacerbated the situation for job seekers and providers:

- Despite increased complexity of job seekers' needs, the Government has arbitrarily decreased the proportion of job seekers classified as Highly Disadvantaged and therefore gaining early access to Intensive Support Customised Assistance;

- Despite increased provider costs, the Government reduced fees in real terms by an estimated 14.7% (compared with Centacare Employment's estimated actual cost movements) thereby downgrading services to job seekers; and

- Despite evidence of perverse incentives, the Government decided:

  - that Outcome Fees and Star Ratings Weightings are to remain unchanged for another three years; and

  - to introduce two-year rolling Star Ratings in a way that further exacerbates the negative impact of these perverse incentives on *expectation-driven* providers, and through them, on job seekers.

The recent changes to wage subsidy arrangements flagged by the Minister for Workforce Participation are welcomed and are considered to be a step in the right direction. These changes require a scaling down of wage subsidies as the outcome period for a job seeker progresses.

PART 1: INTRODUCTION

The Job Network Services Request for Tender 2006 (p 56) described the objective of Job Network as follows (emphases added):

- "….to help job seekers into *sustainable employment*, *increase workforce participation* and reduce *dependency on income support* by providing *personalised assistance* to job seekers that involves ongoing job search and employment-focused activities".

With a 2006-07 budget of over $1.4bn constituting 61% of DEWR's employment related services outlays, the Job Network is the largest of these services funded by the Commonwealth Government and plays a central role in the implementation of the Government's *Welfare to Work* reforms. If these reforms are to be successful in assisting job seekers into sustainable employment, the Job Network will need to perform at its best.

1.1 Government Expectations

Flowing from this objective, <u>Attachment 1</u> lists various aspects of the Government's expectations of Job Network providers, also outlined in the Request for Tender. From a practical point of view the key demands with respect to outcome performance cover:

- *Quantity*: Getting the maximum number of job seekers into jobs and off allowances;
- *Speed*: Getting job seekers into jobs and off allowances as quickly as possible;
- *Sustainability*: Keeping job seekers in jobs and off allowances for as long as possible; and
- *Equity*: Getting outcomes for all job seeker groups especially welfare dependent or welfare dependent prone job seeker groups such as those who are long-term unemployed or highly disadvantaged.

Government expectations also extend to *Service Quality* – giving proper attention to the individual circumstances and needs of job seekers and tailoring assistance accordingly – and acting *ethically* by avoiding outcome, performance model and service manipulation to maximise provider payments.

These primary expectations will form key elements of subsequent analysis of the adequacy of current provider incentives in Job Network with regard to assisting job seekers.

1.2 Catholic Social Teaching and Employment Services

In approaching its delivery of services to people in need and its advocacy on program and social policy, Catholic Social Services Australia is guided by the principles of Catholic social teaching. In the field of work, paid or unpaid, Catholic social teaching offers rich insights. Indeed, human work is at the heart of this overall body of teaching. Some important principles are:

- *Dignity of the Human Person*: All people are created in God's image and therefore, despite individual differences and uniqueness, all people share intrinsic value and rights.

- *Dignity of Human Work*: Work develops each person's unique giftedness and specific dignity. Through work, each person shares in, and assists in fulfilling, the Creator's work.

- *The Common Good*: Each person has a responsibility to contribute to society and a right to share in its natural and manufactured resources sufficient to maintain a dignified life for themselves and their dependants. For most, this occurs in large part through paid employment.

- *Preferential Option for the Poor*: The poor, disadvantaged and vulnerable have a right to first call on society's resources. Society, especially through the state, has a responsibility to ensure the needs of the poor are addressed preferentially.

Catholic Social Services Australia, therefore, suggests that Australia's employment related services should meet a number of *universal* expectations, including:

- Funding and services should be sufficient to ensure that the needs of those considered disadvantaged or vulnerable are met fully for as long as is necessary;

- Provider services should aim to realise, or progress towards, each job seeker's legitimate aspirations for employment, utilising and developing their natural gifts and enabling them to support their dependents in a dignified lifestyle.

- Each job seeker should be treated as a fellow citizen of equal worth who is encouraged – even challenged – but never forced, to fulfil their personal and social responsibilities.

1.3 This Report

A Job Network for Job Seekers follows a detailed analysis of Centacare Employment's experience in delivering Job Network services through its Employment Services Contract 2003-2006 (ESC3). In the context of the Commonwealth Government's *Welfare to Work* reforms, Government expectations of providers and universal social principles, the report:

- Questions the adequacy of some aspects of current Job Network services to job seekers, especially disadvantaged job seekers, and proposes improvements;

- Throws light on the adequacy of the Job Network's provider incentives with regard to achieving Government objectives for assisting job seekers and proposes necessary improvements to the alignment of Government expectations and provider incentives; and

- Criticises resource wastage associated with overly burdensome administrative and compliance processes and proposes that these be transferred to service delivery.

Of necessity, throughout the analysis, Catholic Social Services Australia has had to rely on data relating to its own contract and caseload in comparison with its notional "average competitor" in the 14 ESAs where Centacare Employment services were delivered in the first three years of ESC3. The comparison between Centacare Employment and its average competitor means a close "like with like" comparison is possible as caseload characteristics and labour market circumstances will be similar.

It is important to stress that the purpose of this comparison is not to highlight the performance of Centacare Employment or any other provider. Rather, it is to use this data – the only data available to providers – to highlight systemic issues that Catholic Social Services Australia believes the industry, DEWR and Government should be considering carefully with a view to improvement of outcomes for job seekers, especially disadvantaged job seekers.

PART 2: THE JOB NETWORK ENVIRONMENT

The Job network is a highly competitive industry from a provider's perspective. Catholic Social Services Australia has identified three factors that are having a profound influence on the Job Network service environment and therefore affecting both providers and job seekers.

2.1 Job Seekers: Complexity of Needs

Centacare Employment's caseload mix "toughened" considerably during ESC3, especially in 2005 and 2006 because:

- Strong labour market conditions and reduced unemployment meant that more skilled workers were more likely to be in employment such that remaining unemployed tended to be those with more significant employment barriers and personal issues;

- The changed pattern of Intensive Support Customised Assistance commencements has resulted in fewer but more highly disadvantaged job seekers entering Intensive Support Customised Assistance in later Milestones than in earlier Milestones. Indeed, the initial Intensive Support Customised Assistance numbers (Milestones 1 and 2) could be considered artificially high and probably artificially less difficult (on average) because of the transition to the ESC3 service continuum. The degree of difficulty of job seekers in later Milestones could probably be considered more "normal" except for the shift in the traditional referral base with regard to Disability Support Pensioners (DSP) and Parenting Payment recipients (PP) – see later.

- Centacare Employment's high success in getting job seekers into work from early ESC3 resulted in a tougher remaining caseload especially from late 2004 onwards. Again, these early successes were not sustainable given the changed Intensive Support Customised Assistance job seeker mix;

- The proportion of total referrals who were receiving Disability Support Pension or Parenting Payments increased from late 2004;

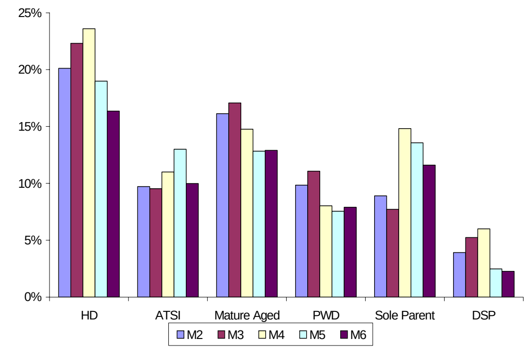
- Centrelink referrals, especially in 2005 onwards, included a proportion of "re-cycled or churned" job seekers for whom Job Network services had previously failed, including some resulting from "outcome buying" or poor placement by some providers. That is, providers had already been paid Outcomes for some of the returning job seekers; and

- Higher Centacare Employment business shares through performance rewards (about +10% overall from late 2004 onwards) meant Centacare Employment has probably received the latter two categories of tougher referrals in greater proportion than many other providers.

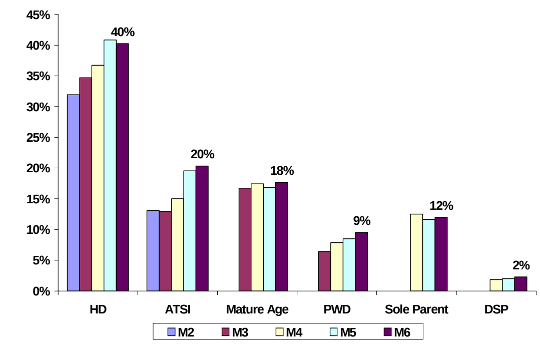
Graph 1 records the proportional distribution of Centrelink referrals to Centacare Employment for a number of Special Groups (including the primary *Welfare to Work* priority groups) for each of Milestones 2 to 6 (M2 to M6) – M1 is excluded because of the abnormal impact of the one-off referral of transition clients. Graph 2 shows representation of these groups in Centacare Employment's Intensive Support (IS) Active Commenced Caseload at the end of each Milestone (note that data on some groups are unavailable for earlier Milestones). The following indicate increasing placement difficulty and caseload complexity:

- Highly Disadvantaged (HD) referrals were increasing (Graph 1) until DEWR modified the qualifications for this group from the start of M5 after which it fell sharply, returning to its M2 level and then even lower. Nevertheless, this group continued to grow as a proportion of caseload until M6 when a slight fall was recorded (Graph 2).

Graph 1: Proportions of Special Groups in CE's Referrals – M2 to M6



Graph 2: Proportions of Special Groups in Total Intensive Support Commenced Active Caseload



- Indigenous referrals grew substantially in M4 and M5, and their share of caseload grew more quickly.

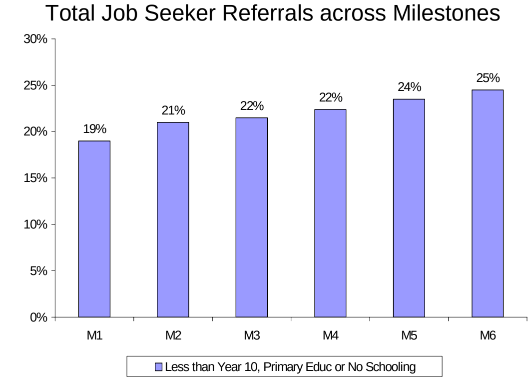
- Mature Aged referrals declined in M4 and M5 but their caseload share remained stable.

- Parenting referrals increased markedly from M4 to M6 and it is assumed that this would have increased their share of caseload significantly (comparison for earlier Milestones unavailable). Despite a significant reduction in referrals between M4 and M6, the caseload share for this group fell only slightly.

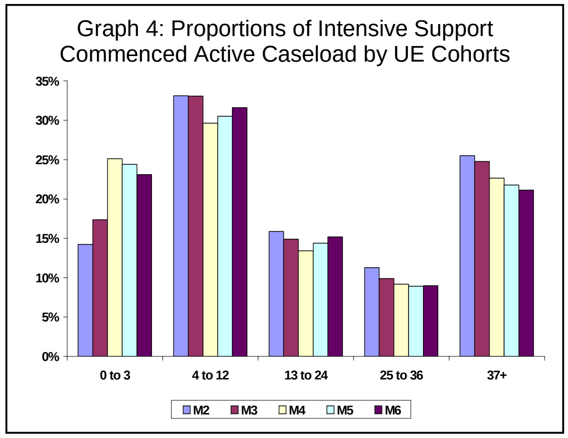
- Disability Support Pensioner (DSP) referrals increased in M3 and M4 but settled back in M5 and M6, also affecting the proportion of referrals of People with a Disability (PWD). The PWD caseload proportion continued to increase, probably reflecting its increased DSP content. DSP caseload is still increasing despite the slow down in DSP referrals.

- Graph 3 shows that throughout ESC3, the proportion of Centrelink referrals to Centacare Employment with low educational attainment (below Year 10) increased progressively from 19% to 25% (a 29% increase). Since education level has long been recognised as one of the most powerful determinants of realising sustained employment and a satisfying working life, Catholic Social Services Australia believes this trend is a definitive and conclusive indicator of Centacare Employment's toughening caseload. Presumably, other providers could demonstrate a similar trend.

Graph 3: Proportions of Low Educational Levels in Total Job Seeker Referrals across Milestones



- Graph 4 details the proportional distribution of Centacare Employment's Intensive Support Active Commenced Caseload from M2 to M5 in duration of unemployment categories:



  - In the longest two duration categories numbers fell progressively over time (reflecting Centacare Employment's successes), but flattened in recent Milestones as the most difficult clients remain;

  - In the 0-3 months group, the large increase commencing in late M3 and reaching full force in M4 reflects the Disability Support Pensioner/Parenting influx. Since these referrals began late in M3, they affected the 4-12 month and 13-24 months caseloads during M5 and M6 which increased for the first time. These can be expected to impact on the 25-36 months cohort from late 2006 and the 37 months plus cohort in 2007;

  - As the ranks of the 13-24 and 25-36 months cohorts grow during ESC3-Extended, increases in Intensive Support Customised Assistance commencements (first and second entitlements) can also be expected to occur, especially as the toughening caseload is likely to mean lower employment outcome rates. Importantly, the Job Seeker Classification Instrument scores of the increased flow of Disability Support Pensioners and Parenting Payment recipients are deceptively low as these job seekers are not credited with a period of unemployment when they first enter the system despite often not having worked for long periods (see later).

Clearly, the situation facing Centacare Employment has changed markedly during ESC3, with the overall impact of the above changes becoming most pronounced from late Milestone 3 to early Milestone 4. While other providers would have experienced somewhat similar trends, it is likely that initially high performers (such as Centacare Employment) experienced toughened remaining caseloads earlier than others as a result of their earlier successes. Centacare Employment is not concerned that Job Network's client group has become more difficult; indeed, Centacare Employment welcomes all job seekers, especially those in great need. However:

- Without increased service intensity, outcomes, and therefore outcome revenue, must fall when caseloads toughen as remaining job seekers need more assistance before placement can be successfully attempted;

- Further, job seekers with more complex needs are more costly to assist and "real" service will fall if fees remain unchanged and overall revenue does not increase;

- Therefore, if continued high performance is to be expected, it is imperative that incentive systems remain relevant to this changed environment.

2.2 Providers: The Incentives System

Unlike many other human services, Job Network is not funded by block grants but by a transaction-based funding model that requires completion of services and achievement of outcomes before individual claims for payment are made. This model provides both financial and performance incentives that drive competition among providers.

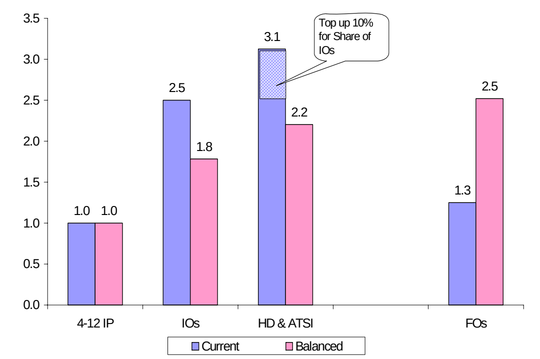
To maximise Job Network's achievements with respect to Government expectations (*quantity*, *speed*, *sustainability* and *equity* of outcomes), two forms of incentive drive provider priorities: Star Ratings and Outcome Fees.

Graphs 5 and 6 (based on data in Attachment 2, Tables 1 & 3) set out major elements of the current incentive system relating to both Star Ratings Weightings and Outcome Fees for different job seeker groups and particular outcome types. Both graphs are "relative" in that the weighting and fee for a 4-12 month Outcome are each set at "1" in their respective graphs and other weightings/fees are compared with this:

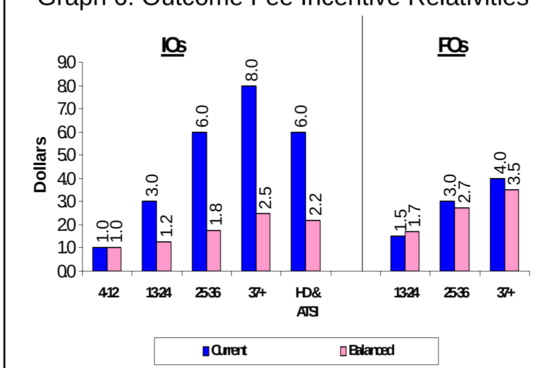
- The blue (first) column in each case records the "*Current*" relative weighting/fee; and

- The pink (second) column in each case shows a "*Balanced*" relative weighting/fee that would reflect "balanced" emphasis across the outcome spectrum in response to the relative probability of achieving each type of outcome. The basic principle is that job seeker groups/outcome types with lower outcome rates would need to attract higher incentives if it is considered desirable that providers focus on these areas – Centacare Employment's outcome rates are used in these calculations.

Graph 5: Star Ratings Incentive Relativities



Graph 6: Outcome Fee Incentive Relativities



It is important to note that in order to encourage appropriate provider responses, the Star Ratings and Outcome Fee systems need to be compatible; however, they should not be the same. While Star Ratings Weightings operate purely as incentives, Outcome Fees function both as incentives and resource allocators. With respect to the latter, Outcome Fees must take account of the cost of producing the outcome and should at least cover the respective costs before relevant incentives are in-built:

- Since the cost of producing outcomes is focused more heavily in the first 13 weeks of placement, Outcomes Fees should be more heavily biased towards 13 Week Outcomes in comparison with 26 Week Outcomes, but not so strongly that providers can afford to de-emphasise achievement of 26 Week Outcomes with negative effects on *sustainability*.

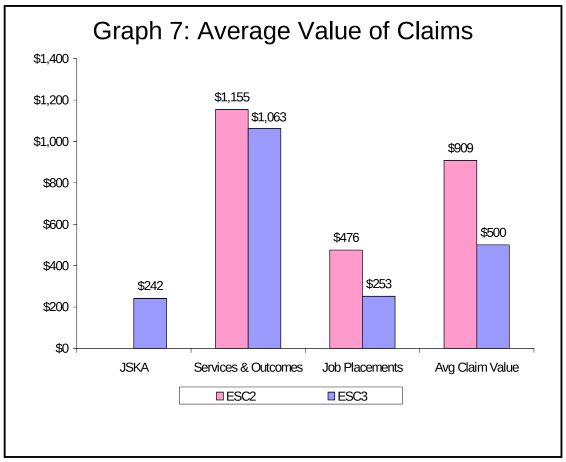
Graphs 5 and 6 both demonstrate sharp variations in "effective" incentives (the differences between "*Current*" and "*Balanced*" incentives) with respect to the Government's expectations on outcome *quantity*, *speed*, *sustainability* and *equity*. For several outcome types and client groups there is a significant disparity between incentives and the likelihood of achieving outcomes and this raises a question about whether, in the light of stated Government expectations, the incentive mix is appropriate. These are analysed in more detail in Part 3 of this report.

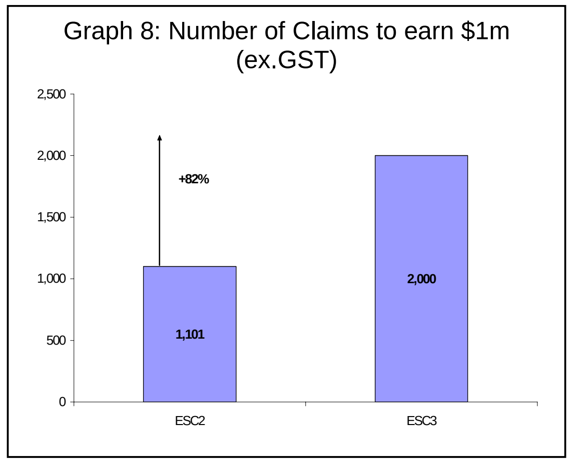
2.3 Government: Program Administration

Administration Costs

The cost to providers of administering their Job Network contracts has increased substantially since the commencement of Job Network and appears to be of ongoing, almost universal concern to providers.

An important indicator of this is shown in Graphs 7 and 8. To earn $1m in revenue, Centacare Employment has had to lodge 82% more claims for payment in ESC3 in comparison with ESC2 – 2,000 compared with 1,100. The greater part of this increase has come with the introduction of the Job Seeker Account; however, even non Job Seeker Account claims have increased to some degree. On average, Centacare Employment is open to scrutiny on every $500 claimed compared with every $900 in ESC2.





Clearly, program administration has increased substantially along with the scope for DEWR's "investigations" into very small amounts of expenditure. Indeed, since early June 2006, Centacare Employment has received requests to justify 113 claims for payment at the rate of over five or six a week. A quarter of the claims were for under $200 with half of these under $100. The amounts of money involved vary from $17.93 to $4,400 – some resulted in partial recoveries as low as $9.81.

The cost to DEWR and a provider of investigating each claim is substantial involving:

- identification of claim by DEWR;
- issuing a show cause letter to the provider;
- receipt and registration of the letter by the provider;
- referral of the letter to the site for gathering of substantiating evidence;
- drafting a response to DEWR;
- approval of the response by the delegate;
- forwarding the response to DEWR;
- consideration of the response by DEWR and decision on any recovery action;
- issue of Debt Advice Notice to the provider if necessary; and
- Recovery of the amount from provider payments.

Clearly, the whole process is very resource consuming. Surely the value of recovering very small amounts must be questioned on efficiency and risk management grounds. What this situation reflects is a strongly risk-averse and controlling culture within DEWR that is at odds with contemporary business and risk management principles. This is a grossly wasteful use of public funds:

- Catholic Social Services Australia is not against accountability. Indeed, DEWR's recovery of wrongly claimed funds may be significant. However, on the assumption that most of this recovery relates to large amounts resulting from investigations into inconsistent or irregular practice, investigations into relatively small amounts would seem inconsistent with risk management principles;

- Furthermore, the fact that the funding model is so complex in that funding occurs in very small amounts and this gives rise to many small claims, suggests that the funding model itself needs redevelopment to minimise administration and avoid this very minute level of accountability and scrutiny.

In addition to this, DEWR has increased its scrutiny of providers' processes and its contract managers now regularly delve into and question minute administrative and service delivery processes, even recommending changes despite their lack of expertise in service delivery. The bureaucratic approach that the Government swept aside in abolishing the Commonwealth Employment Service (CES) has now re-emerged in the Job Network with the same costly and crippling effects.

This is possible because of the massive investment in DEWR's infrastructure as the following information makes clear:

- According to DEWR's 2006-07 Portfolio Budget Statements, the estimated total administered appropriation for all labour market programs this financial year is \$2,298.7m.[1] Of this, the estimated total administered appropriation for Job Network is \$1,405.9m[2] representing about 61% of total appropriations for all labour market programs.

- DEWR estimates that total departmental expenses to deliver all labour market programs are \$411.5m.[3] Assuming that the proportion of departmental expenses to administer Job Network is the same as Job Network's share of the total appropriation for labour market programs, then the estimated cost to administer Job Network would be around \$252m.

- Putting the two together, DEWR's administration of the total appropriation for Job Network would appear to account for \$252m or 15.2% of the total of \$1,657.9m.

Job Network members also must spend a proportion of their allocated funds on administration. Providers have observed this aspect increasing progressively during ESC3 partly because of a more complicated business model than existed in ESC2 and partly because of DEWR's trend towards micro-management. The scale of DEWR's administrative infrastructure makes this possible:

- Drawing on the above assumptions about the proportion of DEWR's staff involved in administering Job Network, around 1,200 DEWR staff oversight about 1,100 Job Network sites – around 1.1 staff per site. The off-site infrastructures that providers can afford are

[1] *Portfolio Budget Statements 2006-07, Employment and Workplace Relations Portfolio,* Budget related paper no.1.6, p.39
[2] Ibid, p.44
[3] Ibid, p.45

not so generous and they are responsible for detailed day-to-day delivery of the services and take the primary financial risks of running a very complicated and demanding business operation.

Anecdotally, Job Network members have indicated that up to 50% of the aggregated time of site staff goes in administration rather than direct client contact. The *Job Network Frontline Staff Survey* by Jobs Australia and the Brotherhood of St Laurence: Preliminary Findings found that:

- "Excessive administration reduces direct contact time and overall effectiveness" (page 8 of above report);

- "…80 per cent of staff considered the administrative demands of their work were excessive. Specific examples of unnecessary and time consuming red tape include paperwork surrounding the Job Seeker Account, the on-line vocational profile (which was seen to be of little use), and some aspects of the EA3000 computer system (mainly the time taken to refresh screens)" (page 5 of above report); and

- "Staff were asked what would be the most effective way to improve the Job Network system. Responses fell into three broad categories. Reducing administrative burden was seen to be the most important change: reducing paperwork which was also replicated on the EA3000 system; reducing the red tape around the Job Seeker Account; improving the EA3000 system and limiting changes initiated by DEWR to systems and processes" (page 7 of above report).

While administration is an essential element of any human services program, a level of anywhere near 50% of staff time suggests that the industry has lost its way – the program should serve job seekers not the other way round.

Not only are DEWR's administrative overheads substantial, they come at a disproportionately high unit employee cost. Centacare Employment's average employee cost is calculated at less than $50,000pa and it is assumed that this would be similar to that of most other providers. DEWR's average employee cost of around $77,000pa has been estimated in the following way:

- According to 2006-07 Portfolio Budget Statements, there was an average of 1,975 staff responsible for delivering Outcome 1, 'Efficient and Effective Labour Market Assistance' during 2005-06. Outcome 1 includes Output Group 1.2, Labour Market Program Management and Delivery.[4]

- Over the same period, total employee expenses for delivering Outcome 1 were $152.306m.[5] Employee expenses include wages and salaries, superannuation, leave and other entitlements, separation and redundancies and other employee expenses.[6]

- Therefore, the average employee cost per staff member to administer Outcome 1 is approximately $77,000. Since staffing levels for achievement of the Output Groups under Outcome 1 are not available, this figure has been used as an approximation for the average employee cost to administer Job Network.

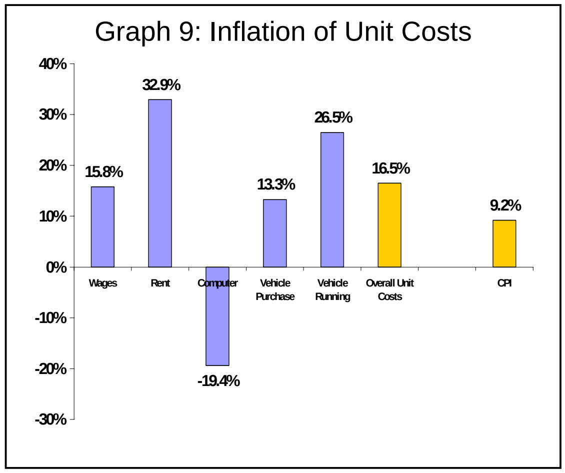
It is worth noting that DEWR's staff salaries will increase by 4% a year for each of the three years between 2005-08 – a cumulative total of about 12.5%.[7] This compares with fee

[4] Ibid
[5] Department of Employment and Workplace Relations Annual Report 2005-06, p.291
[6] Ibid, p.255

increases of 1.8% for Job Network providers for the three years of 2006-09. This is further evidence of the predominance of administration over services in the DEWR-driven Job Network.

Inflation of Costs

The employment services industry, as with all other businesses and DEWR, has been affected by ongoing inflationary pressures:



- Graph 9 provides an average of movements in particular underlying costs for 12 of Centacare Employment's 18 sites covering metropolitan, regional and remote locations. It is clear that most aspects, including high expenditure items (especially wages), have increased at levels above Australia's CPI increase of 9.2% over the three years of ESC3 (2006-09). Overall unit costs have inflated at an estimated 16.5% in three years, well in excess of Australia's CPI increase.

These, together with increased costs and reduced outcome revenue arising from more complex caseloads and the increased administrative costs related to Job Seeker Account expenditure and DEWR's micro-management of compliance processes, are estimated to have reduced the financial viability of Centacare Employment's Job Network services by at least 25%. Even if some benefit is assumed from artificially high revenue from Intensive Support Customised Assistance flows in the early part of ESC3, these have been more than off-set by the situation during 2005 and 2006 that appears likely to prevail until the end of the ESC3-Extended contract period.

2.4 Summary

The Job Network has changed radically during ESC3:

- Several trends in job seeker characteristics point towards a fundamental increase in the complexity of the needs of Centacare Employment's job seekers during ESC3 (and presumably of those of other providers). An especially stark indicator of this is that the proportion of Centrelink's Job Network referrals with low educational attainment to Centacare Employment has increased markedly from 19% to 25% over three years – an increase of 29%.

- The Star Ratings and Outcome Fee incentive systems for Job Network demonstrate sharp differences in "effective" incentives with those for some outcome types being at odds with the comparative likelihood of achieving outcomes. This raises concerns about the match between these incentives and Government expectations of Job Network providers in assisting job seekers.

- The costs of administering Job Network are extraordinarily high:

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[7] *DEWR Certified Agreement 2005-08*, p.2

- DEWR's own administrative costs total around $252m – 15% of total program resources – and its average employee costs are around $77,000pa, probably more than 50% higher than those of providers;
- As a result of the overly bureaucratic business model of Job Network and DEWR's increasing micro-management that its huge infrastructure can support, providers spend a high proportion of program resources on administration – some estimates suggest up to 50% of staff time;
- As if that is not enough, providers face rising costs through inflation, that have not been compensated adequately with higher fees and so providers are forced to further restrict services to job seekers; and
- With increased caseload complexity, the intensity of services and associated costs of assisting job seekers have increased considerably placing further limits on the effectiveness of services to job seekers.

Services are being squeezed from above and below. It is anomalous that, at a time when job seeker needs are more demanding, the provider incentives system is problematic and program administration is consuming an increasing proportion of program resources. Before looking at means of addressing these concerns, the second issue, provider incentives, requires more detailed analysis.

PART 3: ALIGNMENT OF EXPECTATIONS AND INCENTIVES

Financial and Star Ratings incentives have an overwhelming influence on provider behaviour in Job Network. Incentives shape service models and therefore affect job seekers. Hence, it is important to understand:

- Whether the current incentives systems are aligned appropriately with the Government's expectations of Job Network providers; and

- The impact of current incentives on the quality and effectiveness of services to job seekers.

3.1 Drivers of Provider Behaviour

While there are many intrinsic and extrinsic factors that drive provider behaviour, there are two particular drivers important to this discussion: Government Expectations and Incentives. Providers differ in the relative importance assigned to these behaviour drivers:

- *Expectation-driven* providers, motivated primarily by the needs and best interests of "job seekers", put primary emphasis on achieving the program's stated goals because they are generally accepted as appropriate for job seekers; and

- *Incentives-driven* providers, motivated primarily by the "bottom line", give primary attention to the program's Financial and Star Ratings incentives in order to meet organisational business goals.

This should not be interpreted as a purely sectoral split. While the industry is a mix of community (not for profit – both Church based and non Church based) and private (for profit providers), both sectors include *expectation-driven* and *incentive-driven* providers.

Further, this is not a black and white division. All providers are motivated by both expectations and incentives – both "mission and margin" as is commonly expressed. *Expectation-driven* providers cannot ignore program incentives or organisational survival is put at risk. *Incentives-driven* providers cannot ignore Government expectations for the program or their organisational survival is put at risk.

The point is simply that different providers in both sectors of the industry place varying emphases on these drivers along a continuum. Both aspects are legitimate and providers have a right to expect that the incentives are aligned with expectations such that second-guessing of Government intent, and possibly hidden agendas, is not required.

Nevertheless, given these differing provider motivations, if the Government wants to achieve the Job Network's objective and its own expectations of providers, the incentive systems should be closely aligned with its expectations or achievement of objectives will not be maximised.

The sections below take each of the Government's four outcome (*Quantity, Speed, Sustainability* and *Equity*) and *Service Quality* expectations, one at a time, and test the alignment of the incentives systems with these expectations.

3.2 *Quantity* of Outcomes

Incentives

A focus on outcome achievement is a fundamental feature of Job Network:

- While accounting for caseload characteristics and labour market circumstances, Star Ratings Weightings solely reward placements and outcomes; and

- The Fee Structure includes a strong component for placements and outcomes, and these are the revenue streams over which a provider has most influence – 47% of Centacare Employment's ESC3 revenue (excluding Job Seeker Account) to end June 2006 was from placements and outcomes.

Both of these features along with rewards and sanctions through business allocation and re-allocation processes, make the Job Network a highly competitive industry from a provider's perspective. All providers are very conscious of the relative strengths of different incentives to perform and take account of them in making strategic and service level decisions.

The Employment Services Contract 2006-2009 requires that providers act ethically, noting that "an unethical manner constitutes any practice that manipulates outcomes, the performance model or Service to maximise payments to the Provider." (see Attachment 1)

Catholic Social Services Australia understands that the Star Ratings system calculates a "*quantity* of outcomes expectation" for each provider after accounting for the provider's caseload characteristics and labour market circumstances. Catholic Social Services Australia has identified two issues of systemic significance relating to the calculation of outcome *quantity* expectations:

- In the light of increased caseload complexity, does the current approach take adequate account of changed caseload characteristics?

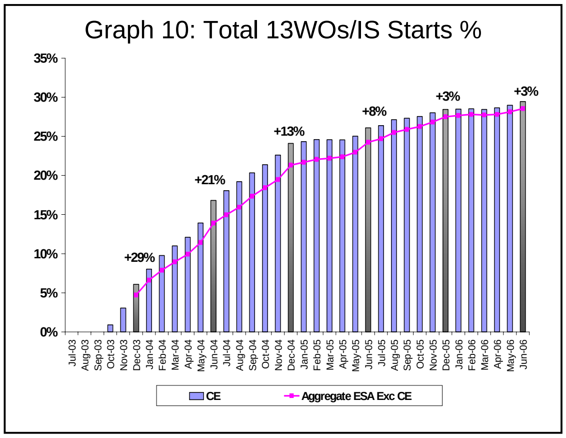
- Given high pressure to perform, how can "outcome manipulation" to maximise outcome *quantity* be avoided or minimised? In particular, to what extent should outcomes involving excessive wage subsidies (and employer incentives generally) at taxpayers' expense be considered "genuine" outcomes that attract Outcome Fees and Star Ratings credits identical with those of unsubsidised outcomes?

(i) Quantity of Outcomes Expectation

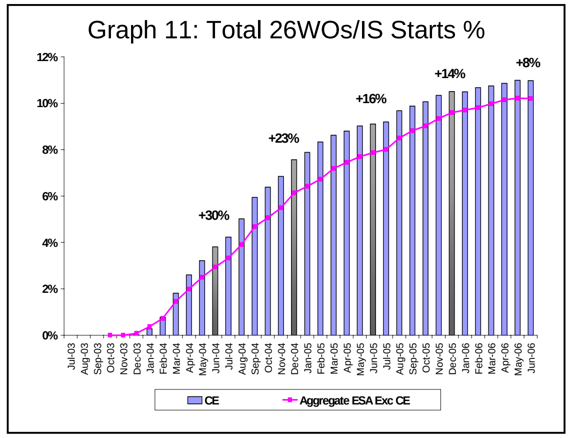
Provider Behaviour

Graphs 10 and 11 show Centacare Employment's 13 Week and 26 Week Outcomes to IS Starts performance throughout ESC3 compared with the aggregate of its competitors (hence, Centacare Employment's notional "average competitor") in the 14 ESAs where Centacare Employment operated to end June 2006.

While Centacare Employment enjoyed a lead over its average competitor for the whole contract, the gap for 13 Week Outcomes closed progressively from December 2004. Although the gap for 26 Week Outcome performance also closed from April 2005, it proved considerably more resilient than that for 13 Week Outcomes, suggesting higher quality outcomes by Centacare Employment that lasted longer than those of Centacare Employment's average competitor (see later).

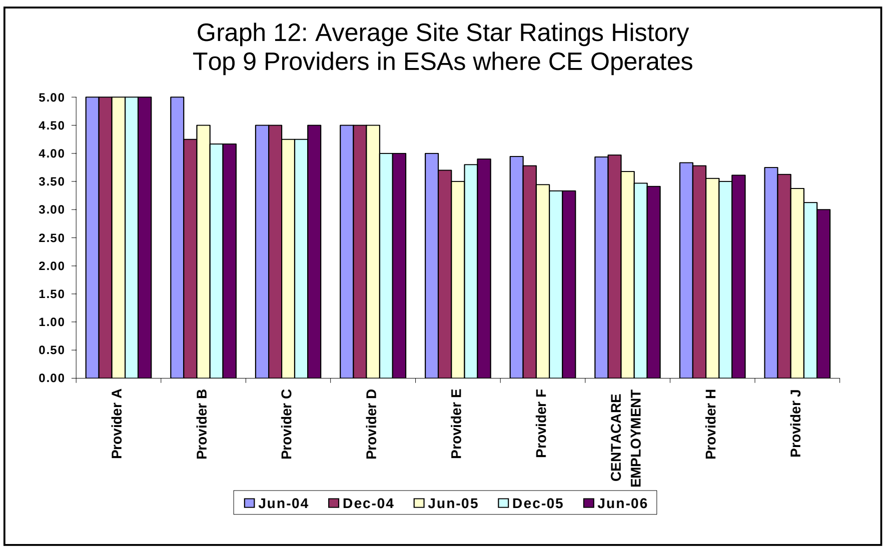


Graph 10: Total 13WOs/IS Starts %



Graph 11: Total 26WOs/IS Starts %

Graph 12 shows the average Site Star Ratings of the nine initially highest performers (there are 24 providers in all) in Centacare Employment's 14 ESAs in decreasing order of the first Site Star Rating results in June 2004:



Graph 12: Average Site Star Ratings History
Top 9 Providers in ESAs where CE Operates

- In keeping with the reduction in comparative outcomes performance, Centacare Employment's Star Ratings fell after December 2004; however
- Eight of the nine initially highest performers experienced similar Star Ratings reductions – one has since recovered and another has a clear recovery trend (the only exception is Provider A, a single-site PWD Specialist whose circumstances are obviously very different from those of all the others).

It seems strange that all of the initial top performers subsequently experienced reduced Star Ratings. Two possible explanations been advanced within the industry:

- Early high performers include those providers who lost a number of low performing sites between ESC2 and ESC3 such that remaining higher performing sites were able to get off to a strong start in ESC3 before new providers/sites had reached full performance. By the end of Milestone 3 or so, newer providers/sites had reached peak performance such that, in comparative terms, the performance and Star Ratings of the early high performers began to wane. This theory has been tested by examining the ESA Star Ratings of all 24 providers in the 14 ESAs in which Centacare Employment operated:

- New ESA services (23 averaging 3.6 Stars in June 2004) out-performed continuing ESA services (42 averaging 3.1 Stars in June 2004) by about 0.5 Stars;

- Three organisations, although they lost services in some of these ESAs, had a combination of continuing and new services in these ESAs. In total, new services (five averaging 4.1 Stars) out-performed continuing services (18 averaging 3.7 Stars) by 0.4 Stars.

This evidence does not support the theory that initial high performers could expect to lose ground once newer providers matured. Rather, in these ESAs, initial high performance was more prevalent in new services whether or not the new ESA services were operated by continuing or new providers to these ESAs.

- Early high performance results in a toughened remaining caseload that causes outcomes eventually to fall even if services remain highly effective. Early high performers subsequently experience falling Star Ratings because these circumstances are not accounted for appropriately in Star Ratings calculations:

  - This theory is supported by the findings of Section 2.2 of this report that showed how Centacare Employment's toughening caseload became most pronounced around the transition between Milestones 3 and 4, the time when Centacare Employment's comparative outcome performance and Star Ratings peaked and subsequently began to fall.

Given the similar Star Ratings reductions of all of the initially highest performing generalist providers, the question arises: *Did the effectiveness of all of the initially highest performing generalists fall (as suggested by Star Ratings) or are the outcome expectations calculated in the Star Ratings regression formula incorrect such that Star Ratings are misleading of comparative provider effectiveness?*

<u>Issues</u>

Since the Star Ratings regression is meant to take account of caseload characteristics, a more complex caseload, while understandably leading to reduced outcomes, should not necessarily lead to reduced Star Ratings. Therefore:

- Unless one assumes that *all* of the initially highest performing generalist providers in the 14 ESAs somehow became less effective, a question must be asked about the sensitivity of the Star Ratings system to provider circumstances of one kind or other; and

- If other initially highly performing providers have experienced a toughening of their caseloads similar to that of Centacare Employment (as might be expected), then their Star Ratings reductions may be attributable in whole or part to inadequate Star Ratings' sensitivity to caseload characteristics.

Catholic Social Services Australia suggests the following two possibilities:

- The changing mix of job seekers may have introduced new characteristics to the caseload that are not accounted for in the Star Ratings regression analysis, or altered the balance in the direction of factors not adequately accounted for or that are not reported accurately by job seekers. For instance:

- There are many undisclosed or undiagnosed circumstances among very disadvantaged job seekers, and medical and other exemptions are a prominent feature among disadvantaged groups – these work against outcome achievement despite the system's including such job seekers in the calculation of outcome expectations;

- The Job Seeker Classification Instrument (JSCI) scores of the increased flow of Disability Support Pensioner (DSP) and Parenting Payment (PP) recipients are deceptively low as these job seekers are not credited with a period of unemployment when they first enter the system despite often having been on allowance and not having worked for long periods. The provision of JSCI points for "Recency of Work Experience" appears to give some consideration to the circumstances of PP recipients but not to DSP recipients as the six points allocated for "Not in the Labour Force" relate only to "studying or caring". Further, the fact that this factor relates only to the previous two years may not adequately reflect the disadvantage experienced by many DSP and PP recipients with much longer periods away from the labour force;

- Some job seekers have a long history of repeated bouts of unemployment punctuated by periods of employment – referred to as those "churning" through Job Network and other related services. After periods off allowance that exceed "allowable breaks", these job seekers are treated as if they are registering for the first time despite the residual damage and remaining disadvantage in realising sustained employment.

  In both cases, the current approach results in an inaccurate JSCI measure of their comparative disadvantage and incorrect assessment of their placement difficulty in Star Ratings regression calculations.

- The arbitrary weightings applied to the various outcome types in the Star Ratings calculations may be negating, overshadowing or distorting the impact of caseload characteristics in the regression formula, thereby delivering misleading results:

  - For instance, the regression formula would generally reward Interim Outcomes achieved for disadvantaged groups above those for less disadvantaged job seekers because duration of unemployment and various characteristics associated with disadvantage are included in the regression formula. However, the 40% weighting applied to all Interim Outcomes may distort that benefit by encouraging a larger overall *quantity* of Interim Outcomes that are achieved more easily by focusing on less disadvantaged job seekers. If the impact of the latter aspect is greater than the former, a provider would achieve higher Star Ratings by emphasising service to less disadvantaged job seekers.

<u>Proposals</u>

In order to ensure effective service to job seekers and avoid misleading reporting of provider effectiveness and unfair treatment with respect to business allocation and re-allocation:

- DEWR should undertake urgent work to test the adequacy of the Star Ratings system in accounting for changed caseload characteristics and introduce any necessary additional items prior to the introduction of two-year rolling Star Ratings, including:

  - Consideration should be given to the adequacy of the "Recency of Work Experience" factor in the JSCI in accounting for the disadvantage faced by job seekers who have had long periods on allowance and out of the labour force;

  - The JSCI should make specific provision for the added disadvantage faced by job seekers returning to allowance and services after repeated failure to secure sustained ongoing employment;

  - Since many personal circumstances of very disadvantaged job seekers are undisclosed and therefore are difficult to account for, perhaps one aspect of this could be an additional factor of "low socio-economic region". This would acknowledge the prevalence of personal barriers which would be more prominent in low socio-economic regions, thereby accounting for such factors to some extent, even though individuals may not disclose all relevant information. The Australian Bureau of Statistics SEIFA (Socio-Economic Indexes of Areas including Index of Relative Social Economic Disadvantage and Index of Education and Occupation) may be suitable. It should be noted that such indices would desirably operate at sub-ESA level as there are identified "pockets" in particular ESAs with somewhat different socio-economic characteristics from the rest of the ESA; and

  - DEWR should test the scope for using "dummy" variables to account for otherwise unquantifiable Star Ratings factors.

- DEWR should investigate the interaction between Star Ratings Weightings and the regression analysis: to determine whether the arbitrary weightings are having a perverse effect on the assessment of provider effectiveness; and to develop a system without such perverse effects.

(ii) Outcome Manipulation and Wage Subsidies

<u>Provider Behaviour</u>

Given that incentives systems are not perfect, they rely on providers acting ethically when inevitable clashes occur between the needs of a job seeker and the provider rewards offered by the system (expectations versus incentives). *Expectation-driven* providers are likely to do what is best for the job seeker – some *incentive-driven* providers may "play the system" despite contractual requirements to act ethically (see <u>Attachment 1</u>).

ESC3 fees for services and outcomes were fixed for the full three year contract. In the competitive environment of Job Network where the complexity of caseloads increased, operational costs increased, and both Financial and Star Ratings incentives reward outcome *quantity*, it should come as no surprise that some providers would push at the ethical margins to increase their credited *quantity* of outcomes.

While the Code of Practice is meant to minimise such behaviour, some unsatisfactory practices relating to "playing the system" are difficult to detect and police, for example:

- <u>Example 1</u>: Normally providers can claim two outcomes for a job seeker at 13 and 26 weeks of employment. The regulations allow for a third outcome in the circumstances where an initial 13 Week Intermediate Outcome (resulting from say, a part-time job) is followed by an upgrading of the position (effectively a placement in a new position). To encourage the best result for the job seeker, the system allows a restart such that the initial outcome can then be followed by a further 13 and then a 26 Week Outcome:

  - Some providers abuse this provision and adopt a "treble outcome" strategy by deliberately placing job seekers in second rate jobs initially in order to subsequently upgrade them and claim three rather than two outcomes. This also creates the impression of "speedier" placement and therefore has a further positive impact on

Star Ratings. A job seeker focused approach would be to seek to upgrade the position from the outset, wherever possible.

- *This is clearly a breach of the Code of Practice and not in a job seeker's best interests in most cases. It also increases unnecessarily expenditure on allowances, JSKA funded wage subsidies and unwarranted outcome payments.*

- Example 2: Full outcome claims depend upon keeping job seekers in unbroken employment for a full 13 weeks, as breaks in earnings can lead to some allowance payments and reduce full Outcomes (Interim and Final) to Intermediate Outcomes. These are much less strongly rewarded in Outcome Fees and Star Ratings Weightings:

  - Some providers are said to be doing deals with employers to avoid docking of pay when absent from work so that allowance payment does not resume despite the person's not working for the whole outcome period. These providers are said to make Job Seeker Account payments (at taxpayers' expense) to employers under the guise of wage subsidies or another form of employer incentive to cover employer losses arising from absenteeism and mislead calculation of outcome payments due to the provider.

  - *Catholic Social Services Australia considers this practice to be fraudulent*.

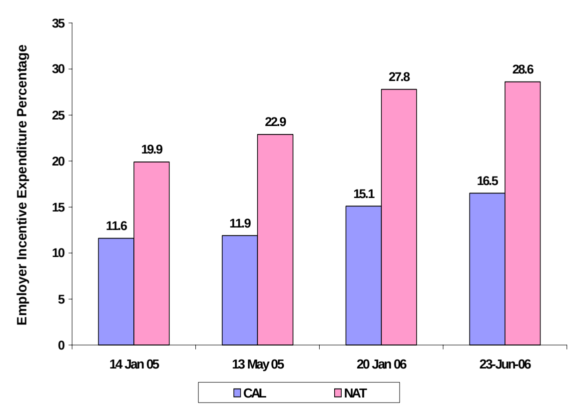
If providers use such practices, they improve their recorded performance against the calculated "*quantity* of outcomes expectation" and improve their Star Ratings and revenue:

- DEWR should be vigilant to ensure such practices are detected and stamped out; and
- Acknowledging the difficulty of detecting and policing such behaviour, outcome definitions and incentives systems should be designed in a way that minimises the risk of such inappropriate provider behaviour.

Catholic Social Services Australia is unable to quantify the impact of all of these practices accurately but an analysis of Job Seeker Account expenditure on Employer Incentives will go some way towards this. Indeed, Catholic Social Services Australia believes that the extent of use of the Job Seeker Account to fund wage subsidies, especially during 2005 as the deadlines for contract rollover and tendering drew nearer, is partly related to the emergence of practices with negative impact on job seekers.

Graph 13 shows that the Job Network's expenditure on Employer Incentives (mostly wage subsidies) averaged 20% for the first three Milestones but 28% for the first five Milestones of ESC3. This suggests that in 2005 (Milestones 4 & 5), Employer Incentives accounted for about 40% of JSKA expenditure – double that of the previous 18 months (as confirmation, DEWR's response to Senate Budget Estimates hearings in May 2006 indicated that 37% of Job Seeker Account expenditure between April 2005 and May 2006 was for wage subsidies). This probably meant an increase in both the proportion of placements subsidised and subsidy levels:

Graph 13: Proportion of JSKA Spent on Employer Incentives



- Given the novelty of the Job Seeker Account in ESC3, it took some time for providers to experiment and gain confidence with the use of these funds. Some of the increase in use of these funds for wage subsidies might therefore be explained by this learning process.

However, Graph 13 also shows that Centacare Employment's expenditure on Employer Incentives remained low in comparison with the Job Network average. Centacare Employment estimated the impact on its performance and revenue to end December 2005 if its expenditure pattern had mirrored the Job Network average (ESA averages are unavailable on this measure):

- 13 Week and 26 Week Outcomes to Intensive Support Starts ratios would have increased by 3.4% and 4.4% respectively;

- Average Site Star Ratings would have increased by about 0.2 Stars; and

- Revenue (including Job Seeker Account) would have increased by 1.3% ($1.0m).

Without wishing to claim that all of the difference between Centacare Employment and the Job Network average is accounted for by inappropriate use of wage subsidies, this nevertheless provides a measure of the extent to which *incentive-driven* providers can take advantage of perverse, and in some cases allowable, practices to manipulate recorded outcome *quantity* for Financial and Star Rating gains. Indeed, since the Job Network average reflects a range of high and low use of wage subsidies, the difference between Centacare Employment and some other providers could be double or more of that estimated above.

<u>Issues</u>

Catholic Social Services Australia is concerned about the perverse impact of excessive use of wage subsidies funded from the Job Seeker Account. Centacare Employment's experience is that when this occurs the quality of placement falls with many placements being inconsistent with job seekers' individual needs (therefore, inconsistent with the Code of Practice and *universal* principles).

There are many examples of detriment to job seekers and unnecessary cost to the taxpayer. The worst example is systemic abuse referred to as "outcome buying" where very high wage subsidies (up to 100%) are used to fund low quality "jobs" that could not exist without subsidy and therefore are not "real" jobs but nevertheless attract outcome payments; however, practices that offer less than ideal results are more prevalent and need closer attention.

While wage subsidies are a legitimate and beneficial *means* of improving job readiness and achieving subsequent employment outcomes, they are *means* not *ends*. The current system confuses "paid work experience" with a "real job" and rewards both as "paid outcomes". Incentive-driven providers are therefore able to prop up their revenue, performance and Star Ratings at taxpayers' expense by placing job seekers in so-called "jobs" of questionable benefit, whilst at the same time gaining a competitive advantage over expectation-driven providers.

Catholic Social Services Australia is not against paid work experience as a legitimate *means* of improving job readiness and also accepts that it is reasonable that subsidised placements leading to sustained employment should also qualify for outcome payments. However, Catholic Social Services Australia considers heavily subsidised placements in poor quality or non-existent "jobs" are not *ends* in themselves and therefore do not justify outcome payments to providers:

- It is noted that most other forms of intervention designed to improve job readiness do not attract outcome payments. Indeed, the only one of these that does is for educational attainment and this is rewarded at comparatively low levels both financially and in Star Ratings Weightings – unlike excessively subsidised employment outcomes.

DEWR's response to Senate Budget Estimates hearings in May 2006 throws light on this situation, indicating that:

- Only 20 100% wage subsidies had been approved between April 2005 and May 2006. However, DEWR was unable to report the number of subsidies in other bands of proportions of wages of 99% or less. Further, no account was given of the fact that some providers are said to split employer subsidies into wage and training (or other) subsidies to get around the requirement for DEWR approval of wage subsidies of 100% or more and that some contribute to subsidies from non Job Seeker Account revenue for the same reason; and

- 40,236 job seekers received a wage subsidy from the Job Seeker Account between April 2005 and May 2006 at a cost of $102.9m, therefore at an average of $2,560 each. At the National Safety Net Minimum Wage, this represents an average subsidy of about 20% over 26 weeks, if all outcomes lasted for 26 weeks. While that may not be regarded as excessive, without knowledge of the proportional distribution of subsidies and their relationship to the circumstances and needs of particular job seekers, firm conclusions about the extent of excessive wage subsidies cannot be drawn from this information alone.

Nevertheless, anecdotal evidence suggests that some organisations abuse the wage subsidy arrangements and the following example will throw light on the situation.

From a financial perspective, Outcome Fees are justified largely on the basis of allowance savings and income tax revenue that are often more than offset by the costs of employer subsidies and outcome fees. For example, a 75% wage subsidy from the Job Seeker Account at the National Safety Net Wage of $26,600pa ($13,300 over 26 weeks) would generate costs and benefits to the taxpayer as set out in Table 1.

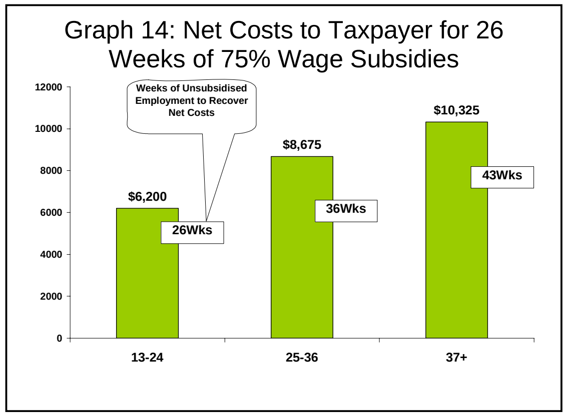
Table 1: Costs & Benefits to Taxpayer for 26 Weeks of 75% Wage Subsidies

	13-24 UE	25-36 UE	37+ UE
Costs			
Wage Subsidies	$9,975	$9,975	$9,975
Outcome Fees	$2,475	$4,950	$6,600
Benefits			
Allowance Saving*	-$4,550	-$4,550	-$4,550
Taxation Revenue	-$1,700	-$1,700	-$1,700
Net Cost	**$6,200**	**$8,675**	**$10,325**

* Based on DEWR's estimate (possibly outdated) of average allowance payment of $175 a week.

Graph 14 (see page 33) shows that when wage subsidies cease and paid outcomes are accrued, the initial allowance savings and income tax revenue associated with a 75% wage subsidy are well and truly outweighed by the costs of wage subsidies to employers and outcome payments to providers even at the minimum safety net wage of around $26,600pa:

- For Intensive Support Customised Assistance clients, net costs range between $6,200 and $10,300. Allowance savings and tax revenue would need to continue for a further period of between 26 and 43 weeks for full recovery of these costs.



- Such benefits are very likely to accrue in many wage subsidy situations. However, this is unlikely where "outcome buying" is involved because "jobs" are frequently of poor quality and/or are not sustainable without subsidy. While the work experience gained may lead to other employment subsequently such that recovery of funds eventuates and non-financial benefits also accrue (see below), anecdotal evidence of job seekers "churning" through services suggests that failure is a common experience in these circumstances.

DEWR's response to Senate Budget Estimates hearings in May 2006 indicated that:

- For subsidies of less than $1,000, 55% of job seekers remained off benefit 13 weeks later and this remained fairly stable at 54% and 56% respectively after 26 and 52 weeks.

- For subsidies of more than $1,000, 68% of job seekers remained off benefit 13 weeks later and this dropped a little to 64% and 64% respectively after 26 and 52 weeks.

Catholic Social Services Australia draws two conclusions from this data:

- Wage subsidies are about 60% effective at realising sustained employment for many disadvantaged job seekers – as such, they are an important and valuable component of service delivery. However, further thought is needed on what wage subsidy levels are necessary to achieve these results for particular job seekers and whether the same results are possible with lower subsidy levels; and

- In about 40% of cases, job seekers return to benefit within 13 weeks and this raises concerns about the effectiveness of wage subsidies in various situations that should be explored. This would be of even greater concern if the proportional subsidy in these cases was excessively high.

Catholic Social Services Australia believes that the 40% return to benefit result comes about for several reasons, including:

- Unfortunate circumstances that lead to discontinuation of the position for unforeseeable reasons – this cannot be controlled;

- Poor placement choice that does not meet a job seeker's employment aspirations satisfactorily and so there is little desire or commitment on the job seeker's part to remain in the job – controlled by better assessment of job seeker by service providers and more selective matching to jobs;

- Placement in a job that offers little prospect of ongoing employment – controlled by better assessment of employers by service providers; and

- Placement in a non-existent job that is funded largely from the Job Seeker Account for the required outcome period only – controlled by better outcome monitoring by DEWR.

Especially in the last three situations: *Why should such "jobs" attract outcome payments when available evidence suggests there is minimal benefit to the job seeker and considerable net cost to the taxpayer? These situations are better described as "work experience" rather than as "real jobs".*

Indeed, if the outcome definition excluded periods of wage subsidy, these placements (about 16,100 representing 40% of subsidised placements and 7% of all 13 Week Outcomes achieved over the period) would not attract outcome payments as they did not last for the required 13 weeks:

- Under this measure, Job Network's achieved outcomes could be overstated by up to 7%.

Note: Catholic Social Services Australia is not arguing for a purely financial consideration. There are important personal, family and social benefits associated with getting people into work – even work experience; however, these benefits are also minimised when "outcome buying" practices are involved:

- Catholic Social Services Australia's concern is that the practice of outcome buying is very costly for very little economic, personal, family and social benefit. Funds used for outcome buying would be better spent on measures that improved a job seeker's ongoing employability (such as skills enhancement) so that better long term results were realised.

Other implications of "outcome buying" strategies include:

- The misuse of wage subsidies is leading to the creation of jobs that are not economically viable without subsidy (therefore not real jobs and outcomes) and this is increasing the average cost of placing job seekers in employment as more employers expect subsidies.

- While acknowledging some benefit to job seekers in some cases, the "churning" of job seekers through heavily subsidised 13 week jobs ignores the principle of getting a sustainable placement right first time (in keeping with the needs and legitimate expectations of job seekers) and often leads to a further period on allowance and return to Job Network with the job seeker further alienated from employment. The "any job will do as long as an outcome is recorded" approach is clearly not in the job seeker's interests and not in the taxpayer's long term interests.

- Centacare Employment's experience is that better results for the job seeker and longer periods off allowance (hence, higher savings in Government outlays) are achievable with a shift of emphasis in Job Seeker Account expenditure from employer incentives to measures that improve the capacity of job seekers to obtain and sustain employment whether or not they remain with the "subsidised" employer – indeed, Centacare Employment's own Job Seeker Account expenditure pattern with respect to wage subsidies (see Graph 11) and comparative success in achieving 26 Week Outcomes (see Graph 9) demonstrate this clearly (examined in more detail below).

- Catholic Social Services Australia is also concerned that if current practices continue, expectation-driven providers – the ones most likely to effectively assist *Welfare to Work* job seekers – will be forced out of the industry.

<u>Proposals</u>

Given the difficulty of policing provider behaviour in this area (such as the requirement for "ongoing employment" with respect to wages subsidised via the Job Seeker Account) Catholic Social Services Australia believes more decisive action is needed to avoid systemic abuse and unsatisfactory results.

In earlier drafts of this paper put to the Government, Catholic Social Services Australia offered a number of options for consideration. Following discussions with the Government and some other providers on this issue and recent changes to wage subsidy guidelines by the Minister for Workforce Participation that responded to some aspects of Catholic Social Services Australia's concerns, the following proposal is advanced:

- Current arrangements requiring DEWR's approval of wage subsidies of 100% or more of the wage should be altered to cover *all payments made to an employer* from any source – Job Seeker Account or other funds (it is understood that some providers offer a combination of employer incentives including wage subsidies and, say, training, or contribute to subsidies from non Job Seeker Account funds, to avoid the necessity of seeking DEWR's approval);

- The current requirement that subsidy levels reflect the relative disadvantage of job seekers should also remain with providers setting their own levels in this regard;

- The Government's new requirement that subsidy levels be scaled down to ensure employers take responsibility for improving the job seeker's productivity over the life of the outcome period is supported (this had been suggested previously by Catholic Social Services Australia as a means of ensuring that employers take responsibility for improving the job seeker's productivity in the first 13 week period so that the likelihood of placement sustainability is improved);

- In order to encourage discipline with respect to outcome buying and wasteful subsidy levels (that is, high subsidies that are unjustifiable given the job seeker's needs) and to manage the risk of unsatisfactory practice, a show cause letter to the provider to justify the outcome payment should be automatically activated where both of two circumstances apply:

    - the combined subsidy over 26 weeks (wage subsidies and any other payments to the employer) is greater than 50% of the wage; and

    - the job seeker returns to benefit within 13 weeks of the cessation of the outcome period.

This reflects the principle that unless the employer is paying the majority of the wage, there is a significant risk that the position is a work experience opportunity rather than a real job, especially if the placement does not lead to a significant period of employment once the subsidy ceases:

- There may be labour market circumstances that warrant some variation from this approach. For instance, in depressed regional or remote areas where employment opportunites are scarce, an overall subsidy of more than 50% may be considered before the show cause process is activated;

- In justifying outcomes that fail within 13 weeks, satisfactory reasons may need to include outcomes in seasonal work that would normally not extend for 13 weeks following outcome achievement.

To give effect to these proposals, all providers should be required to declare the wage and extent of all employer subsidies (wages and other) when lodging outcome claims on system. These would be subject to audit.

Implementation of this approach would be expected to lead to some savings on Job Seeker Account funded employer incentives and inappropriate outcome payments:

- Savings on inappropriate outcome payments and administration could be directed to the Job Network fee structure to support the proposed extension of Intensive Support Customised Assistance for very long term unemployed job seekers, early access to Intensive Support Customised Assistance for a second cohort of Disadvantaged job seekers and addition of a 4-12 month Final Outcome (see PART 5: RECOMMENDATIONS); and

- Job Seeker Account savings would be available to enhance the skills of job seekers such that ongoing employability would be improved with additional longer term savings to the taxpayer.

3.3 *Speed* of Outcome Achievement

<u>Incentives</u>

- Catholic Social Services Australia understands that Star Ratings reward early placement as the time to placement/outcome from commencement in services is a feature of the regression formula.

- DEWR's performance data includes measures of speed of placement/outcome; however, since comparative data are not made available, providers are unaware of whether or not they need to improve in this area. Hence, providers cannot manage performance against this expectation adequately and, understandably, many choose to ignore it.

Graphs 5 and 6 (see page 18) demonstrate clearly that Interim Outcome incentives are much stronger for 13-24 months than 4-12 months, and the former are unnecessarily high with respect to outcome probability (with Star Ratings the Interim Outcome category covers the 13-37 months plus group). Catholic Social Services Australia has calculated that, once the full effect of Intermediate Interim, Final and Intermediate Final Outcomes (all are unavailable for 4-12 month job seekers) are taken into account (using Centacare Employment's performance and conversion ratios):

- In comparison with the 16% Star Ratings weighting for a 4-12 month Outcome, an average of 62% is achieved in the 13-24 month period – almost four times as much; and

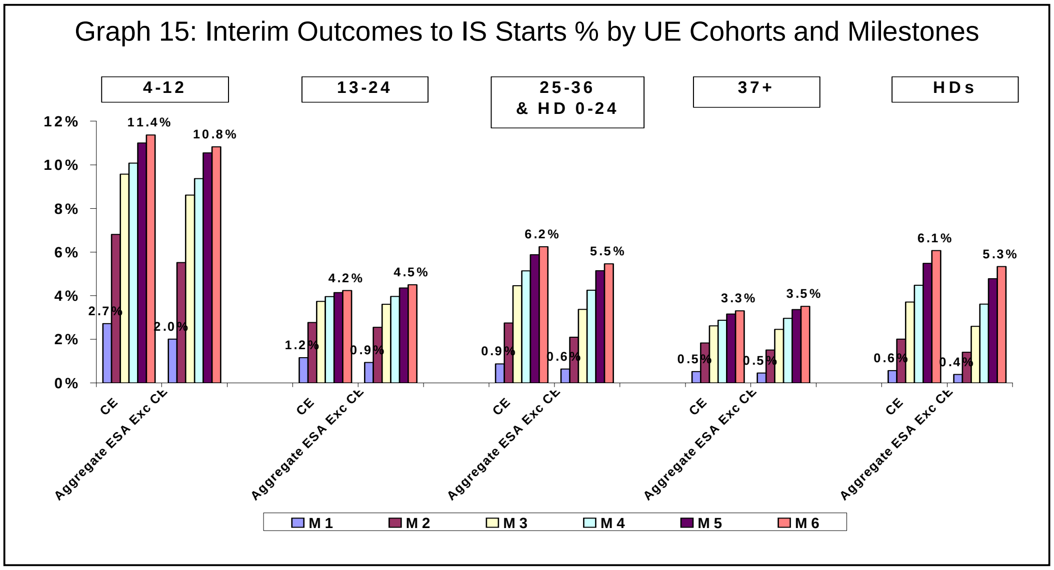
- In comparison with the $550 fee for a 4-12 month Outcome, an average of $2,525 is earned in the 13-24 month period – almost five times as much.

These are very powerful disincentives to assist 4-12 month job seekers and powerful incentives to delay placement of these job seekers whenever possible. Indeed, Centacare Employment's site staff have been informed by the staff of some competitors that their organisational policy is to minimise assistance to 4-12 month job seekers in order to reap subsequent higher rewards for later placement.

It is also noted that similar, though less powerful, disincentives (especially financially) exist with respect to delaying services in subsequent duration categories.

Provider Behaviour

To throw light on *speed* of outcome achievement, Graph 15 compares Centacare Employment's Interim Outcomes (excluding Intermediates that do not exist for 4-12 month job seekers and for which data is unavailable for Highly Disadvantaged job seekers) to Intensive Support Starts (%) for the four unemployment duration cohorts and Highly Disadvantaged job seekers with those of its average competitor in Centacare Employment's 14 ESAs (please note that 25-36 month and 37 month plus data include Highly Disadvantaged outcomes that cannot be disaggregated by unemployment duration):



- From the beginning of ESC3, Centacare Employment out-performed its average competitor in all job seeker categories, Centacare Employment's successful service model focusing on *speed* of outcome achievement in *all* categories:

  - Inevitably, early outcomes favour the "easier to place" job seekers in each category as more difficult job seekers take longer to bring to job readiness and subsequent placement.

  - Effective early placement strategies reduce the movement of job seekers into later duration groups (preventing longer term unemployment), thereby leaving later unemployment duration groups smaller in number but harder to place.

  - Service strategies that do not emphasise early placement result in higher numbers of job seekers moving into longer duration groups. The provider is then in a position to improve outcome numbers in the longer duration categories and capitalise on the higher Outcome Fees and Star Ratings weightings available for these outcomes.

- Note that in Graph 15, because of this situation, Centacare Employment's average competitor gained progressively on Centacare Employment in the 13-24 month and 37 month plus groups, levelling in Milestone 4 and actually overtaking Centacare Employment in Milestone 5 in these categories – just when Centacare Employment felt the full impact of its toughening caseload. Importantly, this has not occurred in the 4-12 month and Highly Disadvantaged categories indicating that Centacare Employment is still focused on *early* outcomes while Centacare Employment's average competitor is more biased towards *later* outcomes. It is also noted that Centacare Employment's lead in the 25-36 month category can be attributed to early outcomes as about two-thirds of outcomes in this category are for 0-24 month Highly Disadvantaged job seekers but the two cannot be definitively disaggregated.

While this effect impacts upon all duration categories, by far the biggest impact relates to delaying 4-12 month outcomes until the 13-24 month period where the numbers are large, Outcome Fee earnings are five times greater and Star Ratings weightings four times greater than for the 4-12 month group (see page 36 of this report).

This analysis supports anecdotal evidence from Centacare Employment's site staff that Star Ratings and Outcome Fee incentives so strongly favour 13-24 month outcomes over 4-12 month outcomes, that some providers are minimising service to 4-12 month job seekers in order to minimise outcomes in this period with a view to having a bigger pool of job seekers to achieve more highly rewarded 13-24 month outcomes:

- This delayed placement is a poor outcome for job seekers, causes an increase in long term unemployment and allowance dependency, and costs the Government significantly in higher allowance payments and program outlays.

- Clearly, the current incentive system gives inadequate attention to "preventative" service strategies and early intervention.

Centacare Employment estimated the impact on its performance and revenue to end December 2005 if its outcome pattern had mirrored the Job Network average:

- 13 Week and 26 Week Outcomes to Intensive Support Starts ratios would have increased by 0.4% and 4.0% respectively;

- Average Site Star Ratings would have increased by about 0.1 Stars; and

- Revenue (including Job Seeker Account) would have increased by 1.9% ($1.4m).

This provides a measure of the extent to which *incentive-driven* providers can take advantage of current perverse incentives that discourage *speed* of outcome achievement and lead to Financial and Star Rating gains for providers.

<u>Issues</u>

Current Star Ratings Weightings and Outcome Fee incentives work against the Government's expectation for *speed* of outcome achievement by delaying services and outcomes for significant numbers of job seekers until they reach subsequent duration periods. This is of greatest significance with respect to 4-12 month job seekers. This perversely rewards inappropriate provider behaviour leading to increased welfare dependency, reduced workforce participation and increased Government expenditure:

- While Catholic Social Services Australia supports preferential incentives to assist long term unemployed job seekers, making these so strong as to actually *increase* long term unemployment is perverse.

The Star Ratings regression formula supposedly rewards early outcomes; however, the mechanism is *invisible* to providers and appears to be overshadowed by the impact of the *visible* rewards (Star Ratings Weightings and Outcome Fees). The visible rewards impact strongly on provider behaviour and clearly do not favour early placement. The imbalance is such that early placement can be overlooked with positive provider reward.

Proposals

Both Star Ratings and Outcome Fee incentives need revision to ensure *prevention* of long term unemployment and allowance dependency wherever possible:

- Star Ratings Weightings and Outcome Fees for 4-12 month outcomes should be increased in comparison with those for 13-24 month outcomes to provide incentives for providers to assist these job seekers; and

- DEWR should introduce standard comparative data reports (ESA, LMR and JN National averages) that measure *speed* of placement/outcome achievement overall as well as for various outcome types and job seeker target groups to enable providers to manage performance in this area.

In addition, Catholic Social Services Australia proposes two new features of the Job Network service model:

Feature 1

Earlier placement of 4-12 month job seekers should be encouraged:

- A 4-12 month Final Outcome should be introduced to encourage quality placements that reduce the likelihood of these job seekers reaching 12 months unemployment;

Feature 2

A second cohort of initial registrants should be selected for early access to Intensive Support Customised Assistance. Since the cohort of initial registrants with the highest Job Seeker Classification Instrument scores is referred to as Highly Disadvantaged (HD), the term "Disadvantaged (D)" will be used to describe the second cohort with a Job Seeker Classification Instrument score band immediately below the Highly Disadvantaged band:

- DEWR has reported that the current Highly Disadvantaged band selects about 15% of initial registrants for early Intensive Support Customised Assistance access, attracting higher Intensive Support Customised Assistance Commencement Fees, higher Job Seeker Account credits and Outcome Fees equivalent to those applying for 25-36 months unemployed job seekers;

- However, Centacare Employment's experience is that Highly Disadvantaged job seekers are as difficult to assist as 37 months plus job seekers as the outcome probabilities for the two groups are similar and considerably lower than those for 25-36 months job seekers (see Attachment 2). This suggests that funds available to assist this group are inadequate. It also suggests that there is a large number of disadvantaged job seekers (early registrants) with outcome probabilities similar to those of 25-36 months unemployed job seekers (very long term unemployed people) who need early access to Intensive Support Customised Assistance but are forced to wait 12 months unnecessarily and unjustly for such assistance;

- Access to Intensive Support Customised Assistance for Highly Disadvantaged job seekers is at the whim of Government or DEWR depending upon resources – the group can be re-defined at any time by arbitrarily altering the Job Seeker Classification Instrument score band. As these job seekers are arguably Job Network's most disadvantaged, this is an unacceptable situation as the most disadvantaged job seekers should have first call on Job Network's considerable resources. A more objective and fair means of selection is required.

- Catholic Social Services Australia suggests that the Job Seeker Classification Instrument score band for the “Highly Disadvantaged” cohort should be such that the group’s average outcome probability is equal to that for 37 months plus job seekers. The Job Seeker Classification Instrument score band for the second “Disadvantaged” cohort should be immediately below that for the Highly Disadvantaged group and such that the group’s average outcome probability is no higher than that for the 25-36 months group;

- The various commencement fees, Job Seeker Account credits and Outcome Incentives (Fees and Star Rating Weightings) should be set accordingly – Highly Disadvantaged should be matched to 37 months plus and Disadvantaged to 25-36 months job seekers.

3.4 *Sustainability* of Outcomes

Incentives

Both Star Ratings Weightings and Outcome Fees reward 26 Week Outcomes. However, Graphs 5 and 6 (page 18) demonstrate that in both cases Final Outcomes incentives are very much below those for Interim Outcomes despite the fact that outcome probabilities for Final Outcomes are much lower. The emphasis is very clearly on 13 Week Outcomes and therefore not on outcome *sustainability*. The best example of the perversity of the current incentive system is as follows:

- An Interim Outcome (13-24 months as the example) followed by an Intermediate Final Outcome attracts 56% Star Ratings Weighting and Outcome Fees totalling $2200; whereas

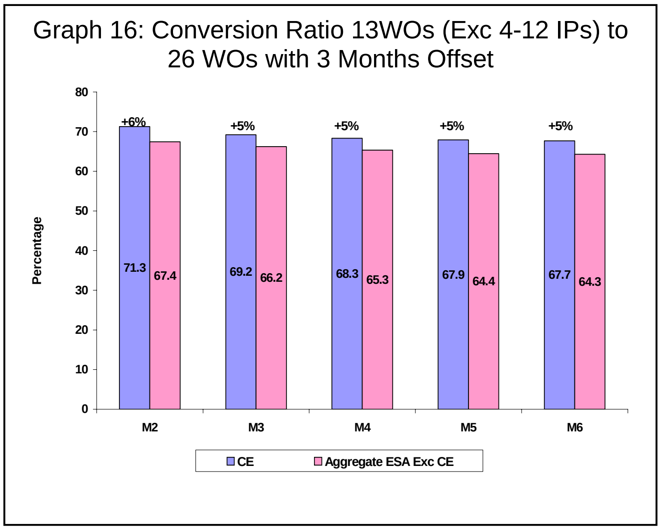
- An Intermediate Interim Outcome followed by a Final Outcome attracts 36% Star Ratings Weighting and Outcome Fees totalling $1375.

The two situations result in the same amount of actual employment for the job seeker and produce the same initial savings to Government outlays on allowances, yet one is rewarded much more highly. Incredibly, the one rewarded less (the second example) is actually better for the job seeker and Government because the job seeker exits the Job Network in a much better job than in the first case and is therefore less likely to return to allowances subsequently such that eventual allowance savings are higher:

- *Clearly, this is a perverse outcome with respect to Government expectations, taxpayer costs and job seeker benefit.*

Provider Behaviour

Graph 16 shows that throughout ESC3 Centacare Employment has maintained a consistent 5% to 6% lead over its average competitor in the conversion rate of 13 Week Outcomes (excluding 4-12 month outcomes for which 26 Week Outcomes are not available) to 26 Week Outcomes (see also Graphs 10 and 11 showing that Centacare Employment's comparative 26 Week Outcomes performance exceeds its comparative 13 Week Outcomes performance). Centacare Employment keeps job seekers in jobs for longer periods than its average competitor, thereby reducing welfare dependency and Government outlays on allowances to a greater extent:



- The fact that many other providers are not keeping as many job seekers in employment for as long a period as Centacare Employment reflects the current incentives that focus more strongly on 13 Week Outcomes and probably use of excessive wage subsidies leading to poorer quality placements that do not last for 26 weeks. This is a poor outcome for job seekers, increases welfare dependency and therefore costs taxpayers significantly in higher allowance payments.

Issues

- Current Star Ratings and Outcome Fee incentives are working against the Government's expectation for *sustainability* of outcomes by focusing providers too heavily on 13 Week Outcomes at the expense of 26 Week Outcomes.

- For the 4-12 months group, there is no focus at all on *sustainability* as no 26 week outcomes currently exist for this group.

- The focus of incentives on 13 Week rather than 26 Week Outcomes is affecting provider behaviour perversely, rewarding behaviour that leads to increased welfare dependency, reduced workforce participation and increased Government expenditure on allowances.

Proposals

Both Star Ratings and Outcome Fee incentives should be revised to encourage outcome *sustainability*. In particular:

- A Final Outcome should be introduced for the 4-12 months group so that providers are encouraged to achieve *sustained* outcomes for this group. This would focus providers on better quality outcomes and reduce the likelihood of these job seekers returning to the system subsequently (this reiterates an earlier recommendation); and

- Star Ratings Weightings and Outcome Fees for 26 Week Outcomes should be increased in comparison with those for 13 Week Outcomes to provide incentives for providers to pursue *sustained* outcomes by ensuring that initial placements are appropriate, and effective post placement support to job seekers and employers is offered:

- It is noted that DEWR's Request for Tender for Vocational Rehabilitation Services 2007-2009 provides for 26 Week Outcome Fees that are double those for 13 Week Outcomes ($3,190 versus $1,595 for Employment Outcomes; $660 versus $330 for Intermediate Employment Outcomes). It is difficult to see why Job Network Outcomes Fees follow an absolutely reverse logic with Final Outcome fees set at 50% of Interim Outcome fees.

3.5 *Equity* of Outcome Distribution

Incentives

- The Star Ratings regression formula supposedly rewards outcomes for disadvantaged job seekers since "credit" is realised if a provider's outcomes exceed the predicted outcomes arising from the degree of difficulty of a provider's caseload.

- Star Ratings Weightings favour outcomes for Highly Disadvantaged and Indigenous job seekers by awarding an additional 10% weighting to the Share of Interim Outcomes achieved for these groups.

- The Outcome Fee structure is graduated towards outcomes for longer duration of unemployment categories and outcomes for 0-24 months Highly Disadvantaged job seekers are paid at the 25-36 months outcome rate.

Nevertheless, Graphs 5 and 6 (page 18) indicate that:

- Star Ratings Weightings are not graduated in favour of very long term unemployed job seekers in the overall 13 to 37 months plus group. Star Ratings therefore rely on the *invisible* rewards supposedly operating in the regression formula rather than on the *visible* rewards in the Star Ratings Weightings to encourage service to very long term unemployed job seekers. Given lower outcome probabilities for longer duration categories, the "effective" Star Ratings incentives from a Weightings perspective must be assumed to be lower for very long term unemployed categories since all of these groups attract the same Weightings (40% for Interim Outcomes and 20% for Final Outcomes);

- The additional Star Ratings Weighting of 10% for Highly Disadvantaged and Indigenous job seekers is about right in comparison with the lower outcome probabilities for these groups; and

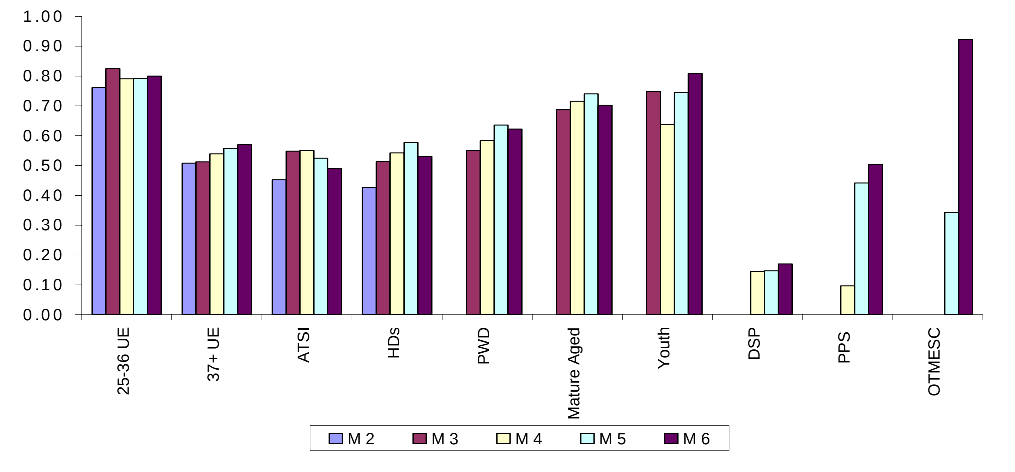
- The Outcome Fee structure is much more along the lines needed to encourage outcomes for very long term unemployed job seekers, as it is graduated in the right direction; however, effective incentives for Interim Outcomes are very high compared with those for Final Outcomes (see later).

Another issue affecting very long term unemployed job seekers is that after completion of the second bout of Intensive Support Customised Assistance (for most job seekers, after about two and a half years of unemployment) the service options are extremely limited. This acts as a disincentive to Job Network members to assist this group in comparison with others and so adds to their level of disadvantage. This is an appalling situation for this group of very disadvantaged job seekers that is inconsistent with universal principles of justice.

Provider Behaviour

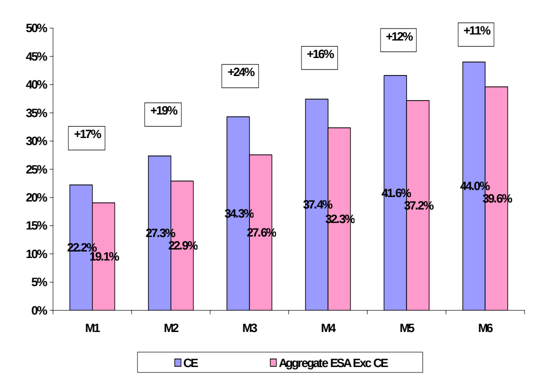
Graph 17 shows the ratio of Centacare Employment's Share of Interim Outcomes compared with average Share of Intensive Support Active Commenced Caseload for different job seeker groups. Although historical data is not available in all cases, Graph 17 demonstrates Centacare Employment's generally improving performance throughout ESC3 with respect to the main disadvantaged groups. This reflects organisational commitment and an expectation-driven approach. Unfortunately, in most cases, adequate comparative data is not made available on whether Centacare Employment is performing better or worse than its competitors in these groups.

Graph 17: CE's Improvement Trends in Special Groups Equity Ratios

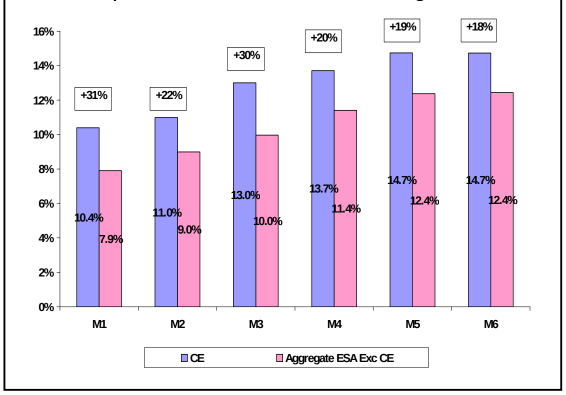


Graphs 18 and 19 show the only available comparative data in this area – Share of Interim Outcomes achieved for Highly Disadvantaged and Indigenous job seekers. Unfortunately, no comparative data exists on the share of Intensive Support Starts or Active Commenced Intensive Support Caseload for these groups – these would allow for more reliable measurement of comparative provider performance as Share of Interim Outcomes for any group depends to a considerable extent upon the share of those clients in a provider's caseload.

Graph 18: Share of IOs for HDs



Graph 19: Share of IOs for Indigenous



Nevertheless, acknowledging the data limits:

- On both measures, Centacare Employment out-performed its average competitor by a considerable margin throughout ESC3.

The fact that Centacare Employment's average competitor lags behind on this measure may appear somewhat puzzling given that additional incentives exist for these outcomes.

Catholic Social Services Australia believes this reflects mixed messages in the incentives system:

- Although outcome probability for Highly Disadvantaged and Indigenous job seekers approximates that for 37 months plus job seekers, Outcome Fees are set at the 25-36 month level (see Attachment 2, Tables 2 & 3 and Graph 3); and

- Despite the additional 10% Star Ratings Weighting for Highly Disadvantaged and Indigenous Interim Outcomes, the effective incentives (differences between *Current* and *Balanced* incentives) for 13-37 month plus job seekers are about the same. However, since outcome probabilities for Highly Disadvantaged and Indigenous job seekers are similar to those for 37 month plus job seekers, the effective incentives for 13-24 month and 25-36 month Interim Outcomes are higher (see Graph 5).

- Further, once job seekers exhaust their two bouts of Intensive Support Customised Assistance (for most, after about two and a half years on allowance), there are no further programmed services. This is a statement that the Government is not interested in assisting these job seekers and so many providers are less inclined to assist them – they are not money-earners for *incentive-driven* providers.

Issues

The primary issues in this area relate to inconsistency and comparative inadequacy in the current Outcome Fee and Star Ratings incentives for assisting long term unemployed and very disadvantaged job seekers and inadequate services for many very long term unemployed job seekers. As these groups include allowance dependent job seekers and those most prone to become so, the current incentives to assist them are not getting the best result against the Government's expectations in this area.

As the client mix has toughened (including through additional *Welfare to Work* reforms implemented from 1 July 2006), these incentives require urgent adjustment if *Welfare to Work* reforms are to be as effective as possible.

Proposals

- Intensive Support Customised Assistance services should continue for very long term unemployed job seekers who have exhausted their two entitlement periods. Eligibility for Intensive Support Customised Assistance should be renewed annually to ensure the needs of these very disadvantaged job seekers are addressed and providers have an incentive to assist them.

- Outcome Fees and Star Ratings Weightings incentives for Highly Disadvantaged and Indigenous job seekers should equate with those for 37 month plus job seekers, not with those for 25-36 month job seekers as at present. This would eliminate the need for the additional Star Ratings Weighting of 10% for Share of Interim Outcomes for these groups.

- Star Ratings Weightings for both 13 Week and 26 Week Outcomes should be graduated with respect to duration of unemployment categories, as is the case for Outcome Fees, but not in the same proportions, as fees, unlike weightings, need to also reflect the costs associated with particular activities.

- DEWR should make standard reports available that ensure providers can monitor their comparative performance with respect to outcome *equity* for the full range of job seeker target groups in a way that takes account of the relative number of clients in each group being serviced:

- Intensive Support Starts is an inappropriate base measure for duration-based groups (Intensive Support Starts mostly occur in short duration categories but job seekers may subsequently flow through all duration groups). Catholic Social Services Australia believes that "Average Intensive Support Active Commenced Caseload" is the appropriate denominator of performance ratios for all job seeker groups.

3.6 *Service Quality*

Incentives

The Job Network objective as stated in Request for Tender 2006 (p 56) requires "*personalised assistance* to job seekers that involves ongoing job search and employment-focused activities" (p 56). This is supported by a number of principles rather than incentives; however, failure to comply with these principles, in theory, may lead to sanctions. The principles include the following:

- The Code of Practice requires "considering clients' *individual* circumstances and backgrounds" (p 200) and "tailoring assistance to clients with consideration of their *individual* needs and participation requirements" (p 200).

- "An appropriate mix of services, products, and programs must be funded from the Job Seeker Account to reflect the *range of barriers job seekers face*" (p 67).

Provider Behaviour

There is no comprehensive measure of the service quality offered by individual providers. However, the pattern of expenditure of the Job Seeker Account offers important clues.

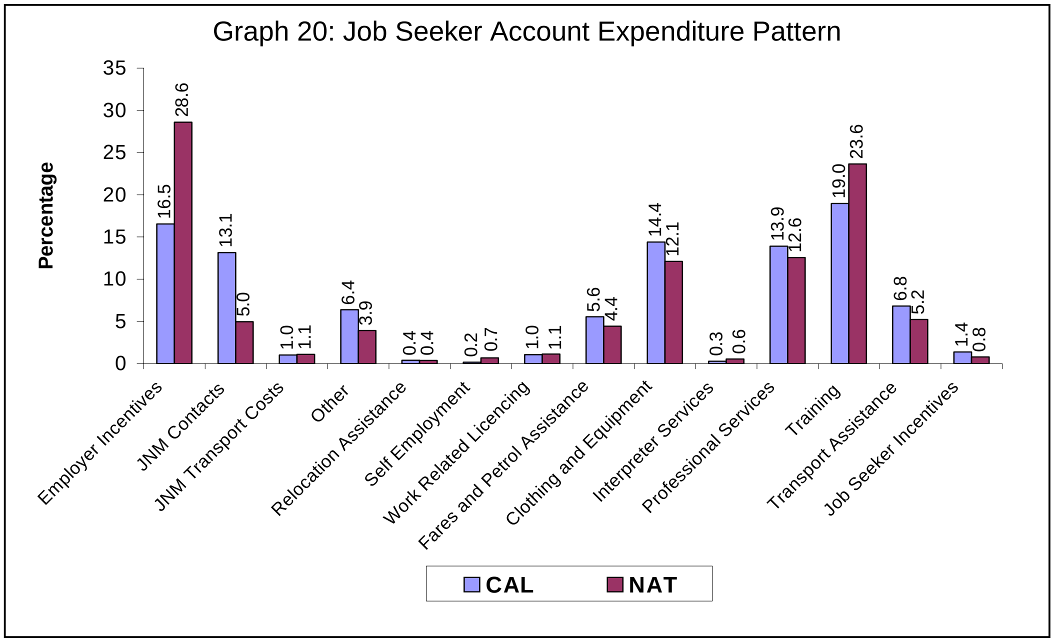
Graph 20 reports Centacare Employment's pattern of Job Seeker Account usage compared with the Job Network average (aggregate ESA averages are unavailable). There are clear differences between Centacare Employment's and the Job Network's patterns. Some broad comparisons are possible.

First, Centacare Employment's proportional expenditure on "Training" is significantly below that of Job Network. However, there is anecdotal evidence that variations in recording practices among providers exist. For example:

- Some providers distinguish between externally purchased and internally provided training and record the latter, perhaps incorrectly, in "Other";

- Some providers are believed to categorise some Employer Incentives as "Training" as a way of minimising their apparent expenditure on employer subsidies and getting around the requirement for DEWR's approval of 100% wage subsidies;

- If either or both of these practices are significant, the reported difference in the proportions spent on Training (Graph 20) may not be accurate.



Second, Centacare Employment's expenditure tends to be more balanced across the full range of job seekers' needs as is required. In particular, there is a primary difference in Job Seeker Account expenditure patterns between Centacare Employment and the Job Network average relating to Employer Incentives and JNM Contacts. This, combined with the smaller differences in Centacare Employment's favour on a number of items (such as Professional Services, Transport Assistance, Fares and Petrol Assistance, Clothing and Equipment and Other) suggest that Centacare Employment's service is more attuned to job seeker needs and more focused on personalised assistance that responds to them. Indeed, Centacare Employment would regard itself as an *expectation-driven* provider and its higher expenditure on JNM Contacts reflects:

- Deliberate efforts to interact regularly with job seekers both to improve understanding of needs and to maximise motivation and engagement in services; and
- More careful placement in jobs aligned as closely as possible with each job seeker's longer term employment aspirations that become more apparent through more regular contact with job seekers.

This strategy appears to be bearing fruit. As Graphs 10 and 11 (page 26) show, Centacare Employment is keeping job seekers in employment longer than its average competitor such that its comparative performance on 26 Week Outcomes exceeds considerably that on 13 Week Outcomes. Graph 16 (page 41) supports this showing that Centacare Employment's conversion ratio of 13 Week Outcomes to 26 Week Outcomes is a consistent 5% to 6% above that of its average competitor.

Catholic Social Services Australia believes this reflects fundamental differences in service models – one based more heavily on achieving outcome *quantity* less selectively, the other on outcome *quality* or achieving the best possible outcome for each job seeker. Indeed, the different expenditure patterns offer evidence of the different approaches of *incentive-driven* and *expectation-driven* providers.

Further, the significant difference reported above regarding Centacare Employment's very strong comparative performance on outcome *equity* would suggest that its more personalised service works better for more disadvantaged clients.

Issues

Catholic Social Services Australia observes that the above differences probably represent a shift in the Job Network's approach to job seekers in recent years. As competition has increased and financial viability has decreased, providers are finding that financial viability depends upon high Star Ratings and solid revenue that can only come about with increased outcome numbers, irrespective of their quality from a job seeker's perspective. It would seem that contractual requirements related to service quality have become of lower priority for many providers – the *incentive-driven* approach is taking increasing precedence over the *expectation-driven* approach:

- The fact that Centacare Employment has resisted that trend on ethical grounds helps explain its reduced Star Ratings and revenue – that is, the incentive system does not adequately support *expectation-driven* behaviour despite stated Government expectations in that regard.

Further, the fact that Centacare Employment's more personalised service appears to be especially effective with disadvantaged job seekers suggests that in the *Welfare to Work* environment, much closer attention will need to be given to developing more personalised services and these will need to be encouraged through appropriate incentives.

Proposals

- Catholic Social Services Australia would encourage the industry, DEWR and the Government to give further consideration to the relative merits of particular Job Seeker Account uses especially with regard to the underlying needs of individual job seekers that lead to quality, sustained employment and respective benefits to the taxpayer:

  - Either the industry or DEWR could conduct a best practice study in this regard.

- Catholic Social Services Australia would urge the industry, DEWR and the Government to review the impact of existing program parameters and incentives on the quality of service to and the value of recorded outcomes for job seekers with a view to giving renewed emphasis and commitment to service quality to job seekers:

  - Current program parameters allow too much focus on short term improvements that often do not impact adequately on the lives of job seekers in the longer term. As a result, short term gains to the taxpayer and provider are not always accompanied by benefits to the job seeker that will lead to more fulfilling and independent lives that have much greater economic and social benefits (including higher long term savings to the taxpayer).

3.7 Summary

There are significant shortcomings in the alignment of provider Financial and Star Ratings incentives with all five of the Government's primary expectations for Job Network:

- *Quantity*

  The calculation of quantity of outcome expectations for Star Ratings purposes appears to be inadequately considering changed caseload characteristics that emerged during ESC3 partly because of the changed *Welfare to Work* client mix.

- *Catholic Social Services Australia proposes that DEWR examine this issue thoroughly and consider upgrading the Job Seeker Classification Instrument points and Star Ratings caseload characteristics with regard to "Recency of Work Experience" and repeated failure to secure sustained employment as well as adding a new Star Ratings factor for "low socio-economic region". DEWR should also examine whether the arbitrary Star Ratings Weightings are overshadowing regression calculations.*

The competitive drive for outcome *quantity* has led to many questionable practices aimed at manipulation of recorded outcomes (such as "treble outcome" strategies, employee absenteeism concealment, excessive wage subsidies and outcome buying) that distort comparative provider performance measurement at considerable cost to the taxpayer and downgrade benefits to job seekers. In turn, these artificial outcomes become historically built into the calculation of outcome expectations for Star Ratings such that expectation-driven providers face revenue and Star Ratings reductions and potential closure.

- *Catholic Social Services Australia proposes closer scrutiny of various outcome manipulation practices and high employer subsidies that do not lead to sustained employment. In the latter situation, automatic "show cause" letters should be issued to providers where overall subsidies exceed 50% of the wage and such subsides are followed by a return to benefit within 13 weeks of the cessation of subsidy and outcome achievement.*

• *Speed*

Current Star Ratings Weightings and Outcome Fee incentives work against the Government's expectation for *speed* of outcome achievement by delaying services and outcomes for significant numbers of job seekers especially those in the 4-12 month category, thereby increasing long term unemployment.

- *Both Star Ratings and Outcome Fee incentives need revision to ensure prevention of long term unemployment and welfare dependency wherever possible. Catholic Social Services Australia proposes that 4-12 month Final Outcomes be introduced and early access to Intensive Support Customised Assistance given to a second cohort of "Disadvantaged" initial registrants.*

• *Sustainability*

Star Ratings and Outcome Fee incentives focus too heavily on 13 Week Outcomes at the expense of 26 Week Outcomes and so do not support outcome *sustainability* adequately. For the 4-12 month group, there is no focus at all on *sustainability* as no 26 Week Outcomes currently exist for this group.

- *To encourage outcome sustainability, a Final Outcome should be introduced for the 4-12 month group and Star Ratings Weightings and Outcome Fees for 26 Week Outcomes should be increased in comparison with those for 13 Week Outcomes for all job seeker groups.*

• *Equity*

The current Outcome Fee and Star Ratings incentives for assisting long term unemployed and highly disadvantaged job seekers are inconsistent and comparatively inadequate. Adjustments in this area are urgently needed in view of the toughening caseload mix and the focus of *Welfare to Work* reforms.

- *Outcome Fees and Star Ratings Weightings for Highly Disadvantaged and Indigenous job seekers should equate with those for 37 months plus job seekers in view of similar placement difficulty.*

- *Star Ratings Weightings for both 13 Week and 26 Week Outcomes with respect to duration of unemployment categories should be graduated rather than equal.*

- *The earlier recommendation that early Intensive Support Customised Assistance access should be given to a second cohort of initial "Disadvantaged" job seekers is reiterated as also relating to outcome equity. Outcome Fees and Star Ratings Weightings for Disadvantaged job seekers should equate with those for 25-36 months job seekers in view of similar placement difficulty.*

• *Service Quality*

There is evidence of a deterioration of Job Network's *service quality* in recent years. As competition has increased and financial viability has decreased, providers are sacrificing service quality for outcome volume irrespective of outcome quality, in order to survive:

- *Catholic Social Services Australia advocates a re-emphasis on service quality built around addressing the needs and realising the legitimate aspirations of job seekers such that higher taxpayer benefits also accrue, especially in the Welfare to Work environment.*

PART 4: IMPACT OF PERVERSE INCENTIVES

4.1 Implications for Expectation-driven Providers

The above analysis draws a distinction between Centacare Employment and Centacare Employment's "average" competitor. This is not done to promote Centacare Employment as a better performer – indeed, according to Star Ratings to end June 2006, Centacare Employment is only the seventh best performer among the 24 Job Network providers in the 14 ESAs in which Centacare Employment operated and there is a variety of site performance within Centacare Employment's network. Rather, the only data Centacare Employment has access to are its own data and the average of its competitors. A comparison between the two is all Centacare Employment can do to demonstrate systemic issues that impact negatively on job seekers – and that is the purpose of the comparison and this report.

Centacare Employment regards itself as an expectation-driven provider with a genuine commitment to job seekers and the Government's stated program objectives. Throughout ESC3, Centacare Employment has outperformed its average competitor on all four dimensions of the Government's expectations of outcome achievement (other organisations will have a similar story, and some an even better story, to tell) and maintained an overall emphasis on more personalised *service quality* as required by the Code of Practice:

- *Quantity*: Centacare Employment has achieved higher 13 and 26 Week Outcome levels than its average competitor throughout ESC3 (therefore getting more people off allowance and delivering more savings to taxpayers than its average competitor). The average competitor has gained on Centacare Employment in this area since December 2004 which may in part be due to Centacare Employment's toughening caseload and the adoption of questionable wage subsidy and other practices by some other providers. Centacare Employment (along with many other providers) has maintained what it considers to be an ethical and responsible approach to the use of Government-funded wage subsidies and will continue to do so;

- *Speed*: Centacare Employment has achieved outcomes more quickly than its average competitor across the full client group spectrum from the beginning of ESC3 (and therefore removed people from allowance earlier and saved taxpayers more than its average competitor). Current data suggests Centacare Employment is maintaining its early outcome approach with the outcome balance of its average competitor favouring later outcome categories;

- *Sustainability*: Centacare Employment has converted its 13 Week Outcomes into 26 Week Outcomes at a higher rate than its average competitor throughout ESC3 (thereby keeping people off allowances longer and saving the taxpayer more than its average competitor);

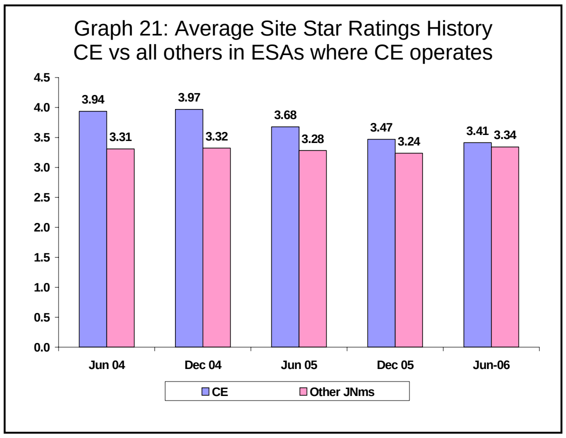
- *Equity*: Centacare Employment has achieved higher outcomes for welfare dependent job seekers (thereby saving taxpayers more than its average competitor);

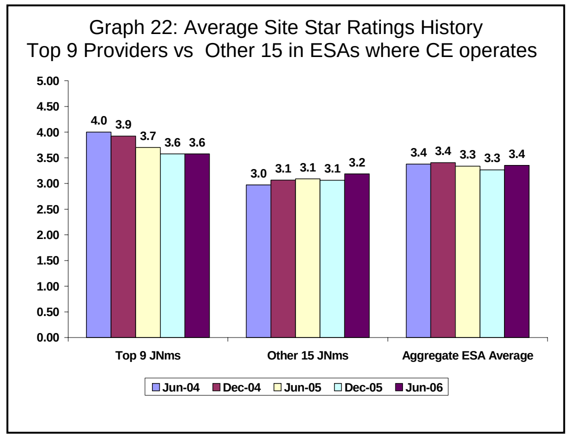
- *Service Quality*: Centacare Employment's Job Seeker Account expenditure pattern lends support to the view that Centacare Employment's service is more personalised than average and therefore appears to be more consistent than average with contractual requirements for *service quality*. This explains in part the stronger than average results with respect to *outcome quality* (*speed*, *sustainability* and *equity*).

Given this record, and assuming the current incentive system supported the Government's stated expectations of Job Network, it would seem reasonable to expect that Centacare Employment (and other similarly performing providers) would have been rewarded significantly in both Financial and Star Ratings terms – however, such is not the case.

Graph 21 shows that Centacare Employment's Star Ratings have fallen progressively since December 2004 in comparison with its average competitor that remained stable (the result of norm referencing). During 2005, Centacare Employment's average Site Star Rating fell from 0.65 Stars above its competitors to 0.07 Stars above – a comparative fall of 0.58 Stars:

- Importantly, Centacare Employment is not alone. Graph 22 shows that the average Site Star Ratings of the nine initially highest performers in the 14 ESAs (see also Graph 12, page 26) fell from 0.85 Stars above the rest to 0.39 Stars above – a similar comparative fall of 0.47 Stars (rounding explains subtraction variation).



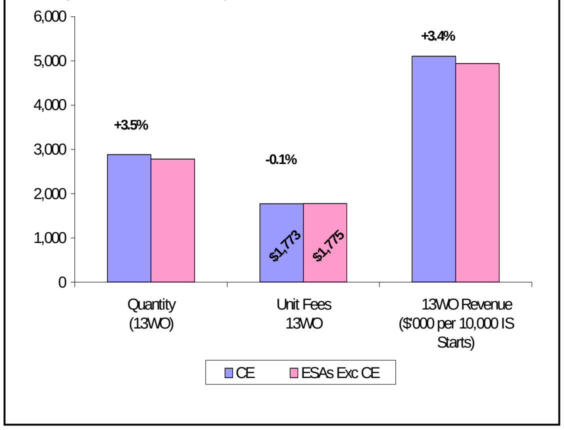


Graphs 21 and 22 suggest that the picture presented in this paper in relation to Centacare Employment's comparative performance is probably similar to those of other initially highly performing providers, indicating that systemic irregularities and perverse incentives affect Star Ratings calculations.

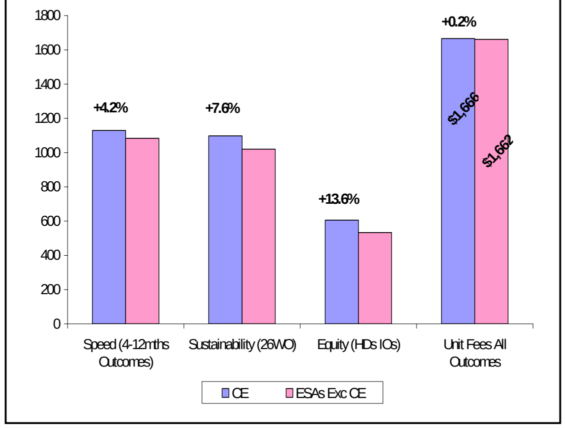
Similar irregularities exist with respect to financial incentives:

- Graph 23 (see Attachment 3 for details) shows that for every 10,000 job seekers who commenced Intensive Support, Centacare Employment's revenue from 13 Week Outcome Fees was 3.4% higher than that of an equivalent sized competitor (equivalent Intensive Support Starts with the Outcome performance of Centacare Employment's average competitor). This was accrued because of higher outcome performance of the same order (3.5%) – an appropriate result since the additional outcomes generated additional savings on Government allowance outlays:
  - It is also noted that Centacare Employment's unit 13 Week Outcome fee is virtually identical with that of its average competitor. Once again, this is appropriate, the incentive for outcome *quantity* leading to additional revenue at the same unit rate.

Graph 23: Quantity of Outcomes & Revenue



Graph 24: Quality of Outcomes & Unit Fees



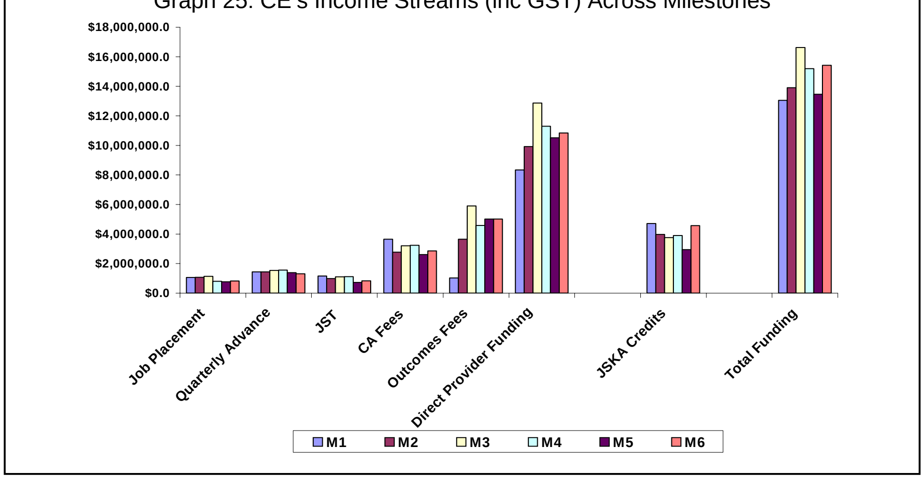
- However, Graph 24 (see Attachment 3 for details) reveals that Centacare Employment's performances on the other three expectations (*speed*, *sustainability* and *equity*) also exceeded those of its average competitor and these would have generated another layer of allowance savings beyond those relating to higher outcome levels (*quantity*):

    - If financial incentives were appropriate, this additional performance layer should have had the effect of increasing Centacare Employment's overall unit outcome fee for all outcomes to a level above that of its average competitor. However, Graph 24 reveals that it did not.

The incentives that are presumed to exist to encourage these additional Government expectations cancel each other out

This situation has contributed to worsening "real" revenue for Centacare Employment's services (Graph 25):

Graph 25: CE's Income Streams (inc GST) Across Milestones



- Total funding increased initially, peaked in M3, fell progressively in M4 and M5 and recovered somewhat in M6; however, this was mostly felt in the Job Seeker Account, the least flexible funding element that impacts much less strongly on provider financial viability unless a high proportion is used to support additional internal services.

- Importantly, "direct provider revenue" remained relatively low from M4 to M6 in comparison with the M3 peak. Direct provider revenue totalled $21.4m in 2005-06:

  - a reduction of 11.7% on the 2004-05 revenue of $24.2m; and

  - a slight improvement of 0.6% on the average of 2003-04 and 2004-05 combined of $21.2m.

  The most favourable conclusion is that revenue has remained about static throughout ESC3.

- The most dramatic fall in direct provider funding related to outcome funds from M4 onwards as a direct result of Centacare Employment's toughened caseload that came about for the reasons outlined above.

- Overall stability in direct provider funding occurred despite the fact that Centacare Employment's Contracted Business Share increased by about 10% through rewards for high performance. Indeed, Total Active Caseload increased from about 16,000 to 16,900 (+5.1%) between June 2004 and June 2006.

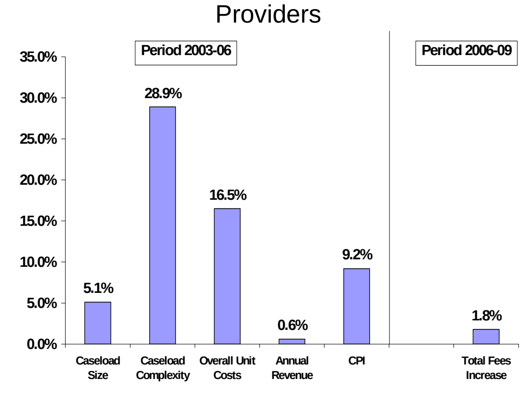
- As acknowledged above, earlier ESC3 revenue could be considered artificially high because of the initial high numbers of Intensive Support Customised Assistance clients associated with the transition from ESC2 to ESC3 services. Even allowing for this, at a time when additional funds are needed to assist a larger and more complex caseload, overall direct provider funding has been at best stable and *"real" provider funding has declined considerably.*

- The administrative costs associated with the program have increased markedly especially because of the rules governing Job Seeker Account expenditure and compliance costs associated with DEWR's intrusive micro-management of processes.

- In addition, during the three years of ESC3, operational costs of all kinds (wages, property, vehicles, office requisites etc) have inflated leading to a deteriorating financial situation (see Part 2.3).

Catholic Social Services Australia believes that the majority of providers, *expectation-driven* and *incentive-driven*, strive to be ethical. Without wishing to claim perfection, Centacare Employment seeks to maintain the highest ethical standards. However, Graph 26 highlights the dilemma faced by Centacare Employment and other expectation-driven providers. During ESC3:

Graph 26: Impact on Expectation-driven Providers



- Centacare Employment's caseload increased by 5.1% and its complexity also increased considerably (on one important measure, educational attainment, by 28.9%); however

- Centacare Employment's unit costs rose by an estimated 16.5% through ongoing inflationary pressures (higher than the CPI increase of 9.2%) and fees increased by only 1.8%. Centacare Employment's annual revenue remained about stable, at best.

Faced with expanding questionable practices and outcome buying by some providers that are being rewarded by the current Financial and Star Ratings incentives systems, *expectation-driven* providers are faced with "playing the system" or accepting progressively lower Star Ratings, shrinking financial viability and potential exit from the industry:

- It should be of considerable public concern that service models aimed at the best results for job seekers and greatest consistency with Government's objectives are increasingly becoming financially unviable.

4.2 Implications for Job Network

The above analysis paints a very serious picture for the industry overall.

Ultimately the only real reward is for *quantity* of outcomes – Government expectations with respect to outcome *quality* and *service quality* are platitudes. Some providers would argue that, in reality, the Government and *expectations-driven* providers have different goals: the former is more concerned about short term reduction in allowance outlays; the latter are more interested in achieving the best results for job seekers.

As a result, despite explicit Government expectations in the areas of *speed*, *sustainability* and *equity* of outcomes and *service quality* that together generate higher savings in allowance outlays, providers who pursue these goals eventually receive the same unit Outcome Fees and Star Ratings as those who give little attention to them.

There are a number of serious implications for different stakeholders in Job Network.

<u>Job Seekers</u>

- Increasingly, job seekers are more complex with a wider range of more significant employment barriers, and most especially, increased personal barriers. Their needs require increasingly personalised, professional and long term attention.

- However, job seekers are frequently met by a "one size fits all" service from providers, focusing on "quick fix" and process orientated solutions (such as "outcome buying") which often result in a mismatch between a job seeker and a job. Job seekers are increasingly obliged to accept second rate positions because of the participation reporting powers of Job Network members. Individual service appropriate to needs is becoming less frequent and second rate placement more frequent.

- Many disadvantaged job seekers are waiting for 12 months to gain access to the services they need to enable them to become fully productive citizens in sustained employment that enhances their lives and the lives of their dependants.

- Very long term unemployed job seekers who have exhausted their two entitlements to Intensive Support Customised Assistance are not being serviced adequately and therefore are increasingly unlikely to find sustained employment. Since providers' funding to assist such job seekers is limited to outcomes fees (that are not highly likely) and the Job Seeker Account, the needs of these very disadvantaged job seekers are not being addressed adequately.

- If *expectation-driven* providers are forced to leave the industry, job seekers will have access to an increasingly hostile service. This is history repeating itself as it would re-establish the worst aspects of the former Commonwealth Employment Service.

Employers

- The attitudes of some employers are changing towards expectation of high employer subsidies from Job Network members before considering their referrals to positions. Of course, this lifts the cost of the program even further.

- Some employers are looking to wage subsidies to escape their responsibilities to employees – without a significant financial commitment to employing a job seeker, employers can afford to overlook development of the new employee because the subsidy ensures individual productivity is less of an issue.

- Genuine employers will lose faith in Job Network if the standard of service inevitably deteriorates.

Job Network Providers

- Job Network providers are under increasing pressure to push at the margins of what is ethical and responsible (towards job seekers and the taxpayer). Like it or not, the behaviour of many providers will follow the financial and business realities of the incentives system, not its sentiments. Today, this means some are following perverse Financial and Star Ratings incentives rather than focusing on achieving the Government's stated expectations and the best outcomes for job seekers.

- Job Network staff are working in an increasingly hostile environment. The pressure to perform along with increasing administration and micro-management of processes by DEWR are dehumanising the service and workplace such that morale is low and staff turnover high. This adds another layer to the risks related to unethical practice, imposes additional costs on providers and leads to lower service quality.

- *Expectation-driven* providers who refuse to be drawn into questionable practices despite the impact on their financial viability and competitive standing in the industry, are questioning whether they will be able to survive in Job Network beyond the next few years, and certainly beyond the end of the three-year extension to ESC3.

- *Expectation-driven* providers are losing faith in the Star Ratings system as an objective and satisfactory measure of comparative provider effectiveness as well as in the competitive neutrality, fairness and adequacy of program funding arrangements. Indeed, the *Job Network Frontline Staff Survey* by Jobs Australia and the Brotherhood of St Laurence: Preliminary Findings found that:

  - "Staff also expressed great scepticism about measures of performance such as the Star Ratings system, with 43 per cent stating that they did not believe these were a valid measure of performance. Almost nine in ten believed that other aspects of client service experience should be incorporated into the Star Ratings in addition to job outcomes. Only about a third agreed that job outcomes are the best single measure of the achievements of Job Network members" (page 6 of the above report).

The Government (and Taxpayers)

- The Government's stated expectations of Job Network with respect to *quantity*, *speed*, *sustainability* and *equity* of outcomes are not being met as effectively and efficiently as possible because Financial and Star Ratings incentives are not sufficiently supportive of these goals – indeed, some incentives actually work against stated Government expectations.

- Achievement of the objectives of *Welfare to Work* reforms are at risk as the needs of priority job seeker groups are being inadequately met under the current perverse incentives regime.

- Current Financial and Star Ratings incentives result in provider behaviour that keeps many job seekers on allowance longer than is necessary or causes them to return to allowances unnecessarily, thereby increasing allowance dependency and the cost of allowance payments and Job Network services to Government.

- Ultimately, the Government faces the prospect of an ineffective industry focused on provider self-interest rather than the interests of job seekers and the community at large.

4.3 The Need for Change

The effectiveness of Job Network is being restricted by the complex interaction of three primary influences:

- The needs of job seekers have become more complex and a greater proportion of job seekers need access to intensive and more personalised assistance earlier in their period of unemployment and, in many cases, for longer periods than are currently available in the program.

- In dealing with more complex job seeker needs, providers are being forced to work within an outdated and perverse Financial and Star Ratings incentive system that rewards service approaches that are in many ways inconsistent with the Government's stated expectations of providers and which lead to second rate assistance to and outcomes for the job seekers the Job Network was established to assist.

- Government administration has become so intrusive and top heavy that an ever shrinking proportion of program resources are committed to directly assisting the increasingly needy job seekers being referred to providers.

Simple tinkering around the edges with a view to minor savings will not do. More radical change must be implemented.

Catholic Social Services Australia believes there is substantial scope within the existing appropriation to better direct services to disadvantaged job seekers. Substantial refocus of DEWR's monitoring towards quality outcomes and away from administrative processes will yield substantial savings in expenditure on DEWR and substantial reduction in the administrative burdens currently placed on Job Network providers. Such reform will see a shift of resources from administration to services.

PART 5: RECOMMENDATIONS

In order to ensure continued improvement in Job Network's achievements with respect to the Government's objectives of *quantity*, *speed*, *sustainability* and *equity* of outcomes as well as *service quality* and *ethical practice*, in the context of *Welfare to Work* reforms, the following changes are necessary.

5.1 Primary Recommendations

Improved Services for Disadvantaged Job Seekers

The most disadvantaged job seekers should have first call on, and ongoing access to, the services required to address their needs fully. Access to services for disadvantaged job seekers should not be dependent upon political or bureaucratic whim but based upon defensible criteria. Given the considerable resources of Job Network, there can be no defence for denying access to personalised services to any job seekers with significant barriers to employment and personal issues.

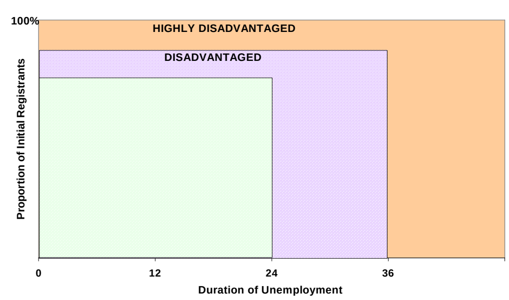
The more complex needs of the increased number of disadvantaged job seekers demand better access to more personalised services for longer periods. Objective-based access to Job Network for disadvantaged job seekers can be achieved by implementing the following:

- Very long term unemployed job seekers who have exhausted their first and second entitlements to Intensive Support Customised Assistance should be offered annual access to this service for as long as they remain eligible for Job Network services;

- Highly Disadvantaged job seekers should be selected on a more objective and meaningful basis than the present resource-driven approach. Catholic Social Services Australia would need access to more data to make a final proposal; however, it is considered that Highly Disadvantaged job seekers should be selected on the basis of the Job Seeker Classification Instrument score band that equates to an outcome probability that is the same as that for job seekers unemployed for no more than 36 months (Graph 27 is indicative). Fees and Star Ratings Weightings should be compatible with this;

- A second group of early disadvantaged registrants (referred to as "Disadvantaged") should be offered early access to Intensive Support Customised Assistance. This group should be selected on the basis of the Job Seeker Classification Instrument score band immediately below that for Highly Disadvantaged job seekers that equates to an outcome probability that is the same as that for job seekers unemployed for no more than 24 months (Graph 27 is indicative). Fees and Star Ratings Weightings should be compatible with this.

Graph 27: Matching Early Disadvantage with UE Duration Outcome Probabilities – Indicative Model



<u>Revised Outcome Fee Structure</u>

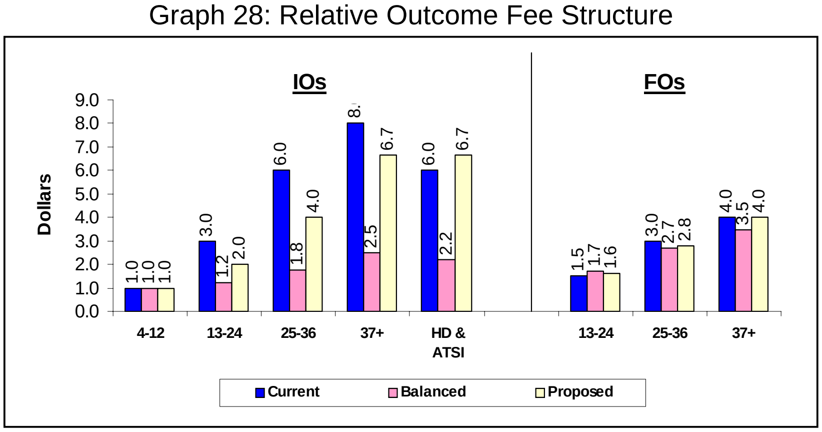
- The Outcome Fee structure should be changed to remove perverse incentives that work against full achievement of the Government's objectives with respect to *quantity*, *speed*, *sustainability* and *equity* of outcome achievement (especially the last three) and to establish appropriate incentives. The new structure would provide Outcome Fees for Highly Disadvantaged and Disadvantaged job seekers that equate to those for 37 months and 25-36 months unemployed job seekers respectively (based on indicative proposals for these groups). The following proposed "indicative" fee structure (Table 2) is based on a "zero sum" model except for the additional 4-12 months Final Outcome and introduction of an added Disadvantaged (D) cohort for early access to ISca services:

Table 2: Current and Proposed "Indicative" Outcome Fee Structure

	UE Duration	Current ($)	Proposed ($)
Interim Outcomes Payment (IOP)	4-12	550	600
	13-24	1,650	1,200
	25-36	3,300 (inc. HD 0-24)	2,400
	D	N/A	2,400
	37+	4,400	4,000
	HD & ATSI	N/A	4,000
Interim Intermediate Payment (IIP)	13-24	550	480
	25-36	550 (inc. HD 0-24)	960
	D	N/A	960
	37+	1,100	1,600
	HD & ATSI	N/A	1,600
Final Outcomes Payment (FOP)	4-12	Nil	480
	13-24	825	960
	25-36	1,650 (inc. HD 0-24)	1,680
	D	N/A	1,680
	37+	2,200	2,400
	HD & ATSI	N/A	2,400
Final Intermediate Payment (FIP)	13-24	550	480
	25-36	550 (inc. HD 0-24)	840
	D	N/A	840
	37+	1,100	1,300
	HD & ATSI	N/A	1,300

- Note that Graph 28 shows the impact of the proposed Outcome Fee structure on the distribution of relative incentives ("yellow" or third columns). A shift in emphasis towards *speed*, *sustainability* and *equity* of outcomes in comparison with the current system ("blue" or first columns) is evident:

Graph 28: Relative Outcome Fee Structure



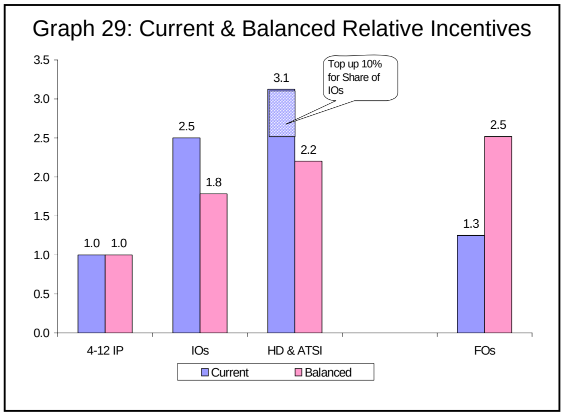
Revised Star Ratings Weightings

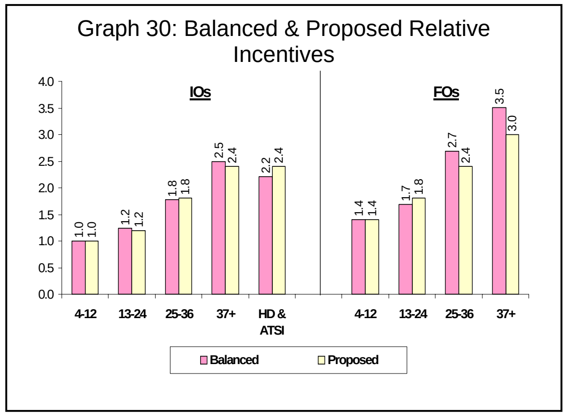
- Star Ratings Weightings should be changed to remove perverse incentives that work against full achievement of the Government's objectives with respect to *quantity*, *speed*, *sustainability* and *equity* of outcomes (especially the last three) and to establish appropriate incentives. The new structure would provide Star Ratings Weightings for Highly Disadvantaged and Disadvantaged job seekers that equate to those for 37 months and 25-36 months job seekers respectively (based on indicative proposals for these groups). This revision should ensure there is no perverse interaction between weightings and the regression formula. The following "indicative" weighting structure (Table 3) is proposed (note addition of a 4-12 months Final Outcome and inclusion of the D cohort):

Table 3: Current and Proposed "Indicative" Star Rating Weightings

	UE Duration	Current	Proposed
Interim Outcomes (IOs)	4-12	16%	5%
	13-24	40% (Exc. D)	6%
	25-36 (inc. HD 0-24)		9%
	D		
	37+		12%
	HD & ATSI		
Share of IOs	HD & ATSI	10%	HD inc. in the 37+ group
Interim Intermediates (IIs)	13-24	(Inc. with 4-12 IPs; Exc. D)	2%
	25-36 (inc. HD 0-24)		3%
	D		
	37+		4%
	HD & ATSI		
Final Outcomes	4-12	Nil	7%
	13-24	20% (Exc. D)	9%
	25-36 (inc. HD 0-24)		12%
	D		
	37+		15%
	HD & ATSI		
Final Intermediates (FIs)	13-24	(Inc. with 4-12 IPs; Exc. D)	3%
	25-36 (inc. HD 0-24)		4%
	D		
	37+		5%
	HD & ATSI		
Education Outcomes		4%	Inc with IIs & FIs
JP FJNEs		6%	2%
JP JSSOs			
JP Bonus		4%	2%
	Total	**100%**	**100%**

- Graphs 29 & 30 show the impact of proposed Star Ratings Weightings on the distribution of relative incentives ("yellow" columns Graph 30) and a shift in emphasis towards outcome *speed*, *sustainability* and *equity* compared with the current system ("blue" columns Graph 29):





Transfer of Resources from Administration to Services

- Limit DEWR's administrative budget for Job Network to a set proportion of available program funds that should be no higher than 10% (an estimated reduction of 34%) of total program funds. Utilise the $86m or more of savings to invest in the Service, Outcome and Job Seeker Account payments necessary to fund the additional service elements proposed for Disadvantaged job seekers as well as improved financial incentives for providers aimed at better realisation of the Government's stated expectations for providers in assisting job seekers (especially outcome *speed*, *sustainability* and *equity,* and *service quality*).

- Re-focus DEWR's monitoring of providers, using a risk management approach, on achievement of quality outcomes for job seekers across the full range of job seeker groups. At the same time withdraw DEWR from micro-management of processes and simplify administration of the program generally, including that for the Job Seeker Account. The aim would be to ensure that provider savings in program administration and compliance management would be sufficient to offset the cost increases of the last three years so that these resources can be injected into improved *service* and *outcome quality* for job seekers. This change will significantly reduce the cost of administration to Job Network Providers.

5.2 Supporting Recommendations

Improving the Quality of Services to Job Seekers

- Introduction of a 4-12 months Final Outcome to ensure 4-12 months unemployed job seekers are placed in sustained employment that is less likely to lead to long term unemployment.

- The need for *service quality* built around the legitimate needs and aspirations of job seekers should be re-emphasised in a way that leads to better quality outcomes and higher taxpayer benefits in the longer term. This should include services funded through the Job Seeker Account.

Outcome Expectations and Definitions

- DEWR should improve its effectiveness in detecting various outcome manipulation practices. In particular, to reduce the incidence of wasteful wage subsidies and outcome buying practices, employer subsidies of more than 50% of the wage over the full outcome period that result in return to allowance within 13 weeks of the cessation of subsidy or completion of the outcome should be subject to automatic "show cause" processes.

- Calculation of "expected outcomes" in the Star Ratings regression formula should exclude periods of exemption for all job seekers as sites with higher than average exemptions especially those with above average proportions of very disadvantaged job seekers and in low socio-economic regions are unfairly disadvantaged in assigned Star Ratings.

- DEWR should examine the need for inclusion of new caseload characteristics in the Star Ratings regression formula to account appropriately for changes in the complexity of job seekers and their impact on calculated outcome expectations. This should include taking proper account of long periods away from the labour force for long term allowance recipients and repeated failure of some job seekers to achieve sustained employment despite periods of employment. Given the prevalence of non-disclosure of relevant factors among very disadvantaged job seekers, a new environmental factor of "low socio-economic region" could be tested - the Australian Bureau of Statistics SEIFA (Socio-Economic Indexes of Areas) may be a suitable measure but would need to be localised at sub-ESA level given the "pockets" of low socio-economic status within ESAs that impact on particular Job Network sites.

Two-Year Rolling Star Ratings

- It is inappropriate to use accumulated performance under the current system that incorporates perverse incentives and that have inadequately rewarded appropriate provider behaviour, especially with respect to *Welfare to Work* goals, for Star Ratings beyond 1 July 2006. If this occurs (as is intended under the two-year rolling Star Ratings model), the already negative impact for many *expectation-driven* providers will be exacerbated as a large proportion of outcome achievements from "early placement" strategies in ESC3 are removed from the calculations while many arising from "delayed placement" and outcome manipulation (such as outcome buying) strategies will remain.

- Either the proposed two-year rolling Star Ratings system should be introduced only under revised outcome definitions and a revised weighting system or it should be introduced along with a moratorium on performance-based sanctions and business reallocations until these adjustments can be made.

Performance Benchmarking

- In acknowledgement of negative personal, organisational and service pressures now dominating the Job Network as a result of excessive competition and micro-management by DEWR, the Government should consider replacing the current Star Ratings approach with one built around achievement of performance benchmarks. Given the maturity of the industry, DEWR's extensive data base should now be capable of proposing such benchmarks with respect to particular ESAs.

Performance Reporting

- To ensure providers can manage performance effectively, all providers should have access to ongoing comparative data that measure, appropriately, performance on all four aspects of the Government's stated expectations with respect to *quantity*, *speed*, *sustainability* and *equity* of outcome achievement. In particular, information for each provider along with ESA, LMR and National averages should be available for:

  - *speed* of placement/outcome achievement overall as well as for various outcome types and job seeker target groups;

  - *equity* of outcome achievement for the full range of job seeker target groups in a way that takes account of the relative number of clients in each group being serviced. "Average Intensive Support Active Commenced Caseload" is recommended as the most appropriate denominator of performance ratios for all job seeker groups; and

  - *service quality* measures (KPI3) wherever possible. In particular, the results of DEWR's post program monitoring for each provider and the ESA, LMR and National averages should be provided on an ongoing basis. This should include information on the proportion of wages subsidised through the Job Seeker Account and the proportion of job seekers who return to benefit within three months of completion of subsidised outcomes for various proportional subsidy bands.

- To assist providers monitor the availability of the job seekers on their caseloads, DEWR should provide a standard report on the proportion of exemptions in pending and commenced caseloads for particular job seeker groups for each provider along with ESA, LMR and National averages.

Further Analysis

- DEWR should investigate the interaction between Star Ratings Weightings and the regression formula: to test whether the arbitrary weightings are having a perverse effect on the assessment of provider effectiveness; and to develop a system without such perverse effects.

- As mentioned above, analysis is needed with respect to new caseload characteristics in the Star Ratings regression formula to account appropriately for changes in the complexity of job seeker disadvantage and its impact on calculated outcome expectations. A new environmental factor of "low socio-economic region" has been suggested. This factor would need to be localised at sub-ESA level given the "pockets" of low socio-economic status within ESAs that impact on particular Job Network sites.

- Further review is needed of the impact of various wage subsidy arrangements on achievement of the Government's expectations especially with regard to outcome *sustainability*:

  - Comparative outcomes achieved by different wage subsidy levels for particular job seeker target groups should be tested in terms of *sustainability* of these outcomes for 26 weeks initially; and

  - The extent to which these outcomes extend beyond 26 weeks, and especially the extent to which these job seekers return to allowance payments subsequently.

- In order to test the *combined* impact of the various dimensions of the perverse incentives identified above with respect to the Government's overall expectations of providers (*quantity*, *speed*, *sustainability* and *equity* of outcomes), Catholic Social Services Australia suggests a comparative analysis, with results released for all providers, of the combined impact of these various matters on relative Government outlays (accounting for program costs and allowance costs/savings) unit outcome revenue and allocated Star Ratings. DEWR should test the respective impact on four groups of providers:

  - Group 1: Those with above average to high Star Ratings in the first 18 months of ESC3 where performance was and continues to be characterised by *strengths* with respect to outcome *speed*, *sustainability* and *equity* with *low* use of employer incentives;

  - Group 2: Those with above average to high Star Ratings in the first 18 months of ESC3 where performance was and continues to be characterised by *strengths* with respect to outcome *speed*, *sustainability* and *equity* with *high* use of employer incentives;

  - Group 3: Those with below average to low Star Ratings in the first 18 months of ESC3 where performance was characterised by *weaknesses* with respect to outcome *speed*, *sustainability* and *equity*, but whose performance has subsequently improved with *high* use of wage subsidies; and

  - Group 4: Those with below average to low Star Ratings in the first 18 months of ESC3 where performance was characterised by *weaknesses* with respect to outcome *speed*, *sustainability* and *equity*, but whose performance has subsequently improved with *low* use of wage subsidies.

Timing

- Irrespective of the need for longer term analysis, it is imperative that revised incentive structures (outcome definitions, outcome expectation formulas, Outcome Fees and Star Ratings Weightings) are in place as a matter of urgency to ensure better outcomes for all job seekers as quickly as possible, especially with the expansion of *Welfare to Work* initiatives since 1 July 2006. If further research is required on some aspects, it would be important to make changes urgently anyway using the best knowledge available and refine these later where necessary.

5.3 Funding the Proposals

Catholic Social Services Australia acknowledges that a number of the above recommendations would require significant resources and that sophisticated modelling is required to estimate offsets and therefore net costs. However, Catholic Social Services Australia also believes that the services sought are essential and that the job seekers needing them deserve first call on available resources.

Catholic Social Services Australia believes there is scope for considerable offsets that should ensure the proposals are cost neutral, through:

- transfer of $86m or more from DEWR's administrative costs to program delivery costs;

- reduction in 13 months Intensive Support Customised Assistance commencements (and subsequent second entitlements) as a result of some job seekers (the proposed "Disadvantaged" group) accessing these services earlier than otherwise;

- allowance payment savings and increased taxation revenue resulting from improvements to outcome *quantity* and *quality* (*speed*, *sustainability* and *equity*);

- elimination of outcome payments for questionable placements; and

- transferring any accumulating surplus within the program to fund the proposals. Catholic Social Services Australia understands that, in past years, underspending in the program has resulted in substantial surpluses being returned to consolidated revenue.

If more radical options are necessary, the Government could consider:

- A transfer of funds from the Job Seeker Account – as the account was 26% in surplus at the end of ESC3 (June 2006) and therefore carries an overall surplus of over $200m nationally, perhaps some proportion of the surplus (say, 50%) can be tapped and some reduction made to ongoing accumulations.

- A transfer of funds from programs that are aimed at less disadvantaged job seekers or are less effective in achieving real outcomes for job seekers – for instance: Work for the Dole or Job Search Training.

PART 6: GOVERNMENT RESPONSE

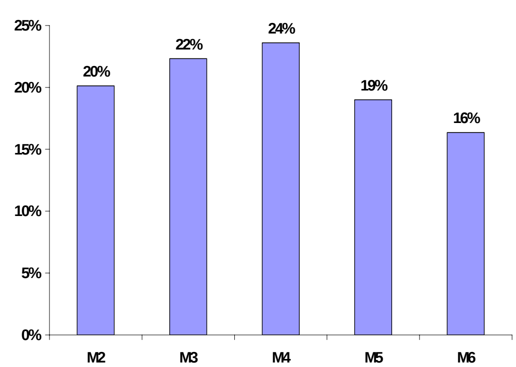
Catholic Social Services Australia has raised most of these issues with the Government and DEWR since early 2006 prior to the extension of ESC3 contracts from 1 July 2006 to 30 June 2009 (some issues from early 2005). The Government's and/or DEWR's responses to date have not been positive as follows:

- *Response 1*: Continually growing Job Network employment outcomes indicate that the Job Network remains effective:
  - <u>*Catholic Social Services Australia's View*</u>*: Outcome levels are overstated as they are artificially inflated by questionable practices related to outcome manipulation and outcome buying.*
- *Response 2*: The Government has contracted with providers under a fee structure that was part of its Request for Tender. To change it now would raise probity concerns, for instance, from organisations who opted not to tender because of the fee structure:
  - <u>*Catholic Social Services Australia's View*</u>*: The Government also has responsibilities to contracted providers who may face closure and substantial financial losses because of the current fee structure. Further, job seeker needs should take precedence over administrative issues – the Job Network is for job seekers, not job seekers for the Job Network.*
- *Response 3*: Changes to the current Star Ratings Weightings would disturb the continuity of the Star Ratings system in measuring provider effectiveness:
  - <u>*Catholic Social Services Australia's View*</u>*: Continuity has already been corrupted. The current Star Ratings system is inaccurately and unfairly measuring comparative provider effectiveness with respect to the Government's expectations of Job Network providers. To argue for continuity is to place the Star Ratings system above the policy objectives it is meant to serve along with the needs of disadvantaged Australians and the majority of providers who are actually committed to assisting them.*

Government decisions have inadvertently exacerbated the situation reported above:

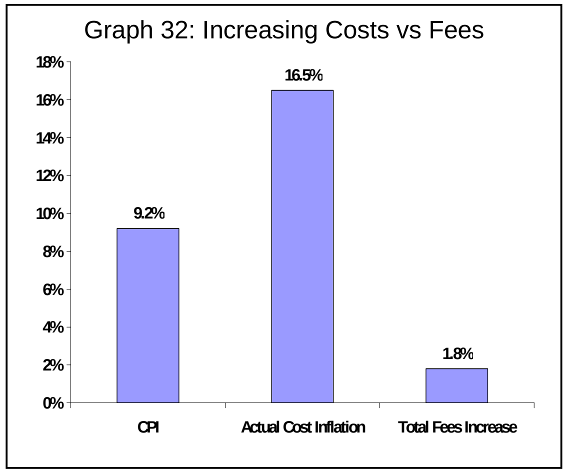
- *In response to increased caseload complexity*, from July 2005 the Government redefined the Highly Disadvantaged (HD) category by increasing the qualifying Job Seeker Classification Instrument score for Highly Disadvantaged status. This decreased the number of identified Highly Disadvantaged clients and increased the number of disadvantaged clients forced to wait 12 months for needed access to Intensive Support Customised Assistance (see Graph 31):

Graph 31: Decrease in Proportion of HDs in Total Referrals M2-M6



- Importantly, Graph 31 shows that the proportion of Centacare Employment's referrals identified as Highly Disadvantaged is still falling and in M6 was at a level well below that at the beginning of ESC3 – a perverse outcome given the evidence in this report that caseload complexity increased progressively and considerably throughout ESC3.

• *In response to increasing provider costs*, Graph 32 shows that the Government reduced fees in real terms by around 14.7% (compared with estimated actual cost movements). Since the new fees are meant to apply for a further three years, they will be the best part of six years out of date by the end of the current contract. When added to the additional costs of servicing more complex caseloads and associated reduced outcomes and revenue, provider financial viability is estimated to have fallen by at least 25%.



• *In response to the perverse incentives* that operated throughout ESC3 and that have encouraged, and still encourage, ineffective and unethical provider behaviour, the Government, in the lead up to ESC3-Extended, decided that Outcome Fees and Star Ratings Weightings were to remain unchanged. Furthermore, the Government has decided to alter the Star Ratings system in a way that will exacerbate the negative impact of these perverse incentives on *expectation-driven* providers:

- The new two-year rolling Star Ratings system, to operate for the next Star Ratings release to end December 2006 and beyond, will cause a further fall in the Star Ratings of many effective and ethical providers. This will occur because a large proportion of outcome achievements from genuine "early placement" strategies in ESC3 (consistent with Government expectations) will be removed from the calculations while many arising from ineffective and/or unethical "delayed placement" and "outcome manipulation" strategies (including outcome buying) will remain.

- Expectation-driven providers have understandably lost faith in the Star Ratings system as an objective and fair measure of comparative provider effectiveness.

The recent changes to wage subsidy arrangements flagged by the Minister for Workforce Participation are welcomed and are considered to be a step in the right direction. These changes require a scaling down of wage subsidies as the outcome period for a job seeker progresses.

Attachment 1

THE GOVERNMENT'S EXPECTATIONS OF JOB NETWORK PROVIDERS

Job Network's Objective

The *Job Network Services Request for Tender 2006 (RFT)* included the following objective for Job Network services (Catholic Social Services Australia's emphases):

- "…to help job seekers into *sustainable employment*, *increase workforce participation* and reduce *dependency on income support* by providing *personalised assistance* to job seekers that involves ongoing job search and employment-focused activities" (RFT p 56).

Performance Expectations

In support of this objective, various expectations are also listed:

- "JN services must be based on strategies to achieve *sustainable employment outcomes* for *all job seekers* in the labour market" (RFT p 56);

- "Use of the Job Seeker Account must reflect a job seeker's *individual needs*" (RFT p 67);

- "An appropriate mix of services, products, and programs must be funded from the Job Seeker Account to reflect the *range of barriers job seekers face*" (RFT p 67);

- The list of allowable Job Seeker Account purchases includes: "wage subsidies, which are commensurate with the job seeker's level of disadvantage, for *employment which is sustainable and ongoing after the wage subsidy has ceased*
    - JNMs should not generally offer wage subsidies of 100 per cent (or more) of wage costs without the agreement of DEWR" (RFT p 69);

- "KPI 1 (Efficiency): To help job seekers find work *as quickly as possible* – particularly the time taken to place *long-term unemployed and those highly disadvantaged*" (RFT p 89);

- "KPI 2 (Effectiveness): To maximise outcomes for eligible job seekers – particularly the *long-term unemployed and those highly disadvantaged*" (RFT p 89);

- Code of Practice 2 includes: "considering clients' *individual* circumstances and backgrounds" (RFT p 200); and

- Code of Practice 3 includes: "tailoring assistance to clients with consideration of their *individual* needs and participation requirements" (RFT p 200).

- Clause 3.3 (c) of the Employment Services Contract 2006-2009, Part A General Conditions states that the Provider must "at all times act ethically and in good faith towards DEWR in the performance of this contract to maintain the reputation of the Services and the Commonwealth, acknowledging that an unethical manner constitutes any practice that manipulates outcomes, the performance model or Service to maximise payments to the Provider."

Table 1: Data for Calculating Star Ratings Incentive Relativities
Outcomes Data are cumulative to 30 June 2006

		Outcomes Achieved by CE	Avg IS COM Active Caseload	Probability of Outcome per Unit Caseload	Relative Probability (4-12 IPs set to "1")	Balanced Relative Incentives (i)	Current Star Rating Weighting	Current Relative Incentives (ii)
Interim Outcomes (IOs)	**4-12**	4,116	1,783	2.31	1.00	1.0	16%	1.0
	13-37+	5,024	3,882	1.29	0.56	1.8	40%	2.5
	HDs	2,210	2,110	1.05	0.45	2.2	10%	3.1
	ATSI	740	929	0.80	0.35			
Interim Intermediates (IIs)	**13-37+**	1,358					16% inc. 4-12 IPs	
	HD & ATSI	N/A						
Final Outcomes (FOs)	**13-37+**	3,558		0.92	0.40	2.5	20%	1.3
	HD	N/A						
Final Intermediates (FIs)	**13-37+**	342					16% inc. 4-12 IPs	
	HD	N/A						
Education Outcomes	**4 to 37+**	233					4%	
JP FJNEs							6%	
JP JSSOs							4%	
JP Bonus								
Total Star Rating Weighting							**100%**	

(i) The balanced relative incentives are the inverses of the relative probabilities.
(ii) 4-12 months IPs star rating weighting set equal to "1".

Graph 1: Current & Balanced Star Rating Weightings

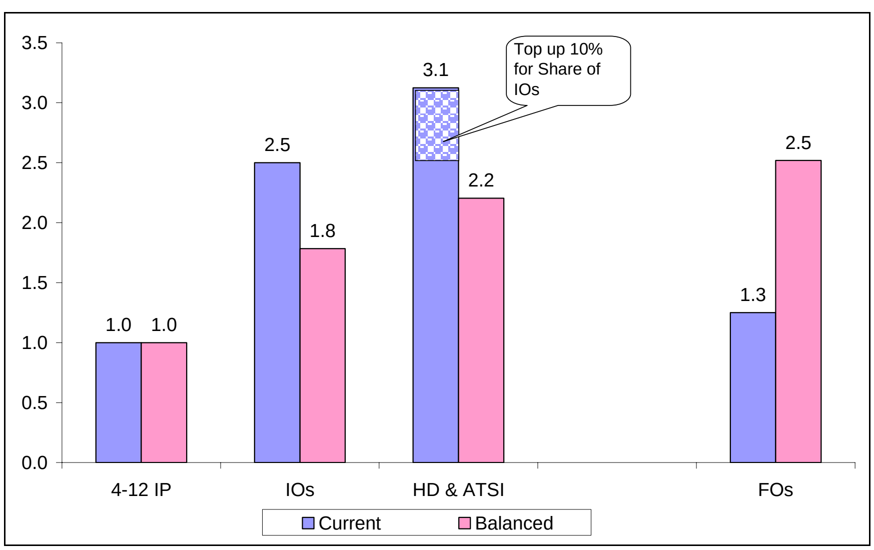


Table 2: Data for Calculating Star Ratings Incentive Relativities Outcomes Data are cumulative to 30 June 2006

		Outcomes Achieved by CE	Avg IS COM Active Caseload	Probability of Outcome per Unit Caseload	Relative Probability (4-12 IPs set to "1")	Balanced Relative Incentives	Proposed "Indicative" Weightings	Proposed Relative Incentives
Interim Outcomes (IOs)	**4-12**	4,116	1,783	2.31	1.00	1.0	5%	1.0
	13-24	1,543	831	1.86	0.80	1.2	6%	1.2
	25-36 (i)	2,275 (Inc. HD 0-24)	1,748	1.30	0.56	1.8	9%	1.8
	D	N/A	N/A					
	37+	1,206	1,303	0.93	0.40	2.5	12%	2.4
	HDs	2,210	2,110	1.05	0.45	2.2		2.4
	ATSI	740	929	0.80	0.35		Mostly HD	
Interim Intermediates (IIs)	**13-24**	404					2%	
	25-36	515 (Inc. HD 0-24)					3%	
	D	N/A						
	37+	439					4%	
	HD & ATSI	N/A						
Final Outcomes (FOs)	**4-12(ii)**	2,840		1.59	0.69	1.4	7%	1.4
	13-24	1,114		1.34	0.58	1.7	9%	1.8
	25-36	1,546 (Inc. HD 0-24)		0.88	0.38	2.7	12%	2.4
	D	N/A						
	37+	898		0.69	0.30	3.5	15%	3.0
	HD	N/A						
Final Intermediates (FIs)	**13-24**	122					3%	
	25-36	182 (Inc. HD 0-24)					4%	
	D	N/A						
	37+	138					5%	
	HD	N/A						
Education Outcomes	**4 to 37+**	233					Inc with IIs&FIs	
JP FJNEs							2%	
JP JSSOs								
JP Bonus							2%	
Total Star Rating Weighting							**100%**	

(i) 25-36 month outcomes include most HD outcomes. If these were disaggregated, actual 25-36 month non-HD relative outcome probability would rise (probably to between 0.6 and 0.7)

(ii) Number of Final Outcomes for 4-12 is estimated based on the actual number of 4-12 month Outcomes and conversion rate between 13WOs to 26WOs.

Graph 2: Balanced & Proposed Star Rating Weightings

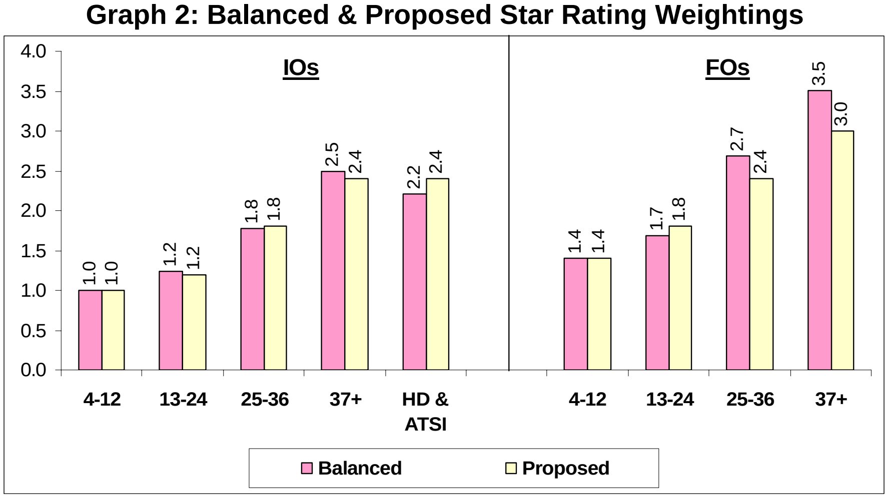
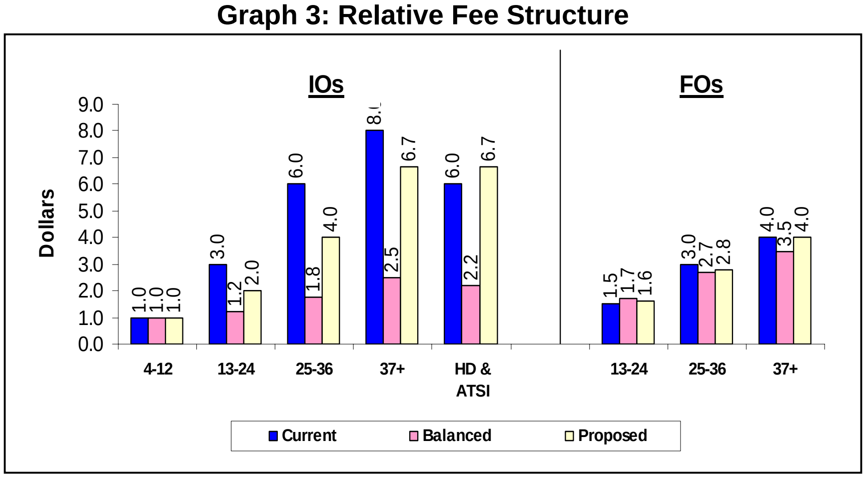


Table 3: Data for Calculating Financial Incentive Relativities
Outcomes Data are cumulative to 30 June 2006

		Outcomes Achieved by CE	Avg IS COM Active Caseload	Probability of Outcome per Unit Caseload	Relative Probability (4-12 IPs set to "1")	Current Fees $	Proposed "Indicative" Fees $
Interim Outcomes	**4-12**	4,116	1,783	2.31	1.00	550	600
	13-24	1,543	831	1.86	0.80	1,650	1,200
	25-36 (*)	2,275 (Inc.HD 0-24)	1,748	1.30	0.56	3,300	2,400
	D	N/A	N/A			N/A	2,400
	37+	1,206	1,303	0.93	0.40	4,400	4,000
	HDs	2210	2110	1.05	0.45	N/A	4,000
	ATSI	740	929	0.80	0.35	N/A	4,000
Interim Intermediates (IIs)	**13-24**	404				550	480
	25-36	515 (Inc.HD 0-24)				550	960
	D	N/A				N/A	960
	37+	439				1,100	1,600
	HD & ATSI	N/A				N/A	1,600
Final Outcomes	**4-12(**)**	2840		1.59	0.69	Nil	480
	13-24	1114		1.34	0.58	825	960
	25-36	1546 (Inc.HD 0-24)		0.88	0.38	1,650	1,680
	D	N/A				N/A	1,680
	37+	898		0.69	0.30	2,200	2,400
	HD & ATSI	N/A				N/A	2,400
Final Intermediates (FIs)	**13-24**	122				550	480
	25-36	182 (Inc.HD 0-24)				550	840
	D	N/A				N/A	840
	37+	138				1,100	1,300
	HD & ATSI	N/A				N/A	1,300
Education Outcomes	**4 - 36**	175				550	Inc. in IIs & FIs
	37+	58				1,100	

(*) 25-36 month outcomes include most HD outcomes. If these were disaggregated, actual 25-36 month non-HD relative outcome probability would rise (probably to between 0.6 and 0.7)
(**) Number of Final Outcomes for 4-12 is estimated based on the actual number of 4-12 month Outcomes and conversion rate between 13WOs to 26WOs.

Graph 3: Relative Fee Structure



Attachment 3

Centacare Employment's Outcome Revenue: Centacare Employment's Actual vs Centacare Employment's Nominal Average Competitor
Outcome Data is cumulative to 30 June 2006

			Actual		**Prorated to 10,000 IS Starts Base**		**Income per 10,000 IS Starts**	
		Outcome Fees	**CE Actual**	**ESA Exc CE**	**CE**	**ESAs Exc CE**	**CE**	**ESAs Exc CE**
IS Starts			**36,439**	**219126**	**10,000**	**10,000**	**10,000**	**10,000**
Total 13 Weeks Outcomes			**10,498**	**60,979**	**2,881**	**2,783**	**$5,107,714**	**$4,938,871**
4-12 Ms Outcomes		$550	4116	23750	1130	1084	$621,257	$596,118
Interim Outcomes	13-24	$1,650	1543	9868	423	450	$698,688	$743,052
	25-36	$3,300	2275	11960	624	546	$2,060,293	$1,801,155
	37+	$4,400	1206	7698	331	351	$1,456,242	$1,545,741
	HD (*)		2210	11694	606	534		
	ATSI (*)		740	3674	203	168		
Interim Intermediate	13-24	$550	404	2539	111	116	$60,979	$63,728
	25-36	$550	515	2795	141	128	$77,733	$70,154
	37+	$1,100	439	2369	120	108	$132,523	$118,922
Total 26 Weeks Outcomes			**4,000**	**22,360**	**1098**	**1020**	**$1,581,973**	**$1,446,434**
Final Outcomes	13-24	$825	1114	6915	306	316	$252,216	$260,347
	25-36	$1,650	1546	7737	424	353	$700,047	$582,589
	37+	$2,200	898	5180	246	236	$542,166	$520,066
Final Intermediate	13-24	$550	122	803	33	37	$18,414	$20,155
	25-36	$550	182	929	50	42	$27,471	$23,318
	37+	$1,100	138	796	38	36	$41,659	$39,959
Total Educational Outcomes			**233**	**1331**	**64**	**68**	**$43,923**	**$46,397**
	0-36	$550	175	1,179	48	51	$26,414	$27,902
	37+	$1,100	58	410	16	17	$17,509	$18,495
Total Outcomes			**14,731**	**84,670**	**4,043**	**3,871**		
						Total Income	**$6,733,610**	**$6,431,702**
						Unit Fee for 13WOs	$1,773	$1,775
						Unit Fee for 26WOs	$1,441	$1,417
						Unit Fees for Education Outcomes	$687	$687
						Combined Unit Fee	$1,666	$1,662

(*) Data is not additional to total 13 Week Outcomes